

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF CAPITOL WATER)
CORPORATION'S APPLICATION FOR A) **CASE NO. CAP-W-02-1**
TEMPORARY SURCHARGE, A)
DECLARATION OF PRUDENCY, AND)
AUTHORITY TO INCUR DEBT TO FUND) **ORDER NO. 29306**
SYSTEM IMPROVEMENTS.)
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)

On May 27, 2003, Capitol Water Corporation ("Capitol Water" or "Company") requested the Commission authorize expenditure of approximately \$100,000 remaining of the \$507,000 loan and surcharge previously approved in Order No. 29035. This request was accompanied by the Company's Water Distribution Analysis Report ("Report") with improvement recommendations and an accounting of the corrected entries for the prior surcharge authorized in Case No. CAP-W-96-1.

BACKGROUND

On May 22, 2002, the Commission issued Order No. 29035 authorizing the Company to incur indebtedness in the amount of \$507,000 and implement a \$3.10 residential flat rate surcharge and a metered commercial surcharge of 23.60% to recover these costs from customers. Order No. 29035 at 11.

In addition to authorizing this indebtedness for the reconstruction of Well No. 5 and related improvements, the Commission ordered the Company to submit written quarterly status reports to apprise the Commission of the monies expended, construction progress and any testing results. *Id.* The first quarterly report was also to include a separate schedule detailing the final legal and accounting expenses associated with the filing. *Id.* The Company was further directed to include a schedule depicting the status of the loan balancing account in its Annual Report. *Id.* All financial activity associated with the surcharge was to be tracked through a balancing account. The Company was directed to complete an analysis of its plant accounts and file corrected entries that remove the investments recorded in error from the prior surcharge authorized in Case No. CAP-W-96-1. *Id.* at 12.

The Commission's Order also included a requirement for the Company to file a network analysis and further improvement recommendations prior to proceeding beyond the improvements directly associated with the new Well No. 5 installation. *Id.* On May 27, 2003, Capitol Water

Corporation filed the present report to satisfy this requirement, outline the current system status, and recommend a 10-year capital improvement program.

RECOMMENDED SYSTEM IMPROVEMENTS

The Company's Report was prepared by Montgomery Watson Harza (MWH) and further analyzed by Scanlan Engineering. It includes a study of the system demand and analyzes the distribution system, storage capacity, and pumping requirements. It includes three capital improvement recommendations, a 1-year plan, a 5-year plan and a 10-year plan as a foundation for Company decision-making.

Scanlan Engineering refined MHW's recommendations based on safety considerations and Capitol Water's financial capabilities. Scanlan Engineering pointed out that little benefit occurs unless nearly all of the 4-inch mains that are currently equipped with hydrants are replaced at an estimated cost of \$301,155. Scanlan Engineering further notes that the system lacks standby power to its wells and states:

Since the water system has no storage tanks, the entire system will depressurize in the event of a sustained power outage, which could allow contaminants to enter the water system. Depressurization is a particular concern for non-chlorinated water systems such as CWC [Capitol Water Corporation].¹

Based upon Scanlan Engineering's recommendations, Capitol Water now requests authorization to make three water system improvements. First, the Company seeks authority to install back-up power at Well No. 4 in 2003 at an estimated cost of \$75,000. This well can produce approximately 2,000 gpm under normal system pressures. As such, the well is capable of meeting the entire average winter demand plus a 1,500 gpm fire flow.

Second, Capitol Water wishes to initiate aquifer recharge activities in the fall of 2003 at Well No. 6 in an effort to improve water quality for use during summertime demand peaks. High quality water from Wells 3, 5 or 7 could be injected into Well No. 6 during fall, winter, and spring months, and then recovered during peak demand periods in the summer months. The estimated cost for the recharge project (including piping, water quality analysis, permitting, etc.) is \$20,000.

Finally, the Company seeks authority to modify the Capital Improvement Plan from the Report so that remaining improvements can be implemented over a 10-year period. Specifically, the Capital Improvement Plan would provide a long-term plan for upgrade of 4-inch water mains and

¹ Scanlan Engineering letter dated May 19, 2003.

other distribution system improvements. The plan should identify the total footage of water mains to be upgraded, the location of the mains, estimated costs, and the schedule for implementation. The plan should also include back-up power for at least one additional well and replacement of Well No. 3 or Well No. 2. Funding for the work will need to be determined based on the proposed plan.²

STAFF REVIEW

Commission Staff recently reviewed the Company's request, Report and accounting and submitted its recommendations in a Decision Memorandum dated June 27, 2003. While Staff agreed with the evaluation provided by the Company's consultants and the recommended system improvements, it believes the Company's accounting and reporting of surcharge revenues and expenditures remain inadequate. Although Staff has worked with the Company to correct deficiencies in the Company's accounting records for the surcharges, it noted that the Company has had difficulty implementing an accounting procedure in conformance with the Commission's directives in prior Orders. Recently, the Company enlisted the assistance of its external accounting firm to help it bring the Company's accounting records and reporting requirements into compliance with those Orders. Staff's audit of the Company's earlier records and the worksheets of the external accountant did not match up. Staff stated that it is currently working with the external accounting firm to reconcile the differences.

Although Staff did not believe the Company has expended any surcharge funds in an unauthorized manner, Staff did not recommend further expenditures of the Company's borrowed funding until its accounting for the surcharges is improved and all expenditures to date are properly accounted for.

Thus, Staff recommended the Commission direct Capitol Water Company to file a separate report accounting for all surcharge revenues and expense incurred to date. Staff also advised the Commission to instruct Capitol Water to expend no more surcharge funds on projects not already approved in prior Orders until it has filed the accounting report. Finally, Staff recommended that the Commission authorize the expenditure of surcharge funds on the projects recommended by Scanlan Engineering only after the recommended accounting report is filed and has received a favorable audit report by Staff. Staff also noted that it had discussed these recommendations with the Company and the Company agreed with them.

² Scanlan Engineering letter dated May 19, 2003.

COMMISSION FINDINGS

The Commission has jurisdiction over Capitol Water Corporation, a water utility, pursuant to the provisions of Idaho Code Title 61 and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

Based on the recommendations of the Company, its consultants and Staff, the Commission finds the proposed back-up power installation at Well No. 3, the aquifer recharge activities at Well No. 6, and modification of the Capital Improvement Plan for long-term improvements to be reasonable and in the public interest. However, we believe it is prudent to reconcile past accounting entries before creating new ones. Consequently, the Commission directs Capitol Water to expend no more surcharge funds on projects not already approved in prior Orders until the Company files a report that sets out and resolves the accounting of all surcharge revenues and expenses incurred to date. It is the Commission's expectation that Staff, the Company and its external accounting firm will work together to get these bookkeeping issues resolved quickly so that the proposed system improvements will not be unduly delayed. We also note that according to Staff's representations, Capitol Water has agreed that this course of procedure is acceptable.

If the accounting report meets Staff's approval and is consistent with prior Commission Orders, Staff shall so advise both the Company and the Commission by letter. Once receiving the letter, the Company may then spend the remaining surcharge funds on the projects recommended by Scanlan Engineering as set forth above without seeking further Commission approval. If a resolution of these accounting issues cannot be reached, the parties shall timely notify the Commission that further proceedings are necessary.

ORDER

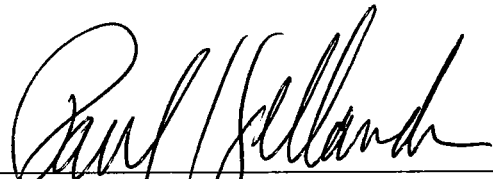
IT IS HEREBY ORDERED that Capitol Water Company file a separate report accounting for all surcharge revenues and expense incurred to date.

IT IS FUTHER ORDERED that Capitol Water expend the remaining surcharge funds on the projects recommended by Scanlan Engineering only after the accounting report is filed and has received a favorable audit report by Staff. If the accounting report meets Staff's approval and is consistent with prior Commission Orders, Staff shall indicate this in writing to both the Company and the Commission. Once receiving the letter, the Company may then spend the remaining surcharge funds as set forth above without seeking further Commission approval.

IT IS FURTHER ORDERED that the parties shall timely notify the Commission that further proceedings are necessary if a resolution of these accounting issues cannot be reached.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho, this 25th day of July 2003.



PAUL KJELLANDER, PRESIDENT

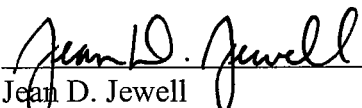


MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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