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IDAHO PUBLIC
UTILITIES COMMISSION

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Telephone 375-0931

March 2, 2009

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

CAP-W-08-02

ATTENTION COMMISSION SECRETARY AND HEAD LEGAL SECRETARY

Enclosed are an original and seven (7) copies of Applicants reply to the Comments of the Commission Staff filed in the Case on February 24, 2009

Sincerely,

Robert Price, President
Capitol Water Corporation

for power expenses, as the 2005 test year expenses should be more than sufficient to cover the ongoing power costs of Capitol Water.

In its findings on Page 7 of that order the Commission stated:

Finding: We find that it is reasonable that the above-noted expenses be recovered through rates rather than through the surcharge. These are all recurring expenses necessary for the operation of the business, or are otherwise appropriate for recovery through rates. This shift in the source of funds for payment for power and chemical expenses will allow the Company to retire the surcharge sooner. We direct the Company to use the amounts raised through the surcharge to retire the Company's loan as soon as possible.

The amount of electric power costs charged to the surcharge account in the test year in that case was \$12,365 and is reflected in the footnote on Applicants Exhibit No. 1 in this case.

On Page 4 of its comments, Staff acknowledges that the Company developed a computer model to calculate the effects of Idaho Power Company rates on Capitol's electric power costs. Staff states that the "The total amount estimated by the model for 2005 (\$82,874) was about the same as the actual total electric bills paid by the Company in that year." Indeed the Company's model produced a calculated electric cost within pennies of the actual Idaho Power Company billings. This model was provided to staff for their use in this case. The model is constructed to enable a user to change every element of Idaho Power Company's rate schedules applicable to Capitol Water Company billings and/or change consumption data to see the effect on Capitol's costs. Staff further states on Page 4 "...the Company estimated the total 2008 power cost using 2005 test year energy usage and 2008 Idaho Power rates. The estimated amount was \$96,724....". Staff has mischaracterized Applicants calculations. The model was not intended to "estimate" what 2008 electric bills would be but rather to show the effect of current electric rates on the 2005 test year bills. Staff seems to insinuate that because the calculated amount produced by the model using 2005 energy consumption is not the same as actual 2008 billings that the model is flawed. Staff's comparison here is an apples and oranges comparison.

Staff on page 5 has correctly determined that Capitol's energy use has fluctuated over the four year period 2005 through 2008. After discussions with Staff, the Company reviewed its maintenance records and realized there was a significant leak during the test year 2005 that increased the company's power costs. Such leaks are infrequent but not unusual. Applicant accepts Staff's determination that average use over the four period of 1,575,995 KWh per year is a reasonable approach to "Normalize" the Company's power costs. The table below shows the effect of Idaho Power Company rate changes on the Company's power costs using the normalized energy use. To produce this table the Company compared the average cost per KWh, actually experienced in 2005 with the average cost per KWh produced by the computer model using the Idaho Power rates approved in 2009.

Average Cost per KWh 2005	4.273¢
Average Cost per KWh 2009 rates	5.166¢
Apply to Average Energy Use of	1,575,995KWh
Total Energy Cost @ 2005 rates	\$67,342
Total Energy Cost @ 2009 rates	\$81,416
Increase in Energy Cost	20.9%

Staff used a different approach to calculate the effect of Idaho Power Company rate changes. Staff on Page 5 indicates that Idaho Power rate increases over the period 2005 to 2008 were 12.68%. To calculate this increase, Staff utilized data from Idaho Power prior cases to calculate the percent change in that company's rates from 2005 to 2008. Staff however used only average base rate cost per KWh and average PCA costs per KWh (ignoring other Idaho Power charges) for all Idaho Power Schedule 7 and Schedule 9 customers rather than using Capitol Water Company specific data. Further, by using only Idaho Power Company base rates and PCA charges, the Staff ignored changes in rate design that shift charges from lower consumption blocks to higher use. The average cost per KWh will be different for each Idaho Power customer depending upon the nature of each customer's volume and pattern of use. Staff used a beginning point mid 2005 and an end point in 2008 in its analysis. Staff failed to recognize the rates that were in effect for the first 5 months of 2005 which were applicable to Capitol's bills for those months. Comparing Staff's Attachment No 3 to the table above demonstrates

the erroneous methodology employed by Staff. Capitol Water Company's average costs per KWh for 2005, 2008, and 2009 are significantly below the average costs per KWh shown on Staff's attachment No. 3.

Second Amended Exhibit No 1 attached reflects the acceptance of the Staff's proposed "normalized" power consumption.

Respectfully submitted,

A handwritten signature in black ink that reads "Robert Price". The signature is written in a cursive style with a large, looping initial "R".

Robert Price, President
Capitol Water Corporation

Capitol Water Company
Make Whole Revenue Requirement

1 Rate Base Approved by Order No. 30198 (Case CAP-W-06-1)		\$ 942,326
2 Add Ustick Road Rebuild Project		102,006
3 Add Well No. 6 Rebuild Cost		11,234
4 Adjusted Rate Base		<u>\$ 1,055,567</u>
5 Rate of Return Authorized by Order no. 30198		11.48%
6 Income Requirement with Improvements		<u>\$ 121,179</u>
7 Income Requirement Determined in Order No. 30198		108,152
8 Incremental Income Requirement		<u>\$ 13,027</u>
9 Gross-up Factor From Order No. 30198		128.21%
10 Incremental Revenue Requirement		<u>\$ 16,702</u>
11 Add Depreciation Expense - 2008 Ustick Project	4,080	
12 Add Depreciation Expense - 2008 Pump Repair	449	
13 Incremental Depreciation Expense		<u>4,530</u>
14 Total Incremental Revenue Requirement-Plant in Service		<u>\$ 21,232</u>
15 2005 Pumping Power Expense (Per Order 30198)	\$ 68,255 *	
16 2005 Electric Power Expense Included in Utilities Expense	<u>2,254</u>	
17 Total Electric Expense included in Order No. 30198	\$ 70,509	
18 2005 Electric Bills Recalculated at Current Rates	81,416	
19 Incremental Electric Expenses		10,907
20 Add Amortization of Rate Case Expense (\$1,800/3yrs)		<u>600</u>
21 Total Incremental Make Whole Revenue Requirement		<u>\$ 32,739</u>
22 Revenue Requirement Approved by Order No. 30198		<u>\$ 624,713</u>
23 Increase Required		5.241%

* Note: During the test year, Capitol Water charged \$12,365 of IPCo PCA charges to its surcharge balancing account. Commission Order No. 30198 eliminated this accounting procedure from the Company's surcharge balancing account and assumed new rates would cover IPCo PCA charges that were negative at the time.