

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL**

FROM: DONOVAN E. WALKER

DATE: DECEMBER 15, 2005

**SUBJECT: TERRA GRANDE WATER, STIPULATION FOR TRANSFER OF
WATER SYSTEM TO UNITED WATER, CASE NO. TGW-W-04-1**

Terra Grande Water Inc. (Terra Grande), United Water Idaho Inc. (United Water), and the Staff of the Idaho Public Utilities Commission (Staff) have reached agreement regarding a Stipulation (attached) by which United Water will take over the operation of Terra Grande's water distribution system. Staff has agreed to certain cost recovery and accounting treatment for the investment by United Water to take over the system, including the installation of individual meters. The parties request that the Commission adopt and approve the Stipulation by subsequent Order. Staff recommends that a public comment period be established for the Stipulation through January 13, 2005.

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best interest to proceed with the purchase and sale transaction, therefore the Application was withdrawn.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 the 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 who 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.¹

¹ Although all parties have reached agreement on the Stipulation, Terra Grande is awaiting documentation from the Trustee, who previously held title to the Terra Grande System prior to the time when Terra Grande became a public utility. According to the trust document, once Terra Grande became a regulated public utility, i.e., when its Certificate of Public Convenience and Necessity was issued, title was to transfer from the trust to Ms. Childs. This documentation should be forthcoming, and in any event it was deemed prudent to request that a public comment period commence on the parties' Stipulation.

STAFF RECOMMENDATION

Staff recommends that the Commission issue a Notice of Stipulation establishing a public comment period, with written comments due on or before January 13, 2006, concerning the Stipulation entered into by Staff, United Water, and Terra Grande. Staff anticipates filing comments supporting the Commission's approval of the Stipulation.

COMMISSION DECISION

Does the Commission wish to issue a Notice of the Stipulation and establish a public comment period with comments due by January 13, 2006?

Does the Commission wish to employ any other procedure(s) to consider the parties' Stipulation?

DONOVAN E. WALKER

M:TGW-W-04-01_dw2_Stipulation

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE INVESTIGATION)
OF TERRA GRANDE WATER AND THE) **CASE NO. TGW-W-04-01**
ISSUANCE OF RELATED CERTIFICATE)
OF PUBLIC CONVENIENCE AND) **STIPULATION**
NECESSITY NO. 429.)
)

This Stipulation is entered into by and among Terra Grande Water Inc. (Terra Grande), United Water Idaho Inc. (United Water), and the Staff of the Idaho Public Utilities Commission (Staff) (collectively referred to as the "Parties").

The terms and conditions of this Stipulation are set forth herein. The Parties agree that this Stipulation represents a fair, just, and reasonable resolution and disposition of the investigation of Terra Grande, and that this Stipulation is in the public interest. The Parties therefore recommend that the Idaho Public Utilities Commission (Commission) approve and adopt this Stipulation by subsequent Commission Order. See, IDAPA 31.01.01.248.

Nothing in this Stipulation, including the recommended accounting and rate-making treatment, may be used as a precedent in future cases whether involving United Water or any other utility. Execution of this Stipulation shall not be deemed to constitute an acknowledgment by any Party of the validity or invalidity of any particular method, theory, or principle of regulation or cost recovery, and no Party shall be deemed to have agreed that any method, theory, or principle of regulation or cost recovery employed in arriving at this Stipulation is appropriate for resolving any issues in any other proceeding in the future.

BACKGROUND

On February 19, 2004, in Case No. UWI-W-04-02, United Water and Terra Grande filed a joint Application with the Commission for an Order approving the purchase by United Water of water service properties owned by Terra Grande. Originally the agreed upon purchase price for the system was \$47,000.00. 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-04-01, 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-05-01 that approved interim rates for Terra Grande based upon the 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 this Stipulation to effectuate the transfer of Terra Grande's water distribution system to United Water, who would, upon closing of the transactions contemplated herein (the "Closing"), 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.

STIPULATION

1. CAPITAL INVESTMENT - Commission Staff recommends and agrees that United Water be allowed to recover any prudently made investments in the Terra Grande system, both the known capital investments outlined in United Water's October 21, 2005 letter (attached as Exhibit A) and the prudently incurred unknown capital investments necessary to provide service to Terra Grande customers. Staff agrees that these capital investments be allowed in rate base at 100% value and not be subject to a 13-month average calculation.

2. ACCOUNTING RE: CAPITAL INVESTMENT - Commission Staff recommends and agrees that United Water accrue AFUDC on capital expenditures up to the date the plant is placed in service. After the plant is placed in service, but before the capital investment is included in rates, United Water will accrue AFUDC and calculate depreciation against the plant. When the plant is included in rates, United Water will include the original cost of the plant, plus AFUDC, in rate base at its full amount net of depreciation.

3. AGREEMENT TO CONVEY ASSETS — On the date of Closing (the "Closing Date") Terra Grande agrees to execute a bill of sale and assignments conveying to United Water:

- a. Domestic Water System. All tangible personal property and only that tangible personal property used and useful in connection with the operation and maintenance of Terra Grande's domestic water distribution system including, equipment, valves, pipes, water lines, services, meters, meter boxes, machinery, inventory, surveys, maps, records, and supplies (all hereinafter collectively referred to as the "Domestic Water System" or as the "Tangible Property"). The Domestic Water System/Tangible Property includes the items listed on the attached Exhibit B. The Domestic Water System pipelines are depicted on the illustrative map attached hereto as Exhibit C. Specifically excluded from the Tangible Property are all wells, pumps and motor equipment, well structures, associated well facilities, well land, well easements, and water rights, further described in Exhibit D.
- b. Intangible Property. All intangible property used and useful in connection with the operation and maintenance by Terra Grande of the Domestic Water System including, permits, easements, rights-of-way, customer lists and records, maintenance records, tariffs and rules and regulations governing the rendering of service, provided however, Intangible property shall not include any easement for ingress and egress to Terra Grande's real property described in Exhibit D (the "Real Property").

4. LIABILITIES NOT ASSUMED: United Water shall neither assume nor be responsible for, nor take any property subject to, any liability or obligation of any kind, known or unknown, absolute, contingent, or otherwise. Without limiting the foregoing, it is specifically

agreed that Terra Grande shall have sole responsibility for all claims, losses, liabilities, obligations, and damages, whenever arising, which arise from Terra Grande's act, failure to act or arising out of Terra Grande's operation of the Domestic Water System prior to the Closing Date.

Without limiting the foregoing, United Water shall not assume:

- a. Any liability or obligation resulting from violations of any applicable laws or regulations by Terra Grande prior to the Closing Date;
- b. Any employee liabilities of Terra Grande, if any, relating to present and past employees of Terra Grande with respect to plans, programs, policies, commitments, and other benefit entitlements established or existing on or prior to the Closing Date (whether or not such liabilities are accrued or payable on the Closing Date, and whether or not such liabilities are contingent in nature); and,
- c. Any liability or obligation, including, without limitation, for any personal injury or property damage or harm to the environment, resulting from the presence or release of hazardous substances at or from the Real Property prior to the Closing Date or any disposal of hazardous waste within the Terra Grande service territory prior to the Closing Date.

5. CONDITIONS PRECEDENT TO CLOSING - Terra Grande and United Water agree that consummation of the transaction contemplated by this Agreement is also subject to the issuance of an order from the Commission that:

- a. Confirms that United Water will be permitted in future rate proceedings to earn upon the total acquisition costs as herein set forth;
- b. Authorizes the issuance of an amendment to United Water's certificate of convenience and necessity by the Commission indicating approval of the transaction contemplated hereby;
- c. Confirms the right of United Water to provide service to the area being serviced by Terra Grande as of the date hereof; and,
- d. Confirms the right of United Water to provide service at rates set forth in its tariffs.

If there is any portion of such ruling by the Commission that, in either United Water or Terra Grande discretion, is substantially inconsistent with this Stipulation the parties, or a party, may, within five (5) business days after receipt of such Commission ruling, provide the other party with written notice that this Agreement is null and void, and the parties shall have no further obligations or liabilities hereunder. If neither party provides such notice in the time

permitted, the parties agree to amend this Stipulation within thirty (30) days of both parties' receipt of such ruling by the Commission, to the effect that this Agreement shall be made consistent with the Commission's ruling.

It is understood and agreed by the parties that an appropriate due diligence period consisting of 30 days immediately following the execution of this Stipulation will be established to allow United Water and Terra Grande the opportunity to further investigate all issues regarding the acquisition of the Terra Grande's Domestic Water System. Terra Grande agrees to make available to United Water its repair contractor to assist in inspection of the distribution system and consultation with respect thereto. The parties agree to cooperate and make all appropriate documents available in pursuing the due diligence.

6. CLOSING RELATED MATTERS; POST-CLOSING – Terra Grande and United Water agree to the following:

- a. Closing Date; Time of the Essence. The closing shall take place no later than thirty (30) days after receipt of the regulatory approvals set forth above provided, however, that if the thirtieth (30th) day not be a business day, then the Closing Date shall be the next Tuesday after the thirtieth (30th) day.
- b. Closing. The closing of the transaction contemplated herein shall take place at the office of McDevitt & Miller LLP, 420 West Bannock, Boise, Idaho or such other place as may be agreed upon by the parties.
- c. Possession. Possession of the Tangible Property and the Intangible Property shall be delivered to United Water on the Closing Date.
- d. Billing. Upon the closing date, or as soon immediately prior thereto as possible, Terra Grande shall render bills to its customers for water service provided from the time of the last most previous billing date up to but not including the closing date. Terra Grande shall be entitled to receive the revenue and accounts receivable resulting therefrom. Thereafter, United Water shall render bills for water service provided on and after closing date and shall be entitled to receive the revenue resulting therefrom. In the event United Water receives payment for any bill rendered by Terra Grande which was for service prior to the Closing Date United Water shall remit said payment to Terra Grande.

7. CLOSING DOCUMENTS - On the Closing Date, Terra Grande shall deliver the following documents:

- a. Bill of Sale executed by the Terra Grande with full warranties of title conveying the Tangible Property to United Water;

- b. General Assignment executed by Terra Grande transferring the Intangible Property to United Water;
- c. Originals, if available, of all certificates, licenses, permits, authorizations, and approvals required by law, and issued by all governmental authorities having jurisdiction; and,
- d. Such other documents as the parties determine are reasonably necessary in order to effectuate any provision in this Stipulation.

8. PRORATIONS AND ADJUSTMENTS - The following items shall be prorated and adjusted as of the Closing Date:

- a. All accounts payable and other obligations incurred by Terra Grande prior to the Closing Date shall be caused to be paid or performed by Terra Grande on or before the Closing Date or as soon as possible thereafter, and United Water assumes no obligations or responsibility for the payment or performance thereof. Bills received after Closing which relate to expenses incurred or service performed allocable to the period prior to the Closing Date shall be paid by Terra Grande; and,
- b. Such other items as are customarily prorated in transactions of the type contemplated in this Agreement.

All such prorations shall be based on the most recent ascertainable bills, and be made on the basis of the actual number of days and the year and month which shall be elapsed as of the Closing, and to the extent reasonably practicable such prorations shall be made at Closing. Such items of income and expenses for the period prior to the Closing date will be for the account of Terra Grande and such items of income and expense for the period on and after the Closing Date will be for the account of United Water, all as determined by the accrual method of accounting.

9. INDEMNIFICATION AND DEFENSE OF CLAIMS - Terra Grande will indemnify, defend and hold United Water harmless against and in respect of:

- a. All liabilities or obligations of, or claims against Terra Grande not assumed by United Water pursuant to this Agreement;
- b. Any damage or deficiency resulting from any breach of warranty; and,

- c. All actions, suits, proceedings, demands, assessments, judgments, reasonable court costs and attorney fees and expenses incident or incurred by United Water in connection with any of the foregoing.

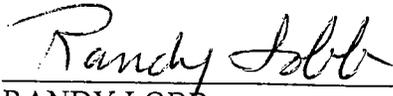
The indemnification obligations in this section shall expire three (3) years after the Closing Date.

10. PROPERTY RETAINED BY TERRA GRANDE - Terra Grande and United Water understand and agree that Terra Grande is retaining all wells, well lots, associated pumping and well equipment and any water rights or permits associated therewith. When Terra Grande's abandons the wells, it shall do so at its sole cost and expense, and shall cause the wells to be properly sealed and abandoned, or otherwise disposed of, controlled, and/or maintained in accordance with methods approved by, and at the direction of the Idaho Department of Water Resources and Idaho Department of Environmental Quality.

11. REPRESENTATIONS. - Terra Grande warrants that its has good and sufficient title to the Tangible Property and the Intangible Property which are being transferred hereunder free and clear of all liens, claims and encumbrances. Terra Grande further represents and warrants that it has secured all necessary consents and authorizations for the conveyance of the Tangible Property and Intangible property required by that certain Trust Agreement dated November 4, 1959 by and between Real Estate Sales Corporation and First Security Bank of Idaho, NA and subsequently assigned to Terra Grande and Wells Fargo Bank NA.

TERRA GRANDE MAKES NO REPRESENTATION OR WARRANTY WITH RESPECT TO MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE, AND ANY SUCH OTHER REPRESENTATIONS OR WARRANTIES ARE HEREBY EXPRESSLY DISCLAIMED. UNITED WATER HEREBY ACKNOWLEDGES AND AGREES THAT IT IS RECEIVING THE TANGIBLE PROPERTY AND INTANGIBLE PROPERTY ON AN "AS-IS, WHERE-IS" BASIS

DATED this IV day of December 2005.



RANDY LOBB
Utility Division Administrator
Idaho Public Utilities Commission



DONOVAN E. WALKER
Deputy Attorney General
Idaho Public Utilities Commission

GREGORY P. WYATT
Vice President
United Water Idaho, Inc.



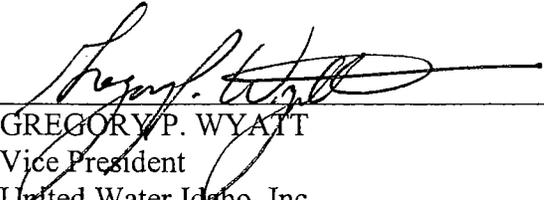
DEAN J. MILLER
McDevitt & Miller, LLP
Counsel for United Water Idaho, Inc.

BARBARA V. CHILD
President
Terra Grande Water, Inc.

JOHN R. HAMMOND
Batt & Fisher, LLP
Counsel for Terra Grande Water, Inc.

DATED this ____ day of December 2005.

RANDY LOBB
Utility Division Administrator
Idaho Public Utilities Commission



GREGORY P. WYATT
Vice President
United Water Idaho, Inc.

BARBARA V. CHILD
President
Terra Grande Water, Inc.

DONOVAN E. WALKER
Deputy Attorney General
Idaho Public Utilities Commission

DEAN J. MILLER
McDevitt & Miller, LLP
Counsel for United Water Idaho, Inc.

JOHN R. HAMMOND
Batt & Fisher, LLP
Counsel for Terra Grande Water, Inc.

October 21, 2005

Mr. Randy Lobb, Utilities Division Administrator
Idaho Public Utilities Commission
472 West Washington
Boise, Idaho 83720-0074

McDEVITT & MILLER, LLP

OCT 24 2005

RECEIVED

Re: Terra Grande

Dear Randy:

At our meeting on October 6, 2005, we discussed various issues regarding United Water Idaho acquiring the Terra Grande water system; and you also asked me to submit United Water's proposal for doing so. The following information responds to your request.

Known Capital Investments Required

United Water Idaho believes the following capital investments are required to provide safe and adequate service to the Terra Grande system. Additionally, certain main replacement projects have been included in this proposal based on our knowledge of the system gained during our previously unsuccessful attempt to acquire the system. A map and a summary of the capital additions are enclosed with this submission.

System Inter-ties

In order to provide adequate water flow and pressure for fire protection, the existing 4-inch inter-tie installed early this year will be abandoned and replaced with an 8-inch line connecting the United Water system on South Entertainment Way with the Terra Grande system on South Ash Park. An additional 8-inch inter-tie and a fire hydrant will be installed at the southern end of the system from United Water's main in Targee to Terra Grande's main in Skillern Drive in order to maintain a two-way feed into the system and to provide some fire protection in the southern portion of the system.

Metering

The Terra Grande system is currently un-metered and customers are billed according to a flat-rate tariff. In order to meter the entire system, United Water proposes to install meter risers and meters in the approximately 59 services that currently have adequate meter boxes (but no meters), and to install complete meter boxes and meters in the remaining services with no existing meter box.

Abandon Main Lines and Install Customer Services

There are several locations where existing Terra Grande main lines run along the back and side property lines of lots. These lines should all be abandoned and new customer service lines installed from the street to the home, including meter boxes and meters.

The lines to be abandon are:

- The 4-inch lines in the area north of Dorian, between Penninger and Ash Park.
- The 2-inch and 4-inch lines south of Dorian, between Penninger and Ash Park.
- The 2-inch line north of Lemhi, between Penninger and South Ash Park

Completely new customer service lines, meter boxes, and meters will need to be installed from the street to the home, including the customer side service, for the seven (7) lots previously served by the abandoned main lines.

Main Line Replacements

Based on our previous due diligence on this system and from knowledge gained during sewer installation work in the area, United Water is aware that the water lines in the north end of the Terra Grande system are of poor quality and should be replaced now.

The following main line improvements are required:

- 130 feet of 8-inch and 280 feet of 4-inch water main installed from the Ash Park inter-tie north on Ash Park and a blow-off to replace the existing 3-inch line.
- 425 feet of 8-inch water main installed in Dorian from Ash Park to Penninger, replacing the 260 feet of 2-inch main in Dorian.
- 575 feet of 4-inch water main installed in Penninger, north from Dorian, and a blow-off to replace the existing 3-inch line.
- 235 feet of 8-inch water main and a blow-off installed in Penninger, south from Dorian to 1717 Penninger, and reconnect with existing main line, replacing existing 3-inch main in Penninger.
- 185 feet of 2-inch water main and blow-offs installed in Penninger Court to replace existing 2-inch and 1-1/2-inch main line.
- Installation of one fire hydrant located at 8023 Dorian.
- Replace blow-off at south end of Ash Park due to unusable condition of existing blow-off.
- Remove main line T's at wells No. 3 and 4 and replace with main line.

Unknown Capital Investments Required

There are three basic areas where capital investments will likely have to be made as the above-described work is performed. However, the quantity and cost of such work is currently unknown. First, as risers and meters are installed in the existing meter boxes, we may find that some of the existing boxes are unusable and must be adjusted and/or replaced. Second, as meter boxes are installed in services where no box previously existed, we may find that the

service line (either customer side or company side, or both) is in such poor condition that it must be replaced to maintain service to the customer. Third, as replacement services are installed, we may find that the existing main to which the service must be connected is in such poor condition that one or more sections of the main must be replaced.

As of this writing, we cannot speculate on the quantity or cost of these kinds of investments, but we believe that they will occur at some level simply due to the age and condition of other portions of the system.

Acquisition and Construction Timing

We have not had contact with Mrs. Barbara Child since mid-2004, when the initial acquisition attempt was foiled and the docket on Case No.UWI-W-04-02 was closed. During our acquisition attempt, we performed due diligence with regard to obtaining clear title to the water system assets and believed that it was possible. We would need to follow up at this time to ensure that rights and title to the system assets have not changed. I estimate that this investigation would take about two to three weeks. Assuming cooperation from all parties, a closing on the acquisition is conceivable 30-45 days following Commission approval.

Construction of the above-mentioned investments would be possible only after a closing and transfer of the assets was finalized. Depending on the timing of the acquisition, and considering winter weather, we currently estimate a construction time of approximately three months for the above-mentioned known investments. The quantity, if any, of unknown investments, as mentioned above, could lengthen the time to complete the entire project. In any event we would like to see all initial construction completed by May 31, 2006.

Customer Billing and Conversion to Metered Rates

Upon closing the acquisition United Water would read the current master meter serving the entire Terra Grande system and render a final bill to Mrs. Child. At the same time, we propose to initiate service with each individual Terra Grande customers on a flat-rate basis in accordance with United Water's current Tariff Schedule No 1B, Flat Rate Service. Each customer would receive service on the flat rate tariff until their meter was installed, at which time they would be converted to service in accordance with Tariff Schedule 1, General Metered Service. This is identical to the approach used when we converted the Barber system from flat rate to metered service.

United Water's Return on Investment

In order to adequately compensate United Water for the investments it will need to make after acquiring the Terra Grande system, I propose that United Water be allowed to calculate and record on its books AFUDC, as determined in the most recent rate case, on all of the above-described investments that it prudently makes in the Terra Grande system, until such time as those investments are allowed to be recovered in its next rate case. I also propose that those

investments be allowed in rate base at 100% value and not be subject to a 13-month average calculation.

Currently United Water is billing Mrs. Child for all water used in the Terra Grande system via the metered service interconnection installed January 28, 2005. Water revenues billed from 1/28/05 through the last meter reading on 9/20/05 amount to \$36,973. Based on the existing history, I estimate a full year's revenue, adjusted for the current rate increase, to be approximately \$47,000. United Water believes that these revenues are included in the revenue requirement calculated in the most recent rate case since they represent part of the growth revenue United Water provided as offset for the Columbia Plant.

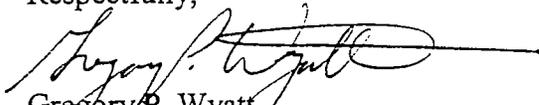
After acquisition, it is certain that United Water will earn less revenue and less operating income from the Terra Grande customers via individual meters than from the current master metering arrangement. This is true because customers will be able to monitor their usage through bi-monthly billings and adjust their use accordingly, the overall system leakage will no longer be billed, and United Water will incur additional system operating, billing, and collections costs. Assuming that the Terra Grande customers provide a revenue stream at 80% of the average residential rate, due to smaller homes and yards, the annual revenue would be approximately \$32,600 (116 customers @ \$351 per year X 80%). Thus, United Water will suffer at least a \$14,400 revenue deficiency even before any return on investment is considered.

Miscellaneous

United Water understands that Mrs. Child wishes to maintain ownership of all Terra Grande land, wells, pumping equipment, and water rights. United Water anticipates only taking ownership of the distribution system assets and all (if any) easements and rights-of-way required to operate and maintain those assets. It is United Water's strong belief that all existing Terra Grande wells should be properly abandoned and capped in accordance with Idaho Department of Environmental Quality requirements. United Water desires that the Commission instructs Mrs. Child to perform such abandonment, and it desires to be held harmless from any and all claims or liabilities arising as a result of any contamination from the said wells.

If you have any questions or need additional information, please contact me at 208-362-7327.

Respectfully,



Gregory P. Wyatt
General Manager

cc: J. Miller, McDevitt & Miller
P. Foss, M. Gennari, J. Healy, S. Rhead

United Water Idaho Estimated Investments in Terra Grande

Revised 10/20/05

	<u>feet</u>	<u>size</u>	<u>Materials & Contractor</u>	<u>Company Labor</u>	<u>Total Cost</u>
<u>Interties -2</u>					
Dorian & Ash Park	160	8"	\$9,921	\$400	\$10,321
Targee & Skillern (plus one fire hydrant)	80	8"	\$5,684	\$3,352	\$9,036
<u>Abandon 4" Service, Meter and Backflow Vaults</u>			\$300	\$2,793	\$3,093
<u>Main Replacements & Abandonments</u>					
Replace 410' of 3" PVC pipe (Thin wall) on Ash Park Lane	130	8"	\$94,491	\$3,600	\$98,091
	280	4"	included above	included above	
Replace 260' of 2" Galvanized pipe on Dorian W. of Ash Park Lane.	425	8"	" "	" "	
Replace 575' of 3" PVC (Thin wall) on Penninger Dr. N. of Dorian.	575	4"	" "	" "	
Replace 235' of 3" PVC (Thin wall) on Penninger Dr. S. of Dorian. (add:1 fire hydrant)	235	8"	" "	" "	
Replace 185' of 2" and 1 1/2" PE, class 160 (Thin wall)			" "	" "	
Abandon lines in back yards along property lines			" "	" "	
The 3" PVC is Brittle and the 2" & 1 1/2" PE is thin wall with hose clamp fittings.					
<u>Replace Blow off</u>					
Replace existing blow off – Ash Park & Lemhi (flushing)			\$350	\$1,117	\$1,467
<u>Service Lines Due to Main Line Abandonments</u>					
Install 7 service lines from the main to the house.			\$6,503	\$27,934	\$34,437
<u>Meter Boxes</u>					
Install 50 Meter Boxes & Setters in existing service lines			\$10,515	\$39,107	\$49,622
<u>Meter Relocators</u>					
Install 59 Relocators in existing meter boxes			\$2,742	\$2,867	\$5,609
<u>Abandon Well T's</u>					
Well #3 & #4			\$858	\$3,352	\$4,210
Subtotal			\$131,364	\$84,522	\$215,886
Company Construction Overheads @ 7.53%					<u>\$16,256</u>
Subtotal					\$232,142
Omissions and Contingencies @ 5%					<u>\$11,607</u>
Project Total					<u>\$243,749</u>

Exhibit B

Tangible Personal Property

The entire Terra Grande Water distribution system, excluding those items on Exhibit D. The Tangible Personal Property transferred to United Water Idaho, Inc., includes all water mains, services, meter boxes, meters, valves, valve boxes, and all other water distribution system appurtenances including:

Approximately 1,750 feet of 2-inch GIP water line

Approximately 1,585 feet of 3-inch AC water line

Approximately 390 feet of 3-inch PVC water line

Approximately 4,858 feet of 4-inch water line

Approximately 53 single and 26 double service lines

Exhibit C

TERRA GRANDE

TERRA GRANDE
BOUNDARY

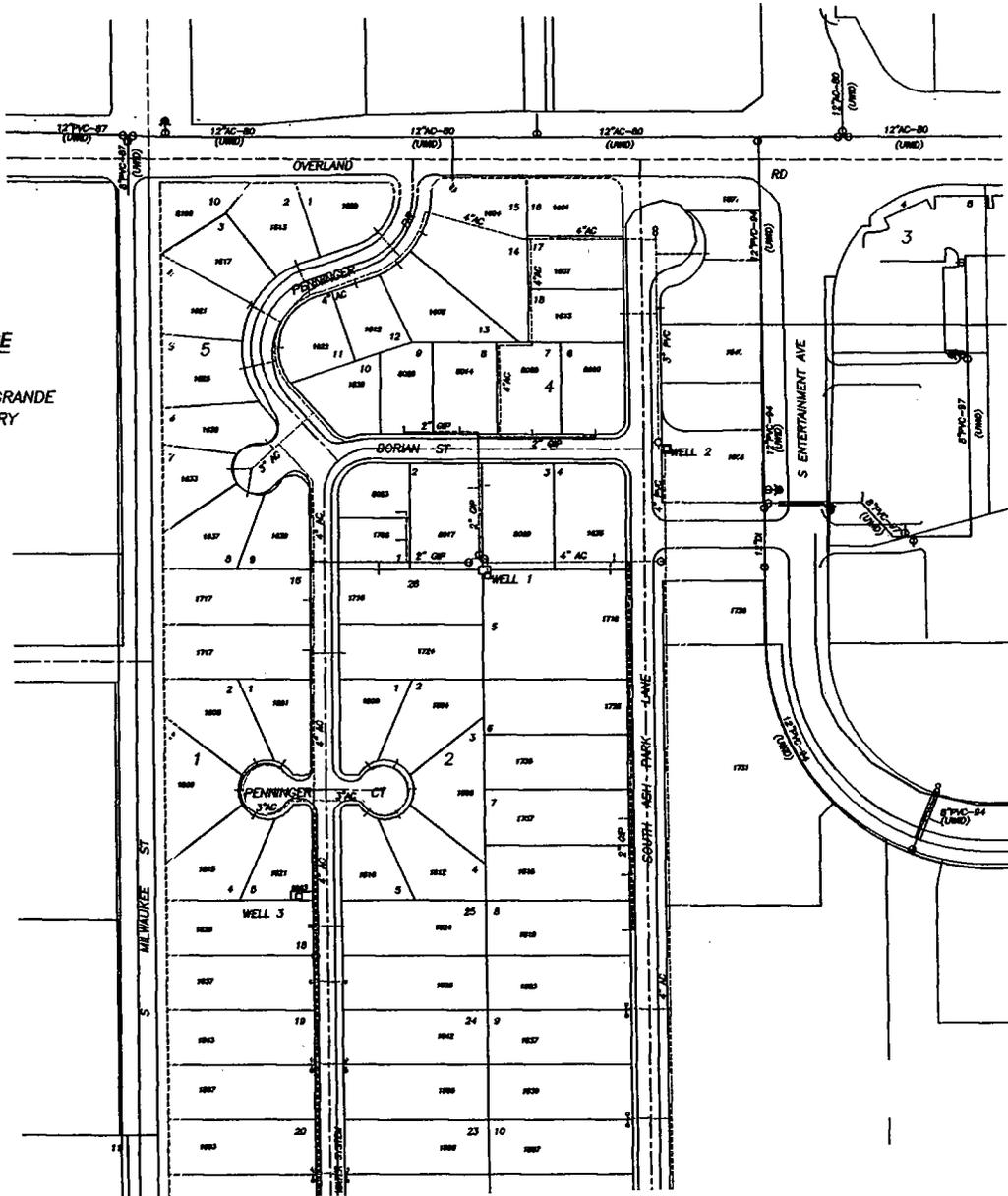


Exhibit D

Excluded Property

All real property upon which Terra Grande Water, Inc.'s wells are located.

The following personal property and appurtenances:

Well, well casing and appurtenances, well building, all pumps, motors, valves, meters, piping, electrical and control equipment and appurtenances and easements for ingress and egress into the following listed Terra Grande Water wells:

- Well No. 1 — located at 1719 Ash Park
- Well No. 2 — located at 1607 Ash Park
- Well No. 3 — located at 1735 Penninger
- Well No. 4 — located at 8111 Lemhi

Water Rights

Water Right No. 63-18443