

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF UNITED WATER IDAHO INC. FOR AN)	CASE NO. UWI-W-08-02
AMENDMENT TO ITS CERTIFICATE OF)	
PUBLIC CONVENIENCE AND NECESSITY)	
NO. 143 AND FOR AN ACCOUNTING)	ORDER NO. 30651
ORDER)	

On June 19, 2008, United Water Idaho Inc. (United Water; Company) filed a Certificate Amendment Application and a May 27, 2008 Agreement for Purchase and Sale (Agreement) between the Company and the City of Nampa (City) with the Idaho Public Utilities Commission (Commission). The subject matter of the Agreement is the sale by United Water to the City of the non-contiguous water systems presently serving Coventry Place, M&M Mountain View Acres, and Belmont Heights subdivisions (collectively the Subdivisions) in Canyon County, Idaho. Reference Case No. UWI-W-99-1, Order No. 27976 (Coventry Place); Case No. UWI-W-00-03, Order No. 28418 (M&M Mountain View Acres); and Case No. UWI-W-01-03, Order No. 28885 (Belmont Heights). Also subject to the sale are two additional subdivisions, Lexington Meadows and Britannia Heights which were added to the Belmont system (Order Nos. 29941 and 30352) and the Nampa Charter School which was added to the Coventry system (Order No. 29141). The Commission in this Order approves the United Water/City of Nampa Purchase and Sale Agreement and United Water's related proposal to amend its Certificate of Convenience and Necessity No. 143.

Pursuant to Agreement, the purchase price is \$245,000. The reported gain is \$50,911. The City of Nampa has agreed to assume the Company's outstanding obligations under the Non-Contiguous Agreements and Mainline Extension Agreements with other third parties and to hold United Water harmless from further obligations thereunder.

United Water contends that the acquisition of the non-contiguous systems by the City of Nampa is consistent with the public convenience and necessity because the customers will obtain water service from a dependable municipal supplier (Nampa) and interconnection of the Belmont water system with the City of Nampa's water system will solve an existing water quality issue in Belmont Heights involving elevated levels of uranium in the water.

United Water recommends proposed general entries to account for the sale proceeds. The Company recommends that the proceeds be distributed and accounted for in the same manner as sale proceeds were recently treated in the sale of the Danskin-Saddle Ridge subdivisions to the City of Kuna. Case No. UWI-W-07-05, Order No. 30481.

United Water requests a Commission Order

- Improving the modification of United Water's Certificate of Public Convenience and Necessity No. 143 by eliminating the Subdivisions 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 Subdivisions;
- Confirming that following the assumption by Nampa of the Non-Contiguous Agreements and the Mainline Extension Agreements, United Water will have no further obligations thereunder; and
- Approving the Company's accounting proposal.

The Company's Application in this case includes a map of the non-contiguous water systems, a copy of the Agreement for Purchase and Sale between the Company and the City of Nampa, and the supporting direct testimony of Gregory P. Wyatt, Vice President and General Manager of United Water.

The proposed sale and transfer of facilities from United Water to the City of Nampa and termination of United Water's service obligation to affected subdivisions and customers will end Commission jurisdiction over the affected water systems and all service-related matters including rates and dispute resolution. *Idaho Code* § 61-104.

On July 18, 2008, Notices of Application and Modified Procedure were issued by the Commission in Case No. UWI-W-08-02. The deadline for filing written comments was August 8, 2008. Comments were filed by three affected customers and Commission Staff. Reply comments were filed by United Water and the City of Nampa. The comments of the parties can be summarized as follows:

Commission Staff

Staff addresses the accounting, engineering and rate issues associated with the proposed transfer.

Accounting

In its Application, the Company requests approval of a sale price of \$245,000 and related journal entries, resulting in a gain of \$50,911. Staff's audit results reduced the gain by \$655, to \$50,256.

Staff reviewed the three gain treatments considered in the sale of the Danskin-Saddle Ridge system to the City of Kuna (UWI-W-07-05, Order No. 30481) and finds the accounting method approved in that case to be the recommended treatment for this sale also. That method treated the gain as a reduction to United Water's regulated plant in service. The stipulated settlement in Order No. 30481 required the entire gain to be recorded as a deferred regulatory liability (Account 253.09) and amortized over a period of 36 months. This is the treatment requested by United Water for the proposed sale. This treatment splits benefits between customers and shareholders. Shareholders would receive a below-the-line income of \$1,396 per month for 36 months through amortization of the deferred regulatory liability. Staff notes that an obvious benefit to customers is removing the additional liability of providing safe water to Belmont Heights. Benefits to customers from sharing the gain of this sale would result if United Water files a general rate case with a test year that includes a portion of the 36-month deferral period. Then, plant in service would be reduced by the amount of the unamortized regulatory liability. This would reduce the total revenue requirement. Customers would see this lower revenue requirement in the form of lower rates.

Engineering

Both the City of Nampa and United Water have adequate water, management and financial capability to serve customers, and each employs full-time well-qualified and experienced water system personnel. The City of Nampa is the second-largest municipality in the state, and United Water is the largest water utility in the state regulated by the Commission. Staff supports the sale and recognizes the City of Nampa's ability to provide dependable, safe and adequate water service. Staff agrees with United Water's determination that connecting the Belmont water system to the City of Nampa's distribution system is the least-cost means of addressing the elevated readings of uranium in the Belmont water system. Interconnection with the City's distribution system will also improve fire-protection flows for the customers of Belmont.

The other two non-contiguous water systems, Coventry and M&M, are currently in compliance with EPA's water quality standards. Coventry and M&M are both served by individual wells. It is Staff's understanding that the motivating force behind the City of Nampa's desire to acquire the Coventry system is the benefit of acquiring Coventry's source of water supply. Interconnection will provide an additional water source to Nampa and allow for continued growth in Coventry by satisfying IDEQ's requirement for a redundant supply for a public water system with 25 or more customers. No timetable exists, however, for interconnection. It is Staff's understanding the unmetered M&M water system has its own well and will be operated independently.

Rates

Staff is concerned about the potential rate impacts to current customers in the various United Water systems being sold to the City of Nampa. The water tariff for areas served by the City of Nampa outside the city limits is twice (2x) the water rate within the city. Nampa City Code, Title 8-1-8. All the water systems being sold to the City of Nampa are outside the city limits. The calculated increase in the average annual bill for Belmont Heights water system customers is \$50.25 or an increase of 12.57%. The calculated increase in the average annual bill for Coventry water system customers is \$28.62, or an increase of 12.50%.

Although customers of the Belmont system will experience a rate increase, Staff believes it is justified and reasonable considering the water quality problems to be resolved and the higher capital cost of alternative solutions. Customers of Belmont will also see benefits from improved fire-protection flows and improved access to the City of Nampa and its water service administrative offices as compared to the offices of United Water located in Boise. Once the system is annexed into the city limits, customer rates will be reduced.

The customers of the M&M unmetered system will not experience any change in rates initially as a result of the sale. According to the Company, M&M customers are currently served under United Water's flat rate tariff, and since the City of Nampa has no unmetered customers and does not have a rate for unmetered service, the City has informally agreed to continue charging M&M customers at their present flat rate. The Application does not address this issue or state how long the rates will be continued or if the City has plans to install meters within the system. For the protection of M&M customers, Staff recommends that a rate

agreement for M&M customers be formalized so that customers understand at what point their rates could change.

Coventry customers do not currently have a water quality problem nor are there immediate plans to interconnect the system with the City to improve reliability of water supply and fire flows. Staff therefore believes that the rate increase proposed for Coventry customers is unreasonable and that the affected ratepayers will see little tangible benefit from the sale. Consequently, Staff recommends that these customers be allowed to remain at existing United Water rates for a fixed period of three to five years or until the system is interconnected with or annexed into the City.

Staff Recommendations

Staff recommended that:

- The Commission approve the United Water/City of Nampa Purchase and Sale Agreement and the proposed accounting treatment of sale proceeds.
- United Water be required to file with the Commission the final closing documents and actual journal entry amounts.
- The Commission approve the transfer acknowledging and accepting the proposed rates for the customers of the Belmont and M&M systems. Staff believes these rates are justified by existing circumstances.
- The City maintain existing United Water rates for customers of the Coventry system in much the same way existing rates are maintained for M&M customers. The agreement should specify current rates as well as general timeframes and conditions that could change rates in the future. While Staff stops short of opposing the sale of the Coventry system without this rate concession, Staff recommends that the Commission direct the parties to consider and implement the concession as part of the overall agreement.

Customer Comments

Comments regarding the sale were filed by three customers. One customer building a home in Lexington Meadows sees no reason why sale of the system by United Water should result in an increase in rates and queries why customers in M&M will see no increase.

The other two are also Belmont customers. One supports the transfer but poses clarifying questions regarding the City's plans for interconnection and annexation, etc. The

second has been purchasing bottled water for three years and believes United Water, not the customers of the Belmont water system, should pay any and all transitional costs.

Reply Comments

City of Nampa

The City in reply comments notes its intention to interconnect the Coventry system with the City system within 30 days of Commission approval of the Purchase and Sale Agreement. Nampa can assure this action because (1) the interconnection design is complete, (2) the City of Nampa has sufficient piping materials to complete the project, (3) City forces will complete the interconnection construction activity, and (4) the City of Nampa has ongoing contracts with asphalt contractors to complete the paving repair. Given this expected interconnection time frame, the City of Nampa does not believe that a rate freeze is appropriate or necessary for the Coventry system.

Regarding the concerns raised by the Belmont Heights customer, the City notes that the Belmont water system is acquired under a Consent Order from Idaho Department of Environmental Quality. The Consent Order transfers with the sale of the system. The Order is very clear that the Belmont system must be interconnected with the City of Nampa by December 1, 2009. The City states that it is on track to meet this requirement.

Regarding the rights of non-municipal customers in the establishment of water rates by the City, Nampa cites *Idaho Code* § 63-1311A requiring a public hearing be held prior to imposing any new fee or for any fee increase in excess of 5% of the amount of the fee last calculated. The Code provision further provides the necessary notification requirements that must occur prior to the public hearing and for fee increases. Any increase in rates or charges must be approved by the Nampa City Council. Public hearings and Nampa City Council meetings, the City states, are open to the general public; therefore, all customers, not just those within the city limits, have an opportunity for input prior to final rate decisions.

The City cites *Idaho Code* § 50-222 as providing the City's annexation authority and procedural requirements. *Idaho Code* § 50-222(5) includes provisions for public hearings and notification requirements.

United Water

United Water concurs in Staff's accounting recommendations and commits to file with the Commission final closing documents and actual journal entries as soon as practicable after closing.

The Company notes the contemporaneous filing of the City of Nampa's reply comments and the City's commitment to interconnect the Coventry water system within 30 days of closing. The Company concurs that there is thus no need for the suggested rate stability agreement recommended by Staff.

Commission Findings

The Commission has reviewed the filings of record in Case No. UWI-W-08-02 including the May 27, 2008 Purchase and Sale Agreement between United Water and the City of Nampa, the supporting testimony of Company witness Greg Wyatt, the filed comments and recommendations of Commission Staff and customers and the subsequent reply comments of United Water and the City of Nampa. We have also reviewed our Order No. 30481 in Case No. UWI-W-07-05 wherein we approved the United Water sale of a non-contiguous water system to the City of Kuna. 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-08-02 pursuant to Modified Procedure. IDAPA 31.01.01.204.

This sale by United Water of the Belmont, Coventry and M&M water systems was precipitated by United Water's need to address the elevated uranium levels in the Belmont Heights water system and the City's desire to acquire the water supply of the Coventry system. Consummation of the sale and transfer of the Belmont water system to the City of Nampa, we find, will result in improved water quality (free of uranium) and fire-protection flows for affected customers in Belmont, Lexington Meadows and Britannia Heights. Interconnection of the Coventry system to the City's water supply system, we find, will result in tangible supply benefits to the City and will aid Coventry by satisfying IDEQ's system redundancy requirements and by providing a backup system to the existing single well. We find that the sale of the unmetered M&M water system will result in no immediate change in system operations or rates. As noted by United Water, the customers of the three water systems being sold will benefit from having a service provider in closer proximity. We recognize that the rates for customers in the Belmont and Coventry systems will increase approximately 12.5% when the sale closes, but find

the increase is accompanied also by tangible benefits accruing to those customers. The City of Nampa is a municipal water system with a separate rate structure for customers within and outside municipal city limits. This Commission has no jurisdiction over municipal water utilities. *Idaho Code* § 61-104. Customers of the Belmont, Coventry and M&M water systems are all outside the City's present municipal boundaries. The City in reply comments assures these customers that their voices will be considered in any municipal decisions affecting their water service.

Recognizing the benefits accruing to the affected customers and with the City's assurances, we find it reasonable to approve the Purchase and Sale Agreement and the amendment of the Company's Certificate of Public Convenience and Necessity No. 143 to eliminate the service obligation to customers of the Coventry, M&M and Belmont water systems. We find the terms of the May 27, 2008 Purchase and Sale Agreement between United Water and the City of Nampa including the purchase price of \$245,000 to be fair, just and reasonable and in the public interest.

The Commission further finds it reasonable to approve the recommended accounting treatment of sale proceeds and determines the accounting treatment to be fair, just and reasonable. In determining the reasonableness of the accounting proposal we considered the Staff-estimated dollar amount of the net proceeds (\$50,256), the present accounting treatment of the non-contiguous system and the alternative accounting treatments proposed in Case No. UWI-W-07-05. Recognizing that the sale of the Company's non-contiguous systems to Nampa 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 Commission acknowledges that after the date of closing of the purchase and sale transaction between United Water and the City of Nampa, United Water will have no further obligation to provide domestic water service to the non-contiguous water systems being sold. We further acknowledge that following the assumption by the City of Nampa of the Non-Contiguous and Mainline Extension Agreements, United Water will have no further obligations thereunder.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over United Water Idaho Inc., a water utility, pursuant to the authority granted in Idaho Code, Title 61, and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

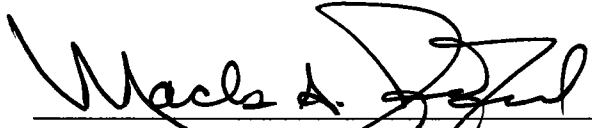
ORDER

In consideration of the foregoing and as more particularly and qualified above, IT IS HEREBY ORDERED and the Commission does hereby approve the May 27, 2008 Purchase and Sale Agreement between United Water and the City of Nampa. The Company is directed to file an amended Certificate of Convenience and Necessity No. 143 reflecting this change in service area.

IT IS FURTHER ORDERED and we hereby approve the proposed method for distribution and accounting of sale proceeds and direct United Water to file a copy of the transaction closing documents and a copy of the accounting entries with this Commission within seven days from the completion of the sale.

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.

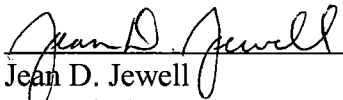
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 7th
day of October 2008.


MACK A. REDFORD, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


JIM D. KEMPTON, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

bls/O:UWI-W-08-02_sw