DECISION MEMORANDUM

TO:COMMISSIONER HANSEN

COMMISSIONER NELSON

COMMISSIONER SMITH

MYRNA WALTERS

TONYA CLARK

DON HOWELL

STEPHANIE MILLER

DAVE SCHUNKE

TERRI CARLOCK

BOB SMITH

RANDY LOBB

TONY JONES

DAVID SCOTT

WORKING FILE

FROM:SCOTT WOODBURY

DATE:MAY 16, 1997

RE:CASE NO.  UWI-W-96-8

AMENDED CERTIFICATE APPLICATION—BANBURY/SPYGLASS

ORIGINAL APPLICATION

On November 15, 1996, United Water Idaho Inc. (United Water; Company) and Banbury Homeowners Association, Inc.  (Banbury) filed a Joint Application with the Idaho Public Utilities Commission (Commission) for an Order approving the purchase by United Water of domestic service water properties owned by Banbury, approving the related expansion of United Water’s Certificate of Public Convenience and Necessity No. 143 and approving related rates and charges for Banbury customers.  Reference Idaho Code 61-526; Commission Rules of Procedure, IDAPA 31.01.01.52, .112.

United Water is a public utility corporation organized and existing under the laws of the state of Idaho and currently provides water service to approximately 56,000 residential, commercial and other classes of customers in the city of Boise and surrounding areas.

The Application states that Banbury is an Idaho non-profit, non-stock membership corporation.  Banbury is the titled owner (on behalf of its members, the lot owners in Banbury subdivision) of the common areas in Banbury No. 1 through Banbury No. 7 subdivisions, the plats of which are on file and of record in the office of the recorder of Ada County, Idaho, which seven subdivisions are collectively referred to as “Banbury Subdivision.”  Banbury subdivision is located in Ada County, contiguous to the present service area of United Water and is generally bounded on the south by Chinden Boulevard, on the east by Eagle Road, on the West by Locust Grove Road and on the north by the Bench Rim overlooking lower lands and the Boise River.

Banbury reports that it acquired the separate domestic and irrigation water system serving Banbury Subdivision from the developer of Banbury Subdivision.  The domestic water system is and has been operated for about nine years on a written contract basis by Engineering Management & Maintenance, Inc.  (EM²), an Idaho corporation, and a recent United Water affiliate.  Banbury provides water service to approximately 152 residential customers in Banbury Subdivision.  Water distribution and service facilities are in place for approximately 20 additional customers when all lots have been built and connected.  All Banbury customers are metered.

Pursuant to an asset purchase Agreement (Agreement for Purchase and Sale) Banbury will sell and transfer to United Water all its domestic water service properties (except for the well facilities) located in Ada County, Idaho.  As initially negotiated, the stated total purchase price was $189,200.  As agreed, the purchase price is not to be adjusted for taxes, customer deposits, accounts receivable or accounts payable.  Pursuant to Agreement (Supplemental Option Agreement), United Water may also in the future purchase real property and associated well facilities for the additional sum of $144,000.  The Company requested an Order confirming the right to include in rate base in future rate proceedings the net full purchase price of the assets subject to this transaction.

Pursuant to Agreement, United Water proposes to provide domestic water service to the Banbury service area at “phased in” rates in accordance with the same schedule of rates approved by the Commission for Eagle area subdivisions in Case No. UWI-W-94-1, Order Nos.  26337 and 26524.

The Applicants represent that the current owners of Banbury desire to convey the Banbury domestic water system because they are unwilling to undertake the perceived risks of continued operations arising from increasingly stringent water quality regulations, and increasingly complex operational and technical requirements.  Because of its small size, Banbury has experienced and in the absence of this sale, would continue to experience, difficulties in maintaining its system and obtaining adequate financing for operations, maintenance and expansion.  United Water contends that it possesses the technical, managerial and financial abilities to provide reliable and adequate service, and accordingly contends, that the proposed transfer is in the public interest.

Notices of Application and Modified Procedure in Case No. UWI-W-96-8 were issued on January 2, 1997.  The deadline for filing written comments was January 31, 1997.  The Commission Staff was the only party to file comments (attached).  Staff recommended that the Company’s Application be denied.  It was Staff’s contention that United Water should not pay for the Banbury Water System; that there should be no addition to United Water’s rate base; and that there should be no phase-in of rates to Banbury customers.

AMENDED APPLICATION

On April 17, 1997, United Water and Banbury filed an Amended Application in Case No. UWI-W-96-8, together with supporting comments.  The Applicants represent that the amended filing addresses various concerns of the Commission Staff.

The Amended Application represents that the purchase price for the water service properties has been reduced to $171,300 from the original purchase price of $189,200.  The Applicants also represent that connection fees ($465 for each  1/4" meter, or $783 for each 1" meter) for 32 unserved residential lots in Banbury will be collected.  United Water states that it is willing to proceed with the acquisition if the sum of $137,600 is approved for inclusion in rate base at the time the Commission enters its Order approving the acquisition.”

United Water further represents and clarifies that part of the area requested in its Amended Certificate Application includes an adjacent subdivision known as the Spyglass Subdivision.  (The Spyglass Subdivision was not expressly identified in the Company’s earlier filing.)  The Company anticipates that the Spyglass Subdivision will be interconnected with the Banbury Subdivision.  As represented, the costs of interconnection will be borne by Spyglass, and not by the Company’s other ratepayers.

Notices of Amended Application and Modified Procedure in Case No. UWI-W-96-8 were issued on April 30, 1997.  The deadline for filing written comments was May 9, 1997.  Commission Staff was the only party to file comments (attached).

With additional information provided regarding the amount of revenues generated by Banbury customers, the size of customer services and the age of the Banbury system, and basing its analysis on the line extension tariffs and residential escrow formula in place at the time the initial application was made, Staff now supports the Company’s Application to acquire Banbury and include it within its certificated area.  Staff has concluded that it will support the Company in a $137,600 increase in rate base as part of its next general rate case.  It is understood that the Company in exchange for Staff’s support will agree to forego any request for rate recovery of additional Banbury acquisition costs.

Staff also supports United Water in its proposal to interconnect the Spyglass subdivision and include it in the Company’s certificated area.  Despite the possibility of a revenue deficiency until sufficient customers take service, the negotiated contribution from Spyglass, Staff contends, is essentially equivalent to what would be required with the standard line extension escrow policy in place at the time the agreement was executed.

Contrary to the Company’s understanding, Staff’s position on hook-up fees with respect to the 32 unserved lots in the Banbury subdivision is that service to lots should be under existing tariffs at the time the service connection is requested.  If tariffs require no hook-up fee then none should be collected.

Staff continues to object to the requested phase-in of rates.  The Company contends that “if phased-in rates are not approved there is a high likelihood that the transaction will fail.”  The Company has agreed to hold existing customers harmless from any revenue short-fall.

Commission Decision

Re:  Banbury Subdivision

●United Water requests immediate approval for rate base purposes of $137,600.  Staff agreed only to support this figure at the time of the Company’s next general rate case.

●Re:  Phase-In of Rates

●Re:  32 unserved lots—applicable tariffs?

●Certificate of PC&N

Re:  Spyglass Subdivision

●Certificate of PC&N

Scott D. Woodbury

bls/M-uwiw968.sw3