

DECISION MEMORANDUM

**TO: COMMISSIONER KEMPTON
 COMMISSIONER SMITH
 COMMISSIONER REDFORD
 COMMISSION SECRETARY
 LEGAL
 WORKING FILE**

FROM: TERRI CARLOCK

DATE: APRIL 15, 2010

**RE: APPLICATION OF MORNING VIEW WATER COMPANY FOR
 AUTHORITY TO BORROW FUNDS; CASE NO. MNV-W-10-01**

Morning View Water Company (Morning View) requests authority to borrow \$275,000 under the Idaho Department of Environmental Quality's (IDEQ) Drinking Water Revolving Loan Program to correct the problems identified in the 2009 facility plan and engineering report. On January 13, 2010, the Company submitted to IDEQ a Letter of Interest in obtaining a Drinking Water Planning Grant or a Drinking Water Loan. The loan proceeds will be used to fund various projects as follows:

Installation of variable speed drive -	\$10,000
Installation of 25 meters on 1-acre lots	50,000
Pump testing of two pumps	10,000
Installation of backup generator	40,000
Drilling of new well	150,000
Grant match	<u>15,000</u>
Grand Total	275,000

IDEQ has accepted letters of interest in its drinking water and wastewater planning grants and State Revolving Fund loans. Each letter was rated using several criteria and a draft Intended Use Plan (IUP) for State fiscal year 2011 has been published, with projects listed in order of ranking. This IUP list of fundable loan projects shows that Morning View Water System is currently ranked second on the draft project priority list. The IUP report was issued for public review and comment and will be presented by IDEQ Staff to the Board of Environmental Quality for final approval during its regular meeting on April 22, 2010.

Staff contacted the IDEQ Staff on April 7, 2010, and IDEQ indicated that Morning View's Drinking Water Loan would also be eligible as a disadvantaged loan under its Drinking Water State Revolving Fund (DWSRF) program. Preliminary analysis conducted by IDEQ indicates that Morning View would qualify for a zero interest rate loan, a loan repayment term of 30 years and a loan principal forgiveness of approximately \$60,000 making a net principal loan amount of \$215,000.

Morning View also expressed a letter of interest for a \$15,000 planning grant. The grant requires a 50% match from the Company. If the Company is also offered a drinking water loan, the \$15,000 match is a loan eligible expense. The planning grant can be used to complete the facility planning study including completion of an Environmental Information Document, which is required before a loan can be offered.

STAFF ANALYSIS

Staff believes that the installation of variable speed drive, installation of customer meters, pump testing of the two pumps, installation of back-up generator, and drilling of new well if necessary depending upon the result of pump testing the two wells are all necessary to bring the Morning View Water systems to compliance with IDEQ rules as recommended by the 2009 facility plan and engineering study. The estimated costs of these projects appear reasonable, with the exception of the installation of 25 meters. Staff questions the Company's rationale in proposing to install only 25 customer meters on one-acre lots and the cost of installing the customer meters.

Metering Requirement Issues Outline:

1. In Commission Order No. 29104 (Case No. MNV-W-02-01), the Company was directed by the Commission to "prepare and plan for transitioning to metering (including time and estimated costs) and present it to the Commission for approval." The Company never submitted such a plan.
2. In Case No. MNV-W-06-02, Staff reported to the Commission that the Company did not prepare a plan and the system is still unmetered. In Commission Order No. 30420 of this case, it directed the Company as follows "The Commission requires the Company to submit an implementation plan for meter installation (including time and estimated costs) within 30 days. In this Order, the Commission also established a moratorium on new connections pending the Company's metering of customers and acquisition of adequate water rights for its water system.
3. On December 31, 2007, Morning View submitted to the Commission a copy of bids as follows: a) acquisition of 105 service meters (5/8 x 3/4 -inch and 1-inch meters) and gaskets

of \$9,957.90 and b) labor for installing meters of \$5,500. The grand total of the bids for materials and installation is approximately \$15,458. However, the Company never completed the installation of the meters.

4. In accordance with the Consent Order from the Idaho Department of Environmental Quality, the Company hired Aspen Engineering to complete a facility plan. The Final Facility Report was completed by Aspen Engineering in April 2009. One of the recommendations for capital improvements noted in the engineering report is the purchase and installation of meters for each residence. Based on installing 3/4-inch meters, meter base and meter box for 100 customers, the estimated total costs is \$200,000 (100 customers x \$2,000 per installed meter).
5. In this Application, the Company requested authorization from the Commission to borrow approximately \$275,000 to correct the problems identified in the facility plan and engineering report. Out of this total amount to be borrowed, approximately \$50,000 would be allocated for the acquisition and installation of meters for 25 homes in subdivisions that are one acre in size. The Company used the unit price in installing meters from the 2009 engineering report. The Company asserts that based on its observations over the years, there has been significant usage on these lots for irrigation purposes and that the Company believes that metering such uses would encourage these homeowners to implement greater water conservation measures which will lessen demand on the system and improve pressure and service to other members of the subdivision. Company letter to IDEQ, January 13, 2010, p. 4.
6. There is a big difference in the costs of installing meters between the bid obtained by the Company in December 2007 (\$15,458 or \$147.22 per meter) for 105 meters and the cost estimate made by Aspen Engineering in April 2009 (\$200,000 for 100 meters based on \$2,000 per meter). After further investigation by Commission Staff and discussions with the Company, it was determined that out of the 105 current customers, 95 already have existing meter bases and boxes and 10 customer connections do not have meter boxes. These 10 connections are all serving the 1/2 acre lots. According to the Company, the cost to put in the meter base and box is approximately \$500 or a total of \$5,000 for the 10 connections.
7. Staff discussed the initial cost estimate of meter installation as presented in the 2009 engineering report with Ryan Loftus of Aspen Engineering and he indicated that the cost per meter installation should have been \$200 per meter instead of \$2,000 per meter. Therefore, the total cost for 100 meters would have been \$20,000 instead of \$200,000 as initially reported. Adding the amount of \$5,000 for the meter base of 10 connections results in an updated cost to install meters for all customers of approximately \$25,000.
8. As shown above, the amount of IDEQ loan funds allocated for metering is \$50,000. Staff believes that this amount will be sufficient to cover the cost of installing meters for all customers instead of installing 25 meters as initially proposed. When all customers are metered, Staff believes that a more equitable rate design can be developed for all classes of customers of Morning View Water in future rate cases.

STAFF RECOMMENDATIONS

Loan approval will provide Morning View Water with the capital necessary to make the improvements required by IDEQ and as outlined in the 2009 engineering report. The specific recovery level in customer rates for the underlying costs will be evaluated in a rate filing(s) when Morning View has completed the projects and makes an Application requesting customer rates be changed to reflect the investments. If the \$275,000 loan is repaid in equal monthly payments and included in rates, the increase to each customer would be approximately \$7.20 per month. If a grant reduces the loan by \$60,000, the cost per customer would be approximately \$5.60 per month. The final investment cost records will be reviewed by Staff during audit with the rate impact to be established in the next rate case(s).

Staff recommends the Commission approve the loan request up to \$275,000.

Staff recommends the Company install meters for all customers not just for the 25 customers with one-acre lots. Cost evaluations indicate all of the meters could be installed within the \$50,000 amount requested in the loan application.

Staff also recommends Morning View Water be required to provide copies of the following:

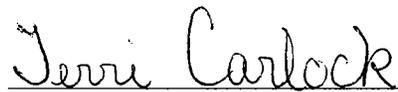
- Final loan documents with IDEQ;
- All compliance reports and calculations that may be required;
- All approval letters;
- All executed agreements for the loan;
- Any amendments to the loan application, and
- The actual final costs in summary format similar to the engineering estimate.

COMMISSION DECISION

Does the Commission approve the requested loan authority of \$275,000?

Does the Commission accept the Staff recommendation to install meters for all customers or just the 25 customers identified with one-acre lots?

Does the Commission accept Staff's recommended review and reporting requirements?



Terri Carlock