

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION )**  
**OF TETON SPRINGS WATER AND SEWER ) CASE NO. TTS-W-11-01**  
**COMPANY LLC REQUESTING )**  
**COMMISSION AUTHORITY FOR )**  
**REIMBURSEMENT THROUGH ITS ) ORDER NO. 32485**  
**EMERGENCY RESERVE FUND )**

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On September 27, 2011 Teton Springs Water and Sewer Company LLC (“Teton Springs” or “Company”) filed an Application requesting authority to issue an assessment upon its customers in order to reimburse the Company for certain “capital repairs to the domestic wells which provide water to the customers of the utility necessitated by well failures in July and August, 2011.” *Application* at 2.<sup>1</sup>

On December 28, 2011, the Commission issued a Notice of Application and Notice of Modified Procedure with a 21-day comment period. *See* Order No. 32423. The Commission Staff (“Staff”) submitted written comments within the established comment period. The Commission also received two written comments from customers opposing Teton Springs’ Application.

**THE APPLICATION**

“Teton Springs provides domestic water service in Teton County, Idaho to customers located within the Teton Springs Golf and Casting Club Planned Unit Development.” *Id.*

The Company’s Application included the following as attachments: a current copy of the Company’s approved rate tariffs, a copy of Teton Springs’ annual revenue requirement per Commission Order No. 30718, as well as invoices documenting the repair work undertaken by Teton Springs. *Id.* Teton Springs references language in the 2009 Commission Order contemplating that “Teton Springs may need to come before the Commission in the future for approval of an Assessment for large scale capital repair and replacement . . . or for any other major concerns outside the scope of regular operations and maintenance.” *Id.* In the Order, the Commission authorized the Company to establish an “Emergency Reserve Fund” with an

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<sup>1</sup> The Application should not be viewed as a request to increase, decrease, or change any rate but rather a request to utilize existing funds derived from an “Emergency Reserve Fund” previously approved by the Commission in Order No. 30718.

“appropriate auditable account.” Order No. 30718 at 24, Appendix (p. 3 of 4). Teton Springs requested that the case be processed through Modified Procedure. *Application* at 3.

### **CUSTOMER COMMENTS**

The Commission received two comments from customers. Both comments requested that Teton Springs’ Application be denied. One comment requested that the Company utilize funds from the established “reserve fund” for the repairs and the other argued that recovery be denied because the repairs were related to “normal wear and tear.”

### **STAFF COMMENTS AND RECOMMENDATION**

Teton Springs seeks reimbursement for approximately \$26,479.98 in emergency capital repairs made to Well No. 1 and Well No. 2.

#### Well No. 1

Well No. 1 is the Company’s primary well. Teton Springs asserts that when the well is operating at more than 250 gallons per minute (gpm), the well discharges fine sediment because it lacks a sand filtering system. Dramatic reductions in the pumping rate of the well led the Company to undertake a maintenance effort to restore the pumping rate to its prior levels. A contractor to complete the project was secured in June/July 2011. The old pump/motor assembly was removed and replaced with a similar unit.

After installation of the new pump/motor unit, water delivery was about 500 gpm on start-up and maintained approximately 350 gpm on continued operation. However, within 24 hours production diminished quickly upon pump cycling and operation. The Company contacted the well contractor on August 1, 2011, and the new pump was pulled out to determine the problem. The problem was identified as foreign materials blocking the pump intake and corrected. The pump has operated satisfactorily since the repair.

Staff believes that it was necessary to restore the system pumping capacity by installing a new pumping unit in Well No.1. While the pump/motor unit did not totally shutdown, its capacity to provide the necessary flow rate as designed (300-350 gpm of design capacity) declined to an unacceptable level (130 gpm), especially for meeting summer peak demand. The Company maintains and Staff concurs that the capacity reduction was due to pumping sand over time and foreign materials blocking the pump intake. Staff also believes that the Company’s decision to replace the pumping unit with the same design specification as the previous unit was prudent. Based on normal operating conditions, pumping units are expected to

operate about 15 to 20 years. The pump that was replaced was initially installed in late 2004 and operated for about seven years. However, due to unusual operating conditions that include a history of sand in the well and foreign materials gradually plugging the pump intake, the pumping unit in Well No. 1 prematurely failed.

Staff believes the Company met the emergency capital expenditure requirement in order to use the Emergency Reserve Fund established by the Company per Commission Order No. 30718. Staff also reviewed the cost of various work elements for reasonableness. Staff believes that most of the cost elements incurred in replacing the pumping unit in Well No.1 were reasonable compared to other jobs of similar size and scope and by comparing the costs obtained independently by Staff from other vendors in the area. However, Staff is concerned about the total labor cost incurred in pulling the pump/motor unit, inspecting, and installing the new replacement pumping unit. Based on a copy of the quote provided by the Company to Staff, the well/pump contractor (Andrew Well Drilling Services) submitted a bid to provide a two-man crew for eight hours at \$105 per hour (labor component of the bid), or a total cost of \$840 to “pull and inspect pump and motor replace if needed.” However, the contractor submitted an invoice (Invoice No. Q11-0605 dated August 11, 2011) with a total of 34.75 hours. At the contractor’s rate of \$105 per hour, the total amount of labor billed to the Company was \$3,648.75 which is more than four times the original bid.

It was not clear from the contractor invoice how many hours were charged during the first and second trips by the contractor. Only a lump sum of 34.75 hours was disclosed. It appears that the contractor also charged the Company for its second trip to pull the newly installed pump and conduct additional investigation and evaluation of problems. Staff believes that the Company should not be billed for all of the hours on the second trip for re-analyzing a problem that should have been identified and corrected on the first visit. Staff believes that there should be some reasonable type of warranty for the contractor’s work shortly after the job has been completed.

In addition, the well driller/pump installer is expected to be an expert in this field and should not charge the Company for additional time spent re-analyzing the same problem. Staff believes that it would be appropriate and reasonable for the contractor to charge the Company for some of the hours spent during the second visit. The contractor spent additional time blowing

out materials left in the well. Although the task should have been done during the first visit, it was necessary for proper pump operation.

Allowing an additional 8 hours during the second visit plus the total hours quoted by the contractor in the original bid (8 hours) results in 16 hours of labor for a total cost of \$1,680 (16 hours x \$105 per hour). Staff recommended that \$1,969 (\$3,648.75 labor cost - \$1,680) emergency repair cost for Well No.1 be excluded from cost recovery. Well No.1 has been back online and operating normally since August 2, 2011, and meets the “used and useful” criteria for recovering the remaining costs through rates.

#### Well No. 2

Well No. 2 provides additional capacity and serves as a backup water supply for the development. In 2004, the Company initially installed a 150-gpm pump to provide maximum capacity over a short duration. However, after gaining some experience and obtaining data relative to performance of the well and the aquifer, the Company decided to throttle its operation, thereby reducing the pump rate to about 75 to 85-gpm which is the approximate capacity of the aquifer. Although water production is limited by the conditions within the aquifer, it produces good quality cold water and is helpful in blending with the warm water obtained from Well No.1.

Well No. 2 was operating at throttled mode until the summer of 2011. As described earlier, Well No. 1 underwent inspection and repair on July 8, 2011, but failed to operate at normal capacity shortly after it was repaired. While Well No.1 was operating at reduced capacity, the Company was operating the water system at very high demand in order to satisfy heavy summer water requirements in the subdivision. Well No. 2 was the only source of water supply so the Company operated it continuously for several days. Due to continuous operation of Well No. 2, the aquifer was drawn down to an unsustainable condition. The repeated drawdown and shut off of the pump and motor drastically increased the wear and tear of the pumping unit and it eventually failed on July 21, 2011.

While Well No.1 was operating at reduced capacity, the Company scheduled the servicing of Well No. 2. On July 28, 2011, the same contractor (Andrew Well Drilling Services) was brought in to pull, evaluate and replace the pump/motor unit of Well No. 2. The Company determined that it would be more appropriate to install a 75-gpm pump with a 7.5-hp unit as a replacement for the original 150-gpm 20-hp pumping unit. A smaller pump would better fit the long-term production capacity of the aquifer without causing drawdown concerns.

Previous operational data gathered by the Company indicate that maintaining a 150-gpm pumping unit could not be supported by the aquifer. After Well No. 2 was restored to normal operating condition on July 28, 2011, the Company worked on Well No. 1 repulling, re-evaluating and replacing the pump/motor unit using the same contractor on August 1, 2011. Staff believes that it was necessary to make an emergency repair of the failed pumping unit (pump, motor and related accessories) in Well No. 2. As mentioned earlier in the Staff comments, pumping plants are expected to operate about 15 to 20 years in normal conditions. However, because the main pumping unit (Well No. 1) failed to operate at its design capacity shortly after it was repaired, Well No. 2 was subjected to extreme operating conditions which caused the pumping unit in Well No. 2 to fail.

Staff supports the Company's decision to downsize the pumping capacity of Well No. 2. Staff believes the Company exercised good judgment in installing a pumping unit in Well No. 2 matching the capacity of the aquifer to avoid subjecting the pumping unit to unusual operating conditions in the future. Staff also believes that the Company met the emergency capital expenditure test to use the Emergency Reserve Fund.

Staff reviewed the various cost elements related to the repair of the pumping unit in Well No. 2 to evaluate the prudence and reasonableness of the total cost incurred. Because pulling the pump and motor and inspecting and replacing it with a smaller unit was relatively routine, Staff independently obtained quotes from other vendors in the area for the purpose of determining reasonable costs. For the purpose of securing bids, the pump and motor design specifications and depth of pump setting given to the vendors by Staff are of the same specifications compared to the newly installed pumping unit in Well No. 2. The following is a cost comparison obtained from other vendors and actual cost incurred by the Company.

<b>Cost Items</b>	<b>Actual Cost<sup>2</sup></b>	<b>Vendor 1</b>	<b>Vendor 2</b>
Pump 75-gpm @ approx. 275' TDH	\$3,166.75	\$1,186.00	\$1,243.88
Motor 7.5-hp 460-volt 3-phase	1,869.50	1,817.00	1,330.76
Check valve	310.52	105.00	192.00
Power cable	715.65	734.00	352.32

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<sup>2</sup> Actual cost billed by the Company's contractor (Andrew Well Drilling Services).

Miscellaneous	36.60	10.00	256.05
Labor	2,520.00	1,923.90	2,577.30
TOTAL	\$8,619.02	\$5,775.90	\$5,952.31
% Cost difference over other vendors		33%	31%

The average bid of the two vendors to perform the same job was \$5,864. Recognizing some differences in the timing of obtaining quotes from other potential contractors (i.e., lean time for contractors now compared to summer) and providing reasonable allowance for other contingencies, Staff added another 20% over the average bid to arrive at a total cost of \$7,037. In the absence of actual quotes from the contractor and other vendors that should have been solicited by the Company, Staff believes that \$7,037 is a reasonable amount to be recovered and reimbursed for the repair of Well No. 2.

Staff believes that customers should not pay the additional costs for the repair work. Because the Company did not ask vendors, including the contractor employed by the Company, to submit a bid or work proposal prior to performing the work, Staff's only option to properly evaluate the reasonableness of the cost for the work performed on Well No. 2 was the cost adjustment proposed above. Staff recommended \$1,582 (\$8,619 - \$7,037) of the total cost incurred in the repair of Well No. 2 not be recovered from customers or reimbursed. Well No. 2 was placed back in service on July 28, 2011, and meets the "used and useful" criteria for recovering the remaining costs through rates.

Administration and Monitoring Fees

The Company currently retains Teton Water, Inc. (TWI) as its contract system operator to provide basic services that include daily operation of the system, water turn-off and turn-on service, water quality sampling and administrative duties. Additional services beyond the provision of basic services would be billed separately as extra services to the Company. During the emergency situation of evaluating the causes of pumping failures and replacing the pumping units in Well No. 1 and Well No. 2, the Company sought additional services from TWI. For Well No. 1, TWI's additional services included facilitating the completion of repairs, monitoring pump performance and water drawdown, and round-the-clock monitoring of the SCADA system.

A total of \$630 was billed to the Company (9 hours @ \$70 per hour). TWI also provided similar services related to the evaluation of problems and repair of the pumping unit in Well No. 2. A total of \$770 was billed to the Company (11 hours @ \$70 per hour) related to the services provided for Well No. 2. According to the Company, throughout the entire process of evaluation and emergency repairs of Well No. 1 and Well No. 2, TWI was regularly on-site and in communication with Company representative Jon Pinarci and other vendors, including Rendezvous Engineering, Andrew Well Drilling Services, and Pump Tech.

Staff believes that the services provided by TWI were necessary and appropriate. TWI contributed to the timely completion of the emergency repairs of the facilities. Staff considers the costs reasonable and prudent and should be included for recovery as part of the emergency capital expenditure.

#### Engineering Consulting Fee

The Company also hired Robert Ablondi, P.E. of Rendezvous Engineering, to review various pump and equipment options, and to provide technical help in determining the cause and factors affecting the failure of the pumping unit in Well No. 1. Mr. Ablondi was also involved in discussing various well pump options and recommendations with Andrew Well Drilling Services, TWI and Teton Springs Water. The Company was charged a total of \$687.50 (5.5 hours @ \$125/hour) from Rendezvous Engineering for services related to problem evaluation and repair of Well No. 1. Staff believes that the services provided by Rendezvous Engineering were necessary and contributed to the timely completion of the repair of Well No. 1. Staff considers the engineering consulting fee reasonable and prudent and should be included as part of the emergency capital expenditure.

#### Emergency Reserve Funds

Staff noted that the Company's Emergency Reserve Fund was established by the Commission in 2009. Order No. 30718, pp. 12-13.

The well repairs required pump and motor replacements that meet the guidelines for use of emergency funds. The 10% major expenditure threshold for using emergency reserve funds equates to \$14,631 and has been exceeded by these well repairs. As discussed above, Staff recommended \$22,929 as the allowed reimbursement from the Emergency Reserve Fund.

The Emergency Reserve Fund was established at 5% of the revenue requirement or \$6,967 annually. Teton Springs makes quarterly transfers to a money market account where the

Company holds the emergency reserve funds. The Emergency Reserve Fund would have accrued \$20,901 through 2011. Therefore, the total \$22,929 recommended reimbursement will be covered in 2012. Staff believes it is reasonable to recover these pump repair costs by using Emergency Reserve Funds accrued to date and those expected to accrue in 2012.

Staff believes that the amount accrued through 2012 in the Emergency Reserve Fund is sufficient to cover the emergency repair of system pumps as intended without an additional increase in customer rates. No additional contribution by customers is needed for the reserve fund to gradually rebuild with deposited funds of \$6,967 annually as established in Order No. 30718. Staff believes re-establishing the Emergency Reserve Fund gradually in this manner is adequate and will not overly burden customers. With the replacement of pumps and motors for two wells completed, the likelihood of costly emergency repairs is currently less than when the reserve was established. Therefore, Staff believes the gradual funding of the Emergency Reserve Fund by continuing the funding per Order No. 30718 is reasonable.

Therefore, Staff submitted the following recommendations regarding Teton Springs' Application:

1. The Commission deny recovery from customers of \$3,551 in well repair costs. This total represents \$1,969 of Well No. 1 repairs and \$1,582 of Well No. 2 repairs.
2. A total of \$22,928.98 (\$26,479.98 - \$3,551) be allowed cost recovery for the repair of Well No. 1 and Well No. 2 and that same amount is eligible for reimbursement from the Company's Emergency Reserve Fund.
3. The Emergency Reserve Fund be replenished by continuing the same level of funding allowed by the Commission pursuant to Order No. 30718.
4. The Commission reject a one-time assessment to replenish the Emergency Reserve Fund.

#### **FINDINGS OF FACT AND CONCLUSIONS OF LAW**

The Idaho Public Utilities Commission has jurisdiction over Teton Springs, a water utility, and the issues presented in Case No. TTS-W-11-01 pursuant to Idaho Code, Title 61, and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

#### **COMMISSION FINDINGS**

Having fully reviewed the record in this proceeding, the Commission finds that Teton Springs' Application requesting authority to utilize funds available from the Emergency Reserve



Fund, previously authorized by Commission Order, to reimburse the Company for expenses incurred in order to make repairs to Well No. 1 and Well No. 2 should be granted.

The Commission recognizes and is appreciative of the comments submitted by Teton Springs' customers. We note that the establishment of the Fund was predicated upon ensuring that Teton Springs, a small water utility, would be able to make emergency repairs as they arise while maintaining "adequate service" and "economic viability." Order No. 30718 at 12. The Commission established specific, defined "parameters" governing Company access to the Fund:

The reserve fund is to be used only for emergencies and major unplanned capital expenditures (plant repair, maintenance and replacement). It is not intended to be a mechanism to fund capital expenditures that should have been planned. It can be used only for capital expenditures greater than 10% of the Company's annual revenue requirement.

*Id.* Additionally, in order to ensure the appropriate use of the Fund the Commission ordered Teton Springs "to establish an auditable paper trail and provide the Commission with contemporaneous written notice of the Company's use of the fund for an allegedly permitted purpose with emergency details and related invoices." *Id.*

The Commission finds that the supporting documentation provided in Teton Springs' Application, as well as the investigation and audit verification conducted by Staff, adequately demonstrate that the Company complied with the requirements outlined in Order No. 30718 for reimbursement through the Fund. The Commission finds that the repairs made by the Company to Well No. 1 and Well No. 2, extraction and replacement of the pumping units in order to improve capacity, were reasonable and appropriate.

Nevertheless, the Commission excludes a total \$3,551 from the amount requested for reimbursement. The Commission finds that this amount represents the overbilling of labor expense for repairs made to Well No. 1; and an estimation of overbilling for repairs made to Well No. 2 resulting from Teton Springs' failure to secure a pre-work bid/invoice for the project. The Commission finds that the burden for payment of this overbilled amount should be shifted to the Company rather than its ratepayers.

Therefore, the Commission authorizes Teton Springs to utilize a total of \$22,928.98 (\$26,479.98 - \$3,551) for reimbursement from the Fund for repairs made to Well No. 1 and Well

No. 2. Additionally, the Company shall replenish the Fund by continuing the same level of funding authorized by the Commission, in accordance with Order No. 30718.<sup>3</sup>

### **ORDER**

IT IS HEREBY ORDERED that the Application of Teton Springs Water and Sewer Company LLC requesting authority to utilize funds available in the Commission-approved Emergency Reserve Fund in order to reimburse the Company for certain “capital repairs to the domestic wells which provide water to the customers of the utility necessitated by well failures in July and August 2011” is approved. The Company is authorized to recover a total of \$22,928.98 from the Emergency Reserve Fund.

IT IS FURTHER ORDERED that Teton Springs shall continue the same level of contribution to the Emergency Reserve Fund as previously authorized by the Commission in Order No. 30718

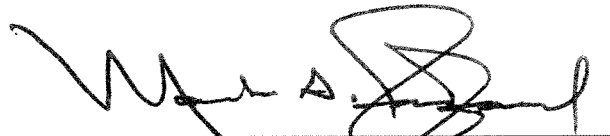
THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code § 61-626.*

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<sup>3</sup> “In this case, we calculate and authorize the Company to accrue annual emergency reserve funding in the amount of \$6,967.” Order No. 30718 at 13.

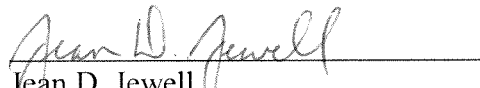
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 13<sup>th</sup>  
day of March 2012.

  
PAUL KJELLANDER, PRESIDENT

  
MACK A. REDFORD, COMMISSIONER

  
MARSHA H. SMITH, COMMISSIONER

ATTEST:

  
Jean D. Jewell  
Commission Secretary

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