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Attorney for the Commission Staff

**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 THE ISSUANCE OF AN )**  
**ASSESSMENT FOR CAPITAL REPAIRS )** **COMMENTS OF THE**  
**)** **COMMISSION STAFF**  
**)**  
**)**

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**COMES NOW** the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Neil Price, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 32423 on December 28, 2011, in Case No. TTS-W-11-01, submits the following comments.

**BACKGROUND**

Teton Springs Water and Sewer Company LLC (“Teton Springs” or “Company”) provides domestic water service in Teton County, Idaho to 212 customers located within the Teton Springs Golf and Casting Club Planned Unit Development. On September 27, 2011, Teton Springs filed an Application requesting authority to assess its customers to reimburse the Company for certain capital repairs made to the domestic wells which provide water to its customers. The Company asserts that the repairs were necessitated by well failures which occurred in July and August 2011.

The Company's Application included 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.

Pursuant to Commission Order No. 30718, Teton Springs established an Emergency Reserve Fund for large scale capital repair and replacement projects or for other major unplanned expenditures outside the scope of regular operations and maintenance. The Commission Staff has audited and investigated the Company's Application, work papers and all documents and files relevant to this matter.

## **STAFF ANALYSIS**

### ***Emergency Capital Expenditures***

The Company filed an Application requesting the Commission approve the requested assessment for reimbursement of emergency capital repairs related to Teton Springs's Well No. 1 and Well No. 2. Teton Springs submitted invoices supporting expenditures for repairing the two wells. The total expenditures of \$26,479.98 are shown on Attachment A.

### **Well No. 1**

Well No. 1 is the Company's primary well and is capable of producing flows in excess of 500 gpm. The well is considered a low-temperature geothermal well because the water produced from the aquifer has a temperature of about 97° Fahrenheit. The Company reports that when the pumping unit is operating at a flow rate higher than 250 gpm, it discharges fine sediments. The pumping plant is not equipped with a sand filtering system.

Based on the Company's observations, the pumping rate of Well No. 1 has been decreasing from 325-gpm in 2007 to 180 gpm in late 2010. The steadily declining flow rates of Well No. 1 over time and a dramatic reduction in late 2010 posed a major concern to the Company. Consequently, maintenance work was initially scheduled for the spring of 2011 before heavy summer water demand occurs. However, due to vendor availability, the Company claims that it could not schedule the work until late June to July 2011. The pump/motor assembly was eventually pulled from the well, inspected, evaluated and replaced on July 8, 2011. The Company installed a new pumping unit with specifications similar to the unit removed.

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. The Company believed at that time that the well was repaired and could resume normal operation so the well contractor left the site. However, within 24 hours production diminished quickly upon pump cycling and operation. It would start at 350 gpm and then dropped to approximately 130 gpm after 40 minutes of operation. The well contractor was again called on August 1, 2011 to pull out the pump and 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 shut down, 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 2-man crew for 8 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 reanalyzing 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 reanalyzing 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 recommends 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 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 the 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 re-pulling, 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 concurs with 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 as established.

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.

**Well No. 2**

| Cost Items                      | Actual Cost <sup>1</sup> | Vendor 1           | Vendor 2           |
|---------------------------------|--------------------------|--------------------|--------------------|
| 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             |
| Miscellaneous                   | 36.60                    | 10.00              | 256.05             |
| Labor                           | 2,520.00                 | 1,923.90           | 2,577.30           |
| <b>TOTAL</b>                    | <b>\$ 8,619.02</b>       | <b>\$ 5,775.90</b> | <b>\$ 5,952.31</b> |
| % Cost diff. over other vendors |                          | 33%                | 31%                |

<sup>1</sup>Actual cost billed by the Company's contractor (Andrew Well Drilling Services).

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 adds 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 others vendors that should have been solicited by the Company, Staff believes the amount of \$7,037 is a reasonable amount to be recovered and reimbursed for the repair of Well No. 2.

Staff believes that Teton Springs 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 recommends \$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 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 basic services provided would be billed 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 Pinardi 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. They 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***

The Emergency Reserve Fund was established in 2009 with the following terms:

We address this identified and acknowledged under-capitalization dilemma for Teton Springs by authorizing in this case the establishment of an emergency reserve fund. We also establish what we find to be necessary emergency reserve fund parameters. 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. While the Company in emergencies may have immediate access to the fund, it will be required 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. The eligibility determination of specific withdrawals will be determined by the Commission in after-the-fact applications by the Company for Commission approval. The reserve fund corpus will be funded as part of the Company's annual non-O&M expense revenue requirement in the amount equivalent to 5% of the Company's otherwise determined total revenue requirement. In this case, we calculate and authorize the Company to accrue annual emergency reserve funding in the amount of \$6,967. Order No. 30718, p. 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 recommends \$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 makes quarterly transfers to a money market account where Teton 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.

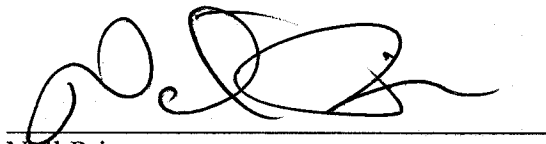


Staff believes that the amount accrued through 2012 in the Emergency Reserve Fund is sufficient to cover the emergency repair of system pumps as intended without an additional increase in customer rates. No additional contribution by customers is needed for the reserve fund to gradually rebuild with deposited funds of \$6,967 annually as established in Order No. 30718. Staff believes reestablishing 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.

### STAFF RECOMMENDATIONS

1. Staff recommends that 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. Staff recommends that 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. Staff recommends the Emergency Reserve Fund be replenished by continuing the same level of funding allowed by the Commission pursuant to Order No. 30718.
4. Staff recommends the Commission reject a one-time assessment to replenish the Emergency Reserve Fund.

Respectfully submitted this 18th day of January 2012.



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Neil Price  
Deputy Attorney General

Technical Staff: Gerry Galinato  
Terri Carlock

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## EMERGENCY CAPITAL EXPENDITURES

### Well No. 1

|                     |                    |
|---------------------|--------------------|
| Pump                | \$4,638.50         |
| Motor               | 4,770.50           |
| Electric cable      | 2,062.16           |
| Check valve         | 393.75             |
| Miscellaneous parts | 259.80             |
| Labor               | <u>3,648.75</u>    |
| <b>Sub-total</b>    | <b>\$15,773.46</b> |

### Well No. 2

|                     |                   |
|---------------------|-------------------|
| Pump                | \$3,166.75        |
| Motor               | 1,869.50          |
| Electric cable      | 715.65            |
| Check valve         | 310.52            |
| Miscellaneous parts | 36.60             |
| Labor               | <u>2,520.00</u>   |
| <b>Sub-total</b>    | <b>\$8,619.02</b> |

### **Administration/Monitoring Fees**

|                  |                   |
|------------------|-------------------|
| Well No. 1       | \$687.50          |
| Well No 2        | <u>770.00</u>     |
| <b>Sub-total</b> | <b>\$1,400.00</b> |

### **Engineering Fee**

|            |                 |
|------------|-----------------|
| Well No. 1 | <b>\$630.00</b> |
|------------|-----------------|

**Grand Total** **\$26,479.98**

Attachment A  
Case No. TTS-W-11-01  
Staff Comments  
January 18, 2012

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 18<sup>TH</sup> DAY OF JANUARY 2012, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. TTS-W-11-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

JON PINARDI GENERAL MANAGER  
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SECRETARY

CERTIFICATE OF SERVICE