SCOTT WOODBURY
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0320
IDAHO BAR NO. 1895

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

Attorney for the Commission Staff

RECEIVED
2008 SEP -5 PM 12: 04
IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF TETON SPRINGS WATER AND SEWER COMPANY, LLC FOR THE ISSUANCE OF A CERTIFICATE OF CONVENIENCE AND NECESSITY, FOR APPROVAL OF RATES AND CHARGES FOR WATER SERVICE, AND FOR APPROVAL OF RULES AND REGULATIONS GOVERNING THE RENDERING OF WATER SERVICE	**CASE NO. TTS-W-08-1** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Modified Procedure and Notice of Scheduling issued on August 6, 2008, submits the following comments.

BACKGROUND

On May 20, 2008, Teton Springs Water & Sewer Company, LLC (Teton Springs; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting a Certificate of Public Convenience and Necessity to provide domestic, culinary water service in Teton County, Idaho to customers within the Teton Springs Golf and Casting Club planned unit development. The Company also requested that the Commission approve a change

in existing rates and charges for water service and approve the Company's proposed Rules and Regulations Governing the Rendering of Water Service. The Company proposed an annual revenue requirement of $298,000, residential rates of $150/quarter, commercial rates of $450/quarter and inactive lot charges for both residential and commercial lot owners.

On June 12, 2008, the Commission in Order No. 30571 issued Certificate of Convenience and Necessity No. 471 to Teton Springs, authorized continued water service under the existing flat rate, and suspended the remainder of the Company's Application. Accompanying the Commission's Order was a Notice of Application. Also established was a June 27, 2008 intervention deadline. No petitions were filed.

STAFF ANALYSIS

REVENUE REQUIREMENT ANALYSIS

Audit

Staff examined the books and records of the Company for the fiscal year ending December 31, 2007, and for the months through July of 2008. The expenses incurred by the Company during 2007 were used as the basis for determining the operating expenses used in determining rates. Staff examined the 2007 expenses and is recommending adjustments to both rate base and the 2007 level of expenditures.

Rate Base

The Company's records reflect plant in service in the amount of $3,188,772. This amount is offset by developer contributions in the amount of $3,176,409; leaving a balance of $12,363 as the rate base for the Company as of the end of 2007.

Staff, during the course of the audit found additional capital expenditures incurred in 2007 that were originally included by the Company in its annual operating and maintenance expenses. Staff has subtracted these capital expenditures from the annual operating and maintenance expenses and has capitalized them and included their cost in the Company's rate base amount. The detail of these adjustments is as follows:

Description	Amount	Attachment A Column 6 Adjustment No.
Sensus software and hardware	$16,019	Adjustment No. 2
Caselle Utility Software	$ 4,750	
Water Meters	$23,631	Adjustment No. 8
Total	$44,400	

The Company is also entitled to include in rate base an amount for its working capital. The Company proposed using one-eighth of its annual operating and maintenance expenses as the working capital amount. Staff agrees that for a small water company this is an acceptable method of determining working capital and has allowed one-eighth of the Staff's adjusted annual operating and maintenance expense as an addition to rate base. Attachment A is the schedule showing the detail of Staff's adjusted annual operating and maintenance expenses.

Attachment B presents Staff's calculation of the Company's rate base as the sum of the Company's rate base, the working capital, and the three capital expenditures identified above. The total rate base is $71,571.

This rate base level must be reduced by accumulated depreciation to determine net rate base at year end. Annual depreciation for the rate base determined above is $12,377. See Attachment B. The Company has no accumulated depreciation, therefore, the annual depreciation expense for one year is the accumulated depreciation that must be applied. The net rate base is therefore $59,194 ($71,571 - $12,377).

The Company has not asked that the initial investment in the water system by the developer be included in rate base at year end. Thus, it has not asked for a rate of return on that investment as part of its requested revenue requirement. The Company has, however, requested that it receive depreciation/amortization expense in the amount of $89,140 annually for the amortization of those water system costs. This amount represents the annual depreciation the water system investment would accrue if the investment were included in rate base. See Crowley Testimony, page 8, lines 15-16.

Staff is opposed to the Company being allowed to recover any depreciation/amortization for the initial investment costs of the water system. The Commission has consistently held that

the developer's capital investment in the water system are considered contributed capital and not included in rate base. The Commission's Small Water Company Policies Rule 103 states:

> 103. PRESUMPTION OF CONTRIBUTED CAPITAL (Rule 103).
> In issuing certificates for a small water company or in setting rates for a small water company, it will be presumed that the capital investment in plant associated with the system is contributed. capital,- i.e., that this capital investment will be excluded from rate base.

IDAPA 31.36.01.103, Policies and Presumptions for Small Water Companies

If the initial capital investment is considered contributed capital, and not included in rate base, it should not earn any rate of return, nor should the cost be recaptured by the collection of a depreciation/amortization expense included in rates. To allow the Company to capture the cost of the initial investment though the depreciation/amortization expense would violate the "contributed" principle of Rule 103.

The Company has not stated any specific water system need that would necessitate the collection of this additional $89,140 in customer rates. If there is a need in the future that would require the additional funding, the Company should petition the Commission at that time with a specific request associated with those expenditures.

The Company states this depreciation/amortization expense would "produce cash flow for the Company to maintain and upgrade its system" and "improve the financial stability of the Company." See Crowley Testimony, page 8, lines 8-9. Staff's recommended revenue requirement should provide the Company with adequate funding to satisfy the Company's need for cash flow and financial stability. Any amount beyond the revenue requirement would be in excess of the Company's current needs.

One of the original reasons for the presumption of contributed capital in Rule 103 was to recognize that the developer generally recovered the initial capital investment for the water system in the sale of the individual lots served by the water system. In this case, the Company's record is void of any evidence that the developer has not recovered its initial capital investment when it sold the lots in the development. Therefore, the presumption of Rule 103 should be followed by the Commission and the Company's request for $89,140 in depreciation/amortization expense should not be allowed.

Utilities are entitled to earn a return on rate base investments. The Commission has allowed small water utilities to earn a rate of return of 12%. Case No. DIA-W-07-1, Order No. 30455; Case No. MNV-W-06-1, Order No. 30420. A 12% return on net rate base provides the Company the opportunity to earn a return amount of $7,103. See Attachment B. This amount must be grossed up for the payment of taxes resulting in the $9,044 as shown on Attachment C. Therefore, Staff recommends the grossed-up return on rate base of $9,044 be included in the revenue requirement.

Expenses

The Company in its Application proposed annual operating and maintenance expenses of $192,210. Staff reviewed all of the Company's expenditures and determined that these expenses were related to the operation of the water company with the exceptions noted in Attachment A as Staff's Adjustments.

Attachment A sets forth a detailed comparison of the Company's proposed expenses of $192,210 in Column [5] and Staff's recommendations for the level of expenditures to be included in the annual revenue requirement in Column [8]. For expenditure lines on Attachment A with no adjustments to the Company's proposed amount, Staff accepts the amount for this case. Staff recommends annual operating and maintenance expense of $118,461.

Staff is recommending adjustments to the Company's proposed amount as follows:

1. Labor – Operation & Maintenance: The Company included in its amount expenditures for sewer monitoring equipment. This expenditure should have been allocated to the sewer company and not included in the water company's expenses. Staff removed $3,543 from the expense amount.
2. Materials & Supplies – Operation & Maintenance: The Company has included in this account the cost of Sensus software and hardware. This is a computerized monitoring program of the water system. The system notifies the system operator when something malfunctions. Staff has removed this expenditure of $16,019 from annual expenses and recommends that it be capitalized and included in rate base. See Attachment B.
3. Materials & Supplies – Operation and Maintenance: The annual cost for the operation of the Sensus program is $1,320. This yearly cost was not included in the

Company's expenses, but is an annual expense that needs to be included. Staff has included the $1,320 in operations and maintenance.

4. Contract Services – Professional: The Company included its expenses for legal services in 2007 in this account. Staff reviewed all the legal statements for these services and determined that most of the legal fees were incurred for matters that were either not related to the on-going operation of the water company or non-reoccurring. The Company incurred substantial fees for the creation of a water district which was ultimately abandoned. The Company also had legal fees for a legal action against the City of Driggs, Idaho. Staff does not believe these expenditures represent a level of legal services required on a continuing nature for the operation of the water company. Therefore, Staff has removed $24,640 in professional services.
5. Contract Services – Professional: The Company included its expenses for engineering services that related to the preparation and filing of the rate case and not the annual operation of the water company. The Engineering statement states that the purpose of the work was as follows: "Represents work completed over the last year, including updates to the rate model to accommodate 'availability fee', define billing units by customer class, and project revised operating requirements of the Teton Springs system." The engineering activities described above do not appear to be of a recurring nature so that it would be expected annually. Therefore, Staff has excluded $8,672 from the annual expenses. Some or all of these costs may be included in the costs of the rate case discussed below.
6. Contract Services – Professional: The Company included in this account its annual costs for system repairs and maintenance. The Company expended $8,380 on repairs and maintenance in 2007, and Staff accepts this as a reasonable amount. Staff reclassified this amount from the Contract Services – Professional account and added the same amount under a separate line title of Repairs and Maintenance.
7. Rate Case Fees: The Company has included in its expenses the sum of $11,667 for its rate case costs. It explains this amount in its Adjustment No 7. It has incurred a total of $35,000 and proposes amortizing that sum over a three (3) year period or $11,667 annually. Staff has not included any amount for the Company's cost of the

rate case in its annual expenses analysis. The Company has included as part of its case a request that it recover a depreciation/amortization expense for the portion of the water system that was contributed by the developer. Staff is opposed to any recovery for those costs, and believes it is inappropriate to allow recovery of rate case costs incurred by the Company to address this issue.

8. Miscellaneous Expenses – Cost of Meters: The Company has included the cost of meters it purchased as an annual expense, and Staff has removed $23,631 from the annual expenses and included this amount in rate base.

Revenue Requirement

Staff's calculation of the proposed revenue requirement for the Company is shown on Attachment C. Attachment B shows the Company's net rate base of $59,194 and a return of $7,103 at the recommended rate of return of 12%. This return must be grossed-up to account for federal and state income taxes. The net to gross multiplier is 127.32%. When the gross-up factor is applied to the return of $7,103, the revenue requirement for the return is $9,044. When this amount is added to the annual expenses of $118,461 (Attachment A), Staff calculates the Company's total revenue requirement at $127,505. See Attachment C.

WATER SUPPLY AND RATES

Certificated Area

Teton Springs Water and Sewer Company currently serves the Teton Springs Golf and Casting Club Resort. The resort is located approximately 2 miles south of the town of Victor, Teton County, Idaho. When fully built out, the resort development could serve up to 581 single-family residential lots, 14 commercial lots and 143 residential multi-family units. Teton Springs' Application with the Commission requested that the Commission issue the Company a Certificate of Public Convenience and Necessity to provide domestic, culinary water service in Teton, County, Idaho to customers within the Teton Springs Casting Club planned unit of development. Teton Springs is located in the S 1/2 of Section 14, the N l/2 of Section 23, the western 572 feet of S 1/2 of Section 13, the western 572 feet of N 1/2 of Section 24 and part of HES946, T3N R45E Boise Meridian, Teton County, Idaho. On June 12, 2008, the Commission issued a Certificate of Convenience and Necessity No. 475 which authorizes Teton Springs

Water to own, hold, construct or otherwise acquire, to maintain and to operate a water system and water supply within the said territory.

System Description

The Company submitted maps and drawings showing location of residential, commercial and multi-family lots, wells, pumping plants, storage reservoir and water distribution system. Staff reviewed the as-built drawings of the water system and physically inspected the water system on August 13, 2008. Staff found the system to be constructed in general agreement with the design. The public water system is designed to serve 581 single family homes, 19 commercial establishments and 143 multi-family units, but currently serves only 196 residential lots.

The public water system is supplied by two wells. Well No. 1 is located in the northeast corner of the Teton Springs resort and was drilled to a depth of 806 feet cased with a non-perforated 16-, 10-, and 8-inch steel casing to a depth of 509 feet. The well is considered a low-temperature geothermal well since the water produced has a temperature of approximately 97-degree Fahrenheit. During the Staff field visit, the pump was operating at 275 gpm at 110 psi. The pump is operating against a relatively constant head supplying water to the system and the storage tank located at a higher elevation. Well No. 2 is located in the southeast part of the resort and was drilled to depth of 1,140 feet. This well is not very productive and was only pumping 97 gpm at 78 psi discharge pressure during Staff's visit. According to Company personnel, the two pumps were only needed to operate two times a day for 4 hours to meet the water requirements during peak months. Both wells are equipped with production flow meters to measure instantaneous flow rates and the total volume of water pumped. Both pumps are submersible types.

The system is equipped with pressure relief valves, air/vacuum relief valves, isolation valves, double check valves, pressure gages, and other appurtenances for better system management and safety of operation. The electrical controls, discharge piping, and major appurtenances are housed in a locked shed. The walls are adequately insulated to prevent freezing of pipes.

The system is equipped with a 500,000-gal welded storage tank that is gravity-fed into the system. This appears to provide adequate storage capacity to support future growth. The

tank is securely located from an unauthorized access and can only be accessed through two locked gates that run through private property. The external surface of the tank is sprayed with a material to provide insulation and tank surface protection.

The distribution system is supplied from the storage reservoir and from the two well pump facilities. Main and distribution lines consist of 16-inch, 12-inch, 8-inch, 6-inch and 4-inch diameter pipes using Class 150 C900 PVC piping materials. Fire hydrants are also installed in strategic locations in the distribution system. These hydrants are also used for flushing the system. Service lines provided to residential lots are all one-inch lines. Service lines provided to commercial establishments have different sizes depending upon the type of operation. According to the Company personnel, the size of service lines for existing commercial buildings currently in operation (i.e. sales office, golf bar, golf barn, sports club) range from 2 inches to 3 inches. A review of the distribution system and customer service line layouts indicates the that Golf Barn has a 4-inch service line and the Club House currently under construction shows a 6-inch PVC water service line. Staff also found that there are several rest rooms/snack shacks receiving water service with 1-inch lines. In addition, there is also one special 3-inch service line with a 2-inch meter serving the Quickwater Ranch property which is not a part of the resort. According to the Company, they have an agreement with Quickwater Ranch to receive free water in lieu of using its property for the installation of the storage reservoir and in constructing part of the mainline from the reservoir to the Company's main and distribution system. Staff believes the allowance for water provided to Quickwater Ranch is generally equivalent to a lease payment. Staff recommends that the Company record on its books all metered water provided to Quickwater Ranch.

The overall water system appears to be well designed and constructed and is expected to be adequate for the number of customer served. The inclusion of the 500,000-gal water reservoir provides additional flexibility in operating the water system. A review of typical main and distribution system, and water service layout indicates that minimum cover for trenches is seven feet or to provide 2-inch insulation pad over the service lines when the 7-foot minimum cover is not met. This will prevent freezing of lines during winter time.

The Company operates a separate pressurized irrigation system providing water for residential lawn, golf courses and other common area landscaping using surface water. Irrigation customers are billed separately from the domestic water service.

Water Production and Consumption Data

As mentioned earlier, the two wells are equipped with flow measuring devices to measure instantaneous flow rates and volume of water pump. Meter readings were started for Well No. 1 and No. 2 on April 2007 and January 2007, respectively. Staff extracted a 12-month period of continuous flow data covering August 2007 to July 2008 for both wells and are presented in a chart (Attachment D). As shown in the chart, approximately 69 % of the total volume pumped is contributed by Well No. 1 and 31% from Well No. 2. Water consumption varies throughout the year with the maximum usage occurring in August and the minimum usage in November. Since customer consumption is not metered, it was difficult to calculate the total amount of water consumed by residential and commercial customers. Staff recommends that the Company continue to regularly read and record these well production meters.

Number of Customers

The Company indicated when filing its Application the following number of lots and customers:

Residential:

- Total number of single family lots - 581
- Total number of active customers- 194 (196 as of 8/13/08)
- Total number of inactive lots- 387
- % of active customers- 33.4%

Commercial:

- Total number of commercial lots- 19
- Total number of active customers- 5 (8 including 3 sep. restrooms)
- Total number of inactive lots- 14
- % of active customers- 26.3%

Multi-family (2-buidings):

- Total number of multifamily units- 143
- Total number of active customers- 73 (74 as of 8/13/08)
- Total number of inactive customers- Not applicable

The Company apprised Staff during the field visit on August 13, 2008 that the total number of residential customers increased from 194 to 196, and the multi-family units from 73 to

74. There are also three additional rest rooms/snack shacks located in the golf course making the total number of commercial connections to eight accounts. Therefore, the total number of residential, multi-family and commercial accounts used by Staff in estimating future revenues in rate analysis is 278 (196+74+8).

Rate Design

As part of the Company's Application for a Certificate of Public Convenience and Necessity, the Company is requesting that the Commission approve a new tariff rate. The interim rates as approved by the Commission Order No. 30571 issued in June 12, 2008 are $240 per quarter for residential single-family, $80 per quarter for multi-family unit customers and $240 per quarter for commercial customers.

The Company's proposed rates distinguish between active and those who can be connected to the system. The Company defines active customers as those who have built permanent structures on their lots, who are physically connected to the system and are actively taking water service from the Company. The Company is also proposing another class of customers who would be subject to an "Availability Charge." The Company proposed the Availability Charge would be applied to each customer's premises located within the Teton Springs Community that can be connected to the Company's water system but which has not yet connected to the system. This charge would be applicable to the unimproved residential and commercial lots but would not be applicable to the multi-family unit buildings.

The new tariffs proposed by the Company are as follows:

Active Customers, Flat Rate Service:

- Active Unmetered Residential $150.00 per quarter
- Active Unmetered Commercial $450.00 per quarter
- Active Unmetered Multi-family $150.00 per quarter

Availability Charge, Flat Rate Service:

- Residential Lots $75.00 per quarter
- Commercial Lots $225.00 per quarter

The Company is proposing a flat rate because the system has been in operation for only a short time and the Company does not have consumption data from metered sales that would permit calculation of a metered rate. The Company indicated that after they have monitored

consumption for a period of time, they intend to apply to the Commission for authority to convert rates based on metered consumption. Staff agrees with the Company that a uniform flat rate design may be appropriate and reasonable since not all customers are currently metered and metered consumption is not available at this time.

Staff notes that the Company has started installing meters for all new connections. However, the Company told Staff that the first 50 homes that the Company connected to its system and all commercial customers did not have meters. Staff recommends that the Company install meters in all customer service lines previously connected for better system management and future rate redesign.

The Company proposes a uniform flat charge for both the single-family residential customers and the multi-family unit customers. None of the units use the water from the domestic water system for lawn irrigation since the Company operates a separate pressurized irrigation system. Therefore, Staff believes that the water usage in single-family homes and multi-family units is similar; Staff agrees with the Company proposal for a uniform flat rate for single family and multi-family units.

The Company also proposes to apply a flat uniform rate for all types of commercial customers regardless of the size of customer supply lines. There are 19 commercial lots and the Company indicated in its application that there are 5 active commercial customers. As discussed previously, during a meeting with Company personnel and site visit on August 13, 2008, Staff found that there are only 4 active customers currently connected to the system, namely the Golf Barn, Golf House, Sports Club and the Sales Office. The Club House is currently under construction and is not currently taking water service. Staff also found that there are 3 restrooms/snack shacks located in various parts of the golf course that have water service. As indicated earlier, the commercial customers are not currently metered and the size of their service lines range from 1-inch (restrooms) to 6 inches (Club House). Because of the variation in size of commercial customer's service lines, Staff believes that it is not reasonable to use a uniform rate for all commercial customers. The various sizes of supply lines would correspond to different system requirements. Staff reviewed two previous cases (RES-W-04-1 and MSW-W-08-1) where the issue of equity for customers with different sized service lines was addressed. Commission Order No. 29732 (RES-W-04-1) addressed the variation of usage by commercial customers in Resort Water Co. and approved a tariff based on Equivalent Residential Unit (ERU)

basis. The use of ERU is a way to express water use by non-residential water customers as an equivalent number of residential customers. A commercial customer with a large service would have a greater ERU and thus would be charged more. In a more recent case (MSW-W-08-1), Commission Order 30628 addressed the variation of commercial (non-residential) users using the Commission approved commercial tariff that is based on meter size.

Staff believes that rates based on meter size or customer supply line size is more appropriate method to use in Teton Springs Water. As mentioned earlier, the commercial customers are currently not metered. However, the pipe size of customer service lines is known. Staff assumes than when a specific size of supply line is provided to a customer, the meter size, assuming it is metered, would be the same size as the customer service line. For example, if the service line size is 1-inch, the meter size is generally 1-inch. Using this assumption, the meter size/pipe size ratios published by the American Water Works Association's Manual of Water Supply Practices as presented in Attachment E were used in designing the rates.

The Company is also proposing an Availability Charge. The Company states that they have to operate and maintain the entire distribution system, but with only a fraction of the potential users providing revenue to cover costs. The Company claims that there is no proportionality between the size and operating cost of its system and the number of "active users." In the Company's system, only 35% of the users have built homes and, if those 35% were required to bear the full cost of system operation, the Company contends those customers would be required to pay an amount that would not be fair for them. The Company, therefore, proposes that an "availability fee" be paid by those property owners who have not yet built homes, so the full operating cost burden does not fall on those active customers.

The concept of "Water Availability Charge" was addressed for the Mountain View Terrace Water System in Commission Order No. 17536 (Case No. U-1121-20) issued on April 12, 1994. In that case the Company proposed to assess this charge on all buildable lots that have water available to them, commencing when a subdivision received final approval and when the water lines were turned over to the water company. In Order No. 17536, the Commission rejected Mountain View Terrace Water's proposal. The Commission agreed with the Intervenor in the case who testified that the water availability charge is inequitable because service is not provided and may never be rendered. The Commission said:

> "The Commission agrees with the Intervenor that where hookup fees are cost based, no additional charge is warranted for water availability. A public utility is not an entity given the constitutional right to levy a tax. Therefore, any charge assessed must relate to a service or product rendered. The mere existence of a water main running along a vacant lot is not a service from which a public utility can base a fee. Although we recognize the worthy goal of the Applicant and the Staff to hold down the rates of the existing ratepayers, we reject their requested availability charge".

In a similar and more recent rate case involving Mayfield Springs Water (MSW-W-08-01), one Intervenor proposed a rate design that divided all customers into two classes: "active" and "inactive" customers. "Active" customers would include lots that are connected to the system with water available – regardless of the status of home construction on the lot. "Inactive" customers would include owners of lots within the subdivision not currently connected to the system and not currently receiving water from the Company. The Intervenor offered the rate design with the justification that inactive customers still benefit from the water system's use in common areas, adding value to the inactive property. In addition, the Intervenor recommended that the Commission direct Staff to construct a rate based on the active and inactive customer classes. In the Commission Order No. 30628, the Commission ruled that a monthly base charge plus a usage charge is an appropriate and reasonable rate structure. This Commission decision essentially rejected the proposal to charge inactive customers.

The Commission in previous cases has consistently ruled that the concept of an Availability Charge is not appropriate in designing rates. Staff can see no significant difference between those cases and this one. Given the Commission's clear position in this matter in prior cases, Staff rejects the use of a Company-proposed "Water Availability Charge" in designing the tariff for Teton Springs Water.

Based on the Staff -adjusted revenue requirement for the test year 2007 of $127,505, Staff calculated the rates for various sizes of customer supply lines using the AWWA meter ratios, and the projected revenue for each line size or customer class. The flat rate for 1-inch customers is $103 per quarter. The 1-inch customer class currently includes 196 single family residential connections, 74 multi-family units and 3 commercial (restrooms in golf courses), a total of 273 connections. The flat rates per quarter for the remaining five commercial establishments range from $213 (2-inch) to $1,545 (6-inch). The percent total revenue

requirement contributed by residential and multi-family customers (1-inch meters) is 87.1% and 12.9% by commercial customers (1-inch to 6-inch meters). Staff recommends this tariff for the Teton Springs Water Company.

A comparison of the current rate, the Company's proposed rates, and the Staff rate proposal is shown in Attachment F. Staff recommends that this rate design be in place for two years. This will give the Company time to meter its customers and collect 12 months of metered usage. At that time, Staff recommends that the Company file a metered tariff.

OTHER OPERATIONAL AND MAINTENANCE ISSUES

As noted earlier, the Company's two wells have flow meters and started recording flow data in January 2007. Staff recommends that the Company continuously read and record this well production data. The Company has now installed approximately 150 customer meters in single-family homes but has not started reading and recording usage data. Staff recommends that the company start recording water flow information from individual single-family residential customers with meters. It is Staff's understanding that the two multi-family buildings also have a single meter installed for each building but it is not being read. Likewise, Staff recommends that the Company start reading these meters. As previously discussed, the Quickwater Ranch also has a usage meter but the Company does not bill the owner as part of an agreement. Staff recommends that the Company begin reading this meter as well.

It was determined during the course of Staff investigation that Teton Springs Water has an expired water permit for both wells. Staff also determined that a Proof of Beneficial Use has been submitted by the Company after the deadline lapsed. The Idaho Department of Water Resources IDWR is currently reviewing the case and plans issue an order denying or reinstating the permit. Staff recommends that the Company maintain a valid water permit to the wells for public water supply in its service territory.

Staff contacted the Idaho Department of Environmental Quality's Idaho Falls Region to verify water quality issues with Teton Springs Water. Staff was informed by IDEQ that the water system operated by Teton Springs Water is currently meeting Idaho's water quality standards for public drinking water systems.

NON-RECURRING CHARGES

The Company has submitted a copy of its proposed Rate Schedules and Rules and Regulations Governing the Rendering of Service (Tariff). Schedule No. 2 – Miscellaneous Fees and Charges includes non-recurring charges for returned checks, reconnection following a disconnection for non-payment, and payment collection during a field visit. Not included in Schedule No. 2 but mentioned in the rules and regulations section of the Tariff are charges for customer-requested disconnections for repair work and after-hours connections. Staff recommends that these changes be moved from the rules and regulations section to Schedule No. 2. A single schedule will ensure that the customers, the Company and the Commission are aware of all possible charges and simplify future revisions. Schedule No. 3 – Bulk Water Sold to Contractors includes provisions for charging contractors for the bulk delivery of water and for a back-flow prevention device. Schedule No. 4 - Hook-up Fees includes a base hook-up fee and an uncollected availability charge.

Return Check Charge

Schedule No. 2 includes a returned check charge of $20.00 for each occurrence. A charge in this amount has been approved by the Commission for use by other utilities. Staff recommends approval of this charge.

Reconnection Charge For Nonpayment Termination

Schedule No. 2 includes a charge for reconnection following a disconnection for non-payment. The Company is asking for $50.00 for reconnection during normal business hours and $100.00 for reconnection for other than normal business hours. Business hours are from 8:00 am to 4:30 pm, Monday through Friday, not including holidays. The Company provided no cost justification for these amounts, and the charge requested is significantly higher than what the Commission previously has allowed for other utilities. Customer connections are equipped with underground shut-off valves near the property line. The service lines and valves are buried at a depth of 7 feet to prevent water lines from freezing in the winter. Valves are accessible through risers by utilizing a long-handled valve wrench. There are no unusual conditions that would make it more difficult for the Company to reconnect service as compared with other water utilities. Staff recommends a $20.00 charge for reconnection during normal business hours and a

$40.00 charge for reconnection for other than normal business hours. These amounts are consistent with charges approved by the Commission for other utilities.

Field Collection Trip Charge

Schedule No. 2 includes a $50.00 charge to be assessed when in order to avoid termination of service, a customer pays a Company representative during a visit to the customer's premise to terminate service. No cost justification was provided by the Company. Staff agrees that a charge to cover part of the cost for a field visit that results in payment of a bill is appropriate. However, Staff recommends that the Company be allowed a $20.00 charge, which is in line with charges approved by the Commission for other utilities. This charge would be sufficient to deter customers from waiting until the last minute to pay their bills.

After Hours Connection Charge

Rule No. 4 under the "Application for Service" section requires a $60.00 charge for service turn-on after regular office hours and on weekends and holidays. No cost justification was provided by the Company. Staff agrees that a charge for dispatching personnel to connect service outside of business hours is appropriate. However, Staff recommends that the Company be allowed a $40.00 charge, which is in line with charges allowed other small water companies and is consistent with the after-hours reconnection charge recommended by Staff. Staff also recommends that this charge be moved from the rules and regulations section to Schedule No. 2.

Shut-Off At Customers Request

Rule No. 10 under the "Service Connection" section includes a charge to temporarily disconnect service at the customer's request for the purpose of repairs to the customer's plumbing. The proposed charges are $50.00 during normal business hours and $100.00 for other than normal business hours. No cost justification was provided by the Company. Staff agrees that a charge for dispatching personnel to a customer's premise is appropriate. However, Staff recommends that the Company be allowed a $20.00 charge for each visit during normal business hours and $40.00 charge for each visit after normal business hours which is in line with charges allowed to other small water companies and is consistent with the reconnection charges

recommended by Staff. Staff also recommends that this charge be moved from the rules and regulations section to Schedule No. 2.

Late Payment Charge

Late payment charges encourage a timely payment and allow the Company an opportunity to recoup the costs of collection of unpaid bills. The Company sends their bills out on a quarterly basis, starting in January of each year, and the bills are due by the end of the quarter. The Company did not ask for a late payment charge, and given the Company's preferred billing and collection policy, Staff does not recommend that a late payment charge be implemented at this time.

Bulk Water Services

The Company anticipates that private contractors will purchase water in bulk from its water supply system and has designated a specific hydrant for this purpose. The Company proposes fees for providing water to contractors and the provision of a backflow prevention device to the contractors to ensure integrity of the water system. The Company is requesting a $25.00 daily fee for the device and an additional $25.00 daily fee for unlimited water. The Company would also have additional costs to dispatch personnel to inspect setup and connect and disconnect the service. Staff recognizes the need to protect the system while providing water for construction purposes but considers the daily fees excessive when compared to the Company's proposed quarterly flat rate of $150.00. Staff is also concerned about the proposal for unlimited water at $25 per day per contractor. Staff recommends that when bulk water is requested, the Company would make the necessary installation which include a backflow prevention device and a meter. This service would be provided for a one time set-up fee of $40 and a metered rate of $1.50 per 1,000 gallons of water used.

Hook-Up Service Fee

The Company proposes a hook fee to be charged and collected at the time the customer makes an application for connection to the system. The hook-up fee includes the Company's cost of providing a meter. However, the Company did not include a proposed amount in its original Application. Staff discussed with the Company what is involved in connecting new

customers. The Company indicated that to have a uniform water service connection with single family residential customers, the Company provides the meter yolk/setter, 1-inch meter, backflow device and a touch pad for the meter. The total cost of these materials based on previous purchases is $450.00. Assuming two hours of time required to locate the curb stop, work with the customer's contractor and inspect the new water service connection, it would cost the Company about $150 in labor. Staff recommends a hook-up fee of $600 for new single-family residential connections. The actual installation is performed by the customer's contractor and the cost of installation, supply pipe from the Company's curb stop to the house and miscellaneous fittings are paid by the customer.

Staff believes the cost of hook-up for new commercial customers would be different since the cost of meter, setter, backflow device and touch pad would be proportionately higher, although the cost of locating curb stop, working with the customer's contractor, and inspection would be similar. Staff recommends that the Company charge a base rate hook-up fee of $600 for 1-inch customers (single-family and commercial) and adjusted correspondingly for incremental cost of the meter, setter, backflow device and touch pad for other pipe sizes/meters over 1-inch.

Uncollected Availability Charge

Availability charges are asked for in Schedule No. 1 and addressed in the Rate Design section of Staff comments with respect to customer who are not connected to the system. Schedule No. 4 and Rule No. 29 requires payment of an availability charge in situations where the customer temporarily disconnects service for some period of time. Staff recommends denial of an availability charge for customers who request temporary disconnection of services.

CUSTOMER RELATIONS

Billing Documentation

The Utility Customer Relations Rules (UCRR), IDAPA 31.21.01000 et seq. includes the requirements for billing documentation. The Company bills customers on a quarterly basis starting in January of each year and the bills are due by the end of the quarter. The bill sample submitted by the Company indicates the service period and the due date but does not indicate a date for the invoice. The sample notice of intent to terminate and the final shut-off notice do not

specify the reconnection charges, but instead leave a blank space to be filled in. Staff recommends that the Company update all the quarterly bills sent to customers to include invoice date as required under the UCRR. Staff recommends that the notices sent to customers prior to termination list the reconnection charges as approved by the Commission. Staff also recommends that all customer billing and collection documents include current information on how to contact the Company

Customer Notice And Press Release

The Company sent notice of the proposed application for a certificate of public convenience and necessity and the proposed rate increase in a mailing to all customers and landowners within the Teton Springs Resort on May 22, 2008. A certificate of mailing was received by the Commission on June 23, 2008 along with a copy of the notice. The notice meets the requirements of the Utility Customer Information Rules (UCIR), IDAPA 31.21.02000 et seq. The Company did not file a copy of it press release with the Commission at the time of the application as required in Rule 102, UCIR. The Company stated that it issued a press release at the time of the filing of the application, and later provided a copy of a press release dated June 12, 2008 to Staff. Public notification for the customer workshop was also done by the Commission through a Press Release. No customers attended the workshop. The Commission has not received any written comments to date. The lack of attendance at the workshop and lack of written comments may be due to the fact that Teton Springs is a resort where residences are not occupied year around.

Rules Summary

The Utility Customer Information Rules (UCIR), IDAPA 31.21.02000 et seq., requires that the Company sent out a copy of its rules summary on an annual basis to all its customers. Staff is willing to provide a sample copy to customers of the rules summary in electronic format and recommends that Company send a copy with its updated billing statements and on an annual basis thereafter to comply with the rules.

Tariff Issues

The Rules and Regulations Governing the Rendering of Service submitted by the Company includes reference to the Commission's Utility Customer Relations Rules (UCRR) and Utility Customer Information Rules (UCIR) and cites particular rules by rule number. Staff recommends that the Company refer to the Commission's rules by name of the rule set so that the Company will not have to revise its tariff in the event that the Commission's rules are renumbered.

Staff recommends that the Company incorporate certain important provisions taken from the Model General Rules and Regulation for Small Water Companies that Staff provides small water companies for guidance in developing a Tariff. Staff recommends that the following section from the Model rules be added:

GENERAL RULES

1.1 The Customer, in receiving water service, and the Company, in providing water service, shall both agree to abide by these rules and regulations.

1.2 In the event that there is a conflict between these rules and regulations and the Utility Customer Relations Rules (UCRR) and the Utility Customer Information Rules (UCIR), the Rules and Regulations of the Idaho Public Utilities Commission (Commission) shall take precedence unless an exception has been granted.

1.3 All recurring and non-recurring charges shall be approved in advance by the Commission.

Staff is willing to assists the Company in their revision of their tariff, including the rate schedules and the rules and regulations, to ensure that it is compliance with Commission Rules and Regulations.

Rule No. 34 under Customer Deposits reserves the right to require a deposit under IPUC guidelines. The rule states that deposits may be collected for customers not covered under the IPUC Rules and Regulations. Since all customers of a public utility regulated by the Commission fall under IPUC jurisdiction, Staff recommends that this rule be revised to state that it covers all customers of the utility.

Schedule No. 1 includes a rate for "Multifamily" customers. The charge will apply to each unit in a mixed use building that includes residential and commercial customers. Staff

recommends that the charge be renamed "Multi-Tenant" to more correctly describe it and that Schedule No. 1 specify that the charge is for each unit.

Finally, Staff recommends that the Company eliminate Schedule 1A, since it does not intend to bill customers separately for DEQ fees.

RECOMMENDATIONS

Staff recommends:

1. The Company has a rate base in the amount of $59,194
2. The Company be authorized to earn 12% as a reasonable rate of return on rate base.
3. The Company's annual operation and maintenance expense be set at $118,461.
4. The total revenue requirement for the Company be established at $127,505.
5. The Company should not be allowed to collect any depreciation/amortization on the contributed capital.
6. The Commission approve a flat rate of $103 per quarter for 1-inch customers, $213 for 2-inch, $809 for 3-inch, $1,030 for 4-inch and $1,545 for 6-inch customers.
7. The Company install customer meter for all new connections and install meters on previously connected service lines without meters.
8. The Company regularly record all well production flow and customer meters.
9. The Company file a new metered tariff approximately after two years with full 12 months of metered usage.
10. The Commission approve the following non-recurring charges: a) hook-up fee of $600 for 1-inch customer. Larger services would pay the $600 plus the incremental cost for the larger service; b) bulk water service will be provided for $1.50 per 1,000 gallons of water sold plus a $40 set-up fee; c) reconnection charges of $20 for normal business hours and $40 for other than normal business hours; d) a return check charge of $20 per occurrence; e) field collection charge of $20; f) a charge for shut-off for maintenance at the customer's request of $20 per visit during normal business hours and $40 after hours; and g) an after hours service connection charge of $40.
11. The Company update all billing documentation to include the date of the billing and all contact information.

12. The Company update its termination notices to include the Commission's approved reconnection charge.
13. The Company devise a rules summary based on the model to be provided by Staff and send a copy with approved rates and charges to all customers now and annually as required by the UCRR.
14. The Company revise its Rate Schedules and Rules and Regulations Governing the Rendering of Service as recommended by Staff.

Respectfully submitted this 5th day of September 2008.

Scott Woodbury
Deputy Attorney General

Technical Staff: Joe Leckie
Gerry D. Galinato
Chris Hecht

i:/umisc/comments/ttsw08.1swjlggcwh

TETON SPRINGS WATER COMPANY

TTS-W-08-1

Annual Operation & Maintenance Expenses

[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]
Description/Account No	Total Utility Per Books	Pro Forma Adjustments	Test Year Adjusted	Regulated Water	Staff Adjustment #	Staff Adjustment Amount	Staff Adjusted Expense Amount	Reason for Adjustment
Operating Expenses - Water:								
Labor - Operation & Maintenance	$ 35,982	$ -	$ 35,982	$ 35,982	1	$ (3,543)	$ 32,439	Charges for sewer monitoring equipment. Should be allocated to the sewer company.
Labor - Customer Accounts	$ -	$ -	$ -	$ -			$ -	
Labor - Administrative & General	$ -	$ -	$ -	$ -			$ -	
Salaries - Officers & Directors	$ -	$ -	$ -	$ -			$ -	
Employee Pensions & Benefits	$ -	$ -	$ -	$ -			$ -	
Purchased Water	$ -	$ -	$ -	$ -			$ -	
Purchased Power	$ 8,872	$ -	$ 8,872	$ 8,872			$ 8,872	
Fuel for Power Production	$ -	$ -	$ -	$ -			$ -	
Chemicals	$ 1,768	$ 4,390	$ 6,159	$ 6,159			$ 6,159	
Materials & Supplies - Operation & Maintenance	$ 27,848	$ -	$ 27,848	$ 27,848	2	$ (16,019)	$ 13,149	Removed the cost of Sensous software and hardware; added the cost of annual users fee
					3	$ 1,320		
Materials & Supplies - Administrative & General	$ 3,396	$ -	$ 3,396	$ 1,698			$ 1,698	
Contract Services - Billing	$ -	$ -	$ -	$ -			$ -	
Contract Services - Professional	$ 43,024	$ -	$ 43,024	$ 43,024	4	$ (24,640)	$ 1,332	Removed non reaccuring and unrelated legal fees; removed engineering fees related to rate study as a non-reoccuring expense but included in rate case costs.
					5	$ (8,672)		Non-reoccurring Engineering fees
					6	$ (8,380)		Repair and Maintenance expense was included in
Water Repairs and Maintenance					6	$ 8,380	$ 8,380	Professional fees. Removed and made a separate line item.
Contract Services - Testing	$ 2,290	$ 40	$ 2,330	$ 2,330			$ 2,330	
Contract Services - Other	$ 28,785	$ 2,215	$ 31,000	$ 31,000			$ 31,000	
Rents	$ -	$ -	$ -	$ -			$ -	
Transportation Expenses	$ -	$ -	$ -	$ -			$ -	
Insurance Expense	$ -	$ -	$ -	$ -			$ -	
Regulatory Commission Expenses	$ -	$ 11,667	$ 11,667	$ 11,667	7	$ (11,667)	$ (0)	Amortization of a reasonable portion of rate case fees
Bad Debt Expense	$ -	$ -	$ -	$ -			$ -	
Miscellaneous Expenses - Cost of Meters	$ 23,631	$ -	$ 23,631	$ 23,631	8	$ (23,631)	$ (0)	Removed from expense and capitalized in rate base
Total Operating Expenses - Water	$ 175,596	$ 18,312	$ 193,908	$ 192,210		$ (86,852)	$ 105,358	
Other Annual Expenses								
Depreciation Expense							$ 12,377	
IPUC Fees	617		617	617			$ 617	
Property Taxes	109		109	109			$ 109	
Total Expenses							$ 118,461	

Attachment A

Attachment A
Case No. TTS-W-08-1
Staff Comments
09/05/08

TETON SPRINGS WATER

Case No. TTS-W-08-01

Rate Case

Schedule of Rate Base and Contribution to Revenue Requirement

	Amount	Annual Depreciaiton	Useful Life
Rate Base			
As per the Company's Line 9 Table No 1	$ 12,363	$ 3,091	4 years
Working Capital 1/8 of O&M Expenses	$ 14,808		
Staff's Additions to Rate Base			
Sensus software and hardware	$ 16,019	$ 5,340	3 years
Caselle Utility Software	$ 4,750	$ 1,583	3 years
Water Meters	$ 23,631	$ 2,363	10 years
Total Rate Base	$ 71,571	$ 12,377	
Accumulated Depreciation	$ 12,377		
Total Rate Base	$ 59,194		
Rate of Return Allowed	12.000%		
Revenue Requirement from Rate Base	$ 7,103		

Attachment B

Attachment B
Case No. TTS-W-08-1
Staff Comments
09/05/08

TETON SPRINGS WATER
Case No. TTS-W-08-01
Rate Case

Revenue Requirement Calculation

Return on rate base	$ 7,103	Attachment B
Net to Gross Multiplier	127.3237%	See below
Return grossed up for taxes	$ 9,044	
Annual Expenses	$ 118,461	Attachment A
Annual Revenue Requirement	$ 127,505	

Gross Up Multiplier:

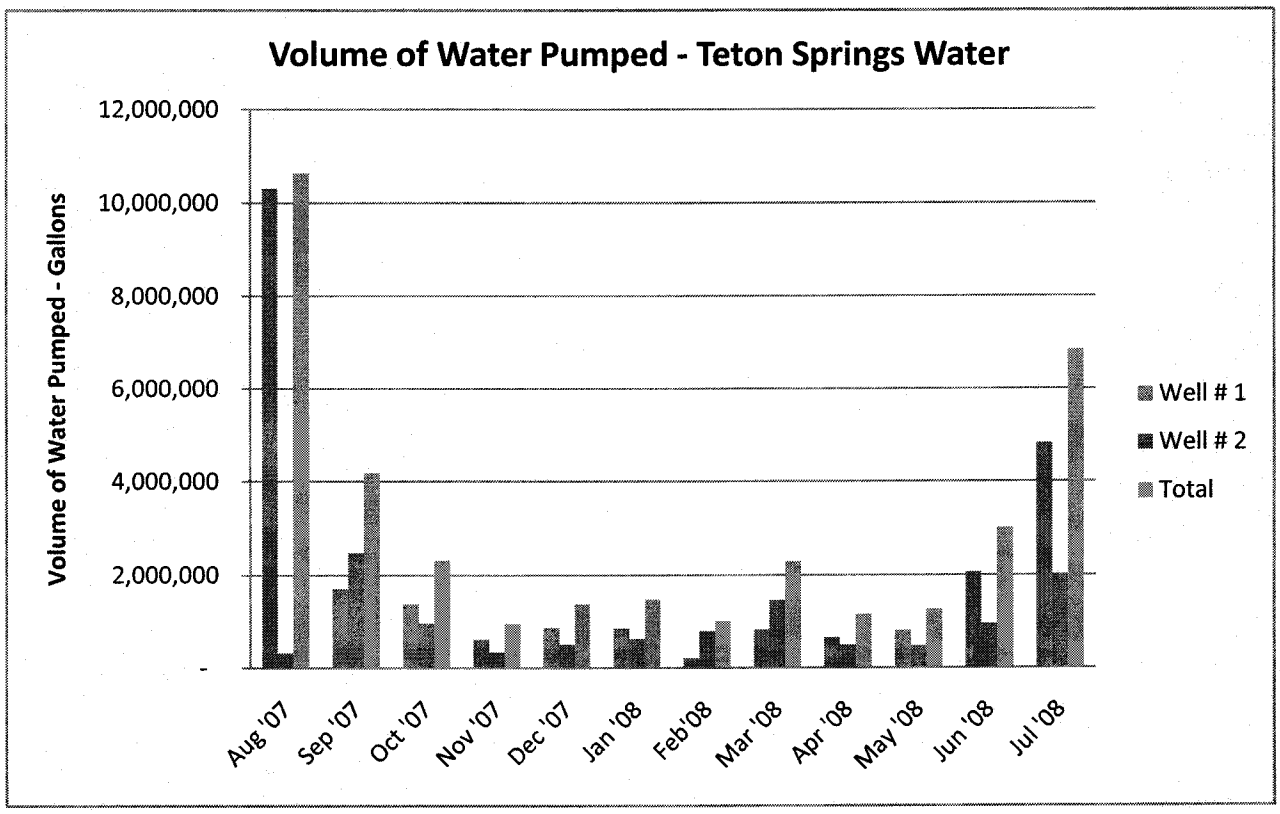
Beginning	100.0000%	
State Tax @ 7.6%	7.6000%	
Federal Taxable	92.4000%	
Federal Tax @ 15%	13.8600%	
Net After Tax	78.5400%	
Net to Gross Multiplier	127.3237%	100% / 78.54%

Attachment C

Attachment C
Case No. TTS-W-08-1
Staff Comments
09/05/08

VOLUME OF WATER PUMPED - TETON SPRINGS WATER
TTS-W-08-01

Month	Well # 1 Gals	Well # 2 gals	Total Gals
Aug '07	10,310,000	327,000	10,637,000
Sep '07	1,706,000	2,470,300	4,176,300
Oct '07	1,372,000	952,400	2,324,400
Nov '07	608,000	340,000	948,000
Dec '07	863,000	505,900	1,368,900
Jan '08	852,500	620,000	1,472,500
Feb'08	217,000	787,400	1,004,400
Mar '08	825,000	1,460,000	2,285,000
Apr '08	652,000	492,800	1,144,800
May '08	798,000	466,700	1,264,700
Jun '08	2,060,000	945,700	3,005,700
Jul '08	4,823,000	2,015,100	6,838,100
Total	25,086,500	11,383,300	36,469,800
% Pumping	**68.8%**	**31.2%**	**100%**



ATTACHMENT D

Attachment D
Case No. TTS-W-08-1
Staff Comments
09/05/08

TETON SPRINGS WATER
TTS-W-08-01

TYPICAL CUSTOMER METER-AND-SERVICE EQUIVALENT RATIOS 1/

Meter Size (inches)	Equivalent Meter-and-Service Ratio
5/8	1.0
3/4	1.1
1	1.4
1 ½	1.8
2	2.9
3	11.0
4	14.0
6	21.0
8	29.0

1/ From American Water Works Association's Manual of Water Supply Practices

Attachment E

Rate Analysis						
Teton Springs Water						
TTS-W-08-01						
Annual Revenue Requirements =			$ 127,505			
				Revenue	Average	
		Quarterly	Total	Over or	Total	Percent
Rate	No. of	Flat Rate	Revenue	Under	Increase	Increase
Design	Customers	($/qtr)	($/yr)	($/yr)	($/yr)	(%)
Current Tariff:						
Residential	196	$ 240	$ 188,160			
Commercial	8	$ 240	$ 7,680			
Multi-family	74	$ 80	$ 23,680			
Total	278		$ 219,520	$ 92,015		
Company Proposal						
Res.-Active	196	$ 150	$ 117,600			
Res.-Inactive	385	$ 75	$ 115,500			
Sub-Total	581		$ 233,100			
Com.-Active	8	$ 450	$ 14,400			
Com.-Inactive	14	$ 225	$ 12,600			
Sub-Total	22		$ 27,000			
Multi-F-Active	74	$ 80	$ 23,680			
Total-(Active)	278		$ 283,780	$ 156,275	$ 64,260	29.3%
Staff Proposal (Based of Meter or Supply Line Size)						
1" Res.-SF/MF	270	$ 103.00	$ 111,240			
1" Com.	3	$ 103.00	$ 1,236			
2" Com.	2	$ 213.36	$ 1,707			
3" Com.	1	$ 809.29	$ 3,237			
4"Com.	1	$ 1,030.00	$ 4,120			
6" Com.	1	$ 1,545.00	$ 6,180			
Total	278		$ 127,720	$ 215	$ (91,800)	-41.8%
% Alloc-Res =	87.1%					
% Alloc-Res =	12.9%					
%Total Alloc +	100.0%					

ATTACHMENT F

Attachment F
Case No. TTS-W-08-1
Staff Comments
09/05/08

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 5TH DAY OF SEPTEMBER 2008, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. TTS-W-08-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

DEAN J MILLER
McDEVITT & MILLER LLP
PO BOX 2564
BOISE ID 83701

JON PENARDI DIRECTOR
TETON SPRINGS WATER
AND SEWER COMPANY LLC
75 WEST 950 SOUTH STE 3
VICTOR ID 83455

SECRETARY