

BAR CIRCLE 'S' WATER CO

PO BOX 1870

HAYDEN ID 83835

208 665 9200

RECEIVED
2009 NOV -5 AM 10:23
IDAHO PUBLIC
UTILITIES COMMISSION

November 5, 2009

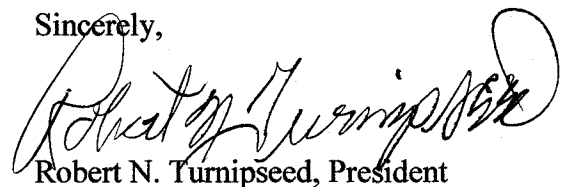
Jean D. Jewell, Secretary
Idaho Public Utilities Commission
P.O. Box 83720
Boise, Idaho 83720-0074

Re : CASE NO. BCS-W-09-02
IN THE MATTER OF THE APPLICATION OF BAR CIRCLE "S"
WATER COMPANY FOR AN ORDER AUTHORIZING INCREASES
IN THE COMPANY'S RATES AND CHARGES FOR WATER
SERVICE IN THE STATE OF IDAHO

Dear Ms. Jewell:

Enclosed for filing are an original and seven (7) copies of Applicant's "Reply to the Report of the Commission Staff".

Sincerely,



Robert N. Turnipseed, President
Bar Circle "S" Water Co.

Robert N. Turnipseed, President
Bar Circle "S" Water Company Inc.
P.O. Box 1870
Hayden, Idaho 83835
Tel. (208) 665-9200
Fax (208) 665-9300
e-mail avondalecon@verizon.net
Representative for Bar Circle "S" Water Co.

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2009 NOV -5 AM 10: 24
IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION OF)
BAR CIRCLE "S" WATER COMPANY)
FOR AN ORDER AUTHORIZING INCREASES IN) REPLY TO THE
THE COMPANY'S RATES AND CHARGES FOR) REPORT OF THE
WATER SERVICE IN THE STATE OF IDAHO) COMMISSION STAFF**

COMES NOW Bar Circle "S" Water Company Inc., ("Bar Circle "S",
"Applicant" or "Company") and hereby files this reply to the report of the Staff
(Staff) of the Idaho Public Utilities Commission.

STAFF RATE BASE ADJUSTMENTS

Staff in its report proposes three adjustments to Applicant's rate base filed
in this case. Staff proposes to eliminate; 1) \$20,661 from Applicants investment
in water mains, 2) \$1,171 from the Company's investment in fire hydrant locks
and 3) \$44,985 for the proposed installation of automated water meter reading
equipment.

Applicant accepts Staff's proposed adjustment No. 1 to eliminate \$20,661
from water mains and adjustment No. 2 to reduce the Company's investment in
fire hydrant locks by \$1,171. Although Applicant actually incurred costs in
excess of \$67,000 to complete the interconnection of the Garwood addition, well

and reservoir, the Company is aware that its preliminary estimate of \$41,000 was relied upon by the Commission in its determination to approve the acquisition. Applicant's only defense is that it submitted the original rough estimate to the Commission without the appropriate engineering specifications required to fully estimate the real costs of completing the project.

Applicant opposes Staff's adjustment to eliminate from rate base \$44,985.00 for the new investment in automated meter reading equipment. Staff incorrectly reported that "The Company has withdrawn its request to install the automatic meter reading system at this time." (Report Page 6) Staff referenced Applicants response to Staff production request No. 11 part D in support of this statement. The following is the entire text of that response:

Response to Part D of above request: Completion of the conversion to electronic meters has been temporarily delayed. One of the stockholders in Bar Circle "S" Water Company is quite elderly and has given power of attorney to his sons who are reluctant to commit the Company to the Commission approved loan necessary to complete this project. Negotiations are currently underway among the stockholders to resolve the issue. The other stockholder is negotiating to possibly acquire the remainder of the Company Stock. The Company hopes to have the issue resolved in time to complete the project before the end of the year. Otherwise the project will be completed in the spring of 2010. Should the Commission determine it is unwilling to accept this project for inclusion in rate base it should also eliminate the proposed loan from the capitol structure in calculating rate of return.

As indicated in that response, Applicant did not "withdraw its request" but rather pointed out a problem that was delaying the project. The problem has been resolved and Applicant is moving forward with the project. The Meters are being ordered the week of November 1, 2009 Installation will commence as soon as the meters arrive. Applicant believes it will be able to complete the project before winter weather interferes. Should Applicant be unable to complete the project this fall, it will complete the project as soon as weather permits in the spring.

STAFF EXPENSE ADJUSTMENTS

Staff proposes five (5) adjustments to Applicants operating expenses. Staff proposes to; 1) eliminate \$7,950 of Labor costs (\$6,000 water master and \$1,950 Administration/bookkeeping), 2) increase pumping power costs by \$2,445 to recognize a rate increase from Kootenai Electric Cooperative effective November 1, 2009, 3) eliminate \$818 of Applicants calculated normalized water testing expenses, 4) Eliminate \$12,628 of Applicants actual recorded professional expenses and 5) adjust Applicants depreciation expense downward by \$4,316 to recognize Staffs adjustments to Rate Base discussed above.

Applicant accepts Staff adjustment numbers two (2) and three (3). Staffs Attachment No. 5 to its report is a work paper prepared by Applicant to show the effect of the Kootenai Electric Cooperative rate increase. Staff's adjustment to the Water Testing Expenses correctly adjusts Applicants costs in lieu of the calculations of the Company using erroneous data.

Applicant objects to Staff's adjustment of \$6,000 (part of Adjustment No. 1) for water master labor charges. Staff indicates on page 6 of its report that it "... contacted other water master services in the area and found **one instance** where a water company only paid \$1,300 per month for a water system that served over 300 hundred customers." (Staff report page 6, emphasis added) Staff did not indicate who the water master service provider was, the water system being served nor the level of service provided to this water system. Water Master Service companies will provide the minimum service required to meet Idaho Department of Environmental Quality (DEQ) requirements, maximum service including total management, operation, maintenance, customer billing etc or something in between. If Staff found only one company that paid only \$1,300 per month it must be assumed that the service provided was the bare minimum required by DEQ. Staff did not indicate whether they had inquired about other operating and maintenance costs paid by the example company for other services not contracted for with the water master service company

Applicant, in its work papers and responses to production requests, provided Staff with the names of water master service companies the Company had contacted for comparison water master labor charges at the time the Application was prepared. Subsequent to receiving Staff's report, Applicant confirmed with Staff that the example company cited by Staff was Spirit Lake East water system who contracts with Water Systems Inc. to provide Water Master Services. The contract between these two Parties provides for a two hour service call every two weeks. Any repair and maintenance that cannot be performed within the contracted 2 hr period is performed at an additional charge of \$45 per hour. The two hour service call includes travel time of about one hour leaving one hour of service on site at the water system. An additional charge of \$0.65 per mile is charged for travel of approximately 25 miles or an additional charge of approximately \$32 per month. The contract also provides for twice per year blow-off of flush valves and inspection and adjustment of pressure tanks on a quarterly basis. Enclosed 3 page Exhibit No. 10 provides the details of the charges by Waterworks.

The water master labor expense for Bar Circle "S" Water Company includes not only the minimum water master service but all routine operation and maintenance costs of the company on a daily basis including well and reservoir inspections, patrolling the service area water mains daily to identify leaks and damage to the system and making minor repairs to the distribution system as necessary. Staff's recommendation would provide compensation of \$1,000 per month for total operation and maintenance labor costs including water master service as compared to the one company staff identified that pays as little as \$1,300 per month. Applicant believes that an additional \$300 per month in addition to the minimum \$1,300 identified by Staff is quite frugal considering the additional services and responsibilities.

Applicant also objects to Staff's \$1,950 adjustment (remainder of Adjustment No. 1) to bookkeeping service. Staff ties this adjustment to its rate base adjustment (discussed earlier) for the automated meter reading system and

states "If the Company were to convert to the automated meter reading system, the customers would be billed on actual usage every month. This would require additional bookkeeping services. Those additional services are not now required with the Company's decision to not do automated meter reading, and the increase for bookkeeping should not be allowed." (Report page 7) As discussed earlier the Staff has incorrectly assumed the automated billing system project has been cancelled. Staff also ignores the other services provided in addition to bookkeeping including bill payments, bank reconciliation, phone answering service, dispatching, dealing with regulatory agencies or any other general office management service.

In both adjustments to labor discussed above Staff compares requested labor costs to actual cost paid in 2008 and indicates the increases are too great. Staff ignores the fact that these costs have not increased for a number of years because the water company simply could not afford higher costs. Water master labor costs have not increased since 2004 and Bookkeeping labor costs have not increased since 2005. Staff has pointed out that these services are provided by an affiliated company with common ownership. As pointed out in the original Application "The charges include direct labor costs as well as employer provided taxes and benefits including unemployment insurance, FICA taxes, workman's compensation insurance, health insurance, vacation pay, sick pay, etc. In addition, Bar Circle "S" owns no utility vehicles. The labor charges paid to Avondale include all vehicle related operating expenses including fuel, depreciation, insurance, taxes, repairs and maintenance." (Application Pg 6) Simply put, the affiliated company, Avondale Construction, its owners and employees, have been subsidizing the water company for a number of years.

Applicant opposes Staffs Expense Adjustment No. 4 for Professional Services. Staff has reduced the Applicant's professional expenses by \$12,628 to a total allowance of \$500 annually for the preparation of income taxes only. Staff stated that "The Company included \$11,628 of expenses paid to consultants and engineers for services provided to the Company that related to the preparation

and approval of the intertie between the Company's system and the Double T Subdivision." (Report Page 8) Staff assigns all these costs to approval of the interconnection and assumes such costs have no benefit to the system as a whole. Enclosed 2 page Exhibit No. 9 is e-mail correspondence between Applicant's consultant and Mr. Gary Gaffney of the Idaho Department of Environmental Quality (DEQ) in Coeur d'Alene. The Commission Staff has been copied with this correspondence. That correspondence indicates that as early as 2004, the DEQ was concerned about the general capacity of the Bar Circle "S" system and was requesting a comprehensive water production and demand monitoring program. DEQ's intent was to have the Company use the data to model system performance using actual data. The correspondence from Mr. Gaffney goes on to say that the addition of the Double T Estates to the system allowed DEQ to require the hydraulic analysis. Further it indicates that without Double T Estates the DEQ would have still pushed Applicant to do the study. Further, the correspondence indicates that DEQ intends to have the engineer for the Company rerun the hydraulic model with new data indicating Applicant will continue to incur engineering expense.

Staff has not reviewed the ongoing nature of professional fees Applicant has realized. The Company incurred professional outside service expenses for engineering, legal and consulting services (excluding taxes) of \$3,400 in 2005, \$1,300 in 2006, \$415 in 2007, and in 2009 an additional cost of \$4,400 related to the water system hydraulic modeling project. The Idaho Department of Water Resources has begun an adjudication project for the Rathdrum aquifer and Applicant expects to incur future legal costs to insure and protect its water rights.

During the course of this case, Applicant has heard the comments and criticisms of its customers regarding the magnitude of the increase requested and the burden it imposes upon them especially during the high use summer months. The Company has had preliminary discussions with its consultant and intends to look into the possibility of initiating a budget pay plan for the Commission's consideration to be responsive to our customers concerns.

Applicant believes an annual professional fees expense allowance of at least \$5,000 in addition to the cost of tax preparation is justified as not unreasonable.

Staff's Adjustment No. 5 is a mechanical process. The adjustment is tied directly to the rate base adjustments discussed earlier.

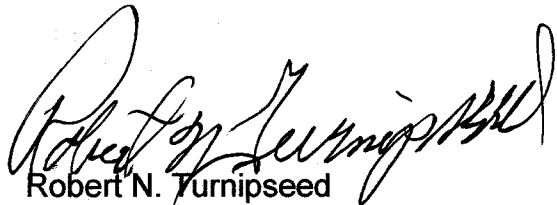
Staff in its calculations of revenue requirement properly removed the loan approved by the Commission in case No. BCS-W-09-01 from the capital structure to calculate the overall 12% return on rate base the Commission should approve in this case. However, Staff's approach assumes the loan will not be completed since Staff assumes the electronic metering project will not be completed. As discussed above, the metering project will be completed this fall and the loan will be required to provide the funds to complete the project. Restoring the loan to the capital structure produces a weighted cost of capital or required return on rate base of 10.59% as requested in the Company's original application

Staff included \$6,667 of rate case expenses amortized over 5 years in its calculation of the Company's revenue requirement. This amount was based upon Applicant's estimated costs included with the original Application. That estimate included actual costs to prepare and file the Application together with an estimated cost of \$1,000 to complete the case including responding to production requests, preparing this reply and filing final Tariffs. Applicant's \$1,000 estimate was understated. Applicant has incurred addition costs of \$1,680 to prepare responses to production request of the Staff, \$2,125 to analyze staff's report and prepare this reply and estimates at least another \$255 to prepare and file final tariffs after the Commission issues its final order in this case. Applicant's total Rate Case Cost of \$9,922 should be amortized over a period of three (3) years as opposed to the five (5) years proposed by Staff. Applicant intends to be more diligent in adjusting rates in response to increasing costs in the future to avoid subsidizing the water operation and such large increases in the future. We

believe our customers will better understand and accept more frequent and smaller adjustment to their water rates.

Attached Exhibit Number 8 reflects the Rate Base, operating results and Revenue Requirement Applicant requires based upon the Discussion above restoring items Staff eliminated and accepting those adjustments Staff proposed with which the Company agrees. As shown on lines 31 and 32 of that exhibit, Applicant requires an increase in revenues of \$70,175 or 104.34%

Respectfully submitted,



Robert N. Turnipseed

President

Avondale Construction

From: "Bob Smith" <utilitygroup@yahoo.com>
To: "Bob Turnipseed" <avondalecon@verizon.net>
Sent: Monday, November 02, 2009 10:17 AM
Attach: BarCircleSRanch.DoubleTsub.8-4-5.doc; BarCircleSRanchPWS.10-27-5.doc; BarCircleSRanchPWS.1-10-6.doc; BarCircleSRanchPWS.DoubleTExtension.9-23-8.doc; BarCircleSRanchPWS.DoubleTExtension.12-4-8.doc; BarCircleSRanchPWS.6-23-5.doc
Subject: Fw: Bar Circle S Ranch Water System - Hydraulic Analysis

Robert E. Smith, Utility Consultant
 Cell (208) 761-9501
 Fax (208) 322-2944

----- Forwarded Message -----

From: "Gary.Gaffney@deq.idaho.gov" <Gary.Gaffney@deq.idaho.gov>
To: utilitygroup@yahoo.com
Cc: bweymouth@to-engineers.com; gerry.galinato@puc.idaho.gov; Joe.Leckie@ipuc.idaho.gov
Sent: Fri, October 30, 2009 4:48:00 PM
Subject: Bar Circle S Ranch Water System - Hydraulic Analysis

Bob,

Starting about four to five years ago when the Ranch Aero water system was incorporated into the Bar Circle S water system, we began to have concerns about the general capacity of the system. The concern was not based on complaints about the service as much as it was on the large size of the properties served and the potential for very large irrigation demands. Our first attempt to address this concern was to require the operator to monitor water production and consumption in a manner that would provide actual data valuable in predicting system performance. About this same time a proposal for Double T Estates was submitted which further supported the need for a comprehensive look at performance of the existing system alone and at the system with Double T included.

In 2005 we received information suggesting peak demand at Bar Circle S for water was 2,364 gallons per day (gpd) which was well in excess of the 1500 gpd peak demand value used in the previous Master Plan prepared for Bar Circle S. This new information increased our concern about possible system limitations and the need for intensified monitoring of production and consumption of water.

In our January 10, 2006 letter we indicated that "The one remaining compliance item that you did not specifically address involves a commitment from you to conduct a comprehensive water production and demand monitoring program during 2006. We asked for this report because the water consumption criterion used by your engineer in the master plan for this system may prove to be significantly lower than the actual water consumption data." Once the data was available from this effort, our plan was to use it have the owner model system performance using actual numbers.

Fast forward to 2008 when a proposal for adding Double T Estates was submitted along with a hydraulic analysis of the system. The analysis was eventually accepted and phase 1 of Double T built.

The Idaho Rules for Public Drinking Water Systems (Section 503.03.g) allow DEQ to require a hydraulic analysis as part of the Preliminary Engineering Report required whenever a water system undergoes a modification. We used the opportunity of Double T Estates to require a hydraulic analysis. With or without the concerns about the existing system's high demands, Double T would have triggered the analysis. Without Double T Estates, DEQ would have still pushed the developer to do the analysis because there were enough undeveloped lots within the system to suggest a growing demand might create problems.

Exhibit #9
 (Reply to Staff)
 BCS-W-09-02
 Page 1 of 2

With installation of better meters this year and (hopefully) the operator having read the meters frequently during peak usage, we will be receiving much improved water production and consumption data this January. It is our intention is to have the engineer for Bar Circle S employ the new data in the hydraulic analysis to see if the predictions are changed from the 2008 analysis.

The bottom line is the hydraulic analysis benefitted both the existing users because we learned if there were any problems in the existing distribution system and benefitted the developer by providing Bar Circle S with justification for allowing the subdivision to connect. In this instance I'd suggest a 50-50 split of the benefits from the analysis.

Gary J. Gaffney, P.E.
Idaho DEQ Coeur d'Alene
(208)666-4612 or 769-1422

From: Bob Smith [mailto:utilitygroup@yahoo.com]
Sent: Friday, October 30, 2009 12:27 PM
To: Gary Gaffney
Subject:

Gary .
Thanks Gary . I put you e-mail address in as all lower case. Here is my original message.
Following up on our phone conversation her is the situation.
I am sending this also to Ben Weymouth (with Bob Turnipseed's permission) at Toothman/Orton Eng for any input he may have. Ben I would appreciate any comment you may offer also.

I am consulting Bob Turnipseed on his Bar Circle "S" Water Company Application with Idaho Public Utilities Commission.(Case No. BCS-W-9-02)

1. Bar Circle "S" Water Company was required by DEQ to hire Toothman-Orten Engineering to perform a hydraulic modeling study of the water system in 2008. The Company Spent over \$11,000 to perform the Study.
2. Bar Circle "S" Water Company currently has an application filed with the Idaho Public Utilities Commission (PUC) for a rate increase. It has been more than nineteen years since the company increase its rates so the current application is quite large.
3. The Staff at the PUC is taking the position that the need for the study was precipitated by Bar Circle "S " desire to expand its system to serve the new Double T Estates subdivision. Therefore the entire cost of the study should have been paid by the developer of the new subdivision not by the water company. Their position assumes that all the benefits of the study accrue to the developer of the new subdivision and the existing customers of Bar Circle "S" Water Company do not realize any benefit.
4. PUC Staff has eliminated the cost of the studies from their financial analysis and propose to deny recovery of these costs as an operating expense for the company in determining rates to be charged for water service.
5. The Company of course objects to the entire elimination of these costs and believes there is a benefit to the management of the company and its existing customers resulting from the studies.

We would appreciate any insight you may have regarding cost/benefit of such a study for a water system.
How often do you believe such a study should be performed.
Any other voluntary comments regarding the benefits of such a study

Thank you for your attention to this issue. Unfortunately, operating is a quasi legal environment, we are on a strict legal time line and must submit a reply to the Commission Staff early next week. Your cooperation and insight is much appreciated.

Thank You,
Bob

Exhibit #9
(Reply to Staff)
BCS-W-09-02
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Bar Circle "S" Water Company

Calculation of Required Revenue

Item	(A)	(B)
1 Plant in Service Proposed by Staff	\$ 330,695	
2 Electronic Meter Reading Equipment	45,000	
4 Corrected Plant in Service		\$ 375,695
5 Accumulated Depreciation Proposed by Staff	\$ 131,191	
6 Electronic Meter Reading Equipment	0	
8 Corrected Accumulated Depreciation		131,191
9 Net Plant in Service		\$ 244,504
10 Working Capital		10,069
11 Total Rate Base		\$ 254,573
12 Required Rate of Return		10.59%
13 Net Operating Income Required		\$ 26,959.23
14 Gross Revenue Per Staff		\$ 67,255
15 Operating Expenses Per Staff	\$ 67,098	
16 Labor Charges	7,950	
17 Professional Services	5,500	
18 Corrected Operating Expenses		\$ 80,548
19 Depreciation Expense Per Staff	15,989	
20 Depreciation Expense Meter Reading Equip	3,000	
22 Corrected Depreciation Expense		18,989
23 Net Operating Loss		\$ (32,282)
24 Revenue Increase required to Overcome Loss	32,282	
25 Incremental PUC Fees @ .1662%	54	
26 Total Revenue to Overcome Loss		\$ 32,336
27 Net Operating Income Required	26,959	
28 Gross-up Factor	128.09%	
29 Revenue Required to Produce Income Required		34,532
30 Amortize Rate Case Expenses		3,308
31 Total Revenue Increase Required		\$ 70,175
32 Percent Increase Required		104.34%



P.O. Box 920
 Rathdrum, ID 83858
 1.208.687.0802 office
 1.208.687.1583 fax
 info@mywaterworksonline.com

Estimate

Date	Estimate #
1/1/2009	42

Name / Address
Spirit Lake East Water P.O. Box 3388 Coeur D Alene ID 83816

Description	Qty	U/M	Rate	Total
Responsible charge operator. 2 hour visit per week includes travel time.	104		45.00	4,680.00
RT mileage portal to portal (Spirit Lake East) 40 miles	2,080	mi	0.65	1,352.00
Backup operator charge monthly. \$100 Minimum up to 100 customers. \$50 for each additional 50 customers up to 500. Includes 24 hour on call support and will act as RCO when requested and scheduled. Quarterly site visit including mileage included in cost.	12		300.00	3,600.00
Monthly Bactee Sampling. One sample per month includes pulling sample, checking chlorine at well house and at site, and delivery time to lab. Lab fees not included.	24		45.00	1,080.00
RT mileage portal to portal (Spirit Lake East) 40 miles. To Spirit Lake.	480	mi	0.65	312.00
RT mileage portal to portal (Coeur D Alene) 36 miles. To Laboratory.	432	mi	0.65	280.80
Pressure tanks quarterly air check. 6 hours per quarter includes travel time. Consists of draining and airing up all pressure tanks to determine accuracy of pressure tank.	24		45.00	1,080.00
RT mileage portal to portal (Spirit Lake East) 40 miles	160	mi	0.65	104.00
End of line twice per year flushing. Required by IDEQ. 2 days 2 men.	64		45.00	2,880.00
RT mileage portal to portal (Spirit Lake East) 40 miles	80	mi	0.65	52.00
Subtotal				15,420.80

Thank you for your business.

Total

Exhibit # 10
 (Reply to Staff)
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P.O. Box 920
 Rathdrum, ID 83858
 1.208.687.0802 office
 1.208.687.1583 fax
 info@mywaterworksonline.com

Estimate

Date	Estimate #
1/1/2009	42

Name / Address
Spirit Lake East Water P.O. Box 3388 Coeur D Alene ID 83816

Description	Qty	U/M	Rate	Total
Annual Consumer Confidence Report to DEQ. Includes preparing, on site posting, on line posting, and customer notice of report by mail.	1		513.40	513.40
Annual sampling plan review and preparation.	1		45.00	45.00
Cross Connection Control Program. Per Customer \$5.10.	320		5.10	1,632.00

Thank you for your business.

Total	\$17,611.20
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Exhibit #10
 (Reply to Staff)
 BCS-W-09-02
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