

## DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER  
COMMISSIONER SMITH  
COMMISSIONER HANSEN  
COMMISSION SECRETARY  
COMMISSION STAFF  
LEGAL  
WORKING FILE**

**FROM: MICHAEL FUSS**

**DATE: JUNE 27, 2003**

**RE: CAPITOL WATER COMPANY  
CASE NO. CAP-W-02-1**

### REQUEST

On May 27, 2003, Capitol Water Corporation (Capitol Water; Company) requested the Commission to authorize the expenditure of the remaining approximately \$100,000 of the \$507,000 loan and surcharge previously authorized in Order No. 29035. Attached to the request was the Company's Water Distribution Analysis Report (Report) with improvement recommendations and an accounting of the correcting 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.

### STAFF ANALYSIS

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. The Report provides an excellent foundation for the Company's decision making. Unfortunately, the Report does not take into consideration the limited financial resources of Capitol Water.

Scanlan Engineering further analyzes the Report and refines the recommendations to implement the recommended improvements based on safety considerations and Capitol Water's financial capabilities. Scanlan Engineering points 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]."<sup>1</sup>

Capitol Water requests the authorization to make the following water system improvements as recommended by Scanlan Engineering.

1. Install back-up power at CWC Well No. 4 in 2003. This well can produce approximately 2000 gpm under normal system pressures. As such, the well is

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<sup>1</sup> Scanlan Engineering letter dated May 19, 2003.

capable of meeting the entire average winter demand plus a 1,500 gpm fire flow. Estimated cost to install back-up power is \$75,000.

2. 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. Estimated costs for the recharge project (piping, water quality analysis, permitting, etc.) are \$20,000.
3. 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 (CIP) would provide a long-term plan for upgrade of 4-inch water mains and 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.<sup>2</sup>

While Staff agrees with the evaluation provided by the Company's consultants and the recommended system improvements, the Company's accounting and reporting of surcharge revenues and expenditures remain inadequate. Staff has been working with the Company to correct deficiencies in the Company's records accounting for the surcharges. 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 do not match up. Staff is working with the external accounting firm to reconcile the differences.

Although Staff does not believe the Company has expended any surcharge funds in an unauthorized manner, Staff cannot recommend further expenditures of the Company's borrowed

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<sup>2</sup> Scanlan Engineering letter dated May 19, 2003.

funding until accounting for the surcharges is improved and all expenditures to date are accounted for.

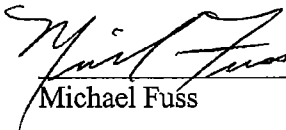
**STAFF RECOMMENDATION**

1. Staff recommends that the Commission direct Capitol Water Company to file a separate report accounting for all surcharge revenues and expense incurred to date.
2. Staff recommends that the Commission instruct Capitol Water to expend no more surcharge funds on projects not already approved in prior Orders until it has filed the accounting report.
3. Staff recommends 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 has discussed these recommendations with the Company and the Company is in agreement.

**COMMISSION DECISION**

Does the Commission wish to adopt Staff's recommendation to withhold authorization of further expenditures pending a favorable review of the Company's surcharge accounting?

  
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Michael Fuss

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