

DECISION MEMORANDUM

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

FROM: DONOVAN E. WALKER

DATE: FEBRUARY 3, 2006

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 Commission Staff (Staff) have reached agreement regarding a Stipulation 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 the system, including the installation of individual meters. Terra Grande and United Water have agreed to terms for the transfer of the system to United Water. The parties have all signed the Stipulation. The Stipulation has been filed with the Commission and noticed for public comment. Staff, Terra Grande, and the residents of the Pioneer Neighborhood Subdivision (Terra Grande's customers) filed comments. The parties request that the Commission approve and adopt this Stipulation by subsequent Order.

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it was not in its best interest to proceed with the purchase and sale transaction, therefore the Application was withdrawn.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 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.

STAFF COMMENTS

Staff believes that approval by the Commission of a 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 discussed the current condition of the Terra Grande water system, the proposed conditions 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 discussed the contamination of Terra Grande's ground water wells, which 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 makes 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: enlarge 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 the average customer's 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 unsubsidized 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 meet what United Water has determined is required to be made whole on the transaction.

Staff recommends 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.

COMMISSION DECISION

Does the Commission wish to approve and adopt the Stipulation as filed? Does the Commission find adoption of the Stipulation to be in the public interest? Does the Commission wish to modify any terms and/or conditions of the Stipulation?



DONOVAN E. WALKER