

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE INVESTIGATION)
OF TERRA GRANDE WATER AND THE) **CASE NO. TGW-W-04-1**
ISSUANCE OF RELATED CERTIFICATE)
OF PUBLIC CONVENIENCE AND)
NECESSITY NO. 429.) **ORDER NO. 29974**
)

Terra Grande Water Inc. (Terra Grande), United Water Idaho Inc. (United Water), and Commission Staff (Staff) have executed and filed a Stipulation with the Commission by which United Water will take over the operation of Terra Grande's water distribution system. Staff has agreed to recommend certain cost recovery and accounting treatment for the investment by United Water to take over and upgrade the system, including the installation of individual meters. Terra Grande and United Water have agreed upon terms for the transfer of the water system. On December 21, 2005, the Commission issued a Notice of Stipulation and commenced a public comment period. Order No. 29933. Staff, Terra Grande, and the residents of the Pioneer Neighborhood Subdivision (Terra Grande's customers) filed comments. With this Order the Commission approves and adopts the Stipulation.

BACKGROUND

On February 19, 2004, in Case No. UWI-W-04-2, United Water and Terra Grande filed a joint Application with the Commission for an Order approving the purchase by United Water of Terra Grande's water system. Originally the agreed upon purchase price for the system was \$47,000. However, on April 2, 2004, Staff filed comments which concluded that after United Water's acquisition of the system it would have to invest more capital than initially anticipated and thus the purchase price should be reduced to \$0.00. Staff Comments at 6-7 (Case No. TGW-W-04-1). Staff also stated that if Terra Grande would not agree to transfer the system to United Water for no value then it should be brought within the jurisdiction of the Commission. *Id.* United Water, in turn, offered an amendment to the Purchase and Sale Agreement reflecting a \$0.00 price. Reply Comments at 2-3. At that time Terra Grande determined it was not in its best interest to proceed with the purchase and sale transaction; therefore, the Application was withdrawn.

On June 8, 2004, the Commission issued Order No. 29512 in Case No. TGW-W-04-1, issuing Terra Grande a Certificate of Public Convenience and Necessity and opening an investigation to establish: (1) whether the existing rates for water service charged by Terra Grande are just and reasonable, *Idaho Code* § 61-301, and (2) whether Terra Grande furnishes, provides, and maintains service, instrumentalities, equipment and facilities that promote the safety and health of its patrons, employees and the public and is in all respects adequate, efficient, just and reasonable. *Idaho Code* § 61-302.

On January 21 and January 24, 2005, the Commission was notified by Terra Grande and by the Idaho Department of Environmental Quality (DEQ) that the three water supply wells of Terra Grande were contaminated with Trichloroethylene (TCE), a hazardous chemical, and thus were unusable. As a result, an emergency interconnection between Terra Grande's distribution system and United Water's supply system was completed. The Commission issued Order No. 29735 in Case No. TGW-W-05-1 that approved interim rates for Terra Grande based upon interconnection with United Water. Terra Grande was also ordered to develop a permanent service arrangement plan and submit it to the Commission for approval prior the establishment of permanent rates.

On August 12, 2005, a Petition signed by approximately 61 Terra Grande customers was filed with the Commission requesting that it require Terra Grande to install individual water meters.

Commission Staff, Terra Grande, and United Water subsequently entered into discussions whereby the parties have agreed that it is in the public interest to enter into the Stipulation to effectuate the transfer of Terra Grande's water distribution system to United Water which would take over the operation of the water system, install meters and other necessary and prudent improvements, and incorporate Terra Grande's customers into its service area.

STAFF COMMENTS

Staff discussed the current condition of the Terra Grande water system, the proposed terms of the Stipulation including the anticipated effect on customers' bills, as well as the transfer costs associated with United Water taking over the system and making system improvements. Staff recommended approval of the Stipulation.

Staff discussed the contamination of Terra Grande's ground water wells that makes the water unfit for potable purposes. The source of the contamination, as well as the cost of

cleanup if possible, is still unknown. Given the limited financial capabilities of Terra Grande it is unlikely that the Company could develop an alternative source of supply, and thus the existing interconnection with United Water will continue to be the only viable supply option. Additionally, the existing distribution system is antiquated and in need of mainline replacement. Several mainline ruptures occurred during the irrigation season, and because all water delivered to the system by United Water is metered and individual customers are not, all Terra Grande customers paid for the water lost due to the mainline ruptures. The same financial limitations that make an alternative supply option unlikely also make mainline replacement as well as the installation of individual meters extremely difficult.

According to the Stipulation, the transfer of the system to United Water would be made without any payment to Terra Grande. United Water will make improvements to the system including: enlarged inter-ties between United Water and Terra Grande systems, individual meters with meter boxes and relocation of service lines to mainlines fronting customer property, replacement of aging mainlines, and the installation of blow offs and fire hydrants.

It is anticipated that an average use bill will remain essentially the same. Instead of monthly billing at UWI commodity rates for 1/117 of the metered consumption and a Terra Grande customer charge of \$13.00 per month, United Water will bill each customer bi-monthly for individual metered consumption at current UWI commodity rates and charge the current UWI customer charge of \$15.10 bi-monthly. Small users should see a bill reduction, average users will pay about the same, and large users will pay more to reflect their actual consumption.

Staff has reviewed the system improvements proposed by United Water and believes the Company's proposal and estimated costs are reasonable. Staff also recognizes that some uncertainty remains with regard to the condition of existing facilities and additional costs could be incurred for system improvements. The cost of known improvements is estimated at approximately \$27,680. The estimated annual revenue from Terra Grande customers is estimated to be approximately \$32,600. While the revenue will cover the installation of meters and improvements to the system, it will contribute little to the incremental cost increases for water supply, operation and maintenance, storage, and customer meter reading and billing. It is therefore likely that some incremental costs will be borne by the general body of United Water customers. However, given the relatively small number of Terra Grande customers, Staff

believes any subsidy will be minimal and is in the public interest by improving the substandard service arrangement that currently exists under Terra Grande.

Staff has agreed to recommend as part of the Stipulation that United Water be allowed to recover prudently incurred investment in the Terra Grande system as if the capital investment were in service for an entire test year rather than subject to the 13-month rate base average. Staff has further agreed to recommend continued accrual of AFUDC after the plant is placed in service but before it is included in rates. Staff noted that this AFUDC should be limited due to the intention of the Company to file a rate case in the early part of 2006. Staff believes that this treatment is warranted in this case to facilitate transfer of the system and to provide what United Water has determined is required to be made whole on the transaction.

Staff believes that approval by the Commission of the Stipulation to transfer the distribution system and water service responsibility to United Water is in the public interest and resolves all outstanding water service issues associated with Case No. TGW-W-04-1. Staff recommended approval of the Stipulation as filed.

COMMENTS OF THE RESIDENTS OF THE PIONEER NEIGHBORHOOD

On January 11, 2006, the Commission received comments from Mr. Jim Storey, President of the Pioneer Neighborhood Subdivision, on behalf of all residents of the Pioneer Neighborhood. These comments consist of approximately 97 pages of materials containing letters, documents, meeting minutes, news clippings, bills and billing inserts, and Commission Orders. The comments outline and document a “chronological list of problems that Pioneer Neighborhood residents have had to put up with TGW [Terra Grande Water].” The chronology and documents start in 1959 and continue to the present actions that have been before the Commission.

The Neighborhood’s comments thank the Commission “for all their assistance in dissolving the Terra Grande Water Company (TGW).” Although they appear to agree with the transfer of the water system to United Water, they also request that the Commission complete a more thorough investigation of Terra Grande to essentially follow up on issues surrounding the contamination of the wells.

DISCUSSION

The Commission has reviewed the Stipulation, comments, and case file for this matter. Given the current circumstances that exist in Terra Grande’s service area including: the

contamination of Terra Grande's wells; the interconnection to United Water's system as a source of supply; the condition of the distribution system; the lack of individual meters and resulting billing/usage inequities; and the limited financial capabilities of Terra Grande, all of which are documented in this case record, we find approval and adoption of the Stipulation to be in the public interest.

The contaminated water supply system, the antiquated distribution network, and the lack of individual meters combined with Terra Grande's lack of financial ability to resolve these problems in a timely manner results in substandard service for Terra Grande's customers. United Water has the ability to make immediate system improvements at a cost that is reasonable in light of the importance to the public interest and the relative size of the investment and system compared to United Water's existing service area. The terms of the Stipulation regarding United Water's capital investment and the special accounting treatment are reasonable in order to facilitate the transaction. The potential subsidy on the part of United Water's other customers will be relatively minor and is justified in order to remedy the current substandard service and to satisfy the public interest.

The Commission thanks the residents of the Pioneer Neighborhood Subdivision for submitting the extensive history and documentation of their long problems with the water system. However, the Commission declines the residents' request to order a more thorough investigation of Terra Grande, as the approval of the Stipulation, transfer to United Water, and withdrawal of Terra Grande's Certificate of Public Convenience and Necessity ends the Commission's jurisdiction, investigation, and involvement with Terra Grande.

The Commission has considered the relevant statutory authority and Commission Rules of Procedure regarding amendments to Certificates of Public Convenience and Necessity. *Idaho Code* §§ 61-526, 61-528, IDAPA 31.01.01.112. We find that the Stipulation executed by the parties, along with its attachment and the comments of Commission Staff, satisfies the underlying statutory and procedural requirements for certificate applications. In approving and adopting the Stipulation, we find that the present and future public interest will be served by allowing United Water to amend its Certificate of Public Convenience and Necessity No. 143 to include the area presently served by Terra Grande and authorizing United Water to provide water service to existing and future customers in that area.

ORDER

IT IS HEREBY ORDERED that the Stipulation, executed by the parties and filed with the Commission, is approved and adopted.

IT IS FURTHER ORDERED that as of the date of closing, the Certificate of Public Convenience and Necessity No. 429 issued to Terra Grande under this case shall hereby be withdrawn, and Certificate of Public Convenience and Necessity No. 143 issued to United Water shall hereby be amended to reflect the addition of the area presently served by Terra Grande. United Water is directed to prepare and file an amended Certificate for Commission approval.

THIS IS A FINAL ORDER. Any person interested in this Order 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. 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 8th day of 2006.



PAUL KJELLANDER, PRESIDENT

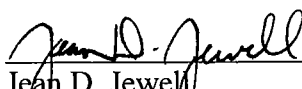


MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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