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BEFORE  THE  IDAHO  PUBLIC  UTILITIES  COMMISSION

IN THE MATTER OF THE JOINT APPLICATION)CASE NO. UWI-W-97-4

OF UNITED WATER IDAHO INC. AND THE)

CITY OF EAGLE FOR APPROVAL OF A    )COMMENTS OF THE

SPECIAL CONTRACT FOR SUPPLY OF WATER)COMMISSION STAFF

TO THE CITY OF EAGLE.)

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COMES NOW  the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notices of Application and Modified Procedure in Case No. UWI-W-97-4, submits the following comments.

On July 11, 1997, United Water Idaho Inc. (United Water, Company) and the City of Eagle (City) filed a Joint Application for approval of a special contract (Agreement) for supply of water to the City of Eagle.  The area to be served under the Agreement is outside of United Water’s certificated area.  The Agreement provides the City with an additional water source and supplemental water for fire flows.  The Agreement and Application recite that water will be provided at United Water’s Tariff Schedule No. 1 general meter service rates.  The Agreement is for a one-year period, with provisions for automatic annual one-year extensions.

On July 16, 1997, the Commission granted approval of the water supply Agreement on an interim basis for the purpose of fire flow protection.  Although the Agreement became effective on August 1, 1997, construction of the facilities needed to provide the water service has not yet been completed.  Completion is expected by September 15, 1997.

A stated purpose of the Agreement is to enable the subdivisions of Lexington Hills and Treasure Valley Village to certify to the City of Eagle that the domestic water system installed by the developers meets the requirements of supply for fire protection as imposed by the Idaho Department of Health and Welfare.  Reference Agreement Recitals paragraph G.  Construction of a water line and intertie to United Water’s system will enable the water system to meet this requirement.

United Water proposes to provide the service to the City using the Floating Feather well, located along Floating Feather Road, one-half mile west of Eagle Road.  This well is presently being used to provide service to a junior high school and is available to United Water to serve other customers in its certificated area.  It is not presently included in United Water’s rate base.  Under the Agreement, United Water must be able to provide flows of no less than 1500 gpm for fire protection.  The Floating Feather well exceeds this capacity.

To interconnect to the City’s system, a 12-inch pipeline approximately one mile long will be constructed.  The water main to intertie the Floating Feather well with the City’s water system will be constructed by EM2, an unregulated affiliate of United Water, acting on behalf of Lexington Hills and Treasure Valley Village developers.  Lexington Hills and Treasure Valley Village developers have contracted to convey the water line to the City upon completion.  Reference Agreement Recitals paragraph I.

The total cost of the water main is estimated to be $360,000.  Lexington Hills, Inc. and Treasure Valley Village will pay an aggregate initial payment of $120,000.  Following the initial payment, the remaining $240,000 plus interest is to be paid to EM2 over a term of six years in 72 equal monthly installments.  These payments are to be reduced by connection fees collected by the City of Eagle with not less than $530 of each connection fee applied as a reduction to the monthly payments.

A six-inch master meter will be installed at the point of interconnection, permitting United Water to bill the City according to recorded usage.  The City will be billed bi-monthly at Schedule 1 rates.  Billing and metering of individual customers served by the new pipeline will be the responsibility of the City.  Operation and maintenance on the City’s side of the interconnection will be the City’s responsibility.  Construction of any additional distribution facilities beyond the point of interconnection will also be the responsibility of the City and of developers.

STAFF ANALYSIS

Staff believes that the most important issue for the Commission to consider in deciding whether to approve the Agreement is whether there is assurance that existing and future customers of United Water will not be harmed.  The supply agreement with the City should not cause United Water’s existing customers to subsidize municipal customers who will be served under the supply agreement, thus the rates charged under the supply agreement should be no less than the cost of providing service.  Finally, the ability of United Water to provide adequate flows for fire protection to its existing customers should not be jeopardized or diminished as a result of its agreement to provide fire flows to the City of Eagle.

United Water Revenue Under the Agreement

Under the Agreement, the City will be billed for water usage as a single customer according to Schedule 1 rates.  A copy of the Schedule 1 tariff currently in effect is attached as Exhibit No. 1.  Schedule 1 is the tariff that applies to nearly all customers of United Water, both residential and commercial, for general metered service.  The Schedule 1 rates now in effect were established in United Water’s last rate case which concluded in 1996.

The City will appear to United Water as a single large customer, despite the fact that the City will be providing fire flows for several hundred customers.  As a single large customer, the City will be treated no differently by the Company than any other large customer.

United Water will provide fire flows to the City through a single six-inch meter and a 12-inch line.  The bi-monthly customer charge for a six-inch meter according to Schedule 1 is $215.51.  Since United Water does not anticipate delivering water for other purposes, (Reference UWI response to Staff Production Request No. 1) it is reasonable to assume no revenue will be received through the commodity rates of Schedule 1.  The annual revenue which United Water can reasonably expect, therefore, is $1293.

However, although United Water has stated it does not expect the City to use water for other than fire protection, Staff believes that without a shut-off valve, some water will flow from United Water’s system to the City’s system.  Whether the revenue under Schedule 1 rates will be sufficient to cover the cost of providing that water is unknown.  Staff believes that continuous flow monitoring, to the extent the Company is able to accomplish it, could provide valuable information in setting proper rates in the future.

United Water’s Costs of Providing Service

In response to Staff production requests, United Water states that the only new facilities to be owned by the Company and located within their certificated area that will be required to provide service under the Agreement will be a meter and a meter setting.  The

projected cost to purchase and install this equipment is $5500 - $6000.  Since all remaining facilities that must be installed will be paid for by others, there are no additional costs to     United Water.

The annual revenue requirement associated with a United Water investment of $6000 is approximately $1174.  This assumes a return on rate base of 9.51%, a tax gross-up factor of 1.655 and a 40-year depreciation period.  It also includes an additional amount to cover operation and maintenance, administrative and general expenses, and customer accounting.  This additional amount, Staff estimates, would be about $80.

Staff Recommendations

Since the revenue United Water will receive under the Agreement ($1293) exceeds the annual revenue requirement ($1174), the Agreement should not harm United Water and its ratepayers.  Consequently, Staff does not oppose the Agreement.

Staff also recognizes, however, that a more detailed analysis would be necessary to more accurately determine a reasonable rate for wholesale service.  Retail rates as reflected in Schedule 1, were simply not established in anticipation of wholesale contracts.  A review of the rates under this Agreement is recommended if the City, at some time in the future, desires water for more than just fire protection.  Until more is known about the actual amount of water that will be consumed and the amount needed for fire protection, Staff is uncertain as to whether  Schedule 1 rates are appropriate for this Agreement over the long term.  For now, however, Staff believes Schedule 1 rates are high enough that other United Water customers will be adequately protected.

Staff  recommends the Agreement between United Water and the City of Eagle be approved, but that it be reviewed again one year from now when more is known about the service actually being provided and its cost.  If the Company submits a cost of service study as part of its general rate case filing expected this fall, then it will be much easier to unbundle the costs of various services provided by United Water, including wholesale water supply.  Staff also recommends that the Commission reserve the right to create a special wholesale tariff rate in the future, perhaps based on direct assignment of costs.

Staff also wishes to point out that the Commission will have an opportunity to review rate base treatment of any facilities used to provide service under the Agreement should United Water seek such treatment in the future.

DATED at Boise, Idaho, this             day of August 1997.

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Scott D. Woodbury

Deputy Attorney General

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