

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
LEGAL
WORKING FILE

FROM: MICHAEL FUSS
JOE LECKIE

DATE: DECEMBER 17, 2004

RE: IN THE MATTER OF THE APPLICATION OF STONERIDGE
UTILITIES FOR AUTHORIZATION FOR A DEQ LOAN;
CASE NO. SWS-W-04-1.

BACKGROUND

Previous Commission Action

In Order No. 29320 issued on August 26, 2003, the Commission authorized CDS Stoneridge Utilities (Stoneridge, Company) 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. The Commission ordered the monthly surcharge to apply only to the HVR customers once the interconnection project is completed and water service provided. 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 increased contracting costs from \$213,500 to \$235,990 for improvements authorized in August 2003. The increased loan amount also includes \$88,000 for additional system wide improvements required by the Department of Environmental Quality 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) improvements.

Project Activity

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 Happy Valley Ranchos 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 Happy Valley Ranchos 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 become 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 Department of Environmental Quality¹. 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 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.

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 2% rate. The increased loan amount is the result of increased costs from \$235,990 to \$275,000 for the interconnection project (Phase I). The proposed final construction costs for Phase I totaled \$275,000 as set forth in Attachment A. 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 authority to proceed with the processing of the Application with the most current loan figures.

¹ "Idaho Rules for Public Drinking Water Systems" (IDAPA 58.01.08.550.02.p) – "New community water systems served by ground water and constructed after July 1, 1985, or existing community water systems served by ground water that are substantially modified after July 2002, shall have a minimum of two (2) sources if they are intended to serve more than twenty-five (25) homes or equivalent."

STAFF RECOMMENDATION

Staff has reviewed the contract documents and performed an on-site review. Staff has additionally 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 Department of Environmental Quality has approved the increased loan request from the State Drinking Water Revolving Fund subject to the Commission approval.

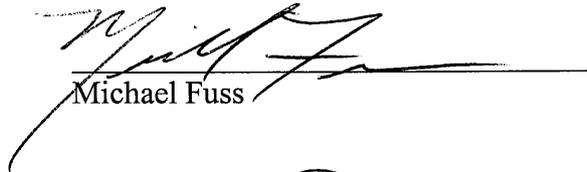
Staff recommends that the Commission approve the Company's Application with the following recommendations:

1. That the Commission approves 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 loan approval for Phase II.
3. That the approval of this amendment be conditioned upon all remaining terms and conditions of Order No. 29320 and Order No. 29507.

COMMISSION DECISION

Does the Commission to increase the authorized loan amount to \$438,500?

Does the Commission accept Staff's recommendation?


Michael Fuss


Joe Leckie

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