

**BAR CIRCLE 'S' WATER CO
PO BOX 1870
HAYDEN ID 83835
208 665 9200
208 665 9300 FAX**

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

Attn: Commission Secretary

Subject: Company response to PUC Staff Comments re BCS-W-05-1

The Bar Circle "S" Water Company (Company) has reviewed the comments filed by the Commission Staff (Staff) on July 8, 2005. The Company has the following comments to make in response to those filed by the Staff.

1. In the third full paragraph on Page 4 of its comments, Staff states "The Company is not going to construct the new storage facility. The Company is using an engineer's estimate of the cost to construct the water facility as a surrogate for the cost of the Company's existing storage capacity." The Company will at some point in the not too distant future construct a new storage facility. Indeed, the Company has already performed preliminary excavation work to level and compact a pad for the construction of a new reservoir. The Company has not yet determined the size of the new reservoir but used the above mentioned engineer's estimate as a surrogate for the costs of a new reservoir that has not yet been engineered and designed. As stated in the Company's Application, the Company believes the costs of the surrogate 20,000 gallon reservoir are conservative due to the small size of the 20,000 gallon surrogate. The Company will within the next year file an Application for a line extension tariff to accommodate growing demand adjacent to the Company's existing service territory. Appropriate Certificate Applications will also be filed.
2. The first full sentence on Page 5 of the Staff Comments indicates that Staff reviewed fire protection Tariffs of United Water and Eagle Water. The Staff went on in the following paragraph to acknowledge that in this case, "The storage requirement is for a dedicated volume of storage that will always be held ready for the commercial fire protection service." The Company does not believe that Bar Circle "S" Water Company can be compared equitably with these two much larger water systems that enjoy a greater diversity of customer mix. Staff

acknowledges that the Company's fire protection reserve is dedicated and cannot be used to meet other water demand needs. The larger companies with greater customer diversity need not construct and set aside storage capacity equal to the sum total of all customer fire suppression requirements. The odds of all customers demanding fire protection simultaneously are astronomical.

3. Beginning with the third full paragraph on Page 5 of its comments the Staff begins to explain its calculations with the following comment: While fixed costs of storage are not necessarily recovered in the customer charge, Staff used the current minimum customer charge adjusted for the monthly volume allowance as a proxy for fixed costs associated with water storage." Staff then eliminated from the \$15.00 per month minimum charge, \$0.95 for each 1,000 gallons included in the minimum charge or \$7.12 (7,500 gallons x \$.95) leaving \$7.88 as Staff's proxy fixed charge for determining a fire protection tariff rate. The \$0.95 Staff deducted is the incremental rate per 1,000 gallons of consumption in excess of the 7,500 gallons included in the Company's minimum charge approved by the Commission. The Company notes that no cost of service study has ever been performed for Bar Circle "S" Water Company to allocate fixed and variable costs. Rather, a simple bill frequency analysis has been used to establish a rate design that is fair and equitable among a homogeneous group of residential customers. Staff's "proxy" simply has no basis. Both the minimum charge and the commodity in excess of the minimum consumption include fixed and variable costs that have not been segregated in any manner.
4. After developing the \$7.88 storage proxy fixed rate, Staff calculates the equivalent number of residential customers that could be served by the dedicated storage to be 46.4 customers. Using the 46.4 equivalent customers and applying the \$7.88 Storage Proxy Fixed Cost, Staff determines that a monthly fire suppression rate should be \$365.63 per month. Staff then recommends the \$365.63 be collected through rates for fire hydrants at \$9.50 per month and building sprinkler systems at \$48.13 per month. Staff provides no rationale for the allocation of its proposed total monthly revenue requirement between the two services.

In summation, the Company believes its proposal, as included in the application is conservative, based on sound regulatory methodology, timely and responsive to the needs of both the Company and its customers.

Respectfully,

Robert N Turnipseed, Owner

Robert N Turnipseed, Owner *by Cct*