

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION OF )  
CAPITOL WATER CORPORATION FOR A ) CASE NO. CAP-W-96-2  
TEMPORARY RATE INCREASE TO )  
IMPLEMENT WATER QUALITY )  
IMPROVEMENTS. ) ORDER NO. 27022  
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**Original Application**

On September 11, 1996, Capitol Water Corporation (Capitol Water; Company) filed an Application with the Idaho Public Utilities Commission (Commission) in Case No. CAP-W-96-2 requesting authority to implement a temporary five year 35% rate increase (approximately \$100,000/year) to fund certain expenses and investments associated with improving the quality of water provided by Capitol Water to its customers. The Company is experiencing the presence of iron and manganese in waters from several of its source wells, particularly Well No. 6. The Commission issued a Notice of Application in Case No. CAP-W-96-2 on October 8, 1996.

Customer complaints regarding water quality have been received by the Company, the Commission (reference Case No. CAP-W-96-1: In the Matter of the Investigation of Capitol Water Company and its Ability to Provide Adequate Service and Water Quality) and the Idaho Division of Environmental Quality (DEQ). The complaints describe water quality as "rusty or staining" water. The Company states that the problem is localized depending on the season and the location of the individual customers on the Company's system. As represented by the Company, DEQ does not consider iron and manganese contamination to be a health hazard. DEQ, the Company states, "has concluded that the current levels of iron and manganese in Capitol Water's water supply does not constitute a health risk and does not constitute a basis for additional water treatment or the use of a different source of supply."

Capitol Water serves approximately 2,228 unmetered residential customers and 147 metered commercial customers in an area of approximately four square miles in Boise. It is bounded

roughly by Northview Street on the south, Ustick Road on the north, Maple Grove on the west, and Curtis Road on the east. The system has six wells. There are no storage reservoirs.

Proceedings in Capitol Water's rate case were suspended by the Commission for the purpose of completing Case No. CAP-W-96-1, the Commission initiated investigation and evaluation of water quality and water supply issues in the Capitol Water service area. Reference Order No. 26629.

Following the suspension, the Company retained the consultant services of Scanlan Engineering (Terry Scanlan, engineer/hydrogeologist). Based on his investigation and analysis, Mr. Scanlan on January 23, 1997, submitted a report (Evaluation of Water Quality and Water Supply Issues in the Capitol Water Corporation Service Area) to the Company and Staff.

Mr. Scanlan's recommendations closely parallel the recommendations included in the Company's original Application. Mr. Scanlan recommends drilling a new well (Well No. 7) to allow the Company to access higher quality water, and to avoid, to the extent possible, the operation of Well No. 6.

Mr. Scanlan's report also recommends that the Company continue with a modified program for injecting phosphates to "sequester" the iron and manganese in the water. Mr. Scanlan recommends that the Company discontinue sequestering at Well Nos. 6 and 2, but continue sequestering at Well Nos. 1 and 4 and all wells other than Well No. 6 if customer complaints continue.

### **Amended Application**

On March 28, 1997, the Company filed an Amended Application in Case No. CAP-W-96-2 updating the costs for funding certain expenditures associated with improving the quality of water and including certain other expenditures that the Company has been required to make since the original Application was filed. The Amended Application includes supporting workpapers, the Engineering Report by Scanlan Engineering (Exh. 105, pp. 5-22), and new proposed rate schedules. Capitol Water in its Amended Application is now proposing that the Commission approve a temporary rate increase to amortize a loan of approximately \$403,000 over seven (7) years and to recover certain other annual operation and maintenance expenses (\$13,600). The total requested amount by the Company is itemized in Company Exhibit 3 (see Attachment 1 to this Order).

Included within the Company's request are additional expenditures for water system facilities that were not included in the original Application for a temporary rate increase. Those expenditures are as follows:

- a. Ada County Highway District has initiated road improvements in the Cole Road and Ustick Road areas. The Company has major water mains in these streets. These highway improvements have obligated Capitol Water to lower several of its water mains. The costs of lowering these mains is estimated to be \$15,000.
- b. The line shaft, bearings and column pipe for Well No. 3 failed and the pipe in Well No. 3 had to be removed and the line shaft, bearings and column shaft replaced. Well No. 3 is the Company's lead well and provides the highest quality water on the system. The cost of this repair was \$11,491.46.

Capitol Water contends that the current rate structure does not allow it to build cash reserves to cover such large non-discretionary expenditures. As a result, it is represented that the owners of the Company, Bob and Bonnie Price have borrowed against life insurance policies and used a portion of funds they received when their home was taken by condemnation by the Ada County Highway District. It is the Company's contention that these personal payments by the Prices must be considered as short-term loans from the Prices to the Company.

Capitol Water agrees with Staff that the requested revenue increase can be funded by means of a \$3.27 (compare Amended Application—\$4.03) per month surcharge added to the base monthly rate per customer under rate Schedule No. 1 (Tr. p. 67) and a 25.2% increase in the rates for commercial customers under the Company's rate Schedule No. 2 (Tr. p. 80). The \$3.27 per month surcharge for residential customers represents a 15.8% increase in the summer and a 35.4% increase in the winter. Tr. p. 80. The Company has agreed to bill the surcharge as a separate line item on monthly billings to its customers. Tr. p. 54.

The Company states that it has obtained a commitment from the Bank of America to loan Capitol Water the amount it needs to drill Well No. 7, to make the other investments required to provide a long-term supply of higher quality water, and to repay some of the loans the Prices have made to the Company. As represented by the Company, the Bank of America will accept a loan amortization term of 84 months, i.e., seven years. Because all of Capitol Water's assets are subject to prior first mortgage liens, the Company states that as a condition of the loan, the Bank of America

will require that the Company receive an order from the Commission increasing the Company's rates in an amount sufficient to cover the amortization of the loan over the seven-year loan term.

A meeting between the Company, its customers and Commission Staff was held on April 9, 1997. Reference Tr. pp. 44-46.

Public hearing in Case No. CAP-W-96-2 was held on May 19, 1997 in Boise, Idaho. The following parties appeared by and through their respective legal counsel:

Capitol Water Corporation	Barton L. Kline, Esq.
Commission Staff	Scott D. Woodbury, Esq.

The testimony and record in pertinent part can be summarized as follows:

In related Case No. CAP-W-96-1 the Commission opened a docket to investigate and evaluate the water quality and water supply issues in the Capitol Water service area. The Commission directed the Company to identify and develop the costs of alternatives for mitigating or eliminating the iron and manganese problem for its wells and water distribution system. Company and Staff evaluation reports have been filed in that case and also in this case as Staff Exhibit 105. Also of significance regarding what is an aesthetic water quality problem, are the EPA National Secondary Drinking Water regulations and guidelines related to iron and manganese. See Staff Exhibit 104; Tr. pp. 72-73.

Capitol Water is before the Commission requesting a temporary surcharge to fund certain expenses and capital expenditures associated with improving the aesthetic quality of its water, specifically addressing the presence in its water of iron and manganese. The total requested amount is itemized in Company Exhibit 3 (Attachment 1 to this Order).

The Scanlan Engineering Report recommends drilling a new well as the best alternative for solving or mitigating the water quality of Capitol Water. Staff agrees. Tr. p. 74. Staff separately addressed the individual components in the Company's itemized schedule, Exhibit 3, objecting to none. See Tr. pp. 75-77.

Capitol Water residential customers are unmetered. Mr. Scanlan in his report states that water use in unmetered water systems is often twice as high as the water use in metered systems, and this is particularly true during the irrigation season. Mr. Scanlan's report states that reduced water consumption would eliminate the need to use Well No. 6 and probably would eliminate the need to replace Well No. 2. Scanlan Report p. 9, Tr. pp. 46-47, 86. Metering customers as a means of addressing the Company's water quality problem was rejected as not being cost effective. See Scanlan Report p. 14, Tr. p. 15.

Staff recommends that the temporary surcharge be paid by all customers (not just those experiencing water quality problems) because all customers contribute to the demand on the system that requires the poor quality wells to be operated. Tr. p. 92. Staff notes that the proposed surcharge is designed only to recover the payments on the bank loan, related income tax and incremental operating expenses. Tr. p. 78.

Staff notes, without taking exception, that continuing operating expenses for heating fuel, sequestering chemicals and incremental water testing are part of what the Company is requesting (i.e., \$13,600 – Exhibit 3). These costs Staff notes although nominal are operating expenses that would be recognized as known changes to the Company's operating expenses in a general rate case and included in the Company's base rate design.

Staff recommends that a separate balancing account be created on the Company's books with all transactions related to this Application flowing through that account on a monthly basis as transactions occur. Tr. p. 101. Staff notes that the length of the surcharge may be affected by unknown factors such as customer growth on the system.

### **COMMISSION FINDINGS**

The Commission has reviewed and considered the filings of record and transcript of proceedings in Case No. CAP-W-96-2. The presence of iron and manganese in the water supply and distribution system of Capital Water has presented the Company with difficult decisions. On the one hand the identified contaminants are secondary and non-health threatening. On the other hand, the aesthetic nature of the problem is an irritant to the Company's affected customers and a persistent public relations challenge.

We cannot address a contaminant problem of this nature, a problem that becomes increasingly manifest during periods of summer peak demand without noting that Capital Water to a large extent is an unmetered system. The water consumption patterns of unmetered customers on a flat rate are typically greater than metered customers who pay for volume consumed. It is not reasonable in an integrated system to expect only affected customers to pay for measures to eliminate or mitigate water quality contamination.

We appreciate the Company's efforts in this case. The investigation and analysis reports filed by the Company and Commission Staff provide us with a factual basis for our findings. We find good reason to conclude that the Company's proposal for improving the quality of its water is sound. The related costs are reasonable and justify our decision to approve and authorize the proposed investment detailed in the Company's Exhibit No. 3 (see Attachment 1 to this Order).

We note the point raised by Staff that continuing operating expenses are included in the Company's request and are not normally the type of expense recovered by way of surcharge. While we agree with Staff's characterization of the expenses, we note that the expenses identified are relatively nominal in dollar amount. Given the cash flow constraints of the Company as reflected in the record, we find it reasonable to permit recovery of these amounts in the surcharge. For similar reasons and to further regulatory efficiency, we also approve recovery of the requested non-water quality related costs for lowering lines in the area of Cole and Ustick Road. The method of recovery that we authorize is the requested seven (7) year temporary surcharge identified as a separate line item on monthly billings. The amount of surcharge that we find fair and reasonable is a \$3.27 per month surcharge for unmetered Schedule No. 1 residential customers and a 25.2% surcharge for metered Schedule No. 2 commercial customers. As recommended by Staff and to facilitate any audit, Capitol Water is required to create a separate balancing account on the Company's books with all transactions related to this Application flowing through the account on a monthly basis as transactions occur. We limit recovery to the authorized amounts, i.e., a principal loan amount of \$402,624.71, and an annual operation and maintenance expense figure of \$13,600. We expect actual cost figures to be substituted for these estimates.

The Commission further finds it reasonable to require quarterly written status reports from the Company apprising the Commission of moneys expended, construction progress, testing results, water quality-related complaints and general impressions as to the results of its efforts to

eliminate or mitigate iron and manganese contamination of its waters. We direct the Company to utilize our investigation docket CAP-W-96-1 for such filings. The quarterly filing requirement will end one calendar year after Well No. 7 goes on line. We also direct the Company to include in its Annual Report filing with the Commission a schedule depicting the status of the loan balancing account from inception to date and the remaining loan balance.

### **CONCLUSIONS OF LAW**

The Commission has jurisdiction over Capital Water Corporation, a water utility, and the issues raised in Case No. CAP-W-96-2 pursuant to the provisions of *Idaho Code* Title 61 and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

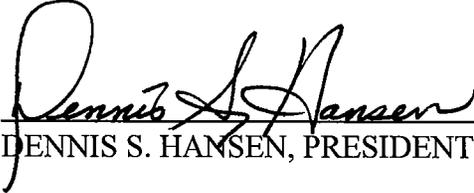
### **ORDER**

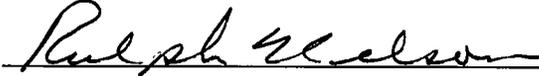
In consideration of the foregoing and as more particularly described and qualified above, IT IS HEREBY ORDERED and Capital Water Corporation is authorized to incur indebtedness in the principal amount of \$402,624.71 for expenditures detailed in Attachment 1 to this Order, to expend \$13,600 in related annual operation and maintenance expense, and to assess a related temporary seven year surcharge for Schedule 1 and Schedule 2 customers as detailed above. The Company is directed to account for the authorized expenditures in the manner described above. The Company is further directed to file compliance tariffs with the Commission Secretary.

IT IS FURTHER ORDERED and Capital Water Corporation is directed to file quarterly and annual status reports, as detailed above, in Docket No. CAP-W-96-1.

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.

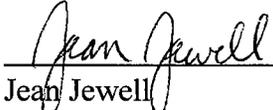
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 30<sup>th</sup>  
day of June 1997.

  
DENNIS S. HANSEN, PRESIDENT

  
RALPH NELSON, COMMISSIONER

  
MARSHA H. SMITH, COMMISSIONER

ATTEST:

  
Jean Jewell  
Assistant Commission Secretary

vld/O:CAP-W-96-2.sw2

CAPITOL WATER TEMPORARY RATE INCREASE  
SCHEDULE OF INVESTMENT AND EXPENSES

**A. Investment**

**1. Well No. 7**

**Capitol Water Bid Cost to Date**

Pump sale and install, well test, drill test well, bore for production well, Ustick and North Cole Road per bid Riverside, Inc.	169,049.00
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**Well Site**

Option on well site - no charge	
Purchase price if option exercised @ \$3.75 per sq. foot times approximately 11,000 sq feet	41,250.00
Survey cost	500.00
Engineering/legal fees - zoning compliance/sales cost	2,000.00

**Other Expenses Per Scanlan Estimate**

Well house (200 sq. foot @ \$60/ sq ft)	12,000.00
Site Improvement (driveway, landscape)	7,000.00
Electrical	<u>\$ 5,000.00</u>
Subtotal:	236,799.00
Contingencies (15%)	<u>\$ 35,519.85</u>
<b>TOTAL</b>	<b>\$272,318.85</b>

**2. Well No. 2**

Rebuild expense	60,000.00
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**3. Well No. 3**

Repair Expense - per Riverside Bid	11,491.46
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**4. Scanlan Consulting Report**

	2,830.87
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**5. Sequestering Costs**

Monies already expended for polyphosphates chemicals	11,483.53
Installation of furnace in chemical storage area	1,500.00
Additional equipment for injecting polyphosphates at wells (per Scanlan estimate)	15,000.00

**6. Cost for Lowering Lines in Cole and Ustick Road** 15,000.00

**7. Legal and Accounting Expense for Rate Proceeding** 9,000.00

**8. Loan fees - expenses** \$ 4,000.00

**TOTAL TO BE BORROWED** \$402,624.71

**B. Annual Operation and Maintenance Expenses**

1. Fuel for heating chemical storage area	\$ 600.00
2. Ongoing annual cost of sequestering chemicals (per Scanlan Report)	10,000.00
3. Additional annual water quality testing (per Scanlan Report)	<u>\$ 3,000.00</u>
Subtotal	\$ 13,600.00