

WELDON B. STUTZMAN  
DEPUTY ATTORNEY GENERAL  
IDAHO PUBLIC UTILITIES COMMISSION  
PO BOX 83720  
BOISE, IDAHO 83720-0074  
(208) 334-0318  
IDAHO BAR NO. 3283

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Street Address for Express Mail:  
472 W WASHINGTON  
BOISE ID 83702-5918

Attorney for the Commission Staff

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION OF )**  
**UNITED WATER IDAHO INC. AND THE CITY )** **CASE NO. UWI-W-11-01**  
**OF EAGLE FOR APPROVAL OF AN )**  
**INTERCONNECTION AGREEMENT )** **COMMENTS OF THE**  
**)** **COMMISSION STAFF**  
**)**

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**COMES NOW** the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Weldon B. Stutzman, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 32175 on February 8, 2011, submits the following comments.

**BACKGROUND**

On January 28, 2011, United Water Idaho Inc. and the City of Eagle, Idaho, filed an Application requesting Commission approval of an agreement between the parties to control interconnection of facilities and the potential exchange of water under emergency conditions. The two water systems currently are connected to each other by a pressure regulating valve and vault owned by the City that is configured to allow water to flow from United Water to the City. The existing interconnection is governed by an agreement between the parties executed in 1997. The new agreement provides for facilities modifications to enable water to flow both ways between the two systems. The agreement provides that each party will own the facilities on its side of the

interconnection. The parties estimate that United Water's share of the cost to upgrade the system will be \$14,496 and that the City of Eagle's share will be \$5,499.

The agreement provides that the party receiving water will notify the supplying party within four hours as to the nature and expected duration of the emergency, and the anticipated volumes of water required. When United Water sells supply to the City under the agreement, United Water will receive payment at the full tariff volumetric rate and not at a discount. Likewise, when the City sells supply to United Water, it will receive payment at Eagle's then existing published volumetric rate.

### **Interconnection Facility**

The existing interconnection facility being considered in this case, which is owned by the City of Eagle, is located along the Floating Feather Road about 200 yards west of Highway 55. The interconnection facility is called the Trail Creek PRV, also referred to as the Lexington Hills PRV. The facility has an 8-inch pressure regulating valve (Cal-Val 90-01) which is connected to an 8-inch diameter water supply line owned by United Water, and to an 8-inch diameter water line on the receiving end owned by the City. The City of Eagle has two physically independent water systems; the Eastern Zone and the Western Zone. The interconnection project was installed by the City in 1997 between United Water and the City's Eastern Zone water system. It was originally planned that a 6-inch master meter would be installed at the point of interconnection and to be paid for by United Water. The installation of the meter would permit United Water to bill the City based on recorded usage. Order No. 27921, page 2. However, Staff has learned that the plan to install a water meter was never completed and the interconnection system operated without taking actual measurements of water delivered to the City. As noted earlier, the proposed Interconnection Agreement calls for the installation of an 8-inch electromagnetic flow meter. The interconnection of facilities is controlled by the pressure regulating valve, thus a pressure drop will initiate the flow of water from one system to the other.

United Water also apprised Staff that there is an additional interconnection farther west along Floating Feather Road that was also installed in 2005 at the City of Eagle's request for the Eagle's Brookwood Subdivision. This additional interconnection was considered by both parties to fall within the original agreement. Furthermore, the Company explained that if the proposed Interconnection Agreement is approved by the Commission, the Brookwood Interconnection will be discontinued and valved off.

## **STAFF ANALYSIS**

Staff believes that several issues should be addressed by the Commission in deciding whether to approve the proposed Agreement: (a) assurance that the customers of United Water will not be harmed with fluctuations of flow and pressure in the water system; (b) the ability of United Water to provide adequate flows for fire protection to its existing customers should not be jeopardized or diminished as result of its agreement to provide emergency flows to the City; (c) existing customers of United Water will not subsidize the customers of the City under the Agreement; (d) appropriateness of using Schedule I rates for charging the City; (e) necessity of United Water having the ability to purchase water from the City; and (f) quality of water purchased from the City should not degrade the quality of water currently being used by United Water customers in the general area of interconnection.

### ***Systems Adequacy and Protection of Existing Customer***

In Case No. UWI-W-97-04 when United Water filed application for Commission approval of the existing Agreement, Staff addressed similar issues noted in Items (a) and (b) above. Staff reviewed these same issues in the current Application since the UWI water system configurations and capabilities may have changed since 1997 when the existing Agreement was approved by the Commission.

The new Agreement calls for the modification of the interconnection facilities so as to provide a source of water supply to each party during periods of pressure loss. Application at 2. The sale and purchase of water supplies will only occur as the result of a scheduled or unexpected event, temporary in nature and not to be used on a regular basis. Section 2.2, Exhibit A of Application. United Water further explained to Staff that the conditions that would constitute emergency include fire suppressions, significant pipe breaks, unexpected pump shutdowns and scheduled maintenance of large facilities (i.e. pumping plants, reservoirs).

Section 2.6.b. of the proposed agreement establishes that during such a situation, the maximum instantaneous supply to be provided by United Water to the City is 1,500 gpm and a maximum supply of 1.44 million gallons per day (MGD). Similarly, the City is to provide United Water a maximum instantaneous flow of 825 gpm and a maximum daily supply of 1.1 MGD. Staff raised concerns about United Water's current pumping facilities' ability to adequately handle the requested water supply by the City during an emergency situation without jeopardizing the needs of

United Water's customers (i.e. flow and pressure). United Water has assured Staff that its water supply system would be able to handle the target limits of flow and volume as noted above under normal operating conditions. United Water confirmed that it conducted hydraulic studies to identify the limits on how much instantaneous flow and daily volume it can provide to the City as cited in Section 2.6.b of the proposed agreement. Staff believes that United Water customers will not be harmed under these conditions, and furthermore, United Water is not obligated to provide water to the City if the system cannot handle the requested water supply (i.e. when United Water is also requiring heavy water demand or dealing with its own emergency at that time). Staff also believes that the probability of demand or need at the same time for both water systems is very unlikely.

### ***Need for Receiving Emergency Water Supply***

United Water claims that each party will have access to supplies of water in the event of emergency or other problems occurring on either party's water system, thereby ensuring continuous and reliable service for their customers. In addition, the Agreement provides a least cost redundancy solution for both parties, when compared to the cost each party would incur to construct its own facilities. Application at 3. Staff raised the issue of whether United Water is capable of providing the extra flow of 825 gpm and the volume of 1.1 MGD<sup>1</sup> from its existing system for its own customers. United Water assured Staff that these flow rates and volumes can be provided during normal operating conditions. However, during an emergency situation where huge unexpected amount of flow and volumes are needed due to pump shutdown or pipe breakage, water from other sources such as the City would provide continued service to United Water customers. Staff concurs that modifying the interconnection system to allow United Water to obtain water from the City during emergencies would be beneficial to its customers because of additional redundancy to water supply. Staff also believes that this is a cheaper alternative of providing that extra protection for continuous and reliable water service to United Water customers. Drilling a new well and installing a deep well pump to provide an equivalent capacity of 825 gpm to be used during an emergency would be a very capital extensive proposition.

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<sup>1</sup> Maximum amount of flow rate and volume to be delivered by the City as cited in Article 2.6.b of the proposed Agreement.

### ***Total Cost of Intertie and Allocation of Cost***

The Company provides a preliminary estimate of \$19,995 for the total cost of modifying the intertie project. Out of this total project cost, \$14,496 (72.5%) is allocated to United Water and \$5,499 (27.5%) of the cost is allocated to the City. Essentially the construction costs of project elements where they involve accommodating flow from the City to the United Water system (i.e. piping modification, PRV/Rate Flow Combo) are allocated 100% to United Water. Those project elements that serve the party equally (i.e. 8-inch electro-magnetic flow meter, data logger, transducer, etc.) are split equally between the Company and the City. Staff reviewed the costs allocation of the intertie and considers it reasonable and appropriate.

United Water is investing approximately \$14,496 for the modification of the interconnection facility. Since all the components of the proposed intertie modification are necessary to permit delivery of emergency water supply from the City of Eagle to the United Water system, Staff believes that this cost can be fully and appropriately allocated to the need of purchasing emergency water from the City. This capital investment would be comparable to an alternative of building another facility to provide emergency water for United Water such as drilling a well or increasing the size of an existing storage facility. Staff believes this cost should be treated as a charge to normal plant account for Transmission, Distribution Mains and Accessories to be included in the Company's rate base. Because most United Water customers within the United Water's pressure zone where the interconnection is located will benefit from the interconnection facility to provide access to extra water when the Company's system experiences emergency situations, Staff believes it is appropriate for all United Water's customers to pay for the modification of the interconnection facility when the costs are put in rate base.

### ***Charges for Water Sold***

The Company proposes that when it provides water supplies to the City, United Water will receive payment at full tariff volumetric rate, not a discount. Application at 3. For billing purposes, the interconnection meter will be read by the supplying party in accordance with its regular meter reading schedule. Each party will bill the other in arrears for volumes delivered to the other through the Interconnection period. Section 2.5 of the proposed Agreement. The rate for service supplied under this Agreement by United Water will be the Volume Charge set forth in United Water's Schedule 1, General Metered Service, as the same now exists or may hereafter amended. No

“customer”, “service”, “fixed”, franchise” or “IDEQ” fees or charges of any type will be applicable for billing purposes by either party. *Id.*

In Commission Order No. 27121, the Commission approved the 1997 Agreement to use United Water’s Schedule 1 rates based on recorded usage as recommended by Staff. Staff has learned, however, that Schedule 1 was never used in charging the City for the usage of water. Staff was informed that instead of using the Schedule 1 rate, United Water used Schedule No. 3, Private Fire Sprinkler and Service using the rate for an 8-inch service line. The Company further informed Staff that this billing rate was used through an informal agreement with the City without formally modifying their Agreement.

Currently, United Water does not have any rate schedule for wholesale rates of water and proposes to use the current Schedule 1 rate. A copy of Schedule 1 tariff currently in effect is attached as Attachment A. Schedule 1 is a tariff that applies to nearly all customers of United Water, both residential and commercial, for general metered service. Schedule 1 includes a customer charge component based on meter size and a volumetric charge for actual customer usage with winter rates and summer rates. The Schedule 1 rates now in effect were established in United Water’s last rate case which concluded in 2010.

As proposed, the City will be considered as a single customer with an 8-inch meter. For a regular United Water residential or commercial customer falling under Schedule 1, such customer is normally billed with a customer charge. However, in the proposed Agreement, there will be no customer charge applied to the City. Only a volumetric charge will be applied to the actual volume of emergency water delivered to the City without discount.

Staff does not oppose United Water’s proposal to use the Schedule 1, volumetric charge only, because as noted above, no additional capital cost is invested by United Water to supply emergency water to the City. Second, the City is not a regular customer requiring regular delivery of water and as such it may not be appropriate to apply the customer charges under the Schedule 1 rate. Based on the historical delivery of emergency water to the City, as shown in the table later in the Staff Comments, there are some years when the City did not have an emergency situation requiring United Water to deliver water to the City. For example, from 2005 to 2010, actual deliveries only took place in 2006 and 2007. Third, the actual cost of providing water to the city is unknown at this time. The cost of water that would be provided to the city includes variable costs and fixed costs. The variable costs generally include electric cost due to pumping, water treatment and other non-fixed costs. In 2008, the variable cost of United Water is about 14% and the fixed

cost is about 86%.<sup>2</sup> However, its total revenue is about 74% of the variable or volumetric charges, which includes both variable cost and some fixed cost. By applying the volumetric charge to the City, it appears that some of the fixed costs are already embedded in the variable or commodity charges. Fourth, the City of Eagle will not be charging the United Water customer charge when water is sold to the Company. Staff believes that it is a reasonable compromise not to apply the “customer”, “service”, “fixed”, “franchise” or “DEQ” fees for billing either party during the exchanges of water (buying and selling) between United Water and the City. Most of these components would cancel out such as the DEQ fees and other “fixed costs”. For example, United Water charges its customers DEQ fees and similarly, under the City’s current tariff, it also charges its customers DEQ fees. Finally, it will be a simpler billing process to administer if fixed charges are not included in the selling and buying of water.

Staff also investigated other options including the use of Schedule 3, Private Fire Sprinkler and Service, which is now currently being used in the existing Agreement, and developing a new Rate Schedule for wholesale rates. Staff believes it is not appropriate to use Schedule 3 under the proposed agreement because sale of water to the City of Eagle will not be limited to fire suppressions but will also apply to other emergency purposes such significant pipe breaks, unexpected pump shutdowns, and scheduled maintenance of large facilities (i.e. pumping plants, reservoirs).

United Water provided Staff the estimated volume and actual revenue collected from 2005 to 2010 as presented in the following tabulation:

Year	Volume Sold	Revenues <sup>3</sup>
2005	0 gallons	\$2,869
2006	1,474,000 gals.	\$3,291
2007	5,750,000 gals.	\$3,530
2008	0 gallons	\$3,530
2009	0 gallons	\$3,530
2010	0 gallons	\$3,782
Total		\$20,532

<sup>2</sup> 2008 Actual Cost, United Water Presentation to IPUC Staff, January 20, 2011.

<sup>3</sup> Actual revenues using Schedule 3, Private Fire Sprinkler and Service applicable during the time of service.

The actual revenues shown in the above table were generated in billing the City using Schedule 3 rates applicable during the actual time of sale for the 12-inch meter and 8-inch meter at Trail Creek PRV and Brookwood interconnections, respectively. The total bill also included the DEQ fees and applicable municipal franchise fees. Schedule 3 rates are flat fees per month for specific meter size and does not include volumetric charge.

With the above historical data and for comparative purposes, applying a volumetric rate<sup>4</sup> using the total volume of water sold in each year using Schedule 1 rates applicable during the time of sale, the estimated revenue is shown in the following tabulation:

Year	Volume Sold <sup>5</sup>	Revenues
2005	0 gallons	0
2006	1,474,000 gals.	\$2,684
2007	5,750,000 gals.	\$10,474
2008	0 gallons	0
2009	0 gallons	0
2010	0 gallons	0
Total		\$13,158

As shown in the above tables, if an actual sale of water to the City occurs and the volume delivered is quite significant, it is more preferred and advantageous to charge using volumetric rates under Schedule 1 rather than using the Schedule 3 rates. The total revenue for the last six years is more, however, if the Schedule 3 were used. Because the delivery of water supply under the new Agreement is not just for fire protection, it is reasonable to assume that water delivery would be more frequent and at higher volume.

***Charges for Water Received***

As discussed previously, the proposed agreement provides that the City of Eagle shall use the Consumption Rate set forth in City of Eagle Resolution 08-33 as it exists now or may be amended later. This Consumption Rate is applicable to all active water customers of the City which consists of base rate, the water safety fee, the system enhancement fee and the volume charge. As indicated in the proposed Agreement, no “customer”, “service”, “fixed”, “franchise” or “DEQ” fees

<sup>4</sup> Schedule 1 for United Water currently in effect.

<sup>5</sup> Assumes ½ of total volume is delivered during summer and ½ is delivered in winter season.



or charges of any type shall be applicable for billing purposes by either party. For billing purposes, only volume charge will be applied to the actual volume of water sold to United Water. A copy of City of Eagle Resolution 08-33 currently in effect is attached as Attachment B. Staff reviewed the City's tariff under Resolution 08-33, and believes that the volumetric rate to be applied for all emergency water purchases by United Water under the agreement is fair and reasonable.

### ***Water Quality Issues***

Section 2.6 (a) of the proposed agreement states "Each party shall use its best efforts to ensure that the Supplies furnished hereunder shall be potable and in compliance with all applicable federal and State of Idaho laws and regulations in effect at the time the Supplies are delivered to the other party (collectively, the "Water Quality Laws"). Neither party shall be responsible for the quality of water beyond the point of delivery to the other party's systems." The City of Eagle and United Water's systems are public drinking water systems regulated by the EPA and the Idaho Department of Environmental Quality for compliance with specific water quality standards. Staff believes that Section 2.6 (a) of the proposed agreement provides protection for the customers of United Water and the City, as long as both parties comply with the water quality standards. Staff reviewed United Water's 2010 Annual Water Quality Report and the City of Eagle's 2009 Consumer Confidence Report, and each report indicates that no water quality violations have occurred in their systems during the reporting period.

Staff asked United Water if there is a plan to monitor water quality during delivery of water to the Company's water system and learned that no monitoring plan is contemplated, although it could be done, if necessary. Request for emergency water supply and activation of the interconnection system could happen at any time. Staff recommends that the Company regularly observe or review available water quality reports produced by the City of Eagle and be aware when problems arise concerning water quality (e.g. not meeting a standard for specific contaminant regulated by IDEQ or presence of microbial contaminants). When water is delivered to the Company's distribution system at the interconnection point and water quality appears to be an issue, United Water should implement appropriate actions to ensure protection for the Company's customers.

Some inorganic secondary water contaminants such as iron and manganese are not considered health hazards and are not regulated by EPA and IDEQ. However these contaminants can cause offensive tastes, appearance and staining resulting in complaints from customers. Staff is

concerned about this issue and asked the Company how it would ensure that water purchased from the City of Eagle would be of comparable quality with United Water's water supply in the general area regarding these secondary contaminants. United Water regularly monitors and tests its water for manganese, iron and other secondary drinking water contaminants that would affect the aesthetic quality of water. The Company publishes the results of water quality tests in its Annual Water Quality Report. Test results reported in the 2010 Water Quality Report indicate that, on a system average, the secondary contaminants tested which included manganese and iron meet the guidelines set by the EPA and IDEQ. Staff notes that the Secondary drinking water standards promulgated by EPA and IDEQ are recommendations only, not mandates.

The City of Eagle, however, does not regularly monitor these secondary contaminants and test results of these contaminants were not published in its 2009 Water Quality Report. Staff checked with the Idaho Department of Environmental Quality for some available data and found that test reports filed at IDEQ in 2004 and 2007 which included testing some secondary contaminants, show from non-detectable level to 0.3 mg/L for iron and non-detectable level for manganese. These test results are below the guidelines set by the EPA and IDEQ.

Staff believes that in general, the quality of water from the City of Eagle is of comparable quality with United Water and that customers of the Company will not be harmed in terms of reduced water quality with this agreement.

### **STAFF RECOMMENDATIONS**

Staff recommends that the proposed Agreement between United Water and the City of Eagle be approved by the Commission. However, while Staff recommends that United Water apply the volumetric charge under Schedule 1 rate without charging fixed cost under the proposed Agreement, this should not be used as precedent in the future for similar cases.

Respectfully submitted this 1<sup>st</sup> day of March 2011.



Weldon B. Stutzman  
Deputy Attorney General

umisc:comments/uwiw11.lwsgdg comments

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 1<sup>ST</sup> DAY OF MARCH 2011, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. UWI-W-11-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

DEAN J MILLER  
CHAS F McDEVITT  
McDEVITT & MILLER LLP  
PO BOX 2564  
BOISE ID 83701  
E-MAIL: [joe@mcdevitt-miller.com](mailto:joe@mcdevitt-miller.com)

SUSAN E BUXTON  
MOORE SMITH BUXTON ET AL  
950 W BANNOCK STE 520  
BOISE ID 83702  
E-MAIL: [seb@msbtlaw.com](mailto:seb@msbtlaw.com)

  
SECRETARY