MOUNTAIN WATER COMPANY

P.O. Box 4826 - 1345 W. Broadway - Missoula, MT 59806 - Phone (406) 721-5570 - Fax (406) 523-5090 - www.mtnwater.com

April 30, 2009

Ms. Kate Whitney
Montana Public Service Commission
1701 Prospect Avenue
Helena, MT 59620

Subject: Letter of Transmittal for Mountain Water Company PSC Annual Report

Dear Ms. Whitney:

Mountain Water Company hereby transmits its annual PSC report relating to service in its Missoula Division serving Missoula, Montana for the year 2008.

The salary information requested is confidential and is not being included with this report. The company will move the Commission for entry of an appropriate protective order. After entry of the protective order, it will provide the requested information.

An employee of the Company responsible for answering questions concerning this report or for referring inquiries to the appropriate person is Arvid Hiller, Vice-President and General Manager, Mountain Water Company, 1345 West Broadway, Missoula, Montana 59802, telephone (406) 721-5570.

MOUNTAIN WATER COMPANY

Arvid M. Hiller

Arvid M. Hiller
Vice-President and General Manager

Mr. John Alke, Esquire
Hughes, Kellner, Sullivan and Alke
40 W. Lawrence Suite A
PO Box 1166

YEAR 2008

ANNUAL REPORT

OF THE

NAME: MOUNTAIN WATER COMPANY

LOCATION: 1345 W. BROADWAY, MISSOULA, MONTANA 59802

PRIVATE WATER UTILITY

TO THE

PUBLIC SERVICE COMMISSION

OF MONTANA

FOR THE YEAR ENDING DECEMBER 31, 2008

FORM NO. 402-A(12/88)

GENERAL INSTRUCTIONS

1. Prepare this report in conformity with the 1984 National Association of Utility Regulatory Commissioners Uniform System of Accounts for Water Utilities.

2. Interpret all accounting words or phrases in accordance with the USOA.

3. Complete each question fully and accurately, even if it has been answered in a previous annual report. Enter the word "None" where it truly and completely states the fact.

4. For any question, section or page which is not applicable to the respondent, enter the words "Not Applicable" or "N/A." Do not omit any pages.

5. Where dates are called for, the month and day should be stated as well as the year.

6. Complete this report by means which result in a permanent record.

7. If there is not enough room on any schedule, an additional page or pages may be added, provided the format of the added schedule matches the format of the schedule with not enough room. Such a schedule should reference the appropriate schedule, state the name of the utility, and state the year of the report.

8. This report should be filled out in duplicate and one copy returned within 2½ months after the close of the reporting period. The report should be returned to:

Montana Public Service Commission
Utility Division
2701 Prospect Avenue
Helena, Montana 59620

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REPORT OF

MOUNTAIN WATER COMPANY
(Exact Name of Utility)

1345 W. BROADWAY — MISSOULA, MONTANA 59802
(Address) — *(City, State, Zip Code)*

For Year Ended: DECEMBER 31, 2008

Date Utility First Organized: APRIL 19, 1961

Telephone Number: (406) 721-5570

Location where books and records are located: SAME AS ABOVE

Contacts:

Name	Title	Principal Business Address	Salary
Person to send correspondence: ARVID HILLER	VICE PRESIDENT AND GENERAL MANAGER	1345 W. BROADWAY MISSOULA, MT 59802	XXXXXXXX
Person who prepared this report: LAWRENCE G. LEE	DIRECTOR OF ACCOUNTING PARK WATER COMPANY	9750 WASHBURN ROAD P.O. BOX 7002 DOWNEY, CA 90241-7002	XXXXXXXX
Officers & Managers: HENRY H. WHEELER, JR.	PRESIDENT	9750 WASHBURN ROAD P.O. BOX 7002 DOWNEY, CA 90241-7002	Note A
NYRI A. WHEELER-LEWIS	SECRETARY	SAME AS ABOVE	Note A
LEIGH K. JORDAN	EXECUTIVE VICE PRESIDENT	SAME AS ABOVE	Note A
ARVID HILLER	VICE PRESIDENT & GENERAL MANAGER	1345 W. BROADWAY MISSOULA, MT 59802	Note A
JOHN KAPPES	ASST VICE PRESIDENT & ASST GM	1345 W. BROADWAY MISSOULA, MT 59802	Note A

Report every corporation or person owning interest or holding directly or indirectly 5 percent or more of the voting securities of the reporting utility:

Name	Percent Ownership in Utility	Principal Business Address	Salary Charged Utility
PARK WATER COMPANY	100%	9750 WASHBURN ROAD, P.O. BOX 7002 DOWNEY, CA 90241-7002	$ N/A
			$
			$

Note A : Confidential Salary Information

INCOME STATEMENT

Account Name	Current Year	Previous Year
GROSS REVENUE:		
Metered		
Residential	5,549,609	5,694,263
Commercial	3,808,249	3,886,734
Industrial	0	0
Other	1,516,815	1,535,049
Unmetered		
Residential	2,684,277	2,848,741
Commercial	171,641	170,703
Industrial	0	0
Fire Protection	250,342	574,392
Bulk Sales	0	0
Sale of Materials	0	0
Other	647,145	717,121
TOTAL GROSS REVENUE	**14,628,078**	**15,427,003**
Operation and Maintenance Expense	9,474,822	9,227,003
Depreciation Expense	1,976,352	1,884,383
Taxes Other Than Income	1,160,102	1,111,067
Income Taxes (A)	1,194,207	1,582,556
Deferred Federal Income Taxes	0	0
Amortized - Intangible Plant	40,258	40,258
Deferred State Income Taxes	0	0
TOTAL OPERATING EXPENSE	**13,845,741**	**13,845,267**
NET OPERATING INCOME (LOSS)	**782,337**	**1,581,736**
Other Income:		
Investment Tax Credits	0	0
Non-Operating Income	0	0
Interest Income	575,940	834,115
Allow. Funds Used - Construct.	13,422	20,167
Other Deductions:		
Non-Utility Expenses	578	578
Interest Expense	37,672	4,761
Miscellaneous Deductions	83,213	31,345
NET INCOME (LOSS)	**1,250,236**	**2,399,334**

(A) Excludes $153,867 of non-utility income tax benefit.

COMPARATIVE BALANCE SHEET

ACCOUNT NAME	CURRENT YEAR	PREVIOUS YEAR
Assets:		
Utility Plant in Service (A), (B)	82,250,199	77,504,602
Accumulated Depreciation and Amortization	(21,622,041)	(19,858,195)
Net Utility Plant	**60,628,158**	**57,646,407**
Cash	71,559	53,159
Customer Account Receivable	737,987	719,950
Other Assets (Specify)-		
Non-Utility Property		
Less Acc. Depreciation		
Utility Plant Acquisition Adjustment	316,775	354,515
Land Held For Future Use	443,788	430,943
Materials and Supplies	410,605	209,688
Misc. & Prepaids (B)	658,288	562,009
Misc. Deferred Debits	19,035	18,666
Deferred Employee Benefits	274,515	275,478
Regulatory Accounts	3,728,962	3,638,663
Open Accounts	(2,519,301)	(3,923,387)
Total Assets	**64,770,371**	**59,986,091**
Liabilities and Capital:		
Common Stock Issued	6,940,578	6,940,578
Preferred Stock Issued		
Other Paid in Capital	2,008,000	2,008,000
Retained Earnings	23,663,237	22,413,001
Proprietary Capital		
Total Capital	**32,611,815**	**31,361,579**
Long Term Debt	0	0
Accounts Payable	622,676	452,828
Notes Payable	850,000	0
Customer Deposits	1,254	1,066
Accrued Taxes	420,925	409,642
Other Liabilities (Specify)		
Interest Accrued	0	0
Misc. Liabilities	590,674	489,989
Deferred Credits	2,829,123	3,659,470
Deferred Income Tax & ITC	7,143,193	6,500,441
Advances for Construction	17,562,506	15,013,173
Contributions in Aid of Construction	2,138,205	2,097,903
Total Liabilities and Capital	**64,770,371**	**59,986,091**

(A) Includes $389,963 and $728,340 of Construction in Progress for 2008 and 2007 respectively.
(B) Balance excludes Intangible Plant which is included in Miscellaneous and Prepaid category in the amount of $33,053 and $35,571 for 2008 and 2007 respectively.

ACCUMULATED DEPRECIATION AND AMORTIZATION OF UTILITY PLANT

ACCOUNT 108	CURRENT YEAR	PREVIOUS YEAR
Balance First of Year	19,858,195	18,093,888
Credits During Year:		
Accruals Charged to Depreciation Account	1,976,352	1,884,383
Salvage	7,316	8,711
Other Credits - Contributions	50,767	43,012
Other Credits		0
Clearing Accounts	75,861	79,705
Total Credits	**2,110,296**	**2,015,811**
Debits During Year:		
Book Cost of Plant Retired	320,785	237,305
Cost of Removal	25,665	14,199
Other Debits (Specify)-	0	0
Total Debits	**346,450**	**251,504**
Balance End of Year	**21,622,041**	**19,858,195**

CONTRIBUTIONS IN AID OF CONSTRUCTION

Report below all contractor and developer agreements and line extension agreements from which cash or property was received during the year.	Indicate "Cash" or "Property"	
3107CP02 Lorraine South	Property	26,442
3107CP03 Abandon 6" main in Eddy	Property	7,875
3108CP01 Reloc FH761 @ Broadway / Palmer	Property	3,233
3108CP02 Larkinwood 8" ext - Collin Bangs	Cash	6,248
3108CP04 Cenex casing on Old Grant Crk Rd.	Cash	38,832
3108CP05 Tex Cates - S 3rd W 8" extension	Cash	8,441
Total During Year		**91,071**

ACCUMULATED DEFERRED INCOME TAXES

Description	
Accumulated Deferred Income Taxes:	7,143,193
Total Accumulated Deferred Income Taxes	**7,143,193**

CAPITAL STOCK

	Common Stock	Preferred Stock
Par or stated value per share	No Par Value	N/A
Shares issued and outstanding	50,000	
Total par value of stock issued	6,940,578	
Dividends declared per share for year		

RETAINED EARNINGS

	Appropriated	Unappropriated
Balance first of year		22,413,001
Changes during year (Specify):		
Missoula 2008 Net Income		1,250,236
Balance end of year		23,663,237

PROPRIETARY CAPITAL

	Proprietor or Partner	Partner
Balance first of year		
Changes during year (Specify):		
NOT APPLICABLE		
Balance end of year		

LONG TERM DEBT

Description of Obligation	Interest		Principal Per Balance Sheet Date
	Rate	Pymts	
NONE			
Total	N/A	0	0

WATER UTILITY PLANT ACCOUNTS

Acct. No.	Account Name	Previous Year	Additions	Retirements	Current Year
301	Organization	0			0
302	Franchises	0			0
303	Land and Land Rights	1,153,408			1,153,408
304	Structures and Improvements	4,844,742	(28,912)	353	4,815,477
305	Collecting and Impounding Reservoirs	394,308	6,701	1,104	399,905
306	Lake, River and Other Intakes	0			0
307	Wells and Springs	313,870	22,453		336,323
308	Infiltration Galleries and Tunnels	0			0
309	Supply Mains	337,436			337,436
310	Power Generation Equipment	944,149	61,358		1,005,507
311	Pumping Equipment	3,304,524	63,758	25,497	3,342,784
320	Water Treatment Equipment	268,430	6,008		274,438
330	Distribution Reservoirs and Standpipes	5,240,664	94,052	3,079	5,331,637
331	Transmission and Distribution Mains	45,755,513	3,551,095	93,490	49,213,118
333	Services	187,730	845		188,575
334	Meters and Meter Installations	5,170,409	600,824	136,987	5,634,246
335	Hydrants	3,873,943	407,809	1,307	4,280,445
339	Other Plant and Miscellaneous Equipment	0			0
340	Office Furniture and Equipment	205,900	4,776	289	210,387
341	Transportation Equipment	867,243	86,885	38,597	915,531
342	Stores Equipment	0			0
343	Tools, Shop and Garage Equipment	367,129	(64)	1,738	365,328
344	Laboratory Equipment	12,990	408		13,398
345	Power Operated Equipment	18,542			18,542
346	Communication Equipment	358,915	29,134	1,725	386,324
347	Miscellaneous Equipment	3,156,416	497,629	16,619	3,637,426
348	Other Tangible Plant	0			0
	Construction Work in Progress	728,340	389,963	728,340	389,963
	TOTAL WATER PLANT	77,504,602	5,794,722	1,049,125	82,250,199

ANALYSIS OF ACCUMULATED DEPRECIATION BY PRIMARY ACCOUNT

ACCT. NO.	ACCOUNT	AVERAGE SERVICE LIFE IN YEARS	AVERAGE SALVAGE IN PERCENT	DEPR. RATE APPLIED	ACCUMULATED DEPRECIATION BALANCE PREVIOUS YEARS	DEBITS	CREDITS	ACCUMULATED DEPRECIATED BALANCE - END OF YEAR
303	Land and Land Rights				35,001		1,919	36,920
304	Structures & Improvements	VARIES	VARIES %	VARIES %	1,892,099	353	109,294	2,001,040
305	Collecting & Impounding Reservoirs	50	-5.0%	2.08%	234,228	1,104	9,051	242,175
306	Lake, River & Other Intakes				0		0	0
307	Wells & Springs	40	-5.0%	2.56%	178,148		8,035	186,183
308	Infiltrations Galleries & Tunnels				0		0	0
309	Supply Mains	50	-5.0%	2.06%	171,947		6,951	178,898
310	Power Generating Equipment	25	0.0%	3.76%	248,228		35,500	283,728
311	Pumping Equipment	25	Varies %	Varies %	1,479,660	36,469	122,350	1,565,541
320	Water Treatment Equipment	20	0.0%	3.60%	117,584		9,664	127,248
330	Distribution Reservoirs & Standpipes	40	0.0%	2.30%	1,535,661	3,079	120,536	1,653,118
331	Trans. & Dist. Mains	50	0.0%	1.97%	9,517,487	108,183	932,465	10,341,769
333	Services	40	0.0%	2.43%	46,202		4,562	50,764
334	Meter & Meter Installation	30	Varies %	Varies %	767,864	136,987	186,560	817,437
335	Hydrants	40	Varies %	Varies %	780,536	1,307	82,454	861,683
339	Other Plant & Misc. Equipment				0		0	0
340	Office Furniture and Equipment	15	10.0%	5.16%	124,966	289	11,179	135,856
341	Transportation Equipment	10	10.0%	6.68%	559,482	38,597	59,131	580,016
342	Stores Equipment				0		0	0
343	Tools, Shop & Garage Equipment	20	5.0%	4.94%	139,708	1,738	17,374	155,344
344	Laboratory Equipment	10	0.0%	4.95%	11,133		643	11,776
345	Power Operated Equipment	20	5.0%	0.48%	17,053		89	17,142
346	Communication Equipment	10	0.0%	11.04%	153,314	1,725	39,624	191,213
347	Miscellaneous Equipment	6	5.0%	11.48%	1,847,894	16,619	352,915	2,184,190
348	Other Tangible Plant				0		0	0
	Totals				**19,858,195**	**346,450**	**2,110,296**	**21,622,041**

WATER OPERATION AND MAINTENANCE EXPENSE

ACCOUNT NAME	AMOUNT
Salaries and Wages - Employees	2,929,024
Employee Pensions and Benefits	986,390
Purchased Water	0
Purchased Power	1,270,820
Fuel for Power Production	0
Chemicals	58,926
Materials and Supplies (A)	(199,657)
Contractual Services	3,218,514
Rent	1,200
Transportation Expense	234,959
Insurance Expense	572,725
Regulatory Commission Expense	5,972
Bad Debt Expense	29,034
Miscellaneous Expense	366,915
TOTAL	**9,474,822**

(A) Includes $(243,726) Administrative Expense Transferred.

PAYMENTS FOR SERVICES RENDERED BY OTHER THAN EMPLOYEES

Report all information concerning rate, management, construction, advertising, labor relations, public relations, or other similiar services rendered the respondent for which the aggregate payments during the year to any corporation, partnership, individual or organization of any kind whatever, amounting to $500. or more. Utilities having revenue in excess of $100,000 should report amounts of $5,000 or more.

Name of Recipient	Amount	Description of Service
SEE PAGE 10		

NAME OF RECIPIENT	AMOUNT		DESCRIPTION OF DATA
4G's Plumbing & Heating	15,771		Plumbing/mechanical services
Abatement Contractors of Montana, LLC	5,307		Abatement services
ADP	14,963		Payroll service
Advertiser Printing	11,673		Printing service
Anders Business Solutions	5,664		Maintenance agreement/copier services
AWWA Research Foundation	10,554		Subscription to research
Bank of America	8,771		Service charge
Beaudette Consulting Engineers	7,818		Engineering Services
Bitterroot Motors	11,999		Service/repair vehicle fleet
Bitterroot Welding & Hydraulics	25,489		Welding & hydraulic services
Blackfoot Communications	16,754		Telemetry/phone line/internet services
Camp Well Drilling	26,615		Drilling & mechanical services
CBM Collections, Inc	9,620		Collection fees
Eli & Associates, Inc.	23,977		Engineering services
Energy Labs, Inc.	17,557		Water testing
Embe Contracting, Inc.	189,791		Excavation work
ESRI, Inc.	19,700		Maint agreement-software GIS
Express Personnel Services	13,850		Temp employee services
Fencecrafters LLC	14,676		Fence work
Garlington, Lohn & Robinson	33,803		Legal fees
GE Fanuc Automation	6,793		SCADA maintenance contract
Gordon Construction	9,477		Construction work
Grizzly Fence	43,349		Fence work
HDR Engineering, Inc	23,689		Engineering services/rate case study
Hughes, Kellner, Sullivan & Alke	24,197		Legal fees
Hydrometrics	12,998		Engineering services
Johnson Controls	23,479		Service work
K & N Electrical Motors, Inc.	13,706		Service pump/motors
Karl Tyler Chevrolet	11,319		Service/repair vehicle fleet
Knife River	153,512		Excavation work
Kohlers Sprinkler and Backflow	6,774		Sprinkler repair/irrigation
Les Schwab Tire Center	7,302		Service/repair vehicle fleet
LS Jensen & Sons, Inc.	68,186		Excavation work
Minuteman Aviation	10,380		Helicopter services
Miller Law Office, PLLC	8,657		Legal fees
Missoula City/County Health Dept.	18,521		Water testing
Missoula Textiles	22,439		Laundry service
Morrison Maierle, Inc	10,281		Engineering services
Montana Conservation Corps	21,600		Dam repair & maintenance
Nash Enterprises, Inc	11,038		Excavation work
Nature's Best	75,855		lawn/site maintenance

Continued - next page

NAME OF RECIPIENT	AMOUNT		DESCRIPTION OF DATA
Navtrak	14,402		Vehicle tracking system
Paulson Electric	114,313		Electrical repairs
PBS&J	52,964		Engineering services
Peasley, Aldinger & O'Bymachow	95,759		Audit fees
Platinum Graphics	68,676		Mailing service
Poteet Construction, Inc.	34,359		Signage service
Power Engineers	59,630		Engineering services
Professional Consulting, Inc.	87,362		Engineering services
Quality Maintenance Enterprises	15,029		Janitorial services
Salt Studio	21,801		Advertising services
SC Wrights Insurance	460,844		Commercial insurance
Securitas Security Service	15,141		Alarm/security service
SICC	40,473		Painting services
Sprint	20,089		Computer data link line
Storage Solutions LLC	5,360		Off site storage
Territorial-Landworks Inc	71,439		Engineering Services
TR Marinan Co	11,904		Fleet maintenance
The Waterman	67,766		Contracted locates/water service
US Bank	19,405		Service charge
Utilities Underground Location Center	14,682		Location requests
Verizon Wireless	27,818		Cell phone service
WaterTrax USA, Inc	5,375		Utility service
Western Excavating	248,703		Excavation work
Western States Equipment Co.	100,372		Service generators
WGM Group	119,429		Engineering services
Total	2,860,997		

SOURCES OF WATER SUPPLY

Surface Water: River = 0 Lake = 8 Stream = 1 Impounding Res. = 1
Ground Water: Springs No. = 0 Shallow Wells No. = 36 Deep Wells No. = 1

SUPPLY, TRANSMISSION & DISTRIBUTION MAINS (FEET)

Size Inches	First of Year	Laid During Year	Total	Abandoned During Year	Taken Up During Year	Total	Close of Year
4"or less							
6							
8							
10		PLEASE SEE PAGE 11A					
20							
TOTAL			0	0	0		

RESERVOIRS, STANDPIPES AND PURIFICATION SYSTEM

Number of Reservoirs 13 Capacity in Gallons 12,300,000
Number of Standpipes 13 Capacity in Gallons 1,716,700
Method of Purification: Chlorination

SERVICES AND METERS

	1/2 in.	5/8 in.	3/4 in.	1 in.	1 1/2 in.	2 in.	3 in.	4 in.	6 in.	8 in.	10 in.
Services	0	14,954	249	5,819	232	434	32	222	113	40	1
Meters		14,600	767	969	327	356	61	28	7	3	1

NUMBER AND CLASSIFICATION OF CONSUMERS

Classification	Begining of the year			Close of the year			
	Metered	Unmetered	Total	Metered	Unmetered	Total	Increase or (Decrease)
Residential	12,867	5,409	18,276	13,256	5,211	18,467	191
Commercial	3,174	148	3,322	3,225	142	3,367	45
Industrial	1	0	1	1		1	0
Fire Hydrants	0	1,174	1,174	0	0	0	(1,174)
Governmental	65	40	105	65	40	105	0
All Other	552	458	1,010	572	504	1,076	66
Total	16,659	7,229	23,888	17,119	5,897	23,016	(872)

TOTAL PUMPING STATION STATISTICS

Total Amount of Water Obtained by all methods during the Year	8,757,805,701	gals. estimate
Maximum Water obtained all methods during any one day	49,202,798	gals. estimate
Minimum Amount of Water obtained all methods during one day	14,185,862	gals. estimate
Total Amount of Water passed through customers meters during year	3,332,468,718	gals.

Range of ordinary pressure on mains: 45 lbs. to 200 lbs.
Range of fire pressure in mains: 45 lbs. to 170 lbs.

SUPPLY, TRANSMISSION & DISTRIBUTION MAINS (FEET)

Size Inches	First of Year (A)	Laid During Year	Total	Abandoned During Year	Taken Up During Year	Total	Close of Year
30"Wood							
30"Steel	16,489		16,489			0	16,489
1"	251		251			0	251
1-1/2"	70		70			0	70
2"	44,179		44,179			0	44,179
3"	3,059		3,059			0	3,059
4"	27,706	1,242	28,948		497	497	28,451
5"	498		498			0	498
6"	732,691	26	732,717		1,321	1,321	731,396
8"	364,015	15,422	379,437			0	379,437
10"	161,996	2,470	164,466			0	164,466
12"	134,539	6,948	141,487		342	342	141,145
14"	21,133		21,133			0	21,133
16"	40,622	7,742	48,364			0	48,364
18"	720		720			0	720
20"	31,056	10	31,066			0	31,066
24"	53,061	549	53,610			0	53,610
30"	831		831			0	831
36"	925		925			0	925
TOTAL	1,633,841	34,409	1,668,250	0	2,160	2,160	1,666,090

STATE OF MONTANA)
County of Missoula)

We, the undersigned, on our oath do severally say that the foregoing return of the Mountain Water Company water utility has been prepared under our direction from the original books, paper and records of said utility and declare the same to be a full, true and correct statement embracing all the financial transactions of said utility during the period for which the return is made.

Arvid Hiller, Vice Pres. & Gen. Manager

Subscribed and sworn to before me this 30 day of April, 2009.

DOUGLAS R. HARRISON
NOTARY PUBLIC for the State of Montana
Residing at Missoula, Montana
My Commission Expires January 16, 2012.