Office of the Secretary
Service Date
December 27, 2007

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF UNITED WATER IDAHO INC. FOR AN AMENDMENT TO ITS CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY NO. 143 AND FOR AN ACCOUNTING ORDER	)	**CASE NO. UWI-W-07-05**
	)	**ORDER NO. 30481**

On September 28, 2007, United Water Idaho Inc. (United Water; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting approval of a July 26, 2007 Purchase and Sale Agreement (Agreement) between United Water and the City of Kuna. The subject matter of the Agreement is the sale by United Water to the City of a non-contiguous water system presently serving Danskin Ridge, Saddle Ridge and Iron Horse Subdivisions. Reference Case No. UWI-W-00-02, Order No. 28377 (May 15, 2000). On December 14, 2007, a Settlement Stipulation between the Company and Commission Staff was filed with the Commission with a compromise recommendation for the accounting treatment of the sale proceeds. The Commission in this Order approves the sale and the recommended accounting treatment.

Pursuant to Agreement, the purchase price is $375,000. United Water estimates that the net proceeds at closing will be approximately $212,255. Kuna has agreed to assume the Company's outstanding obligations under the Non-Contiguous Agreement and Mainline Extension Agreements with other third parties and to hold United Water harmless from further obligations thereunder.

United Water contends that acquisition of the Danskin-Saddle Ridge system by Kuna is consistent with the public convenience and necessity because the customers will obtain water service from a dependable municipal supplier (Kuna) at rates that are lower than United Water's rates. In addition, when Kuna connects the Danskin-Saddle Ridge system with its existing municipal system, the customers will experience improved redundancy for both domestic and fire protection flows.

United Water recommends proposed journal entries to account for the sale proceeds. The Company further requests a determination that gain or profit associated with the transfer is the property of United Water and that its customers do not have an interest therein.

United Water requests a Commission Order

- Approving the modification of United Water's Certificate of Public Convenience and Necessity No. 143 by eliminating the Danskin-Saddle Ridge system therefrom;

- Confirming that after the date of closing of the purchase and sale transaction, United Water will have no further obligation to provide domestic water service to the Danskin-Saddle Ridge system customers;

- Confirming that following the assumption by Kuna of the Non-Contiguous Agreement and the Mainline Extension Agreements, United Water will have no further obligations thereunder;

- Approving the Company's accounting proposal and determining that gain arising from the transfer is the property of United Water.

The Company's Application in this case includes a map of the Danskin-Saddle Ridge water system, a copy of the Agreement for Purchase and Sale between the Company and the City of Kuna, and the supporting direct testimony of Gregory P. Wyatt, Vice President and General Manager of United Water Idaho.

On October 10, 2007, the Commission issued a Notice of Application and Modified Procedure in Case No. UWI-W-07-05. The deadline for filing written comments was November 30, 2007. Comments were filed by the City of Kuna and Commission Staff.

Comments – City of Kuna

The City of Kuna supports the purchase and is anxious to finalize the transaction before year-end. The City states that additional water rights and water supply provided by the system is critical in enabling the City of Kuna to meet the demands of growth.

Comments – Commission Staff

The Commission Staff in its filed comments supports the sale but recommends a different treatment of the associated gain. United Water, Staff notes, has argued that the transaction be treated as a liquidation of a stand-alone water system, and as such, the Company contends that the shareholders are entitled to the gain/profit/risk premium in the sale. While it is true that the Danskin-Saddle Ridge system is non-contiguous, Staff notes that the Company is not liquidating itself as a whole. The Danskin-Saddle Ridge non-contiguous system is not a legal entity separate from United Water. Further, the assets and expenses associated with Danskin-Saddle Ridge are part of the rates charged to all customers of United Water, not a separate entity. The rules and regulations establishing such non-contiguous systems are based on average costs and revenues of United Water Idaho's system as a whole.

Staff notes that in 2006, Danskin-Saddle Ridge customers paying standard United Water rates contributed approximately $260 per year each. Reimbursements made to the developer are based upon an average contribution per customer of $335 as identified in the Non-Contiguous Agreement (Exhibit C, Page 12 of 34). The revenue from customers required to support the reimbursements to developers for Danskin-Saddle Ridge, Staff calculates, is approximately 29% higher than the average revenue provided by Danskin-Saddle Ridge customers. The Danskin-Saddle Ridge system, Staff concludes, has not provided sufficient revenue to support the Company's investment. Staff further notes that $28,865 in investment incurred by the Company to provide auxiliary power to the system and $39,160 spent when it studied the need and possible method for uranium mitigation at the site were costs that were not paid by the developer.

Staff considered three methods to treat the gain associated with the sale of the Company's Danskin-Saddle Ridge non-contiguous system to the City of Kuna. The first methodology treats the gain as regulated revenue to be passed through to customers during the Company's next general rate case. This, as reflected in its comments, was Staff's initial recommended treatment. The second methodology records the gain from the sale as an offset (reduction) to United Water's regulated plant in service. As reflected in the post-comment Stipulation filed with the Commission on December 14, it is now Staff's recommended treatment. The third methodology allocates the gain from the sale from United Water's depreciable assets between United Water shareholders and ratepayers.

> The first methodology treats the gain from this sale as regulated revenue to be passed through to customers during the Company's next general rate case similar to the most recent sale of a UWI non-contiguous system (Carriage Hill). Commission Order No. 29625 dated November 9, 2004 in Case No. UWI-W-04-03. . . .
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> Staff recommends that the gain from this sale (estimated at $212,255 according to the Company's Exhibit C) be established in a deferral account and amortized over a period of three years. This amortization period is to

reflect the average time between recent rate cases. The amortization each year would be approximately $71,000 based upon a gain of $212,255.

In addition to treating the gain in this case similarly to that ordered in the most recent sale of a UWI non-contiguous system, this treatment recognizes that UWI's ratepayers also support the operations of non-contiguous systems such as Danskin-Saddle Ridge to the degree that revenues from those customers do not meet the revenue requirement (recovery on investment, operating expenses and taxes) demanded by that system. According to UWI audit responses, the Danskin-Saddle Ridge project would need to earn approximately 45% more revenues that it currently does in order for the system to be "self-supporting" and earn UWI's overall authorized rate of return. According to UWI, the Danskin-Saddle Ridge system is currently earning approximately 3% return on rate base. This is well below the 8.357% return authorized in Case No. UWI-W-04-4, Order No. 29838, page 28 and the approved settlement in Case No. UWI-W-06-2, Order No. 30104.

The second methodology, Staff's Stipulation recommendation, records the entire gain from the sale as an offset (reduction) to UWI's regulated Plant in Service in the Company's next general rate case. Similar to the first methodology, this accounting holds the Company's remaining customers after the sale harmless by treating the gain as a reinvestment in the system. In this methodology customers are held harmless by reducing UWI's regulated Plant in Service by offsetting capitalized water rights in the amount of the gain from this sale (estimated at $212,255 according to the Company's Exhibit C). This treatment recognizes that resolution of certain water rights issues between the parties was a consideration in agreeing to the sale. The reduction in return due to the reduced rate base produces the benefit to customers. In the first year this reduced revenue requirement would be approximately $30,000.

The third methodology considered develops ratios where the depreciated portion of the depreciable asset is allocated to the ratepayers and the undepreciated portion of the asset is allocated to UWI shareholders. Under this methodology, the ratepayers' share of the gain, at a minimum, should be equal to the ratio that accumulated depreciation is to the net book value of the system's depreciable assets. That ratio is represented as below.

Accumulated Depreciation	$ 14,265
Net Book Value of Depreciable Assets	$135,255

Thus, as a minimum, the ratepayers should be entitled to 11% of the gain after UWI is first made whole or approximately $23,000 based upon Exhibit C of its Application. Staff has reduced Exhibit C's Net Company Investment ($71,072 and $76,673) by the Net Company Investment attributable to land ($12,490). Under this methodology the "ratepayer" gain would be credited to

Account 253.xx Other Deferred Credits - Danskin sale gain. The unamortized amount in this account would be deducted from rate base, thereby reducing rate base by the gain amount. Should the Commission adopt this methodology, Staff recommends a three-year amortization period. This amortization period is to reflect the average time between recent rate cases. The amortization each year would be approximately $7,500. This methodology is similar to that used for disposition of the gain on the sale of the Centralia steam generating plant in Case Nos. AVU-E-99-6 and PAC-E-99-2 (Order Nos. 28297 and 28296).

This methodology evaluates only the proceeds associated with rate base investment that UWI has made and that is being depreciated. This methodology ignores the contributions and advances associated with the system. Originally, a majority of the Danskin-Saddle Ridge water system was contributed and only became rate based as advances were refunded. In this case a majority of the assets were contributed as opposed to entirely rate based. UWI made no investment as to contributed amounts and only minimal investment otherwise. In determining how the gain is to be shared, it is reasonable to consider who has borne the financial burdens and risks. This methodology does not do that and is therefore inappropriate.

Settlement Stipulation

On December 14, 2007, a Settlement Stipulation was filed with the Commission. In the Stipulation the Company agrees that gain from the sale be treated in the general manner described by Staff as treatment option 2. The Settlement Stipulation represents a compromise of the positions of both parties.

Pursuant to Stipulation, the following accounting treatment of the sale proceeds is proposed:

- The actual net proceeds, after elimination of all associated utility plant in service, associated accumulated depreciation, construction work in progress, advances, contributions, associated amortization of contributions, closing expenses including legal expenses, and all associated transaction expenses, to be recorded as an "other deferred credit" liability on the Company's balance sheet in account 253.09, titled "Deferred Regulatory Liability."

- The deferred credit would then be amortized, or written off, over 36 months (3 years) beginning with the month of the sale closing, with the offsetting credit recorded to income statement account 421.00, "Miscellaneous Non-Utility Income."

- The unamortized balance remaining in the deferred regulatory liability account would be recognized as a deduction from rate base in any subsequent general rate case.

Staff and United Water believe that the Stipulation accounting treatment results in an equitable sharing between shareholders and ratepayers in the sale proceeds by providing that a portion of the proceeds will be recognized as below the line income to United Water and a portion of the proceeds will be recognized as a reduction from rate base in United Water's next general rate case.

Commission Findings

The Commission has reviewed the filings of record in Case No. UWI-W-07-05 including the July 26, 2007 Purchase and Sale Agreement between United Water and the City of Kuna, the supporting testimony of Company witness Greg Wyatt, the filed comments and recommendations of Commission Staff and the subsequent Settlement Stipulation between United Water and Commission Staff. Based on our review of the record, the Commission continues to find it reasonable to process the Company's Application in Case No. UWI-W-07-05 pursuant to Modified Procedure. IDAPA 31.01.01.204.

The Commission finds the terms of the July 26, 2007 Purchase and Sale Agreement between United Water and the City of Kuna including the purchase price of $375,000 to be fair, just and reasonable and in the public interest. The City of Kuna, we note, has annexed certain lands that surround the Danskin-Saddle Ridge system, significantly limiting United Water's ability to expand its system in that area. Consummation of the sale and transfer of the Danskin-Saddle Ridge water system to the City of Kuna we find will result in lower rates and improved system redundancy for affected customers. It will also result in tangible supply benefits to the City's municipal water system and aid the City in its ability to meet the demands of growth. We find it reasonable to approve the sale and the amendment of the Company's Certificate of Public Convenience and Necessity No. 143 to eliminate the Danskin-Saddle Ridge and Iron Horse Subdivisions therefrom. The Company is directed to submit an amended Certificate reflecting this change.

The Commission acknowledges that after the date of closing of the purchase and sale transaction between United Water and the City of Kuna, United Water will have no further obligation to provide domestic water service to the Danskin-Saddle Ridge and Iron Horse

Subdivisions. We further acknowledge that, following the assumption by Kuna of the Non-Contiguous Agreement and the Mainline Extension Agreements, United Water will have no further obligations thereunder.

The Commission further finds it reasonable to approve the stated Settlement Stipulation accounting treatment of sale proceeds and determines the accounting treatment to be fair, just and reasonable. In determining the reasonableness of the proposal we considered the estimated dollar amount of the net proceeds ($212,255), the present accounting treatment of the non-contiguous system and the proposed alternative accounting treatments. We make no findings regarding the appropriateness of the approved accounting treatment for future sales by United Water of its other non-contiguous water systems. Our decision in those cases will be based on the developed record and facts.

Recognizing that the sale of the Company's non-contiguous system to Kuna has not yet closed, the Commission expects that the actual gain on the sale will differ from that estimated in the Company's original Application. The Company is directed to file a copy of the closing documents and a copy of the accounting entries with this Commission within seven days from the completion of the sale. It is also expected that the Company in its next rate case filing will ensure that all components associated with the sale are excluded from that filing including but not limited to rate base components including overheads and expenses such as legal expenses.

O R D E R

In consideration of the foregoing and as more particularly described and qualified above, IT IS HEREBY ORDERED and the Commission does hereby approve the sale by United Water to the City of Kuna of the non-contiguous water system presently serving the Danskin-Saddle Ridge and Iron Horse Subdivisions pursuant to the terms set forth in the July 26, 2007 Purchase and Sale Agreement between United Water and the City of Kuna. The Company is directed to file an amended Certificate No. 143 reflecting this change in service area.

IT IS FURTHER ORDERED and the Commission does hereby approve the Settlement Stipulation filed with the Commission on December 14, 2007 between United Water and Commission Staff as pertains to the July 26, 2007 Purchase and Sale Agreement and the accounting for and distribution of related sale proceeds.

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. 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 27th day of December 2007.

MACK A. REDFORD, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

JIM KEMPTON, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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