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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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|--|-----------------------------|
| IN THE MATTER OF UNITED WATER IDAHO) | |
| INC.'S AND BRIAN SUBDIVISION WATER) | CASE NO. UWI-W-14-01 |
| USERS ASSOCIATION'S APPLICATION TO) | |
| ALLOW UNITED WATER TO TAKE OVER) | COMMENTS OF THE |
| BRIAN WATER'S DOMESTIC WATER) | COMMISSION STAFF |
| <u>SYSTEM.</u>) | |

The Staff of the Idaho Public Utilities Commission comments as follows on United Water Idaho Inc.'s and Brian Subdivision Water Users Association's Application to allow United Water to take over Brian Water's domestic water system.

BACKGROUND

On September 29, 2014, United Water Idaho Inc. ("United Water") and Brian Subdivision Water Users Association ("Brian Water") applied to the Commission for an Order authorizing United Water to connect to, and take over the operation of, Brian Water's domestic water system. On October 17, 2014, the Commission notified interested persons about the Application and invited them to comment on it through November 28, 2014. *See* Order No. 33154.

In their Application, United Water and Brian Water (collectively, the "Applicants") explain that the Idaho Department of Environmental Quality ("IDEQ") has required Brian Water to eliminate contaminants from its domestic water system, and that the most feasible way for Brian Water to do this is to connect its system to United Water. The Applicants have entered

into an “Agreement for Connection and Transfer of Water Systems” (“Agreement”) to facilitate this transaction. *See* Application, Section IV, Exhibit C.

The Applicants estimate it would cost \$1,340,209 for United Water to connect to Brian Water’s system. This amount would include about \$1,215,184 in pipeline costs and \$125,026 in service and meter costs. The Applicants propose that Brian Water’s customers pay for 10% of the trued-up pipeline costs and 100% of the trued-up costs for services and meters, and that United Water’s customers pay 90% of the trued-up pipeline costs.

The Applicants propose that Brian Water customers cover this amount by paying United Water an extra \$124.86 on their water bill every two months for ten years or, at a customer’s option, by making a one-time payment. The Applicants propose that the Commission approve this surcharge to Brian Water customers under the “contract standard” — as opposed to a “tariff standard” — so the surcharge will not change in a general rate case unless the Commission decides that the surcharge adversely affects the public interest.

With respect to the costs allocated to United Water’s customers, the Applicants propose that United Water would: (1) defer recovery of those costs and continue to accrue allowance for funds used during construction (“AFUDC”) until included in rates; and (2) include those costs in the base rates it seeks in its next general rate case (including a return on the investment amount as calculated at the end of the year and not as a 13-month average).

The Applicants state that upon the Commission’s approval of the Application, United Water will file a conforming tariff specifying the terms of service for customers in the Brian Subdivision.

The Applicants state that Brian Water has notified its members about the proposals and this Application.

The Applicants request that the Commission:

- approve a change to United Water’s Certificate of Public Convenience and Necessity (“CPCN”) to add Brian Subdivision;
- confirm that United Water shall serve Brian Subdivision after the closing date of the parties’ agreement;
- approve the Applicants’ surcharge and rate proposals; and
- confirm that United Water’s contemplated investments are prudent for ratemaking purposes, and approve the Applicants’ cost recovery proposals.

STAFF REVIEW

Staff Comments address the following issues: (A) the water supply contamination and corrective options; (B) main-line extension alternatives; (C) cost allocation; (D) modifying United Water's CPCN; (E) rate impacts, actual cost, true up, and surcharge; (F) accounting; and (G) customer billing and notifications.

A. Water Supply Contamination and Corrective Options

In 2007, IDEQ found significant nitrate concentrations in Brian Water's water supply during routine testing. The nitrate levels increased over the next four years and eventually exceeded the maximum allowable contaminant level of 10 mg/L. IDEQ disapproved the water system in February of 2011. Because of the seriousness of elevated nitrate levels, IDEQ has routinely required Brian Water to notify customers not to drink the water or use it to make baby formula.¹

Over the past few years, the Applicants have worked with the IDEQ to resolve the water contamination issues. Four main options were considered: (1) point-of-use ("POU") in-home treatment; (2) centralized treatment; (3) drilling a new well; and (4) connecting Brian Water's system to United Water's system. After evaluating these options, the Applicants decided the best option was to connect Brian Water's system to United Water. This is the only option that IDEQ supports.²

IDEQ rejects the three other options because: (1) POU treatment is not allowed by IDEQ due to the acute risk associated with nitrate; (2) waste stream discharge from centralized treatment would exacerbate the nitrate concentration problems; and (3) well sites that comply with setback requirements are not available. It is unclear when sufficiently clean water supplies might exist and the requirements for redundant water supplies preclude the use of new wells.

¹ Nitrate level about 10 mg/L can have serious health impacts in a relatively short amount of time following consumption, especially for infants less than six months old. See Public Comments submitted by IDEQ on October 7, 2014.

² See Public Comments submitted by IDEQ on October 7, 2014; Application, Direct Testimony of Richard Juengling, pg. 4.

Staff understands why IDEQ rejects these three water supply alternatives, and Staff acknowledges that IDEQ must approve the Brian Subdivision's future water supply system. Staff thus supports connecting Brian Water's system to United Water.

B. Main Line Extension Alternatives

The Applicants and Staff developed and assessed several options for connecting the two systems. These included: (1) an extension of the water main down Warm Springs; and (2) extending the water main from the south side of the Boise River and New York Canal (i.e., Highway 21 River Crossing). Of these two alternatives, the Applicants' prefer to extend the water main from the south side of the Boise River due to a variety of engineering and customer service benefits. These benefits include:³

- providing an additional direct water supply connection to Barber's highest growth area (i.e., eastern growth boundary);
- balancing the supporting import flows between the east and west, thereby reducing stress on the Federal Way pipeline;
- eliminating the need for a new booster station, auxiliary power generator, and the associated operating costs that are necessary with the Warm Springs option;
- eliminating an approximate, two mile long dead end mainline;⁴
- improving service and reliability to all of the approximately 7,000 Barber Service Level customers, including customers in the Brian Subdivision; and
- providing adequate flow and pressure for fire protection service to Brian Water customers.

Staff has reviewed the construction cost estimates for each option. The estimates are based on a December 2013 proposal from Owyhee Construction Inc. for the standard main-line work, and an April 2014 proposal from Earth Energy, Inc. for the canal and river bores. The construction cost estimates shown in Exhibit No. 2 to the Direct Testimony of Gregory P. Wyatt use the unit cost estimates from these proposals, but the quantity (i.e. length of main) changed between when the proposals were made and when the final cost estimate was completed. Staff

³ See Application, Direct Testimony of Gregory P. Wyatt, pg. 6–7.

⁴ IDEQ encourages the elimination of dead end mains to provide: "increased reliability of service and reduced head loss." See IDAPA 58.01.08.542.08a.

believes these cost estimates are generally complete with respect to the materials and labor required, and are within a reasonable range of costs.

United Water intends to contract with Earth Energy, Inc. for the river and canal bores and plans to bid out the remaining main-line and services work. United Water will pay Earth Energy after verifying that Earth Energy has completed the invoiced work. *See Response to Staff Production Request No. 5 and No. 6.*

After comparing the alternative costs and benefits, Staff supports extending the water main from the south side of the Boise River and New York Canal (i.e., Highway 21 River Crossing) because:

1. United Water serves the Warm Springs corridor west of Brian Water through the Barber Service Level. This service level has experienced significant growth, especially towards the east. At this time, the Barber Service Level water supply is limited, with 25% of its maximum day supply needs being imported at the western boundary. *See Application, Direct Testimony of Gregory P. Wyatt at 6;*
2. United Water's Master Plan (2009-2015) contemplates a potential water-main connection under the Boise River just east of Brian Water (i.e., downstream of the Highway 21 bridge) to serve customer growth along the north side of Warm Springs;
3. A water main has been installed downstream of the East Park Center Bridge, near the east-central portion of the Barber Service Level; at this time, the area served by this main is not served from the Harris Ranch reservoir;⁵
4. A water main connection into the Barber Service Level on the eastern boundary (i.e., under the Boise River and New York Canal) ensures United Water can provide adequate water service to existing customers;
5. Extending the water main along Warm Springs to the Brian Subdivision would lengthen an un-looped line, which increases risks of water supply system disruptions; and
6. The booster station and auxiliary power generation unit built under the Warm Springs alternative would have become obsolete when the Boise River option main line connection is eventually built.

⁵ United Water expects that as development south of East Warm Springs Avenue continues, United Water will connect with the transmission main in Ekert Road that currently supplies the easterly Harris Ranch area and the Harris Ranch Booster Station. *See United Water's Response to Staff Production Request No.18.*

C. Cost Allocation

United Water's "Rules and Regulations Governing Water Main Extension" for "Extensions for Individual Residences" (Sections 63 – 67) and "Extensions for Other Than Individual Residences" (Sections 68 – 73) govern cost allocation for system expansions. Staff's review of these rules supports the Applicants' proposal that Brian Water's customers be responsible for all of the distribution system costs and metering installation costs within Brian Subdivision.

Staff reviewed the alternatives for extending the main to the Brian Subdivision, and the cost allocations between Brian Subdivision and other United Water customers. Staff observes that the cost to extend the water main down Warm Springs (i.e., \$167,012) is greater than 10% of the cost to extend the water main from the south, under the Boise River and New York Canal (i.e., \$99,400). Furthermore, extending the water main down Warm Springs without also connecting the main to the supply from the Columbia Village pressure zone and Barber Booster/Reservoir intertie will not add benefits for all United Water customers. *See* No. 4 on preceding page. Other factors that support the Agreement include benefits derived from the 46 new Brian Water customers and the associated revenue.

Based on the Applicant's discovery responses, Staff estimates that Brian Water's customers have an asymmetrical average income distribution. More customers have an annual income below the average than above. In addition, Staff's analysis of accounts receivables reveals that eleven customers are in arrears for water services. Eight of these customers appear to be making at least semi-regular payments, while three customers make very few payments. The accounts receivable analysis supports the survey results regarding the modest average annual incomes of residences within the Brian Water Subdivision.

If Brian Water customers had to pay all costs to connect Brian Water's system to United Water's system and to upgrade their system to meet United Water's standards, their rates would increase by about \$3,950 per year. The average customer would pay nearly ten percent of their income just in a surcharge to connect to United Water. It is unlikely, if not impossible, that many customers could afford water service at this price.

Brian Water and United Water have agreed that Brian Water customers should pay for all of the internal work to upgrade the Brian Water system, and ten percent of the amount to connect their system to United Water's system. United Water's customers would cover the remaining costs.

The connection and upgrade would require Brian Water customers to pay a \$125 surcharge every other month (i.e., about \$750 per year). The general body of United Water customers could each receive an increase of about \$2.16 per year when project costs are finally included in rates. After reviewing the impact to Brian Water customers and the Company's other customers, Staff recommends the proposed Agreement be accepted by the Commission.

D. Modifying United Water's CPCN

United Water asks the Commission to modify United Water's current CPCN (i.e., CPCN No. 143) to add the Brian Subdivision. *See* Application, pg. 6. Staff agrees with this proposal, and that expanding United Water's service area to include Brian Subdivision is consistent with the public convenience and necessity as required by Idaho Code § 61-526.

The Brian Subdivision is currently served by Brian Water. United Water's Application states that United Water and Brian Water have entered into an Agreement that, subject to Commission approval, requires United Water to construct facilities to connect Brian Water's system and then provide potable water service to the Brian Water customers.

Attachment 1 to these comments is a map showing the location of Brian Subdivision and the existing United Water service area. Brian Subdivision is located roughly 1400 feet east of the terminal end of the Barber Service Level. There are no other water providers with existing facilities near Brian Subdivision. Staff thus concludes that the requested service territory would not interfere with the operations of any other water utility corporation under the Commission's jurisdiction, in compliance with Idaho Code § 61-526.

E. Rate Impacts, Actual Cost, True Up, and Surcharge

Staff recommends that United Water bill customers for service at rates contained in United Water Rate Schedule No. 1. In addition, after a true-up and audit of construction costs, United Water will bill Brian Water customers a surcharge every other month for ten years. Impacts to Brian Water customers due to the proposed rate schedule change and surcharge are provided in Attachment 2 to these comments.

United Water proposes two payment options for Brian Water customers, including: (1) a fixed surcharge to the customers bills for ten years for the customers' portion once the interconnection with United Water's system is complete and final costs are determined; and (2) a one-time payment equal to the net present value of the surcharge payments over the ten years.

United Water further proposes that Brian Water customers select their payment option once actual construction costs are determined and final revenue requirement calculations are made, and that customers not be allowed to select another option after that. *See Application, Direct Testimony of Gregory P. Wyatt at 8, ll 13 – 22.* Staff disagrees with United Water and believes customers should be allowed to avoid further surcharges by paying a lump sum totaling the present value of all remaining payments at any time during the surcharge period.

The ability to pay a lump sum may be a better option for customers without a high income but who have access to other sources of capital (e.g., refinancing a home). These customers could then extend their payments over a longer time and, depending on the source, the interest may be tax deductible.

Two homes in the subdivision currently are not connected to the Brian Water system and would not be subject to this surcharge. Considering the condition of Brian Water's well, these two customers' wells may also be contaminated and, if so, they may ultimately want to connect to United Water's system. The Brian Water Corporation Facility Plan submitted with the Application notes that the two customers' wells are at 6199 Brian Way and 5890 Boven Drive. United Water's Rules and Regulations regarding applying for service would typically allow these two potential customers to apply at any time after the system transfer without being subject to the surcharge. Staff believes that the cost of the system improvements and the main extension, as reflected in the surcharge, should be shared by everyone within the subdivision. But it is important to note that these customers are paying the entire cost of their water service currently. Staff thus recommends that if a Brian Subdivision resident who is not currently connected to the Brian Water system connects to the system during the original term of the surcharge, then that resident must pay the surcharge for the rest of the original term, with the option to pay a lump sum for the remaining payments. This will assure that all customers in Brian Subdivision that take service from United Water pay a share of the interconnection costs.

To expedite the audit of this project, Staff recommends that the Company provide quarterly construction reports to the Commission, including progress made and expenditures for the project. This will allow Staff to audit the project as it is built, will reduce the time required to finalize the audit, and will minimize the time between the project's completion and the implementation of the surcharge.

Staff recognizes that the estimated surcharge, which is \$124.86 above the usual rates for service, could burden at least several customers that are currently in arrears. But the surcharge is

significantly less than the costs customers would bear if they had to pay all interconnection costs or for an alternative other than interconnection.

F. Accounting

Staff recommends the following accounting treatment for this project:

- United Water will capitalize and defer these expenditures, subject to audit, in a separate subaccount;
- After completion of the project all expenditures not collected by the surcharge will continue to be subject to AFUDC until included in rates; and
- When this project is included in rates, it will not be subject to the thirteen-month average methodology but will be included in rates for the full year.

G. Customer Billing and Notifications

1. Billing

United Water submitted a proposed draft of Schedule 1C, Brian Subdivision Surcharge. The proposed draft describes the conditions under which United Water would charge customers for the system improvements and the main extension. The surcharge will be added to the approved rates for general service customers as specified in United Water's tariff, and will be included on each customer's billing statement every other month. Responsibility for the surcharge will stay with the service address. An existing customer will be responsible for paying the surcharge until he/she closes the account. A new customer applying for service at the service address will assume the responsibility for any remaining surcharge payments.

Staff recommends that Schedule 1C, Brian Subdivision Surcharge be revised to reflect the expiration date of the surcharge (10 years from the closing date of the transaction), and that customers may pay the net present value (NPV) lump sum at any time during the 10-year period. *See Attachment 3.*

Staff believes that customers should be allowed to sign up for United Water's Residential Budget Bill Plan, which allows customers to be billed monthly instead of every other month based on the customer's previous 12 months usage. The Budget Bill amount should be based on usage calculations from Brian Water's records. This billing option will provide some customers with a more manageable monthly payment plan that would cover both usage and the surcharge

amount. Staff also recommends that United Water contact all customers in writing before initial billing to allow the customers to choose a payment option.

2. Notifications

United Water and Brian Water signed the Agreement on September 24, 2014. On September 26, 2014, Brian Water notified its customers that it would file the Application with the Commission. The notice described the Agreement and how customers could submit comments to the Commission and follow the case. Brian Water did not send a copy of the signed Agreement to its customers. Staff also notes that the September notice incorrectly stated that the every other month surcharge would not exceed \$124.56, and omitted that the surcharge would last for ten years. Staff nevertheless believes Brian Water made a good faith effort through its meetings and notices to inform its customers about the proposed transaction.

Commission Order No. 33154 set a November 28, 2014 comment deadline and told customers how to file comments and view a copy of the Application, including the Agreement. To ensure customers were accurately informed about the Agreement's details before the comment deadline, Commission Staff sent a copy of the Order to the customers on October 24, 2014.

CUSTOMER COMMENTS

On October 10, 2014, 38 of Brian Water's 46 customers submitted joint comments supporting the Application. Two of the 38 customers wrote separate comments supporting the Application, and IDEQ's Regional Drinking Water Supervisor also submitted supporting comments.

STAFF RECOMMENDATIONS

1. Connect the Brian Subdivision to the United Water system;
2. Approve the proposed Highway 21 River Crossing main line extension;
3. Modify United Water's CPCN (No. 143) to include the Brian Subdivision;
4. Require United Water provide Staff with quarterly construction reports;
5. Once connected to United Water, charge Brian Water customers United Water rates as contained in United Water's Rate Schedule No. 1;

6. After an audit of the project is completed, apply a ten-year surcharge to Brian Water customers that covers the entire trued-up costs of updating their system to United Water standards and 10% of the trued-up costs of the main line installation to connect the systems;
7. Let Brian Water customers opt to pay the present value of the remaining surcharge payments in a lump sum at any time during the surcharge time frame;
8. Should any resident of Brian Subdivision that is not currently connected wish to be connected to the system, provide that they will also be subject to the surcharge for the remaining surcharge period, including the option of a lump sum payment;
9. Require that United Water use the following accounting treatment for this project:
 - a. United Water will capitalize and defer these expenditures, subject to audit, in a separate subaccount;
 - b. After completion of the project, all expenditures not collected by the surcharge will continue to be subject to AFUDC until included in rates;
 - c. When this project is included in rates it will not be subject to the thirteen-month average methodology but will be included for the full year;
10. That United Water offer Budget Billing to qualified customers based on Brian Water's water usage records; and
11. That all former Brian Water customers be sent a letter defining the surcharge amount and payment terms as well as the available payment options once the final terms and conditions of the surcharge have been approved, and before initial billing.

Respectfully submitted this 26th day of November 2014.

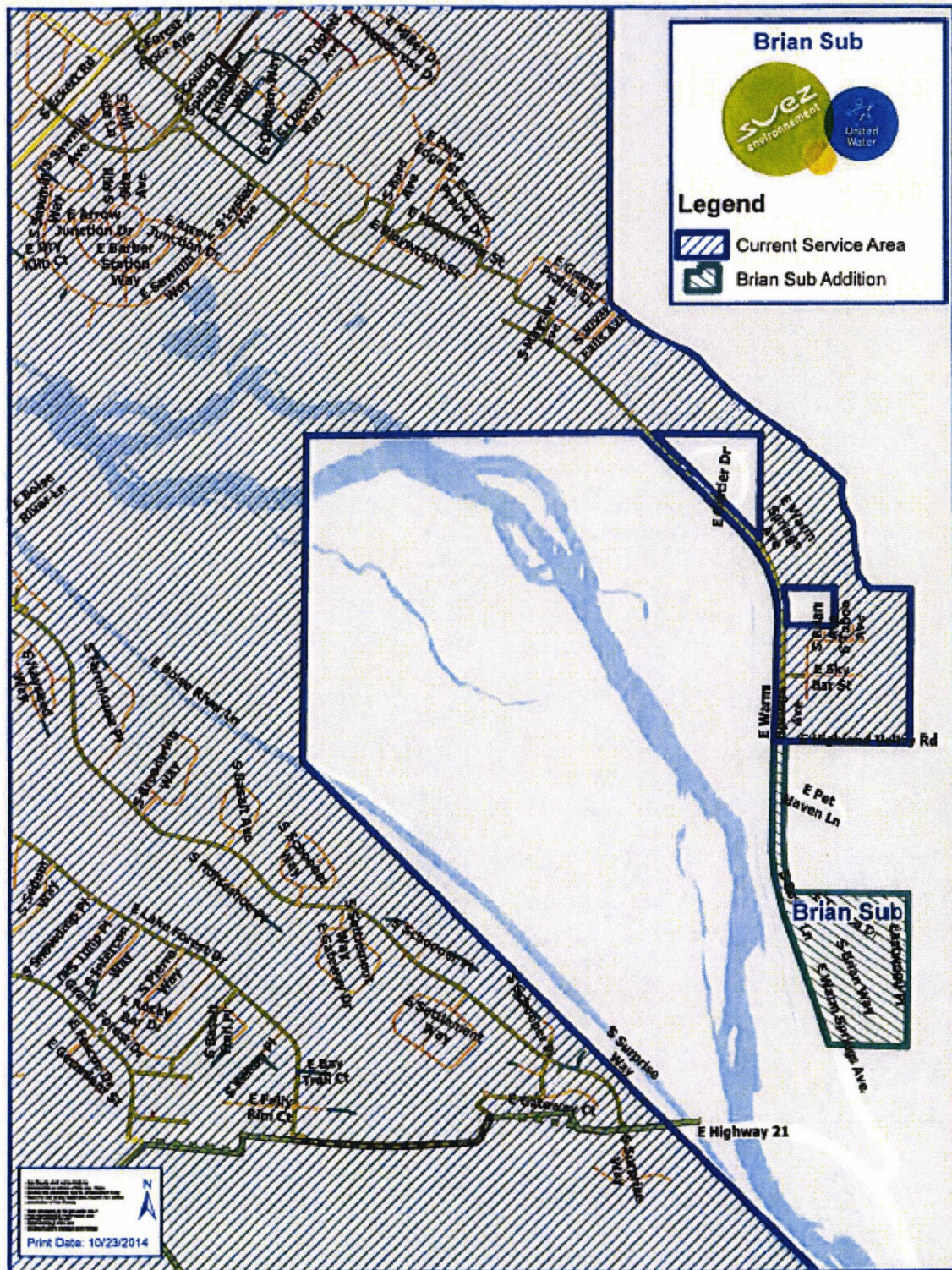


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Joe Terry
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Attachment 1: Modified CPCN Boundary



Attachment 2: Rate Impacts

Brian Subdivision Water Users Association (BSWUA)

| | | | | |
|--------------------------------|----------|---------|---------|---------|
| Usage (gallons) | 100,000 | 50,000 | 10,000 | 3,000 |
| Usage (CCF) | 134 | 67 | 13 | 4 |
| Service/mo (\$17.50) | \$17.50 | \$17.50 | \$17.50 | \$17.50 |
| Over 4000 g/1000g (\$1.15) | \$110.40 | \$52.90 | \$6.90 | \$0.0 |
| Surcharge (\$15.00 if > 4000g) | \$15.00 | \$15.00 | \$15.00 | \$0.0 |
| Total | \$142.90 | \$85.40 | \$39.40 | \$17.50 |

United Water Inc. (Schedule No. 1: General Rates)

| | | | | |
|---|----------|----------|---------|---------|
| Service/mo (\$10.40) ¹ | \$10.40 | \$10.40 | \$10.40 | \$10.40 |
| Non-Summer ² Under 3CCF (\$1.4647) | \$4.39 | \$4.39 | \$4.39 | \$4.39 |
| Non-Summer Over 3CCF (\$1.4647) | \$191.42 | \$93.51 | \$15.19 | \$1.48 |
| Total (Non-Summer) | \$206.22 | \$108.31 | \$29.98 | \$16.27 |
| Summer Under 3CCF (\$1.4647) | \$4.39 | \$4.39 | \$4.39 | \$4.39 |
| Summer Over 3CCF (\$1.8310) | \$239.29 | \$116.90 | \$18.99 | \$1.85 |
| Total (Summer) | \$254.09 | \$131.69 | \$33.78 | \$16.64 |

Summary

| Monthly Usage (gallons/CCF) | BSWUA | UWI: Non- Summer | UWI: Summer | % Change – Non- Summer | % Change - Summer |
|--------------------------------|----------|---------------------|-------------|---------------------------|-------------------|
| 100,000/134 | \$142.90 | \$206.22 | \$254.09 | 44% | 78% |
| 50,000/67 | \$85.40 | \$108.31 | \$131.69 | 27% | 54% |
| 10,000/13 | \$39.40 | \$29.98 | \$33.78 | -24% | -14% |
| 3,000/4 | \$17.50 | \$16.27 | \$16.64 | -7% | -5% |

10-Year Surcharge:

\$62.43/month or \$124.86/billing period

¹ Every other month billing periods

² Non-Summer = October – April; Summer = May - September

SCHEDULE NO. 1C BRIAN SUBDIVISION SURCHARGE

Availability:

To all metered customers, who were previously customers of Brian Subdivision Water Users Association Inc., located in the Brian Subdivision, Ada County, Idaho.

Surcharge Amount

An every other month charge in the amount of [\$] in addition to charges specified in Schedule No. 1, General Metered Service, and other applicable charges.

Conditions of Contract:

The surcharge set forth above shall take effect in the first billing period following the customer's connection to the Company's distribution system and computation of final project costs. The surcharge shall continue for a period of ten (10) years until [date].

The surcharge shall attach to the customer service address and payment thereof shall be the responsibility of subsequent customers taking service at that address.

The surcharge shall not be subject to change in subsequent general rate proceedings absent a showing of adversity to the public interest.

In lieu of the surcharge a customer may elect to pay a single lump sum payment equal to the NPV of the surcharge amount owed at the time of election. The lump sum amount must be paid within thirty (30) days of the customer's election and shall be irrevocable.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 26TH DAY OF NOVEMBER 2014, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. UWI-W-14-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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SECRETARY

CERTIFICATE OF SERVICE