

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

<b>IN THE MATTER OF THE APPLICATION OF</b>	)	
<b>CDS STONERIDGE UTILITIES, LLC FOR</b>	)	<b>CASE NO. SWS-W-03-1</b>
<b>APPROVAL OF AN AMENDMENT TO ITS</b>	)	
<b>CERTIFICATE OF PUBLIC CONVENIENCE</b>	)	
<b>AND NECESSITY TO INTERCONNECT WITH</b>	)	
<b>AND ACQUIRE THE SERVICE TERRITORY</b>	)	<b>ORDER NO. 29507</b>
<b>OF HAPPY VALLEY RANCHOS INC. AND TO</b>	)	
<b>IMPLEMENT A SURCHARGE</b>	)	

On May 21, 2004, information was filed by the engineering firm acting on behalf of CDS Stoneridge Utilities, LLC and the Division of Environmental Quality indicating that final Order No. 29320 would have to be amended to authorize the Company to borrow additional funds to complete the interconnection project between the Stoneridge and the Happy Valley Ranchos, Inc.'s ("HVR") water systems. In addition, these parties stated that additional funds were needed to provide for required system upgrades.

After reviewing this matter the Commission grants the request for additional borrowing authority as discussed in detail below.

**BACKGROUND**

On August 26, 2003, the Commission authorized Stoneridge to borrow \$213,450 from the State Water Quality Revolving Fund (DEQ) at a 2% interest rate. Order No. 29320. The purpose of the loan is to provide funds to complete an interconnection between and combine the HVR water system with Stoneridge's water system. Order No. 29320 at 8-9. The Commission found this interconnection would provide significant benefits to the HVR customers as their current water system provides poor quality water and was limited in supply. *Id.* at 8. Furthermore, the Commission found that Stoneridge and its existing customers would in general benefit from adding the HVR customers to its system because water companies generally experience economies of scale with increases in the number of customers. *Id.*

In Order No. 29320 the Commission also found the Company's proposal to retire the debt acquired to finance the interconnection project using a monthly surcharge applied to HVR customers' bills to be reasonable. *Id.* at 9. Accordingly, the Commission authorized the Company to use a surcharge once the project was completed. *Id.* The Commission set the

surcharge at \$12.65, subject to true-up, to be applied only to the connecting HVR customers and any new customers joining the system downstream from the interconnection point. *Id.* This loan is to be retired over a 20-year period.

The Commission also required the Company to file all loan documents, construction bids, updated surcharge calculations and any additional materials that would aid in the review and determination of what the reasonable and prudent surcharge amount should be. *Id.* Finally, the Commission encouraged the Company and the engineering firm it hired to make every attempt to control and keep the costs of this project within reason. *Id.*

### **REQUEST FOR ADDITIONAL BORROWING AUTHORITY**

#### **1. Request for Additional Borrowing Authority for the Interconnection Project**

Staff has been informed that several factors have escalated the estimated construction cost for the interconnection project. Specifically:

- a. The State Historical Preservation Office required an archeological study be performed to determine if there were cultural resources that would be impacted by the construction project. This study added \$4,000 to the project cost;
- b. An additional easement was required that was not initially identified. The cost of the easement added \$4,000 to the cost of the project; and
- c. The original construction cost estimate of \$167,550 was prepared in May 2003.

Bids now have been received from contractors and the lowest qualifying bid is \$182,990 representing an increase above the estimate of approximately 10.8%. This bid is only good for ten days and expires May 24, 2004. According to Sewell Engineers, the reason for the short bid window is notice from the bidder that the material suppliers were unwilling to lock in prices that are escalating rapidly. The price escalation is due mostly to the cost of petroleum products used in the manufacture and transportation of the materials.

The total cost of the interconnection project with these changes is \$235,990 rather than the original cost estimate approved by the Commission of \$213,450. Stoneridge Utilities and the Department of Environmental Quality would like the Commission to approve the additional loan amount expeditiously.

2. Request for Additional Borrowing Authority to Make Water System Improvements

During the on-going review process, the Department of Environmental Quality identified additional improvements to the system that would need to be made to bring it into full compliance with the “Ten State Standards” that all water utilities will be required to meet. These additional improvements include automated controls and alarms on the Stoneridge wells and reservoirs to alert the operators of problems before they become so severe that water supply is interrupted to customers. The preliminary estimated cost of these improvements is \$88,000. No detailed engineering has been performed at this time. These improvements are not tied directly to the acquisition of the HVR system and would be required either with or without this acquisition and therefore are backbone system improvements to benefit all customers.

The Department of Environmental Quality is willing to include the cost of the additional backbone improvements in the low interest 2% loan authorized to integrate HVR’s system into the Stoneridge system. If these costs are not included in this loan, Stoneridge may be required to seek capital elsewhere at a higher cost.

**STAFF RECOMMENDATION**

In regard to the first request for additional borrowing authority Staff believed the cost is reasonable and in the best interest of the customers on the HVR system and recommended the Commission grant the Company the authority to borrow the additional loan funds. This would raise the total cost of the interconnection project to \$235,990. Staff also believed that the additional funds should be recovered through the same surcharge mechanism approved by the Commission in Order No. 29320. Initially, the surcharge was set at \$12.65, subject to true-up, for 20 years for HVR customers and any customer joining the system downstream of the interconnection point between the HVR and Stoneridge systems. Order No. 29320 at 9. With these new amounts the surcharge will have to be adjusted and Staff recommended that the Commission reserve judgment on the appropriate amount of the surcharge until the State Drinking Water Revolving Fund loan is finalized and disbursed and the construction costs are more certain.

In regard to the second request for additional borrowing authority Staff believed the system controls proposed to be added are a necessary and prudent investment to be made at this time. Staff also believes that these items are backbone improvements to the Stoneridge system

that will benefit all customers. If the Commission agrees, the total loan authorization will need to be increased by an additional \$88,000 to fund these improvements. Staff also asserted that these loan service costs associated with the backbone improvements should be borne by all customers on the system including the Condominium Association, Golf Course and existing residential customers as well as the new HVR customers that will be added to the system.

Staff recommended approval of the additional borrowing authority but believed the Commission should reserve judgment on how to collect the cost of the backbone improvements project. Either a separate surcharge or an increase in base rates may be appropriate. Staff cannot at this time estimate the effect of these costs on the base rates or an appropriate surcharge without more detailed analysis. Staff also recommended that the Company should keep the Commission and Staff apprised of the additional amount borrowed for these backbone improvements once the State Drinking Water Revolving Fund loan is finalized and the construction/engineering costs become more certain. Staff recommended that the Commission direct the Company to provide it with this information in a timely manner.

#### **COMMISSION FINDINGS AND DECISION**

Stoneridge is a water corporation as defined by *Idaho Code* § 61-125 and is a public utility as defined by *Idaho Code* § 61-129. The Idaho Public Utilities Commission has jurisdiction over this matter pursuant to the provisions of *Idaho Code* § 61-901 *et seq.*

After examining the record, the Commission finds that the proposed amendments to the previously approved borrowing authority in Order No. 29320 are consistent with the public interest and Stoneridge's proper performance of its duties as a public utility. The Commission still finds that the general purposes to which the proceeds will be put to are lawful under the Public Utilities Laws of the State of Idaho and are compatible with the public interest.

First, the Commission finds that several factors have increased the estimated cost for this project. Additional costs related to an easement purchase (\$4,000), an archeological study required by the State Historical Preservation Office (\$4,000) and overall increased construction costs due in part to the increased cost of petroleum products have impacted the overall cost of this program. For example, the original construction cost estimate of \$167,550 was prepared in May 2003. The lowest qualifying bid received is \$182,990 representing an increase above the estimate of approximately 10.8%. The Commission finds that it is necessary and appropriate for Stoneridge to borrow additional funds from the State Drinking Water Revolving Fund to cover

the increased costs of the interconnection project. Accordingly, the Commission authorizes Stoneridge to borrow up to \$235,990 from the State Drinking Water Revolving Fund in order to complete the interconnection project described in detail in final Order No. 29320. The Commission also finds that Stoneridge is authorized to recover this additional debt through the surcharge approved in Order No. 29320. In that Order the Commission set the monthly surcharge at \$12.65, subject to true-up, to be applied to the bills of HVR customers and any new customer joining the water system downstream from the interconnection point for 20 years or until the debt is retired. Order No. 29320 at 9. With these new amounts the surcharge will have to be adjusted and the Commission reserves judgment on the appropriate amount of the surcharge until the State Drinking Water Revolving Fund loan is finalized and disbursed and the construction costs are more certain. Once this information is obtained by Stoneridge the Company shall file it in a timely manner with the Commission so that it can thoroughly review the final costs of this project to insure that they were prudently incurred and necessary for this interconnection project prior to being passed on through a surcharge.

Second, the Commission finds that the additions to improve the entire water system to bring it in compliance with the "Ten State Standards" as proposed by the Division of Environmental Quality are necessary and prudent investments at this time. These additional improvements include automated controls and alarms on the Stoneridge wells and reservoirs to alert the operators of problems before they become so severe that water supply is interrupted to customers. The preliminary estimated costs of these improvements are \$88,000. No detailed engineering has been performed at this time. The Commission authorizes the Company to borrow an additional \$88,000 from the State Drinking Water Revolving Fund to fund these improvements. Accordingly, the total loan authorization is increased to \$323,990. However, the Commission finds that these improvements are not tied directly to the acquisition of the HVR system and would be required either with or without this acquisition. Thus, they are backbone system improvements to benefit all customers. The loan service costs associated with the backbone improvements should be borne by all customers on the system including the Condominium Association, Golf Course and existing residential customers as well as the new HVR customers that will be added to the system. The Commission reserves judgment on how to collect the cost of the backbone improvements project. Either a separate surcharge or an increase in base rates may be appropriate. At this time the effect these costs could have on the base rates

or an appropriate surcharge cannot be estimated without more information followed by a detailed analysis by the Commission. Once the loan is finalized and the construction and engineering costs become more certain the Company is directed to file this information with the Commission so that it can determine how these amounts should be recovered.

### **ORDER**

IT IS HEREBY ORDERED that CDS Stoneridge Utilities, LLC is authorized to incur indebtedness in the principal amount of \$323,990 from the State Drinking Water Revolving Fund for the purposes described above. Specifically, under one loan, Stoneridge is authorized to borrow \$235,990 for the interconnection project between the Stoneridge and HVR water systems and \$88,000 for backbone system improvements. The Company is directed to file the final loan documents with the Commission under this case number.

IT IS FURTHER ORDERED that Stoneridge and the Commission Staff shall work together to establish a tracking system within the Company's accounting system to separately account for the construction costs, loan amortization and surcharges collected.

IT IS FURTHER ORDERED that Stoneridge is authorized to use the surcharge mechanism found proper in Order No. 29320 only to recover the debt and financing costs that will be incurred to complete the interconnection project. At this time Stoneridge is authorized to incur up to \$235,990 for completion of the interconnection project. Stoneridge is directed to file all relevant information regarding the costs of this interconnection project so that when it is completed the Commission, upon the Company's request, can adequately review and determine the just and reasonable level at which to set the surcharge.

IT IS FURTHER ORDERED that the Commission reserves judgment on how to collect the cost of the backbone improvements project. Either a separate surcharge or an increase in base rates may be appropriate. At this time the effect these costs could have on base rates or an appropriate surcharge cannot be estimated without more information and a detailed analysis. Once the loan is finalized and the construction and engineering costs become more certain the Company is directed to file this information with the Commission so that it can determine how these amounts should be recovered.

IT IS FURTHER ORDERED that approval of this amendment is conditioned upon all remaining terms and conditions of Order No. 29320 remaining in effect.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. SWS-W-03-1 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 or in interlocutory Orders previously issued in this case. 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 28<sup>th</sup> day of May 2004.

  
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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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