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IDAHO PUBLIC
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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE JOINT)
APPLICATION OF UNITED WATER IDAHO) CASE NO. UWI-W-04-2
INC. AND BARBARA V. CHILD DBA TERRA)
GRANDE FOR AN ORDER APPROVING) COMMENTS OF THE
THE PURCHASE BY UNITED WATER) COMMISSION STAFF
IDAHO INC. OF WATER SERVICE)
PROPERTIES OWNED BY BARBARBA V.)
CHILD; FOR AUTHORITY TO EXPAND)
UNITED WATER IDAHO INC.'S)
CERTIFICATE OF PUBLIC CONVENIENCE)
AND NECESSITY NO. 143 AND FOR)
APPROVAL OF RATES AND CHARGES.)
_____)**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notices of Application, Public Workshop, Modified Procedure and Comment/Protest Deadline issued on March 9, 2004, submits the following comments.

BACKGROUND

On February 19, 2004, United Water Idaho Inc. (United Water; Company) and Barbara V. Child dba Terra Grande filed a Joint Application with the Idaho Public Utilities Commission (Commission) for an Order approving the purchase by United Water of water service properties owned by Barbara V. Child. (Application Exhibit 2 - Agreement for Purchase and Sale.)

United Water requests authority to expand its Certificate of Public Convenience and Necessity No. 143 to include the Terra Grande water system and requests that Terra Grande customers be switched to United Water's rates and charges immediately upon Commission approval of the sales transaction. Reference *Idaho Code* § 61-526; IDAPA 31.01.01.112.

The Terra Grande water system has been operating for over 50 years and provides water service under a flat rate to approximately 117 residential customers in the Terra Grande Subdivision in Ada County, Idaho. Terra Grande customers are presently served under a two-season flat rate. The summer rate for four months is \$26 and the non-summer rate for eight months is \$14, producing total annual per customer revenue of \$216.

The total purchase price set forth in the Agreement for Purchase and Sale is \$47,000. Agreement ¶ 2. United Water estimates it will incur approximately \$5,000 of legal and closing costs to complete the acquisition. As reflected in the Application, the Company proposes to invest up to an additional \$122,000 in capital improvements to install two interconnections between United Water's system and Terra Grande's distribution system, install customer meters, abandon the four existing Terra Grande wells, install two fire hydrants, replace an existing blow-off valve, relocate eight customer service lines to the front of properties abandoning the existing 2" mains located at the back of those properties. The parties to the Agreement propose that the purchase price will not be adjusted for customer deposits, accounts receivable or accounts payable. United Water requests an Order authorizing the Company to include the full cost of the purchase and improvements (approximately \$174,000) in rate base in a future rate proceeding.

United Water proposes to begin billing customers under its flat rate Schedule 1E tariff immediately upon completion of the acquisition and to move customers to its metered rate as meters are installed. United Water estimates that revenue from Terra Grande customers will be equal to or greater than the revenue requirement associated with the costs of the acquisition and the incremental costs associated with service to the Terra Grande customers. The revenue requirement calculation is set forth in Application Exhibit 5. The Company projects that Terra Grande customers will generate average residential revenue for United Water of approximately \$327/year.

As reflected in the Application, Barbara V. Child desires to convey the Terra Grande domestic water system to United Water because she wishes to retire from the water business and is unwilling to undertake the risks of continued operation arising from increasingly stringent water quality regulations, and increasingly complex operation and technical requirements.

Because of its small size Ms. Child states that Terra Grande has experienced, and in the absence of the sale would continue to experience, difficulties in maintaining its system and obtaining adequate financing for operations, maintenance, and expansion.

United Water contends that it possesses the technical, managerial and financial abilities to provide reliable and adequate service and represents that the proposed transfer is in the public interest.

STAFF ANALYSIS

Investigation of the Terra Grande System. Staff contacted the Idaho Department of Environmental Quality (DEQ) to ascertain the status of the existing wells and water quality on the Terra Grande system. DEQ reports that Terra Grande has not been monitoring and testing the water according to the DEQ required schedules. There is no water treatment program on the existing Terra Grande system. One of the four wells included in the Terra Grande water system has not been used in a number of years due to the poor quality of its water. A second well currently exceeds the maximum radiological contaminate levels. A number of other contaminants are presently borderline acceptable and may require treatment in the near future. DEQ has required a number of repairs to the Terra Grande system which have not been made including: 1) Well #3 - seal the well head and holes in the casing; 2) Wells # 2 & 3 - extend well casing vents 18" above floor and re-screen; 3) Well # 3 - install a flow meter; 4) Well #1 - add a sight glass on the pneumatic tank. The estimated cost of these improvements is \$10,000. The cost of installing an ion exchange unit on Well #2 to remove the radiological contaminants is estimated to be about \$100,000. This assumes there is adequate land available for installing the ion unit and that cannot be assured at this time. Well # 2 sits on a parcel of ground that is only twelve feet by twelve feet (12' x 12'). The installation of disinfection equipment on all three wells is estimated to cost about \$7,500. Well #4 must be properly sealed and abandoned to Idaho Department of Water Resources' standards at an estimated cost of \$2,000. The pneumatic tanks on the other three wells are aged and in need of replacement. When replaced, the DEQ will require that the tanks be relocated above ground rather than in existing below ground vaults. This will require the reconstruction of the well houses to accommodate the tanks. The cost of tank replacement and reconstruction of the well houses is estimated to be \$105,000. The Terra Grande system has no reservoir and has no ground available for construction of a reservoir. A stand-by generator for the largest of the three wells, though not required, would cost approximately \$25,000 and would assure minimum domestic service during a period of extended

power interruption. In addition to the system improvements, the DEQ will require accelerated water quality testing due to the failure of Terra Grande to perform the tests at the required intervals and because contaminate levels identified are marginal. The first year's accelerated testing expense is expected to be about \$8,000. Those test results will determine the next year's testing requirements/costs. DEQ has delayed enforcement action toward Terra Grande awaiting the outcome of this proposed sale.

The expenses and improvements necessary to bring the existing Terra Grande system into DEQ compliance total approximately \$250,000. The owner of Terra Grande, Barbara Child, is a sole proprietor. If she were to keep the system, a significant increase in water rates would be needed to cover the projected system improvement costs. Staff estimates that these improvements and expenses would require an additional revenue requirement of \$42,200 just to recover depreciation expense, a 10% return on the \$250,000 investment and incremental testing expenses. This translates to an annual cost of \$577.00 for each of the 117 customers, an increase of \$361 or 167% over their current rate of \$216 per year. Should the sale not go forward, it would be Staff's recommendation that the Commission assert its regulatory authority under Title 61, *Idaho Code* and establish rates, rules and regulations for Terra Grande.

The Application. Staff has reviewed the Company's Application, attached exhibits, and cost and revenue projections. Staff for reasons discussed below (see section on ***Subsequent Developments***) believes the cost projections may be significantly understated. Were the cost and revenue projections as set forth in the Application proven correct, the revenue from Terra Grande customers would be sufficient to cover the Company's cost of service and investment without subsidy from other customers. If the cost is significantly greater, as Staff believes and the Company requests recovery, the revenue will be insufficient and a subsidy from other United Water customers will be required.

United Water plans to switch Terra Grande customers over to the Company's water system quickly. The Company estimates however that it could take up to 90 days to complete the installation of all meters. Under the Company's proposal, customers metered early on will pay the high summer metered rate for the entire irrigation season; customers connected to meters toward the end of 90 days will pay a lower flat rate all summer. Because meter installations will take place during the summer irrigation season Staff is concerned that a piecemeal move of customers to metered rates creates inequities among neighbors. Staff believes a more equitable solution for customers, without harm to the Company, is for the Company to bill United Water's

existing bi-monthly flat rate of \$54.29 throughout the winter until each customer's first meter reading on or after March 1, 2005 when all customers would begin paying United Water's metered rate.

Terra Grande customers will experience an estimated 50% increase in their annual water rates when switched to metered United Water tariffs (from \$216/yr to an estimated \$326/yr). While this is a large increase, it must be considered in the context of the poor condition of the existing system and the costs of bringing the system into DEQ compliance. Also relevant is the fact that Terra Grande customers upon interconnection to United Water supply will receive immediate benefit by having a water supply that meets DEQ's standards along with a utility that possesses demonstrated abilities to provide safe water and reliable service.

Public Workshop. Staff participated, together with United Water and Terra Grande, in a customer workshop the evening of Thursday, March 18, 2004. Twenty-seven residents of the neighborhood representing twenty-two households (19%) attended the workshop. United Water, Terra Grande and the Commission Staff responded to questions about the Application. Concerns expressed by customers in attendance fell primarily into the following categories: 1) water quality and safety of the existing water supply; 2) whether an increase in water pressure would cause more leaks due to age of the system; 3) what costs would individual consumers pay for initial connection; and, 4) whether United Water could help customers get irrigation water.

Customers who attended the meeting did not express alarm at the projected 50% increase in rates they would experience if the acquisition were approved. Customers seemed to understand they are going to pay more for water in the future regardless of this sale. In fact, those in attendance who expressed an opinion favored the acquisition by United Water to alleviate their concern about the safety of the existing water supply. United Water advised customers that the Company has information and suggestions regarding water conservation, offers water conservation classes from time to time, and will set up a liaison team with Terra Grande customers to help insure that customer needs and concerns are understood and addressed. The Company indicated that it cannot help the customers obtain separate irrigation water because irrigation water provided from a source other than United Water's potable water system is not a part of United Water's business.

Staff distributed comment forms to all attendees and encouraged them to submit written comments to the Commission by the April 2, 2004 comment deadline. As of April 1, 2004 five individuals had filed written comments. Four favor approval of the sale. One of the four

expressed hope for a level pay program to assist those living on limited disability income to meet higher costs. One other individual asked questions regarding ownership of the Terra Grande system but did not express favor or opposition to the sale.

Subsequent Developments. Staff learned from United Water's attorney on March 25, 2004, that the quality and soundness of the existing Terra Grande distribution system within the subdivision is not as represented by Terra Grande. The City of Boise is installing a new sewer line within the subdivision. The contractor on the project has, due to poor location information from Terra Grande, cut several service lines and uncovered leaks on the water system. The contractors are not being reimbursed for their repair costs by Terra Grande. The contractor is unwilling to absorb these costs and the City is considering halting the sewer project until suitable arrangements can be made for reimbursement of costs incurred and better location information is made available. Terra Grande has proposed the sewer project be halted until after United Water takes over the system and has metered services installed that will make location easier. As a result of the sewer excavation, United Water has had the opportunity to observe directly a water main in Penninger Street that was characterized by Terra Grande as a four inch (4") AC (asbestos concrete) line. The line is actually two inch (2") galvanized iron pipe that is in very poor, fragile condition. This 700-foot line may have to be replaced before United Water can complete the interconnection to its own distribution mains. This information brings into question the accuracy of the information provided on the remainder of the existing Terra Grande distribution system. If this line is indicative of the general condition of the remainder of the existing Terra Grande distribution system, a total of more than 5,600 feet of distribution line may require replacement. The cost of replacing existing Terra Grande distribution lines with four to six inch mains would be an additional cost to United Water not included in the original Application. No accurate information is available at this time regarding estimates of either the magnitude or cost of any required distribution line replacements that may be required.

STAFF RECOMMENDATIONS

Given the poor water quality, the poor reliability and the high cost of restoring the existing Terra Grande system to an adequate level of service, Staff believes the only practical solution in this case is interconnection with and service from United Water Idaho. In making this recommendation Staff acknowledges that the estimated revenue the Company expects to receive from Terra Grande customers at current United Water rates will not be sufficient to acquire the system and perform the facility upgrades necessary to provide adequate service.

Staff consequently recognizes that it is more than likely that existing United Water customers will be required to subsidize the acquisition.

Based upon current estimates, the cost for Terra Grande and its customers to restore the system on a stand-alone basis far exceeds the cost required for interconnection with United Water. In Staff's opinion, it is unreasonable for United Water to pay for a water system in such a state of disrepair. Even acquisition at no cost will likely result in a revenue deficiency that will require subsidy if included in Company rates. Staff cannot support any payment to Barbara Child for the Terra Grande water system or recovery by United Water of any such payment from existing customers. Staff believes with the elimination of the \$47,000 purchase price, acquisition by United Water is in the public interest and should be approved. Additional cost information should be submitted by the Company to determine the potential for recovery through rates and the size of subsidy that may be required in the future.

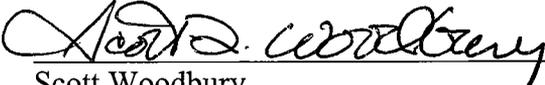
Staff recommends that former Terra Grande customers pay United Water's Schedule 1-E flat rates through February of 2005 and be switched to United's metered rate effective with the first meter reading on or after March 1, 2005. Staff does not propose at this time, a surcharge on Terra Grande customers due to the uncertainty of future costs that United Water may actually incur to provide adequate service.

Finally, should the owner of Terra Grande refuse transfer of the water system, Staff recommends that a Certificate of Public Convenience and Necessity be immediately issued and that Terra Grande be brought under the regulatory jurisdiction of the Commission. Terra Grande should then be directed to make whatever system improvements are necessary to provide adequate service and to bring the system into compliance with DEQ standards. Terra Grande should immediately be made subject to all of the Commission's existing rules and regulations. Terra Grande should be informed that no change in rates may be made without prior approval of this Commission.

Respectively submitted this

2nd

day of April 2004.


Scott Woodbury
Deputy Attorney General

Technical Staff: Bob Smith
Marge Maxwell

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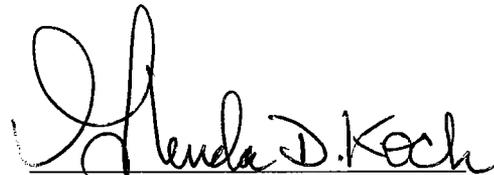
CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 2ND DAY OF APRIL 2004, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. UWI-W-04-02, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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