

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION** )  
**OF CAPITOL WATER CORP. FOR** ) **CASE NO. CAP-W-05-1**  
**AUTHORITY TO USE MONIES IN** )  
**EXISTING SURCHARGE ACCOUNT** ) **ORDER NO. 29883**  
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On August 26, 2005, Capitol Water Corp. (Capitol Water, Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting authorization to use monies in its existing surcharge account to pay for labor and chemical costs incurred for water quality and water supply (volume) improvements. With this Order the Commission approves the Company's Application as more fully set forth below.

**BACKGROUND**

On July 1, 1997, the Commission authorized Capitol Water to incur debt to fund certain water quality improvements for its system. Case No. CAP-W-96-2; Order No. 27022. The principal loan amount was \$402,624.71, (Loan 1). Order No. 27022. The Commission authorized the Company to collect a surcharge (Surcharge 1) of \$3.27 a month from its unmetered residential customers and a 25.2% increase for metered commercial customers to recover loan amortization costs, annual Idaho Power Company Power Cost Adjustment (PCA) charges, the annual purchase cost of phosphates for water treatment and incremental income taxes associated with the surcharge. Order Nos. 27022 and 28801. The surcharge allowed the Company to amortize the loan over a seven-year period, ending August 1, 2004. *Id.*

On May 22 2002, the Commission authorized the Company to incur an additional \$507,000 in debt (Loan 2) to finance improvements to its water system. Case No. CAP-W-02-1; Order No. 29035. The Commission authorized the Company to institute a second surcharge (Surcharge 2) of \$3.10 a month for residential flat-rate customers and 23.6% for metered customers that would recover only loan amortization costs and incremental income taxes associated with the surcharge over a seven-year period. *Id.*

On December 19, 2003, the Commission authorized the Company to retire Loan 1 early with surplus funds, and eliminate Surcharge 1 contemporaneously with the retirement of Loan 1. The Commission further authorized the Company to increase Surcharge 2, the remaining surcharge, by \$0.45 per month for flat-rate customers and 3.5 percentage points for

metered customers to assure that sufficient funds remained available to cover anticipated costs. Surcharge 2 (the Surcharge) increased to \$3.55 for flat rate customers, and 27.1% for metered customers. The remaining Surcharge was intended to cover loan amortization costs of Loan 2, incremental income taxes, annual Idaho Power PCA rate charges and the annual purchase cost of phosphates for water treatment. The Commission also ordered Capitol Water to adjust the expense it charges against the surcharge account balance each May when Idaho Power Company's PCA rate adjustment becomes effective and to calculate the annual effect of the Company's surcharges on its income tax liability and charge the incremental income tax expense to the surcharge account in a timely manner. Case No. CAP-W-03-1; Order No. 29401.

### **THE APPLICATION**

The Company states that it experienced significant water supply problems during the summer of 2005. Production at its well No. 3 had declined from approximately 700 gallons per minute (gpm) to 150 gpm. It was determined that this was largely the result of mineral deposits that clogged the well screen, pipe perforations and filter material. The Company's engineer recommended an acid treatment to remove the deposits. Following the treatment, pumping capacity was restored to more than 600 gpm. The Company and its engineer believe that a similar condition exists at its well No. 7, where pumping capacity has decreased from 1,250 gpm to 500 gpm. The costs requested for recovery by Capitol Water include chemicals and labor to treat well No. 3, chemicals that have already been purchased for the treatment of well No. 7, and an estimated \$400 for the removal of the acidic water following the treatment. The total amount requested is \$24,386.26.

The Company states that the surcharge account has sufficient funds to pay the requested amount, and use of the funds will not have a negative effect on the Company's ability to repay its bank loans for which part of the surcharge was initially created. The Company also states that the current improvements are similar in nature to other projects for which the Commission previously approved the use of surcharge funds.

### **STAFF REVIEW AND RECOMMENDATION**

Staff recommended that the Company be authorized to use excess surcharge funds to pay the requested cost of \$24,386.26 associated with the Company's water quality and supply improvements. The treatment of well No. 3 resulted in a significant improvement of supply, from 150 gpm to approximately 650 gpm. The Company is awaiting the end of the lawn-

watering season when it can get by without the capacity of well No. 7, to conduct a similar treatment on that well.

Expenses of a like nature have been approved as being appropriate for surcharge recovery in the past. Water quality and quantity improvement projects were approved in Order No. 29306, and financed by Surcharge 2, including a back up generator at well No. 4, and an aquifer recharge project. These current expenses continue to be the same type of expenses as those previously approved for recovery through the Surcharge.

In the course of the review, Staff audited the surcharge accounts and verified that there are surplus funds in the surcharge account. Staff, during the course of the audit, verified that past Commission directives in regards to Idaho Power's PCA changes and income tax effects have been followed. The Company continues to provide Staff with quarterly reports verifying the status of the Surcharge account and demonstrating improved service through reduced customer complaints. In addition, Staff reviewed technical reports regarding system improvements and verified that the improvements and expenditures made were warranted.

The surplus balance in the surcharge account was \$107,116 as of June 30, 2005 and is comprised of loan proceeds and customer surcharge payments. The Company has unused loan proceeds of approximately \$34,000. This amount represents loan proceeds that have been borrowed by the Company but not yet used for water quality and quantity improvements. The balance of the surplus account, approximately \$73,000, is excess surcharge payments that have been collected from the customers, but have not yet been needed for ongoing Commission approved expenses.

### **DISCUSSION AND FINDINGS**

The Idaho Public Utilities Commission has jurisdiction over Capitol Water Corp., its Application, and the issues involved in this case by virtue of Title 61, Idaho Code, specifically *Idaho Code* §§ 61-124, 61-125, 61-129, 61-301, 61-303, 61-501, 61-502, 61-901, and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

The Commission finds it to be reasonable, prudent, and in the public interest to authorize the Company to use funds from its surcharge account to pay for the water quality and supply improvements conducted by the Company in the amount of \$24,386.26. We find the chemical treatment conducted on well No. 3 was necessary for the maintenance of adequate water supply, and the resulting costs to be an appropriate use of the surcharge funds. We have

authorized projects of a similar nature to be paid from the surcharge funds in the past, and the current expenses were incurred for system improvements that are similar in nature to the improvements that were anticipated when the loan was obtained and the surcharge established.

The current surcharge appears to be providing sufficient cash flow to cover the currently authorized charges including the annual phosphates needed for water treatment, Idaho Power's annual PCA rate charges, and the monthly loan payments. The surplus balance in the surcharge account was \$107,116 as of June 30, 2005. This amount is comprised of unused loan proceeds of approximately \$34,000 and excess surcharge payments collected from customers of approximately \$73,000. The length of the loan extends beyond the surcharge recovery period. Staff estimates there will be sufficient surplus funds at the end of the surcharge period to pay the loan in full. It would be prudent for the Company to retire the loan early, if possible, at the point when the surplus balance and the loan balance are essentially equal.

The Company is directed to charge the authorized expenditure of \$24,386.26 to the remaining loan proceeds in the surcharge account. This should leave approximately \$10,000 of unused loan proceeds and approximately \$73,000 of excess surcharge payments in the surcharge account. Beyond the authorized expenditure in this case, the Company is directed to obtain Commission authorization prior to the expenditure of additional funds from the surcharge account for any additional costs that have not previously been approved by the Commission. The Company is also directed to continue to file timely quarterly reports with the Commission regarding the status of the surcharge account.

#### **ORDER**

IT IS HEREBY ORDERED that Capitol Water Corp.'s Application is approved. The Company is authorized to pay the incurred water quality and supply improvement costs of \$24,386.26 from the funds in its surcharge account. The Company shall charge the authorized expenditure of \$24,386.26 to the remaining loan proceeds in the surcharge account.

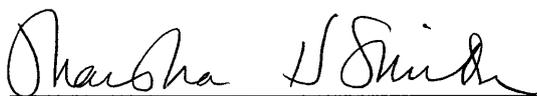
IT IS FURTHER ORDERED that Capitol Water Corp. shall obtain Commission authorization for any additional expenditure of funds from the surcharge account that has not previously been approved by the Commission.

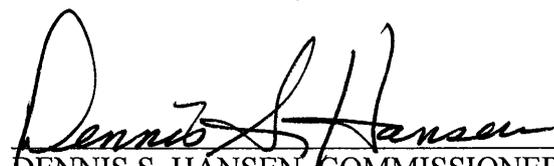
IT IS FURTHER ORDERED that Capitol Water Corp. shall continue to file timely quarterly reports with the Commission regarding the status of the surcharge account.

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 with regard to any matter decided in 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.

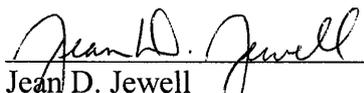
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 4<sup>th</sup> day of October 2005.

  
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PAUL KJELLANDER, PRESIDENT

  
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MARSHA H. SMITH, COMMISSIONER

  
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DENNIS S. HANSEN, COMMISSIONER

ATTEST:

  
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Jean D. Jewell  
Commission Secretary

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