(text box: 1)BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE APPLICATION OF CAPITOL WATER CORPORATION FOR A TEMPORARY RATE INCREASE TO IMPLE­MENT WATER QUALITY IMPROVEMENTS. | )  )  )  )  ) | CASE NO. CAP-W-96-2  NOTICE OF AMENDED APPLICATION  NOTICE OF INTERVENTION DEADLINE  NOTICE OF SCHEDULING  NOTICE OF HEARING |

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 secondary contaminants 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 residential customers and 147 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 its 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.

YOU ARE HEREBY NOTIFIED that 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, and new proposed rate schedules.  Capitol Water in its Amended Application is now proposing that the Commission approve a temporary seven year revenue increase of approximately $122,000 per year (approximately 29%).  The total requested amount by the Company is itemized in Amended Application Attachment D (attached).

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 ACHD.  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 proposes that the revenue increase be funded by means of a $4.03 per month charge added to the base monthly rate per customer under rate Schedule No. 1.  The Company also requests a 25% increase in the rates for commercial customers under the Company’s rate Schedule No. 2.

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.  The Company in its Application states that the direct testimony of Bob Price in support of the Amended Application will be filed on or before April 17, 1997.

YOU ARE FURTHER NOTIFIED that the Amended Application as well as the Company’s prior Application in Case No. CAP-W-96-2 has been filed with the Commission and is available for public inspection during regular business hours at the Commission Offices.

YOU ARE FURTHER NOTIFIED that persons desiring to intervene in this case for the purpose of presenting evidence or cross-examining witnesses must file a Petition to Intervene with the Commission pursuant to Rules 72 and 73 of the Commission’s Rules of Procedure, IDAPA 31.01.01.000 et seq., no later than Friday, May 2, 1997.

YOU ARE FURTHER NOTIFIED that pursuant to agreement of the Company, Staff and the Commission, the following scheduling has been adopted in Case No. CAP-W-96-2:

April 17, 1997Prefile Direct Testimony—Capital Water

May 14, 1997Prefile Direct Testimony—Staff/Intervenors

May 14, 1997Deadline for Filing Written Comments with Commission Secretary—Non Parties

YOU ARE FURTHER NOTIFIED that discovery remains available in Case No. CAP-W-96-2 pursuant to the Commission’s Rules of Procedure, IDAPA 31.01.01.221-234.

YOU ARE FURTHER NOTIFIED that the Commission will conduct a technical hearing in Case No. CAP-W-96-2 on MONDAY, MAY 19, 1997, COMMENCING AT 9:30 A.M. IN THE HEARING ROOM OF THE IDAHO PUBLIC UTILITIES COMMISSION, 472 WEST WASHINGTON STREET, BOISE, IDAHO.

YOU ARE FURTHER NOTIFIED that the Commission will conduct further hearing in Case No. CAP-W-96-2 for the purpose of taking public comments also on MONDAY, MAY 19, 1997 COMMENCING AT 7:00 P.M. AT THE SAME LOCATION AS THE TECHNICAL HEARING.

YOU ARE FURTHER NOTIFIED that persons desiring to present their views without parties’ rights of participation and cross-examination are not required to intervene and may present their comments at hearing without prior notification to the Commission or to the other parties.

YOU ARE FURTHER NOTIFIED that all hearings in this matter will be held in facilities meeting the accessibility requirements of the Americans with Disabilities Act.  Persons needing the help of a sign language interpreter or other assistance of the kind that the Commission is obligated to provide under the Americans with Disabilities Act in order to participate in or to understand the testimony and argument at a public hearing may ask the Commission to provide a sign language interpreter or other assistance at the hearing.  The request for assistance must be received at least five (5) working days before the hearing by contacting the Commission Secretary at:

IDAHO PUBLIC UTILITIES COMMISSION

PO BOX 83720

BOISE, IDAHO  83720-0074

(208) 334-0338  (TELEPHONE)

(208) 334-3151  (TEXT TELEPHONE)

(208) 334-3762  (FAX)

DATED at Boise, Idaho this day of April 1997.

Myrna J. Walters

Commission Secretary

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

**COMMENTS AND ANNOTATIONS**

Text Box 1:

**TEXT BOXES**

Office of the Secretary

Service Date

April 14, 1997