

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION )**  
**OF CDS STONERIDGE UTILITIES, LLC )** **CASE NO. SWS-W-04-1**  
**FOR AUTHORIZATION FOR A )**  
**SECURITIES ISSUANCE )** **ORDER NO. 29719**  
**)**

---

On October 29, 2004, Stoneridge Utilities filed an Application with the Commission seeking approval to increase the amount of a previously approved loan from the Department of Environmental Quality (DEQ). After reviewing the Application and Staff's recommendation, the Commission in this Order grants the request for additional borrowing authority as more fully discussed below.

**BACKGROUND**

In Order No. 29320 issued on August 26, 2003, the Commission authorized Stoneridge Utilities to incur indebtedness in the principal amount of \$213,500. The debt was approved to allow a service area expansion and interconnection of an adjacent homeowners' water system serving the Happy Valley Ranchos Subdivision (HVR). The Commission further authorized Stoneridge to use a surcharge to recover the debt and financing incurred to complete the project. However, the Commission reserved judgment on the appropriate amount of the surcharge until the State Drinking Water Revolving Fund loan is finalized and construction costs are more certain. Stoneridge Utilities was also directed to apply its currently approved rates to the HVR customers once water service was provided by the utility.

In Order No. 29507 issued on May 28, 2004, the Commission increased the authorized indebtedness for Stoneridge to \$323,990 from the State Drinking Water Revolving Fund. The increased loan amount was due to contracting costs increasing from \$213,500 to \$235,990 for the improvements authorized in Order No. 29320 in August 2003. The increase in the total loan amount also includes \$88,000 for additional system-wide improvements required by the DEQ to meet the "Ten State Standards." The additional improvements include upgrading reservoir and pumping controls and replacement of the Company's backup well pump. Project personnel dubbed the original interconnection project as Phase I and the controls and backup well improvements as Phase II.

In Order No. 29507 the Commission reaffirmed its authorization to use the surcharge mechanism approved in Order No. 29320 to recover the debt and financing costs incurred to complete the interconnection project (Phase I). Stoneridge was also directed to file the final interconnection project costs upon completion for the Commission to determine the final reasonable surcharge level.

In its Order, the Commission reserved judgment on how to collect the cost of the backbone improvement project (Phase II). The Company was directed to file final construction, engineering, and financing costs for a proper recovery determination upon completion of the system (Phase II) improvement.

### **STAFF REVIEW**

#### ***Phase I***

Construction began in July 2004 and the interconnection of the pipeline was completed in August 2004. The booster pump station was completed in September 2004 and water began flowing from Stoneridge to Happy Valley Ranchos. The Company began charging HVR the current tariff rates for metered consumption beginning in September 2004, however, those rates do not yet include any surcharge. The Company reports that the HVR customers are extremely satisfied with the improved water quality. At the time of the Company's Application, a few items remained to be completed prior to close out of Phase I such as: land reservoir painting; installation of a flush valve; overall system flushing; land project documentation; and final site cleanup.

#### ***Phase II***

When the contractor proceeded to perform the backup well replacement, significant problems were found. After great effort the existing backup pump was removed from the well casing. Further investigation determined that at some time in the past the well screen was moved vertically and subsequently became lodged within the well casing. Project personnel then determined that the well has collapsed at some depth.

The project engineer has explored a number of alternatives to rehabilitate the existing well. The best possible result is a well with insufficient capacity to meet the Company's backup needs. The project engineer has analyzed a number of alternatives to meet the backup well requirements mandated by the DEQ. The solution recommended by the Company's engineer and supported by DEQ is to construct a new well and pump at the backup well minimum

required capacity of 600 gallons per minute (gpm). The Company will maintain the existing backup well casing for future possible incremental capacity expansion. The estimated maximum capacity of the existing failed backup well is approximately 400 gpm.

### **THE CURRENT APPLICATION**

The Company is requesting authorization to incur indebtedness for a total loan amount of \$438,500 from the State Drinking Water Revolving Fund. The DEQ loan will be a 20-year loan at an anticipated interest rate of 2%. The increased loan amount is the result of increased costs from \$235,990 to \$275,000 for the interconnection project (Phase I). This is an increase of \$39,010 over the amount approved by the Commission in Order No. 29507, dated May 28, 2004. The increased costs are associated with higher engineering and easement costs as well as minor contract quantity increases.

The request also includes increased cost from \$88,000 to \$163,500 for the controls and backup well costs (Phase II). The increased Phase II costs are associated with increased engineering costs and the unforeseen construction of a new well to replace the existing failed backup well. The Company is now asking the Commission for borrowing authority with the most current loan figures.

### **STAFF RECOMMENDATION**

The Commission Staff has reviewed the contract documents and performed an on-site review. Staff has reviewed the Company's additional loan requests and reviewed these requests with the engineer for the Company and the DEQ officials. Based upon the above review, Staff found that the increased costs are necessary to complete the projects as originally proposed and that the increases are the result of either unforeseen circumstances or increased project requirements. The DEQ has approved the increased loan request from the State Drinking Water Revolving Fund subject to the Commission's approval.

Staff recommends that the Commission approve the Company's Application with the following recommendations: (1) that the Commission approve the amended request to increase the approval in the loan amount for Phase I up to \$275,000; (2) that the Commission approve the loan amount of \$163,500 for Phase II but continue to reserve any judgment on the complete and final amount of the loan approval, including how that amount may be recovered, for Phase II; and (3) that the approval of this amendment be conditioned upon all remaining terms and conditions of Order No. 29320 and Order No. 29507.

## FINDINGS OF FACT AND CONCLUSIONS OF LAW

Stoneridge Utilities is a water corporation within the definition of *Idaho Code* § 61-125 and is a public utility within the definition of *Idaho Code* § 61-129. The Idaho Public Utilities Commission has jurisdiction over this matter pursuant to the provision of *Idaho Code* §§ 61-901 *et seq.*, which requires utilities like Stoneridge to obtain the Commission's approval before they issue or assume any securities or debt.

After examining the Application and Staff's comments, the Commission finds that an evidentiary hearing in this matter is not required. The Commission further finds that the proposed transaction is consistent with the public interest and Stoneridge Utilities' proper performance of its duties as a public utility.

The Commission also finds that the general purposes for which the loan funds will be utilized are lawful purposes under the public utilities law and are compatible with the public interest. However, this approval of the general purposes for which the funds will be put to use is neither a finding of fact nor a conclusion of law that any particular project, program, or future cost recovery is authorized. Approval in this Order shall not be construed to approve any particular use of the funds that Stoneridge Utilities may benefit by the approval in this Order.

The Commission further finds that the issuance of an Order authorizing the borrowing of funds from the State Drinking Water Revolving Fund in the amount of \$438,500 does not constitute determination/approval of the related costs for ratemaking purposes. The Commission expressly reserves the ratemaking treatment of these loans until an appropriate future proceeding.

The Commission's approval of this Application is conditioned upon Stoneridge Utilities satisfying the reporting requirements recommended by the Staff. Stoneridge is reminded that compliance with reporting requirements does not guarantee that the cost of the loans or the use of such funds will be automatically recovered in the next rate case. To the extent these loan funds are used for non-regulated services, any adjustments associated with the non-regulated costs will occur in a future rate case.

Stoneridge Utilities has paid the fee required by *Idaho Code* § 61-905, and complied with the Commission's Procedural Rule 141 regarding the issuance of securities. IDAPA 31.01.01.141.

## **ORDER**


IT IS HEREBY ORDERED that CDS Stoneridge Utilities, LLC is authorized to incur indebtedness in the principal amount of \$438,500 from the State Drinking Water Revolving Fund for the purposes described above and in previous Commission Order Nos. 29320 and 29507. More specifically, \$275,000 of the total loan amount is approved for Phase I, interconnection. The remaining \$163,500 of the total loan amount is approved for Phase II, 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 the Commission continues to reserve judgment on the appropriate amount of the surcharge, previously approved for interconnection (Phase I), until the State Drinking Water Revolving Fund loan is finalized and disbursed and construction costs are final and certain. Stoneridge is directed to file all relevant information regarding the costs of this interconnection project (Phase I) 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 system improvements (Phase II).

IT IS FURTHER ORDERED that approval of this amendment is conditioned upon all remaining terms and conditions of Order No. 29320 and Order No. 29507.

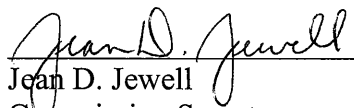
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 28<sup>th</sup>  
day of February 2005.

  
\_\_\_\_\_  
PAUL KJELLANDER, PRESIDENT

  
\_\_\_\_\_  
MARSHA H. SMITH, COMMISSIONER

  
\_\_\_\_\_  
DENNIS S. HANSEN, COMMISSIONER

ATTEST:

  
\_\_\_\_\_  
Jean D. Jewell  
Commission Secretary

O:SWSW0401\_dw