

DECISION MEMORANDUM

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

FROM: KATHY STOCKTON AND KEITH HESSING

DATE: SEPTEMBER 9, 2005

**RE: CAPITAL WATER'S APPLICATION REQUESTING AUTHORITY TO
USE MONIES IN ITS EXISTING SURCHARGE ACCOUNT;
CASE NO. CAP-W-05-1.**

INTRODUCTION

On August 26, 2005, Capitol Water Corp. (Capitol Water; Company) filed a Letter Application with the Idaho Public Utilities Commission (Commission) requesting authority to use monies in its existing surcharge account to pay for labor and chemical costs for water quality and water quantity improvements. Capitol Water provides water services in Boise to approximately 2,963 customers.

BACKGROUND

On July 1, 1997, the Commission authorized Capitol Water to incur debt to fund certain water quality improvements for its system. Case No. CAP-W-96-2; Order No. 27022. The principal loan amount was \$402,624.71, (Loan 1). Order No. 27022. The Commission authorized the Company to collect a surcharge (Surcharge 1) of \$3.27 a month from its unmetered residential customers and a 25.2% increase for metered commercial customers to recover loan amortization costs, annual Idaho Power Company Power Cost Adjustment (PCA) charges, the annual purchase cost of phosphates for water treatment and incremental income taxes associated with the surcharge. Order Nos. 27022 and 28801. The surcharge allowed the Company to amortize the loan over a seven-year period, ending August 1, 2004. Id.

On May 22 2002, the Commission authorized the Company to incur an additional \$507,000 in debt (Loan 2) to finance improvements to its water system. Case No. CAP-W-02-1;

Order No. 29035. The Commission authorized the Company to institute a second surcharge (Surcharge 2) of \$3.10 a month for residential flat-rate customers and 23.6% for metered customers that would recover only loan amortization costs and incremental income taxes associated with the surcharge over a seven-year period. Id.

On December 19, 2003, the Commission authorized the Company to retire Loan 1 early with surplus funds, and eliminate Surcharge 1 contemporaneously with the retirement of Loan 1. The Commission further authorized the Company to increase Surcharge 2, the remaining surcharge, by \$0.45 per month for flat-rate customers and 3.5 percentage points for metered customers to assure that sufficient funds remained available to cover anticipated costs. Surcharge 2 (the Surcharge) increased to \$3.55 for flat rate customers, and 27.1% for metered customers. The remaining Surcharge was intended to cover loan amortization costs of Loan 2, incremental income taxes, annual Idaho Power PCA rate charges and the annual purchase cost of phosphates for water treatment. The Commission also ordered Capital Water to adjust the expense it charges against the surcharge account balance each May when Idaho Power Company's PCA rate adjustment becomes effective and to calculate the annual effect of the Company's surcharges on its income tax liability and charge the incremental income tax expense to the surcharge account in a timely manner. Case No. CAP-W-03-1; Order No. 29401.

STAFF REVIEW

Staff has reviewed the Company's Application and recommends that the Company be authorized to use excess surcharge loan proceeds to pay chemical and labor costs of \$24,386.26 associated with water quality and water quantity improvements. Production at Capitol Water Well No. 3 had declined from approximately 700 gallons per minute (gpm) to 150 gpm. It was determined that this was largely the result of mineral deposits that clogged the well screen, pipe perforations and filter material. The Company's engineer recommended an acid treatment to remove the deposits. Following the treatment pumping capacity was restored to more than 600 gpm. The Company and its engineer believe that a similar condition exists at its well No. 7 where pumping capacity has decreased from 1250 gpm to 500 gpm. The costs requested for recovery by Capitol Water include chemicals, which have already been purchased for the treatment of well No. 7 and an estimated \$400 for the removal of the acidic water following the treatment. This treatment is awaiting the end of the lawn watering season when the Company

can get by without the capacity of well No. 7 for a period of time. The Company's engineer considers these chemical treatments to be a short-term, five to eight year, low cost fix to the Company's capacity problems. The long-term fix is a new well which would cost hundreds of thousands of dollars.

Expenses of a like nature have been approved as being appropriate for surcharge recovery in the past. Water quality and quantity improvement projects were approved in Order No. 29306, and financed by Surcharge 2, including a back up generator at Well No. 4, and an aquifer recharge project. These current expenses continue to be the same type of expenses as those previously approved for recovery through the Surcharge.

In the course of the review, Staff audited the surcharge accounts and verified that there are surplus funds in the surcharge account. Staff, during the course of the audit, verified that past Commission directives in regards to Idaho Power's PCA changes and income tax effects have been followed. The Company continues to provide Staff with quarterly reports verifying the status of the Surcharge account and demonstrating improved service through reduced customer complaints. In addition, Staff reviewed technical reports regarding system improvements and verified that the improvements and expenditures made were warranted.

The current surplus balance in the surcharge account was \$107,116 as of June 30, 2005 and is comprised of loan proceeds and customer surcharge payments. The Company has unused loan proceeds of approximately \$34,000. This amount represents loan proceeds that have been borrowed by the Company but not yet used for water quality and quantity improvements. The balance of the surplus account, approximately \$73,000, is excess surcharge payments that have been collected from the customers, but have not yet been needed for ongoing Commission approved expenses.

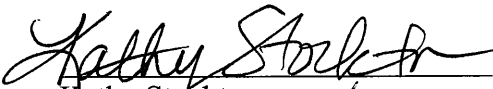
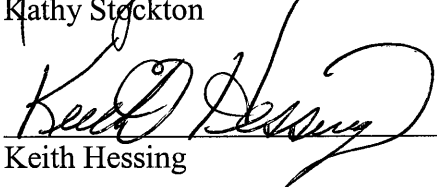
STAFF RECOMMENDATION

Staff recommends that the Company be authorized to use the Surcharge funds to pay for the requested water quality and quantity improvement expenses of \$24,386.26. Staff further recommends that these expenses be charged against the remaining loan proceeds. This will bring the unused loan proceeds to approximately \$10,000 with a remaining surcharge balance of approximately \$83,000. These current expenses were incurred for system improvements that are

similar in nature to the improvements that were anticipated when the loan was obtained and the surcharge established.

Staff asserts that the current surcharge is providing cash flow sufficient to cover the currently authorized charges, including the annual phosphates needs and Idaho Power's annual PCA rate charges, as well as the monthly loan payments.

Based on the review of the surcharge account and an analysis of the loan amortization, Staff calculates that by the end of the currently authorized surcharge period in 2009, the remaining loan balance will be approximately \$30,000. Staff recommends that the Company retire the loan early if possible, at the point when the surplus balance and the loan balance are essentially equal. Staff further recommends that the Company continue to file timely quarterly reports. Staff reminds the Company that a separate filing is still required before costs not previously approved or not approved in this case can be paid from surcharge funds.


Kathy Stockton

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