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IDAHO PUBLIC  
UTILITIES COMMISSION

Capitol

**Water**

Corp.

2626 Eldorado Boise, Idaho 83704  
Telephone 375-0931

October 26, 2006

Idaho Public Utilities Commission  
P.O. Box 87720  
Boise, Idaho 83720-0074

Attn: Commission Secretary

CAP-W-06-01

Dear Commission Secretary:

Enclosed with this cover letter is an original and seven (7) copies of the Applicants reply comments to the Commission Staff's comments in this case.

Sincerely,



Bonnie R. Price, Secretary-Treasurer  
Capitol Water Corporation

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IDAHO PUBLIC UTILITIES COMMISSION

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

<b>IN THE MATTER OF THE APPLICATION OF</b>	)	
<b>CAPITOL WATER CORPORATION FOR</b>	)	<b>CASE NO. CAP-W-06-1</b>
<b>AUTHORITY TO INCREASE ITS RATES AND</b>	)	
<b>CHARGES FOR WATER SERVICE IN THE</b>	)	<b>REPLY COMMENTS OF</b>
<b>STATE OF IDAHO</b>	)	<b>CAPITOL WATER</b>
	)	<b>CORPORATION TO</b>
	)	<b>COMMISSION STAFF</b>
	)	<b>COMMENTS</b>

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Comes now Capitol Water Corporation (Applicant or Company) and submits these comments in reply to the comments of the Idaho Public Utilities Commission Staff (Staff) filed on October 12, 2006 in this case.

Staff Adjustment "A" and "B" Reclassify Accounting Services. Company concurs.

Staff Adjustment "C" and "D" Reclassify Bank Service Charges. Company concurs.

Staff Adjustment "E" Post Closing Adjustment on Company's books in 2006 and "M" Add Phosphate expenses to chemical account.

Staff Adjustment "E." Staff is correct that this adjustment made outside the test year restates the test year results so all similar transactions are treated the same by moving this transaction out of operating expenses and applying it the surcharge account. However, in its comments Staff proposes to eliminate from the Company's surcharge accounts expenses related to Idaho Power Company's PCA surcharges ( Staff Comments Pg. 6) and the costs of purchasing phosphates for chemical treatment of the Company's wells (Staff Adjustment "M"). The Company agrees with Staff that that these expenses are continuing costs the Company will realize beyond the expiration of the Company's current surcharge program. It is appropriate to recognize these expenses as normal continuing costs and include them in the Company's normal operating expenses. However, following this same reasoning, and to be consistent, the Company believes the ongoing costs it has and will continue to experience to inspect, service and maintain its standby generator should also be removed from the Company's surcharge account and be

recognized as normal operating expenses. The Company contracts with Northwest Power Systems Inc. to perform semiannual service on the generator. During the test year the Company incurred expenses of \$1,321.00 for this routine maintenance service. Removal of all of these items from the Company's surcharge account and recognizing them as normal operating costs provides for recovery of the costs from the Company's water rate schedules rather than from surcharge funds and will allow the surcharge to expire at an earlier date.

Staff Adjustment "F" American Water Works Association dues. Company concurs.

Staff Adjustment "G", "H" and "I" Regarding Vehicle Expense. The Company accepts the adjustment proposed by Staff. However, in its written comments on pages 4 and 5, Staff recommends that the Company maintain accurate log books on vehicle use for business and personal use. Staff recommends that the owners of the Company pay all operation and maintenance expense personally and reimburse themselves at the rate approved by the Internal Revenue Service for tax purposes. The Company attempted to comply with previous Commission instruction to accurately account for the expenses of each vehicle by getting separate credit cards for each vehicle from a major oil company. As the prices of fuel escalated, the Company switched from the major oil company to a discount fuel source to save costs. The discounted fuel source does not lend itself to separate accounts for each vehicle. The Company believes the requirement to "maintain accurate log books" is administratively burdensome and unworkable. A single trip of very few or many miles may include a business related trip to the post office, bank and hardware store as well as a personal stop at a grocery store or restaurant. The Company is willing to accept the 50%/50% split of business and personal use but does object to the requirement to somehow accurately track the actual use of each vehicle.

Staff Adjustment "J" Holiday Event for Employees. Company concurs.

Staff Adjustments "K" and "L" Water Testing Expense. Company concurs.

Staff Adjustment "M" Add Phosphate Expense to Chemicals. Company concurs. See response above for Adjustments "E" and "M".

Staff Adjustment "N" Customer Revenue Adjustment. The Company's review of this adjustment indicated a problem in the calculation that could not be identified. The Company has met with and discussed the problem with Staff. Staff has been very cooperative and the problem was identified. Staff agreed to correct the problem and provide a corrected calculation. During the course of reviewing and correcting the calculation, Staff may have identified an error in the Company's billing program. Staff brought this possible programming error to the attention of the Company. The Staff is continuing its work on the calculations but all problems and corrections have not been completed in time for the Company to respond in these reply comments. The Company understands that the Staff will file additional comments regarding this Staff adjustment. The Company will continue to work with the Staff to resolve this issue but reserves the right to file an additional reply in the unlikely event that the Staff and the Company do not agree on an equitable resolution.

At the time this application was filed, the Company did not know if the Commission would accept the Company's request to proceed with this case under modified procedure. Nor did the Company know if it would be necessary to retain the services of an attorney to represent

the Company at hearing. Therefore, the Company did not know how to estimate its costs of presenting and defending this application. The services of an attorney were not required. The Company has incurred costs of \$2,287.50 through October 12, 2006 for the services of its consultant and expects to incur an additional \$1,300.00 by the time Tariffs are filed and the case is closed. Therefore the Company requests that the Commission authorize the Company to recover its rate case expenses in the amount of \$3,588.00 through a three year amortization of \$1,195.00 per year.

Staff's comments at page 11 oppose the Company's proposal to include the month of April in the Company's summer rate period. The Company does not object to the Staff's proposal to reject this request.

Staff's comments at page 12 propose the elimination of Schedule No. 3 Public Fire Hydrants and shift the revenue requirement associated with this schedule to the other tariff schedules. The Company agrees that this proposal is appropriate. United Water Idaho does not charge the City of Boise for this service. Billing the city for this service by the Company effectively produces a subsidy to Capitol Water Co. customers by all citizens of the City of Boise. The elimination of the revenue from the test year reduces the Company's test year revenue by \$4,788.00 that should be recognized in the calculation of the Company's revenue requirement.

Attached to these comments are Company rebuttal exhibits identified as Exhibit Nos. 12, 13 and 14. Exhibit No. 12 adjusts the Staff's proposed Income Statement for the items discussed above. Column (C) is Staff's proposal. Column (D) adjusts Staff's proposal to eliminate Staff's customer revenue Adjustment (N) pending resolution of the problems discussed above regarding the Staff calculation and the potential problem identified in the Company's billing program. This adjustment is subject to change and modification when resolved between the Company and Staff.

Column (E) of Exhibit No. 12 adds to operating expenses one third (1/3rd) of the Company's anticipated rate case expenses to amortize these expenses over a three year period. Column (F) of this exhibit recognizes the Company's standby generator inspection, service and maintenance expense as normal operating expenses rather than special expenses funded through the surcharge that will ultimately expire. Column (F) is Staff's proposal adjusted by the above items. Column (G) eliminates the revenue received from Schedule 3, Public Fire Hydrants. Column (H) reflects the Income Statement of the Company after the removal of the fire hydrant revenue.

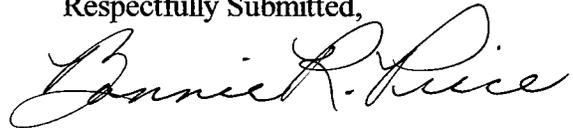
Exhibit No. 13 adjusts the Staff's Rate Base calculation to recognize the changes the Company proposes to the Staff's Income Statement recommendation. The only change to the Staff recommendation is an increase to the working capital rate base amount shown on line 5.

Exhibit No. 14 presents a comparison of the revenue requirement and increase required as originally filed by the Company (Column A) with the Staff proposal (Column B) and the Company's reply calculations in Columns "C" and "D". Column "C" presents the calculation with the fire hydrant service in place. Column "D" shows the calculation with the fire hydrant revenues removed from the calculation. The revenue increase required with the fire hydrant revenues removed produces a required increase to the remaining service schedules of 32.92%.

The Company will continue to cooperate with Staff to resolve the remaining questions regarding the correctness of the adjustment to annualize customer revenues and the Company's customer billing computer program. The Company sincerely hopes the Staff and the Company can present the Commission with a stipulated resolution acceptable to both parties and the Commission.

The Company wishes to thank the Staff for its professional and cooperative approach during its investigation of this application.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Bonnie R. Price". The signature is written in black ink and is positioned below the typed name.

Bonnie R. Price, Secretary-Treasurer  
Capitol Water Corporation

Capitol Water Corporation  
Case No. CAP-W-06-1  
Income Statement  
For the Test Year 2005  
Adjusted Commission Staff Proposal

Line	Account	Description	Company Reply to Staff Proposal						(I) Adjusted Proposal W/O Hydrants		
			(A) Company Proposal	(B) Total Staff Adjustments	(C) Staff Proposal	(D) Reverse Adj "N" Yr-end cust. Exp	(E) Add 1/3 Rate Case Inspect & Maint	(F) Generator Inspect & Maint		(G) Adjusted Proposal	(H) Eliminate Hydrant Rev
<b>REVENUES</b>											
1	460	Unmetered Water Revenue	\$ 375,977	1,489	\$ 377,446	\$ (1,469)			\$ 375,977		\$ 375,977
2	461.1	Metered Sales - Residential									
3	461.2	Metered Sales - Commercial, Industrial	94,151	5,039	99,190	(5,039)			\$ 94,151		\$ 94,151
4	462	Fire Protection Revenue	4,788	(15)	4,773	15			\$ 4,788	\$ (4,788)	\$ -
5	464	Other Water Sales Revenue	889	-	889	-			\$ 889		\$ 889
6	465	Irrigation Sales Revenue	-	-	-	-			\$ -		\$ -
7	466	Sales for Resale	-	-	-	-			\$ -		\$ -
8	400	Total Revenue	\$ 475,805	6,493	\$ 482,298				\$ 475,805	\$ (4,788)	\$ 471,017
9		Commission Approved Surcharges Collected	\$ 125,462								
<b>EXPENSES</b>											
10	601.1-6	Labor - Operation & Maintenance	\$ 43,661		\$ 43,661				43,661		43,661
11	601.8	Labor - Customer Accounts	36,591		36,591				36,591		36,591
12	603.6	Labor - Administrative & General	33,633		33,633				33,633		33,633
13	603	Salaries, Officers & Directors	52,015		52,015				52,015		52,015
14	604	Employee Pensions & Benefits	35,864		35,864				35,864		35,864
15	610	Purchased Water	68,255		68,255				68,255		68,255
16	615-16	Purchased Power & Fuel for Power	83		83				83		83
17	618	Chemicals	14,798		14,798				14,798		14,798
18	620.1-6	Materials & Supplies - Operation & Maint.	19,452		19,452				19,452		19,452
19	620.7-8	Materials & Supplies - Administrative & General	20,028		20,028				20,028		20,028
20	631-34	Contract Services - Professional	10,314		10,314				10,314		10,314
21	635	Contract Services - Water Testing	886		886				886		886
22	638	Contract Services - Other									
23	641-42	Rentals - Property & Equipment	7,853		7,853				7,853		7,853
24	650	Transportation Expense	12,673		12,673				12,673		12,673
25	656-59	Insurance									
26	660	Advertising									
27	666	Rate Case Expense (Amortization)									
28	667	Regulatory Comm. Exp. (Other except taxes)	43		43				43		43
29	670	Bad Debt Expense	9,271		9,271				9,271		9,271
30	675	Miscellaneous									
31		Total Operating Expenses	\$ 350,640	14,753	\$ 365,393				\$ 367,909		\$ 367,909
32	403	Depreciation Expense	75,937	(4,886)	71,852				71,852		71,852
33	406	Amortization, Utility Plant Acquisition Adj.									
34	407	Amortization Exp. - Other	1,589		1,589				1,589		1,589
35	408.10	Regulatory Fees (PUC)	28,125		28,125				28,125		28,125
36	408.11	Property Taxes	12,623		12,623				12,623		12,623
37	408.12	Payroll Taxes									
38	408.13	Other Taxes (list)									
39		Irrigation	768		768				768		768
40		Vehicles									
41	409.10	Federal Income Taxes	20		20				20		20
42	409.11	State Income Taxes									
43	410.10	Provision for Deferred Income Tax - Federal									
44	410.11	Provision for Deferred Income Tax - State									
45	411	Provision for Deferred Utility Income Tax Credits									
46	412	Investment Tax Credits - Utility									
47		Total Expenses from operations before interest	\$ 470,700	\$ 10,563	\$ 481,263				\$ 483,799		\$ 483,799
48		Net Operating Income	\$ 5,105		\$ 5,105				\$ (7,994)		\$ (12,782)
49	419	Interest & Dividend Income									
50		Net Income Before Interest Charges	\$ 5,105		\$ 5,105				\$ (7,994)		\$ (12,782)
51	427.3	Interest Exp. on Long-Term Debt	5,878	-1207	4,471				4,471		4,471
52		NET INCOME	\$ (573)		\$ (3,466)				\$ (12,465)		\$ (17,253)

**Capitol Water Co.**  
**Case No. CAP-W-06-1**  
**Rate Base**  
**2005 Test Year**  
**Commission Staff Proposal**  
**Adjusted by Company Reply Comments**

	Company Proposal	Staff Adjustment	Staff Proposal	Company Reply Proposal
1 Plant in Service	\$ 2,598,939		2,598,939	2,598,939
2 Less Accum Depr	(1,642,271)		(1,642,271)	(1,642,271)
3 Less Contributions in Aid	(150,065)		(150,065)	(150,065)
4 Add Accum Amort of CIAC	89,734		89,734	89,734
5 Add Working Capital	<u>43,830</u>	<u>1,844</u>	<u>45,674</u>	<u>45,989</u>
6 Company Requested Rate Base	<u>\$ 940,167</u>			
7 Staff Proposed Rate Base			<u>\$ 942,011</u>	<u>\$ 942,326</u>

Capitol Water Co.  
 Case No. CAP-W-06-1  
 Revenue Requirement  
 For the Test Year 2005  
 Commission Staff Proposal

	(A) Company Proposal	(B) Staff Proposal	Company Reply to Staff	
			(C) Adjusted Proposal	(D) Adjusted W/O Hydrants
1 Rate Base	\$ 940,167	\$ 942,011	\$ 942,326	\$ 942,326
2 Required Return on Rate Base	11.48%	11.48%	11.48%	11.48%
3 Required Net Operating Income	\$ 107,905	\$ 108,116	\$ 108,152	\$ 108,152
4 Net Operating Income Realized	5,105	1,015	(7,994)	(12,782)
5 Net Operating Income Deficiency	\$ 102,800	\$ 107,101	\$ 116,146	\$ 120,934
6 Net to Gross Multiplier	128.84%	128.21%	128.21%	128.21%
7 Gross Revenue Deficiency	\$ 132,449	\$ 137,312	\$ 148,908	\$ 155,047
8 Revenue Billed	\$ 475,805	\$ 482,298	\$ 475,805	\$ 471,017
9 Revenue Increase Percentage Required	27.84%	28.47%	31.30%	32.92%
10 Revenue Requirement	\$ 608,254	\$ 619,610	\$ 624,713	\$ 626,064

Gross-up Factor Calculation - Company

11	Net Deficiency	100.0000%
12	PUC Fees	0.2486%
13	Bad Debts	0.5000%
14		<u>99.2514%</u>
15	State Tax @ 8%	7.9401%
16	Federal Taxable	91.3113%
17	Federal Tax @ 15%	13.6967%
18	Net After Tax	<u>77.6146%</u>
19	Net to Gross Multiplier	128.8417%

Gross-up Factor Calculation - Staff

20	Net Deficiency	100.0000%
21	PUC Fees	0.2486%
22	Bad Debts	0.0090%
23		<u>99.7424%</u>
24	State Tax @ 8%	7.9794%
25	Federal Taxable	91.7630%
26	Federal Tax @ 15%	13.7644%
27	Net After Tax	<u>77.9985%</u>
28	Net to Gross Multiplier	128.2075%