DECISION MEMORANDUM

TO:COMMISSIONER HANSEN

COMMISSIONER NELSON

COMMISSIONER SMITH

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WORKING FILE

FROM:SCOTT WOODBURY

DATE:AUGUST 22, 1997

RE:CASE NO. UWI-W-97-4

WATER SUPPLY AGREEMENT WITH THE CITY OF EAGLE

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 metered service rates.  The Agreement is for a one-year period, with provisions for automatic annual one-year extensions.

On July 16, 1997, the Commission issued Notices of Application and Modified Procedure   and granted approval of the water supply Agreement on an interim basis for the purpose of fire flow protection.  In its Order the Commission stated:

The Commission at the specific request of the City of Eagle finds it reasonable to grant interim approval of the underlying agreement for purpose of fire flow protection for effective date August 1, 1997.  The Company and the City are apprised, however, that any extension of facilities prior to final Order in this case is done with risk that the Agreement may not be approved, and as pertains to United Water that the Commission may deny recovery of related investment.

Order No. 27081, p. 3.

The deadline for filing written comments or protests in Case No. UWI-W-97-4 was August 20, 1997.  Timely comments were filed by Eagle Water Company (attached), Eleanor Chase (attached), and the Commission Staff (attached).  The comments can be summarized as follows:

Eagle Water

Eagle Water interprets the Company’s Application as a request to extend facilities into an uncertificated area.  Reference related Certificate Case Nos. EUW-W-94-1 and EAG-W-95-1.  Eagle Water contends that granting the Application will give United Water an unfair advantage in seeking certification of the area at a later date.  Eagle Water contends that the Company’s minimalist filing belies the actual size and scope of the project.  Eagle Water contends that the project would require the construction of duplicative facilities since Eagle Water has a main line immediately across Floating Feather Road from the proposed point of use.  Eagle Water states that it has the full ability to serve the proposed need, for a much lower cost and in a much faster time.  Eagle Water opposes the Application and requests a hearing.

Eleanor Chase

Ms. Chase, the owner of 120 acres adjacent to the Floating Feather well, the owner of a dairy farm and the owner of two wells with senior water rights, expresses concern that her property could be at risk if United Water over-pumps.  Ms. Chase also represents that the Company orally misrepresented the nature of the proposed project to her, indicating that it was only for fire flow augmentation.  Ms. Chase expresses concern that the proposed project and Agreement are being approved by the City Council and Commission without providing the public with all the facts and without public hearing.  Ms. Chase opposes the Company’s Application and requests a hearing in the City of Eagle.

Commission Staff

Staff describes the proposed project as follows:

United Water proposes to provide [water] to the City using the Floating Feather well, located along Floating Feather Road, one-half mile west of Eagle Road. . . .

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 ¶ 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 provides the following analysis and comments regarding anticipated revenue and costs:

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.  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

▸Based on its revenue/cost analysis, Staff recommends approval of the Agreement, as qualified below:.

A more detailed analysis is 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.

Staff  recommends that the Agreement be reviewed again one year from now when more is known about the service actually being provided and its cost.

Staff recommends that the Commission reserve the right to create a special wholesale tariff rate in the future, perhaps based on direct assignment of costs.

Commission Decision

▸Does the Commission continue to find Modified Procedure to be appropriate?  Eagle Water Company and Ms. Chase request a hearing in this matter.  Does the Commis­sion believe that the public interest in this matter will be served by a hearing?

▸Should the Application and proposed Agreement be approved?  If so, should the Agree­ment be reviewed again one year from now when more is known about the service actually being provided and its cost?

▸Should approval regarding the applicable rates be qualified so as to include billing at a perhaps more appropriate wholesale tariff rate in the future, which rate may be based on direct assignment of costs?

▸Does the Commission have any other concerns regarding this Application?

Scott Woodbury

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