

DECISION MEMORANDUM

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

FROM: SCOTT WOODBURY

DATE: AUGUST 26, 2004

**RE: CASE NO. UWI-W-04-3 (United Water)
PROPOSED SALE OF CARRIAGE HILL DOMESTIC WATER SYSTEM,
PROPOSED AMENDMENT OF CERTIFICATE AND REQUEST FOR
ACCOUNTING ORDER**

On August 9, 2004, United Water Idaho, Inc. (United Water; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting authority to remove the Carriage Hill Subdivision from the Company's certificated service area and for an accounting order regarding distribution of proceeds from the sale of the Carriage Hill domestic water system from United Water to the City of Nampa. On August 25, 2004, the Company filed supporting testimony for its Application.

Background

On March 29, 1999, the Commission in Order No. 27976 approved an expansion of United Water's certificated service area to include the Carriage Hill Subdivision in Canyon County, Idaho near the City of Nampa. The expansion was pursuant to a Non-contiguous Water System Agreement between the Company and Carriage Hill dated *November 20, 1998*. At the same approximate time, the Company's corporate parent, United Waterworks, entered into a separate understanding with the Carriage Hill developers that United Waterworks would loan the developers up to \$350,000 to finance the construction of the Carriage Hill source of supply system only. Reference 1) Design-Build Promissory Note dated December 7, 1998 and 2) Joint and Several Individuals Guaranty signed by Carriage Hill developers.

As initially constructed the development had only one well to serve as the source of supply. In the spring of 2002, the developer had embarked on Phase 2 of the distribution system that would add 20 lots to the original 27 in Phase 1. Eventually, 25 lots would be connected, the

maximum permitted by the Idaho Department of Environmental Quality (DEQ) for a system with only one source well. Under DEQ requirements, a second source of supply is required for a water system serving more than 25 connections.

In early 2003, the Carriage Hill developers informed United Water that they did not have funds to construct a second source of supply or to continue payments to United Waterworks. Without a second source of supply Carriage Hill would not be able to expand. Without expansion, Carriage Hill developers would be unable to generate funds to finance a new well or to pay United Waterworks.

On August 15, 2003, the City of Nampa indicated its desire to enter into negotiations with United Water and Carriage Hill in connection with the ownership, operation and maintenance of the Carriage Hill domestic water system and the connection of the system to Nampa's Municipal Water System.

On August 25, 2003, Carriage Hill requested a waiver from the Idaho Department of Environmental Quality to allow an additional ten lots in the subdivision to be connected to the water system prior to the installation of a second source of supply, which second source of supply, it was stated, would take the form of connection to Nampa's Municipal Water System. As of the date of this Application approximately 30 lots in the Carriage Hill Subdivision have been connected to the domestic water system.

Purchase Agreement—United Water (Seller)/City of Nampa (Purchaser)

United Water has entered into a Purchase Agreement (Agreement) with the City of Nampa dated 12 March, 2004. As reflected in the Agreement, the purchase price is \$375,000. A small portion of the purchase price, approximately \$36,000, is to be paid to United Water Idaho. The remainder of the purchase, approximately \$338,000, is to be paid to United Waterworks, Inc., owner of a Design-Built Promissory Note in the original principal amount of \$350,000 dated December 7, 1998, said note being the obligation of Carriage Hill LLC. The purpose of said note was to provide funds to assist Carriage Hill in the construction of the water system within the Carriage Hill Subdivision.

United Water contends that acquisition of the Carriage Hill domestic water system by the City of Nampa is consistent with the Public Convenience and Necessity because

- Nampa has adequate source of supply and operational capability to provide safe and reliable water service to the subdivision;

- The connection of Nampa's distribution system to the Carriage Hill domestic water system will provide a second source of supply as required by DEQ rules thus insuring reliable water supply to the subdivision and permitting further expansion of the subdivision; and
- The rates charged by Nampa for domestic water service are lower than the rates charged by United Water, and customers within the subdivision will therefore experience a decrease in the cost of domestic water service.

Application Exhibit E (revised) sets forth United Water's proposed journal entries to account for the \$36,000 to be received by United Water at closing. Revised Exhibit E reflects Advanced Plant in Service of \$354,905 and Contributed Plant in Service of \$190,300. The advanced plant reflects the source of supply portion of the system and was provided by the developer. The contributed plant reflects the distribution portion of the system and was fully funded by the developer. Because advanced plant and contributed plant are not included in the Company's rate base, United Water states that customers have not, through their rates, paid any return on those investments. The Company contends that its customers have not acquired any financial or equitable interest for which they should be compensated upon sale of the Carriage Hill assets. United Water contends that the Company's accounting proposal is consistent with established regulatory accounting principles and requests that the Commission approve it.

COMMISSION DECISION

Staff apprises the Commission that it has an outstanding production request to the Company regarding the distribution of \$338,000 in sale proceeds to United Waterworks in satisfaction of the Design-Built Promissory Note obligation of Carriage Hill. Staff also anticipates a follow-up request. The Company recommends that its Application be processed under Modified Procedure, i.e., by written submission rather than by hearing. Reference Commission Rules of Procedure, IDAPA 31.01.01.201-204. Staff believes that the initial processing of this Application pursuant to Modified Procedure is appropriate. Staff recommends a comment deadline of September 27, 2004. Does the Commission agree?

Scott Woodbury

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