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IDAHO PUBLIC
UTILITIES COMMISSION

Diamond Bar Estates Water Co
Po Box 1870
Hayden ID 83835
208 665 9200
208 665 9300 fax

August 20 2007

Commission Secretary
Idaho Public Utilities Commission
PO Box 83720
Boise ID 83720-0074

RE: Case No. DIA-W-07-1

Enclosed is the Applicant's Reply to Staff Comments for the Commission.

Respectfully Submitted this 20th day of August 2007



Robert N Turnipseed
President/Manager
Diamond Bar Estates Water Co

ROBERT N. TURNIPSEED
PRESIDENT/MANAGER
DIAMOND BAR ESTATES WATER CO.
P.O. BOX 1870
HAYDEN, IDAHO 83835
(208) 665-9200

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IDAHO PUBLIC
UTILITIES COMMISSION

Street Address for Express Mail:
2953 N. Government Way
Coeur d'Alene, Idaho 83814

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION OF)
DIAMOND BAR ESTATES WATER COMPANY)
FOR AN INCREASE IN RATES AND CHARGES)
FOR WATER SERVICE IN THE STATE OF)
IDAHO)
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)
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)
)**

CASE DIA-W-07-1

**APPLICANT REPLY
TO COMMENTS OF
COMMISSION STAFF**

Comes Now Diamond Bar Estates Water Company (Applicant) and respectfully submits the following reply to the comments filed by the Staff of the Idaho Public Utilities Commission (Staff) in this case.

Staff Expense Adjustment No. 1 (Page 4 of Staff Comments). Staff states "The fee amount paid by the Company for water master services has increased every year since 2003." Staff Attachment "B" purports to show the increases in "Water Master Fees" for each year since 2003 and indicates an increase of 279% over that period of time. Applicant takes exception to the way the adjustment by staff is characterized. The expenses included in the "Labor Operation and Maintenance" account adjusted by Staff include costs incurred for labor other than the water master fees paid to the affiliated Avondale Construction Company. Costs include contract labor from unaffiliated service companies for repair and maintenance of wells, pumps, reservoirs and water lines.

The history of affiliated company charges for "water master" service is as follows: 2003 \$200.00 per Month plus \$2.00 per meter reading; 2004 -2005 \$250.00 per month plus \$2.00 per meter reading. Since 2003, the individual performing the water

master duties has earned a certification as a certified operator and has assumed additional responsibilities. In 2006, the charge for the water master service was raised to \$750.00 per month plus \$2.00 per meter reading. Note that Diamond Bar Water Company does not have any direct employees. The water master fees are paid to the affiliated Avondale Construction Company who employs the worker and pays all employee related expenses including taxes, insurance and other benefits. Assuming benefits are a conservative administrative cost of 25% the effective wage and salary cost without benefits is \$600.00 per month. Applicant also wants to bring to the Commissions attention that no other general management fees are charged to the water company for officers or directors fees. It is our opinion that the \$750.00 per month for overall operation, maintenance, repair and management of the water system is reasonable.

Staff Expense Adjustment No. 2 (Page 4 of Staff Comments). Staff Assumes in its proposed adjustment that the individual who performs the "bookkeeping" services for the Company has no duties other than the routine customer billing, bookkeeping, bill paying and banking responsibilities that a local bookkeeping service company would provide. This is erroneous. In addition to these services, this individual takes phone inquiries from customers regarding rates and service problems, dispatches service personal to respond to problem reports, prepares correspondence with numerous outside business contacts and generally performs all the duties normally associated with those of an office manager for a small business. A \$400 per month fee is quite reasonable for the multitude of services performed.

Staff Expense Adjustment No. 3 (Page 5 of Staff Comments). Staff in this adjustment proposes to disallow costs associated with the Company's lost and unaccounted for water. Staff states that the 19% loss realized is excessive and proposes to only allow costs equal to lost and unaccounted for water equal to 4%. Staff, however, erred in its calculations. Staff simply reduced the Company's costs by 15% of the total recorded. In effect, Staff's adjustment reduces the cost of lost and accounted for water to a level of 1.15% rather than the level of 4% they propose.

Company Reply Exhibit No. 10 presents calculations demonstrating the effect of various levels of lost and unaccounted for water. Line 1 is the total \$7,065.00 cost of purchased power and fuel for power as submitted in the Company's application. Line 2 is the loss percentage calculated by the Staff. To determine the base costs with no water losses, line 1 must be divided by 1.19%. The result is the base cost of \$5,936.97 shown on line 3. The effect of Staff's proposed adjustment is shown on line 6 and demonstrates that Staff's calculation provides an allowance of only 1.15% for losses.

In the recent Spirit Lake East case (Case SPL-W-06-1) Commission Order No. 30279 at page 3 said "Staff calculated that leakage in the Spirit Lake system is more than one gallon, and could be as much as one-and-a-half gallons, for every gallon used by customers. Staff described the leakage problem as severe, well beyond the 10% to 15% that is considered acceptable for small water systems." In this case Staff has adjusted Diamond Bar Water Company's expenses to a level well below the 10% to 15% they

considered acceptable in the Spirit Lake East case. The Company opposes this adjustment and proposes the Commission adopt the mid point between the 10% to 15% acceptable level or losses of 12.5%. This water system ages every year and despite management's efforts to provide exceptional repair and maintenance on the system, it is only natural to expect losses on the system to increase from the very low levels experienced in the early years of the system. As shown on line 9 of Company Reply Exhibit No. 10, this level of loss would reduce the Company's proposed revenue increase of \$16,751 by \$386 rather than the \$1,060.00 proposed by the Commission Staff.

Staff Expense Adjustment No. 4 (Page 6 of Staff Comments). The Company will accept Staff's adjustment to exclude rate case amortization of \$557 from the Company's prior rate case from operating expenses. However, Applicant does object to the five (5) year amortization of its current rate case expenses. As provided to Staff in work papers and as shown on Company Exhibit No. 2, the Company has not realized a profit in any of the years since and including 2003. The company has experienced an operating loss in each of these years and will not continue to absorb losses in the future. The Company fully intends to make application to the Commission to adjust rates in a timely manner, annually if necessary, to insure that the Company does not experience any future losses. The Company has continued to incur rate case costs since its application was filed including reviewing and responding to the Staff comments in this case and anticipates additional costs for preparation and representation at the public hearing the Commission has ordered. To date the Company has actually incurred costs of \$5,583.10 and proposes an amortization period of no more than three years. The original application estimated these cost to be \$5,000 with a three year amortization period. Amortization costs in this case should be at least \$1,861.00 rather than the \$1,000.00 proposed by Staff. The Company will provide the actual costs incurred upon completion of this case. Cost incurred through August 19, 2007 are shown on Company Reply Exhibit No. 11.

Staff Rate Base Adjustment – water rights adjudication costs (Page 6 of Staff Comments). The Company proposed to capitalize its costs to protect and assure its water rights during the current adjudication process for the Rathdrum Prairie aquifer. Staff has proposed these costs be capitalized and amortized over a 5 year period without being included in rate base. The Company treated these cost in a manner consistent with the method used by United Water Idaho and accepted by the Commission. United Water Idaho treats such costs as intangible assets in rate base not subject to depreciation or amortization. The Company believes its original proposal is the correct and most equitable treatment of these costs and in these reply comments, restates the staff proposal to revert to the Company's original position. The Company is willing to amortize these costs as proposed by the Staff but believes these costs for a small water company are unusual, burdensome, have an adverse effect on a small company's cash flow requirements and should earn a return on the unamortized balances.

Staff Rate Base Adjustment – unamortized rate case expenses (Page 7 of Staff Comments). Staff proposes to eliminate from rate base the unamortized rate case

expenses from both the previous rate case and the current rate case. The Company is willing to accept the elimination of these costs from the previous case but does take exception to the elimination of the current costs. Rate case expenses are a significant drain on the capital of a small company. The Staff supports its position merely by stating that "Treating this expense as a capital item in rate base was addressed in the 2002 case and the Commission specifically denied the Company's request for rate base treatment to earn a return. Case No. GNR-W-02-3, Order No. 29247." Order No. 29247 at page 10 contains the discussion of this issue. The Commission's findings on this page regarding rate case expenses state in their entirety as follows:

"We find it reasonable to allow recovery of actual billed costs for accounting and legal services in the amount of \$1 085. We also find it reasonable to allow recovery of the estimated additional costs for accounting and legal services required to perfect the Company's Reply Comments in the amount of \$1,700. We approve total rate case expense of \$2,785. We approve recovery of this amount amortized over five years. The projected cost of appeal we find is speculative, not known and measurable and cannot be recovered."

The Commission did not "specifically" address this issue in its findings. The Commission did not include the costs in rate base, but was silent regarding the policy or reasoning behind the exclusion.

Rate case cost for this company represent 30% of the Company's gross annual revenues. This is not an insignificant amount and should be recognized by the Commission as a real cash investment in the health of the Company in order to keep it viable and provide quality service to customers. The costs of preparing and defending a rate case before the Commission for large multi-million (billion) dollar company are an insignificant percentage of those companies revenues. Small Companies like Diamond Bar Estates do not have the expertise in-house to present an application to the Commission for an increase in rates. Monies expended for these outside services could be used to upgrade and improve the water system (rate base additions) but rather are diverted to prepare and defend requests to the Public Utilities Commission for rate adjustments. The alternative would be to increase internal labor cost to hire additional employees at a much greater annual cost to the Company. The Commission must recognize the real cost to the company in terms of the time value of money. Otherwise the Company owners are encouraged to make investments elsewhere at the cost of quality of service to water customers.

Company Reply Exhibit Nos. 12 and 13 present the detail of the adjustments Applicant proposes to the Staff recommendations for rate base (Ex 12) and operating results (Ex13).

Revenue Requirement:

Company Reply Exhibit No. 14 Shows a comparative calculation of the revenue requirement that is produced by the Staff's recommendations and that produced with this reply. Staff proposed an increase in revenues of \$9,883.00 or 54.321 %. The Applicant proposes in this reply an increase in revenues of \$16,269 or 90.929%.

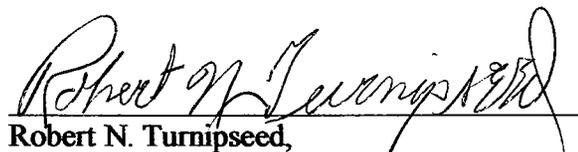
Rate Design

Staff in its comments proposes a rate design of a base charge of \$29.00 per month (including the first 4,000 gallons of consumption) plus a commodity charge of \$0.73 per thousand gallons for all consumption over 4,000 gallons per month. The Company finds this rate design unacceptable. The base charge of \$29.00 per month would only provide revenues in the winter months of \$1,247 per month. This revenue level will not provide enough revenue to cash flow the Company's fixed monthly costs to say nothing of the variable costs including pumping power costs.

The Company originally proposed a \$50.00 per month base rate including the first \$7,500 gallons of consumption per month plus a commodity rate of \$0.52 per thousand gallons for all consumption in excess of 7,500 gallons per month. This rate design would provide monthly revenues from base rates of \$2,150, enough to pay the Company's fixed costs in winter months.

The Applicant is not in this reply putting forth yet another rate design proposal for the Commission to consider. Rather, the Company is proposing that the Commission decide upon a revenue requirement based upon the evidence presented. Further, the Company proposes that the Commission consider the cash flow requirements of the Company and provide direction to the Company and PUC Staff regarding the relationship between base rates and commodity rates it deems appropriate. The Company and the Staff then could work together to develop a rate design for the Commission's approval.

Respectfully Submitted this 20 day of August, 2007.


Robert N. Turnipseed,
President/Manager
Diamond Bar Estates Water Co.

Diamond Bar Estates Water Co.
Lost and Unaccounted for Water

1	Purchased Power and Fuel for Power	\$	7,065.00
2	Lost and unaccounted for %		<u>19%</u>
3	Base Cost without losses (divide Cost by 119%)	\$	<u>5,936.97</u>

Calculation of effective cost associated with losses at various percentages.

	Loss %	addl costs	Total Costs
4	Cost Associated with Losses @ 19.00%	1,128.03	7,065.00 Proof
5	Cost Associated with Losses @ 4.00%	237.48	6,174.45
6	Cost Associated with Losses @ 1.15%	68.28	6,005.25 Staff
7	Cost Associated with Losses @ 12.50%	742.12	6,679.10

8	Booked Costs	\$	7,065.00
9	Adjustment to Reduces Losses to 12.5%		<u>385.90</u>
10	Adjusted Costs	\$	<u>6,679.10</u>

**Diamond Bar Estates Water Co.
Rate Case Expense**

		(A)	(B)
Pmnt		Amount	Accumulated
1	Jul-06	187.50	187.50
2	Sep-06	768.75	956.25
3	Oct-06	168.75	1,125.00
4	Apr-07	1,200.00	2,325.00
5	Jun-07	2,238.10	4,563.10
6	Accrued to 8/19/07	1,020.00	5,583.10
7	3 Year Amortization Expense		1,861.03

Diamond Bar Estates Water Company
Calculation of Rate Base

	(A)	(B)	(C)	(D)	(E)	(F)
	Per Staff Comments	Correct Staff Working Capital	Company Reply Restore Rate Case Expense	Company Reply Restore Water Rights	Company Reply Recalc. Working Capital	Company Reply Adjusted
1 Plant in Service	\$ 15,449			\$ 5,000		\$ 20,449
2 Accumulated Depreciation	1,834					1,834
3 Net Plant In Service	\$ 13,615	\$ -	\$ -	\$ 5,000	\$ -	\$ 18,615
4 Rate Case Exp. (Case GNR-W-02-3)	\$ -					\$ -
5 Current Rate Case Expense	-		5,583			5,583
6 Accumulated Amortization	-					-
7 Unamortized Balance	\$ -	\$ -	\$ 5,583	\$ -	\$ -	\$ 5,583
8 Working Capital (1/8th of O&M Exp)	3,186	(433)			572	3,325
9 Total Rate Base	\$ 16,801	\$ (433)	\$ 5,583	\$ 5,000	\$ 572	\$ 27,523

	Per Staff Comments	Company Reply O&M Labor	Company Reply A&G Labor	Company Reply Water Loss	Company Reply Rate Case Expense Amortization	Company Reply Eliminate Water Rights Amortization	Company Reply Total
Revenues							
1	Metered Sales - Residential	\$ 17,892					\$ 17,892
2	Contributions for Construction	100					100
3	Other Revenue	201					201
	Total Revenue	\$ 18,193	\$ -	\$ -	\$ -	\$ -	\$ 18,193
Operating Expenses							
4	Labor Operation and Maintenance	\$ 6,968	2,700				\$ 9,668
5	Labor Admin and General	3,600		1,200			\$ 4,800
6	Purchased Power and Fuel for Power	6,005			675		\$ 6,680
7	Material & Supplies-Operation and Maint	1,099					\$ 1,099
8	Material & Supplies Admin & Gen	249					\$ 249
9	Contract Services-Professional	426					\$ 426
10	Contract Services-Water Testing	725					\$ 725
11	Contract Services-Other	44					\$ 44
12	Rentals-Property & Equipment	900					\$ 900
13	Cost of Construction	-					-
14	Insurance	2,008					\$ 2,008
15	Total Operating Expenses	\$ 22,024	\$ 2,700	\$ 1,200	\$ 675	\$ -	\$ 26,599
Additional Expenses							
16	Depreciation Expense	1,169					\$ 1,169
17	Rate Case Expense Amortization	1,000			861		\$ 1,861
18	Water Right Amortization	1,000				(1,000)	\$ -
19	Regulatory Fees	255					\$ 255
20	Property Taxes	43					\$ 43
21	Total Additional Expenses	\$ 3,467	\$ -	\$ -	\$ 861	\$ (1,000)	\$ 3,328
22	Total Expenses	25,491	2,700	1,200	675	(1,000)	29,927
	Net Income	(7,298)	(2,700)	(1,200)	(675)	1,000	(11,734)

Working Capital Calculation (Line 15 / (365x45)) 2,753
 Note: Staff Calculation error. Staff working capital calculation included "Additional Expenses" including Depreciation, amort and taxes.

338 150 84 - 3,325
 3,186 433

Exhibit 13
 Company Reply

**Diamond Bar Estates Water Co.
Comparison of Revenue Requirement
Staff Comments to Company Reply**

	Per Staff	Per Company Reply
1 Rate Base	\$ 16,801	\$ 27,523
2 Return on Rate Base	12%	12%
3 Return Required	<u>\$ 2,016</u>	<u>\$ 3,303</u>
4 Gross-up for taxes	<u>1.281959</u>	<u>1.281959</u>
5 Revenue Required for Return	\$ 2,585	\$ 4,234
6 Add Expenses:		
7 Operating Expenses	22,024	26,599
8 Depreciation Expense	1,169	1,169
9 Rate Case Amortization	1,000	1,861
10 Water Right Amortization	1,000	-
11 Regulatory Fees	255	255
12 Property Taxes	<u>43</u>	<u>43</u>
13 Total Revenue Requirement	28,076	34,161
14 2006 Actual Revenue	18,193	17,892 *
15 Revenue Deficit	9,883	16,269
16 Percent Increase Required	54.321%	90.929%

* Difference in revenue is one time charges not associated with normal water service of \$301