

KRISTINE A. SASSER
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0357
BAR NO. 6618

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UTILITIES COMMISSION

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5983

Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)
CAPITOL WATER CORPORATION FOR)
AUTHORITY TO INCREASE ITS RATES AND)
CHARGES.) **CASE NO. CAP-W-08-2**
) **REPLY COMMENTS OF THE**
) **COMMISSION STAFF**
)

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Kristine A. Sasser, Deputy Attorney General, and in response to Capitol Water's Reply to Comments of Commission Staff submitted on March 2, 2009, in Case No. CAP-W-08-2, submits the following responsive comments.

BACKGROUND

On November 17, 2008, Capitol Water Corporation filed an Application for authority to increase its rates for water service by 7.8%.¹ On December 9, 2008, the Commission issued Order No. 30700 relating to the Notice of Application and Notice of Intervention. No party petitioned to intervene. On February 3, 2009, the Company filed an amendment to its Application to reflect the effect of Commission Order No. 30722 issued on January 30, 2009, in Idaho

¹ Capitol Water's current rates and charges were authorized by Order No. 30198 issued on December 13, 2006.

Power's general rate case (Case No. IPC-E-08-10). The Company changed its rate increase request from 7.80%, as originally proposed, to 8.257%.

On February 24, 2009, Commission Staff filed comments. On March 2, 2009, the Company filed a reply to Staff's comments. Staff has reviewed the Company's reply comments and modifies/clarifies Staff Comments as detailed in its analysis below.

STAFF ANALYSIS

The Company points out in its Reply Comments that electricity costs currently included in base rates is \$70,509 annually rather than the \$82,874 specified in Staff Comments. The Company is correct. While total electricity cost incurred in 2005 was \$82,874, \$12,365 of that amount was paid from the surcharge account and was not embedded in base rates.

The Company then calculated 2009 electricity costs of \$81,416 using the Staff calculated average annual energy of 1.576 million kWh and the Company estimated average cost per kWh in 2009 of 5.166 cents/kWh. The resulting revenue requirement deficiency was calculated by the Company to be \$10,907.

Staff does not dispute the Company's calculation of the 2009 average cost per kWh after the latest Idaho Power rate increase. However, the Company also acknowledged that there was a significant leak during the 2005 test year that abnormally increased the Company's energy consumption. Staff originally used this abnormally high energy consumption to calculate normalized annual energy and power pumping expense. Staff believes that normalized annual energy should be recalculated without using the abnormally high 2005 annual energy consumption.

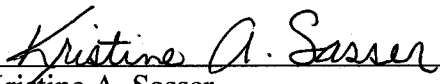
The following table shows energy consumption for the years 2005 through 2008. Note the abnormally high consumption in 2005 due to water leakage.

2005 – 1,940,776
2006 – 1,563,664
2007 – 1,432,362
2008 – 1,367,198

A recalculation excluding 2005 energy results in an average annual energy consumption of 1,454,401 kWh. Staff believes that this recalculated annual average is more representative of the energy consumption that can be expected in 2009. If the Company's estimated average cost

per kWh of 5.166 cents is applied to the recalculated normalized annual energy consumption, 2009 power supply expense would be \$75,134. The difference between power supply costs of \$70,509 currently included in rates and expected 2009 power supply costs of \$75,134 is \$4,625. Staff recommends that this additional amount be added to Staff's previously proposed revenue requirement to properly cover annual power supply expense.

Respectfully submitted this 9th day of March 2009.



Kristine A. Sasser
Deputy Attorney General

Technical Staff: Kathy Stockton
Gerry D. Galinato

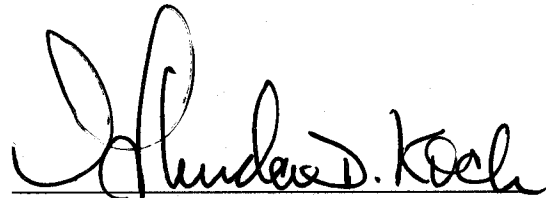
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 9TH DAY OF MARCH 2009, SERVED THE FOREGOING **REPLY COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. CAP-W-08-2, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

ROBERT PRICE
CAPITOL WATER CORP.
2626 ELDORADO
BOISE ID 83704
E-MAIL: capitolwatercorp@worldnet.att.net

ROBERT E SMITH
2209 N BRYSON RD
BOISE ID 83713
E-MAIL: utilitygroup@yahoo.com



Andrew D. Koch
SECRETARY