DECISION MEMORANDUM

TO:COMMISSIONER NELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

MYRNA WALTERS

TONYA CLARK

DON HOWELL

STEPHANIE MILLER

DAVE SCHUNKE

DON OLIASON

BOB SMITH

DAVID SCOTT

WORKING FILE

FROM:SCOTT WOODBURY

DATE:APRIL 4, 1997

RE:CASE NO. CAP-W-96-1 (WATER QUALITY/SERVICE INVESTIGATION)

CASE NO. CAP-W-96-2 (TEMPORARY RATE INCREASE)

AMENDED APPLICATION

On September 11, 1996, Capitol Water Corporation (Capitol Water; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting authority to implement a temporary five year 35% rate increase (approximately $100,000/year) to fund certain  expenses and investments associated with improving the quality of water provided by Capitol Water to its customers.  The Company is experiencing the presence of secondary contaminants of iron and manganese in waters from several of its source wells.

Capitol Water serves approximately 2,228 residential customers and 147 commercial customers in an area of approximately four square miles in Boise.  It is bounded roughly by Northview Street on the south, Ustick Road on the north, Maple Grove on the west, and Curtis Road on the east.  The system has six wells.  There are no storage reservoirs.

Proceedings in Capitol Water’s rate case were stayed by the Commission for the purpose of completing the investigation and evaluation of water quality and water supply issues in the Capitol Water service area.  In its rate case, the Company was requesting a temporary surcharge to fund a water quality improvement program, which consisted of chemical and well expense.  There was some expressed concern that the Company was attempting to put the cart before the horse (i.e., that an engineering study supporting the expenditures was required) and that the Company had not brought its customers into the decision planning process.

Following the suspension, the Company retained the consultant services of Scanlan Engineering (Terry Scanlan, engineer/hydrogeologist).  Based on his investigation and analysis, Mr. Scanlan on January 23, 1997, submitted a report to the Company and Staff.  (See attached).

Mr. Scanlan’s recommendations closely parallel the recommendations included in the  Company’s original Application.  Mr. Scanlan recommends drilling a new well (Well No. 7) to allow the Company to access higher quality water and to avoid, to the extent possible, the operation of Well No. 6.

Mr. Scanlan’s report also recommends that the Company continue with its program for injecting phosphates to “sequester” the iron and manganese and thereby reduce problems association with iron and manganese in the water.  Mr. Scanlan recommends that the Company discontinue sequestering at Well Nos. 6 and 2, but continue sequestering at Well Nos. 1 and 4.  Mr. Scanlan also recommends that if customer complaints continue, sequestering of iron and manganese with phosphates should be implemented at all wells, other than Well No. 6.

On March 28, 1997, the Company filed an Amendment to its September 11, 1996, Application in Case No. CAP-W-96-2 (attached) updating the costs for funding certain expenditures associated with improving the quality of water and including certain other expenditures that the Company has been required to make since the original Application was filed.  Capitol Water in its Amended Application is now proposing that the Commission approve a temporary revenue increase of approximately $172,000 per year for seven (7) years.  The total requested amount by the Company is itemized in Amended Application Attachment D (attached).

Included within the Company’s request are additional expenditures for water system facilities that were not included in the original Application for a temporary rate increase.  Those expenditures are as follows:

a.Ada County Highway District has initiated road improvements in the Cole Road and Ustick Road areas.  The Company has major water mains in these streets.  These highway improvements have obligated Capitol Water to lower several of its water mains.  The costs of lowering these mains is estimated to be $15,000.

b.The line shaft, bearings and column pipe for Well No. 3 failed and the pipe in Well No. 3 had to be removed and the line shaft, bearings and column shaft replaced.  Well No. 3 is the Company’s lead well and provides the highest quality water on the system.  The cost of this repair was $11,491.46.

Capitol Water contends that the current rate structure does not allow it to build cash reserves to cover such large non discretionary expenditures.  As a result, the owners of the Company, Bob and Bonnie Price were required to borrow against life insurance policies and use a portion of funds they received when their home was taken by condemnation by ACHD.  It is the Company’s contention that these personal payments by the Prices must be considered as short-term loans from the Prices to the Company.

Capitol Water proposes that the revenue increase be funded by means of a $4.03 for month charge added to the base monthly rate per customers under rate schedule No. 1.  The Company also requests a 25% increase in the rates for commercial customers under the Company’s rate schedule No. 2.

The Company states that it has obtained a commitment from the Bank of America to loan Capitol Water the amounts it needs to drill Well No. 7, to make the other investments required to provide a long-term supply of higher quality water and to repay some of the loans the Prices have made to the Company.  The Bank of America will accept a loan amortization term of 84 months, i.e., seven years.  Because all of Capitol Water’s assets are subject to prior first mortgage liens, to make the loan, the Bank of America will require that the Company receive an order from the Commission increasing the Company’s rates in an amount sufficient to cover the amortization of the loan over the seven-year loan term.

A meeting between the Company, its customers and Commission Staff is scheduled for April 9, 1997.  The Company in its Application states that the direct testimony of Bob Price in support of the Amended Application will be filed on or before April 17, 1997.

Commission Decision

Staff recommends that a Notice of Amended Application be issued, that an intervention deadline be established, that scheduling for prefile testimony be established and that a hearing date

be set.  The Company  is looking for an early to mid May date for a hearing.  Does the Commission agree with the recommended procedure?  If not, what is the Commission’s preference?

Scott Woodbury

vld/M:CAP-W-97-1.sw