

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE EAGLE WATER)
COMPANY'S REQUEST FOR A) CASE NO. EAG-W-05-2
TEMPORARY SURCHARGE)
) ORDER NO. 29903

On August 3, 2005, the Commission issued an emergency Order directing Eagle Water to "use all deliberate speed" to increase low water pressure in the Eagle Springs subdivision. Order No. 29840, Case No. EAG-W-05-1. The Order also directed the Company to prepare an engineering report for its entire system and to file a subsequent application for a surcharge. The Commission directed that the surcharge should recover the costs: (1) of the immediate system improvements to correct the low-pressure condition; (2) of preparing the system engineering report; and (3) to be incurred in preparing the surcharge application.

On August 24, 2005, Eagle Water filed its Surcharge Application. In addition to the three items mentioned above, the Company also proposed three additional infrastructure measures that it could implement to address the low-pressure concerns. The Company supplemented its Application on September 9, 2005. On September 16, 2005, the Commission issued a Notice requesting interested persons to comment on the Company's Surcharge Application. Order No. 29870 suspended the Application until October 28, 2005. The Commission also convened a public workshop and hearing in Eagle on October 12, 2005. As set out in greater detail below, we authorize a one-year surcharge to collect no more than \$160,389.

BACKGROUND

Low water pressure has been a recurring problem for Eagle Water and its customers. During the last five years, there have been several causes of low water pressure in the system. In July 2000 a well pump failed resulting in low pressure, especially in the Eagle Springs subdivision. The Company installed a new variable speed pump at the well and installed a new booster pump to primarily serve Eagle Springs. Order No. 28513 at 1-2.

In 2004 the 12-inch mainline serving the booster pump was undermined. Eagle Water asserted that the operator of the gravel pit where the booster pump is located "had exposed the line while digging into the north bank of its gravel pit." Eagle Water alleged that the gravel company gave Eagle Water less than 24-hours notice before digging in the vicinity of the mainline. To prevent a loss of service, Eagle Water shut off the line. Reply Comments at 2

(Case No. EAG-W-04-2). Eagle Water rerouted the line and replaced it with a temporary 8-inch line. Supp. Application, Exh. 12.

This summer, customers in the Eagle Springs subdivision again experienced poor water pressure. The Company attributed the problem to uncontrolled irrigation usage. Application at 3; Exh. 4. The customer complaints led the Commission to issue Order No. 29840 directing Eagle Water to immediately correct the deficient water pressure in its service area. Eagle Water replaced the temporary 8-inch mainline serving the booster pump with a 12-inch line in August 2005.

THE SURCHARGE APPLICATION

Eagle Water asserted in its Application that it has alleviated the low-pressure problems affecting Eagle Springs by replacing the 8-inch feeder line. Application at 2; Exh. 4. In addition to the costs incurred in making the immediate improvements, the Company also calculated the costs for preparing its engineering report and its Supplemental Application. Those costs are set out below.

Expense Item	Cost
Replace 8-inch mainline	\$ 40,027
Prepare engineering report	\$ 79,895
Legal and accounting expenses	\$ 5,500
TOTAL	\$125,422

A. Additional Low Pressure Measures

Although the Company believes that it has adequately addressed the immediate low-pressure problems in Eagle Springs, it is concerned that there may be occasional drops in water pressure, “especially in light of the continued wasting of water that has been observed in Eagle Springs.” Application at 2. The Company’s engineer has identified three additional measures, which may “further alleviate water pressure problems in the Eagle Springs area.” These additional measures are:

Option 1 – Increase the power of the current booster pump from 60 horsepower (HP) to 75 or 100 HP. The estimated cost of this option is \$87,075.

Option 2 – Install an additional booster pump buried under Big Springs Street at the 2,700-foot elevation. The estimated cost of this option is \$81,607.50.

Option 3 – Drill a new well under an existing permit from IDWR to serve the entire system. The estimated cost of this option is \$390,305. The Company

has a permit to drill this well and must submit proof of beneficial use by March 1, 2006.

Order No. 29870 at 2. The Company estimated that Option 1 and Option 2 would take approximately six weeks to implement. Option 3 would take 60 to 180 days. Application at 4-5. The Company's preference is for the Commission to authorize Option 3 (the new well).

The Company asserted that based upon Department of Environmental Quality (DEQ) criteria for estimating peak hourly demand, the peak demand for Eagle Water is approximately 2,000 gallons per minute (gpm). In addition to this normal peak demand, the Company maintained that fire-flow requirements for public safety are an additional 1,500 gpm. Using the DEQ standards, the Company estimated its system peak demand could exceed 3,500 gpm. *Id.* at 4. The Company reported that the maximum pumping rates of the four operational wells are: No. 1 – 600 gpm; No. 2 – 400 gpm; No. 4 – 2,000 gpm; and No. 6 – 2,000 gpm.¹ The total pumping rate for the four wells is 5,000 gpm – 1,500 gpm above the estimated peak demand. The Company stated that if either Well No. 4 or No. 6 should temporarily fail, there may “not be adequate quantity or pressure for the system” to meet DEQ standards. *Id.* at 4.

B. The Two Proposed Surcharge Alternatives

The Company estimated that a monthly billing surcharge of 16.85% over three years would recover the anticipated costs for: (1) replacing the 8-inch line to the booster; (2) preparing the engineering report; (3) recovering the legal/accounting costs; and (4) implementing either Option 1 or Option 2. This surcharge would recover \$214,147. Exh. 8.

The Company's preferred alternative would be to recover the immediate costs (the three elements above) and to implement Option 3 (the new well) for a total estimated cost of \$517,477. The Company's accountant calculated that a monthly surcharge of 40.85% would recover this amount over three years. Exh. 10. The Company estimated that this larger surcharge would result in an additional \$9.16 per month for the average residential customer. Even with the proposed surcharge, the Company asserted that the average customer's annual water bill would be lower than the annual water bills for customers of either the City of Eagle's municipal water system or United Water. Order No. 29870 at 3.

¹ In addition to the four operating wells (Nos. 1, 2, 4, 6) the Company uses Well No. 3 as a back-up supply source (sand problems) and Well No. 5 has never been developed. The proposed Option 3 (new well) would be Well No. 7.

THE COMMENTS

The Commission received testimony from three persons at the public hearing. The Commission also received written comments from DEQ, the Commission Staff and more than 30 customers.

A. The Public Hearing Testimony

Mr. Tim Adams testified the projected expenses for preparing the engineering report and the costs of preparing the Surcharge Application appear reasonable. Tr. at 7. However, he questioned whether the undermining of the mainline that serves the booster pump might be the responsibility of the gravel company. *Id.*

Turning to the Company's preferred option of drilling a new well, Mr. Adams stated that it does "seem to me that choosing [the new well] prior to completing the engineering study is kind of putting the cart before the horse." *Id.* at 8. He recognized that one of the possible outcomes of the engineering study would be the drilling of the new well. He also suggested the Commission consider spreading the surcharge costs over a longer period of time "so that not only the current customers of Eagle Water could pay for that, but the cost would also be put on the other people that will be utilizing the additional capacity created by that well." *Id.*

The last witness to testify expressed frustration with the continuing problems of low pressure and acknowledged in all probability that the Company needs a new well for supply. Tr. at 13. He also expressed concern for implementing a surcharge without having a permanent solution to the low-pressure problems.

B. Customer Written Comments

The Commission received more than 30 written comments from Eagle Water customers. Twenty-three customers submitted a form letter stating that the low-pressure situation has improved since the replacement of the 8-inch mainline with the larger 12-inch mainline. However, they were concerned that such an improvement may be only temporary – especially in light of the new customers expected from the development of the Shadow Ridge subdivision. These 23 customers, mostly from the upper level of Eagle Springs, supported the additional booster in Big Springs Boulevard (Option 2).

Other customers wrote of continuing concerns regarding low-pressure problems in Eagle Springs and throughout the Company's water system. Customers were evenly split (3-3) in opposing and supporting the Company's surcharge or permanent rate increases. Two

customers supported the Company's proposal to drill a new well, while another customer recommended that the engineering report be completed first to verify what facility improvements are necessary.

Finally, two customers questioned whether a surcharge was necessary if damage to the mainline serving the booster was caused by operations in the gravel pit. More specifically, one customer suggested that Eagle Water should hold the gravel operator responsible if the gravel operations damaged the mainline. On the other hand, if Eagle Water has not properly maintained its infrastructure, then it should absorb the replacement costs.

C. DEQ Comments

Although DEQ acknowledged it had not reviewed the data supporting the Company's three options, DEQ recommended the Commission approve Option 3 (new well). DEQ stated the new well represents "a critical component of any complete and long-range plan that may be proposed in the forthcoming, detailed engineering report. DEQ therefore can, in this case, support that initial step without review of a formal engineering report." DEQ Comments at 1. DEQ reserved judgment regarding Options 1 and 2 pending its review of the engineering report.

DEQ also addressed that part of the Company's Application regarding peak flow demand. Although DEQ noted that Eagle Water used a 2,000-gallon per minute (gpm) peak demand for the system, the Department said this criteria "is not usually used in this type situation. Flow criteria offered as guidance by the Boise Regional Office of DEQ is most appropriate for new, primarily residential projects." *Id.* Detailed flow records for larger existing systems (such as Eagle Water) are better predictors for existing and future flow demands.

D. Staff Comments

Staff supported the Company's Application to recover the immediate costs authorized in Order No. 29840 with a one-year surcharge but recommended the Company complete the engineering study before pursuing any additional facility improvements. Although Staff recommended recovery of the initial costs, it acknowledged that questions remain about the construction costs of \$40,027 to replace the 8-inch mainline with a 12-inch mainline serving the booster pump. The Staff asserted the Company has not satisfactorily explained why the 12-inch mainline was initially installed on a "temporary" easement in the gravel pit and whether third parties may be responsible for undermining the line. Nevertheless, the Staff recommended that

the Commission authorize the Company to recover \$125,422 in a surcharge lasting approximately one year. The Staff also agreed with the Company's tax gross-up factor of 127.88%. Consequently, the total amount to be recovered in the surcharge would be \$160,389.

The Staff opposed authorizing any facility improvements at this time and instead recommended that

the engineering report be completed prior to instituting any plant improvements. Staff maintains that until the comprehensive engineering study is complete, it is not clear what specific improvements are needed, what the proper size and location of the [new] well is, and what other improvements may be required. Other improvements may include mainlines, storage or booster pumps, to properly utilize a new well.

Staff Comments at 6-7 (emphasis original). Staff maintained that once the engineering study is complete, Eagle Water can present a long-term plan of action to improve and maintain its water quality and quantity requirements. *Id.* at 7.

The Staff also reviewed the Company's financial data. Staff reported that it appears the funds collected from the Company's hook-up fees have been used for purposes other than engineering fees and well improvements. Staff also reported the Company has not properly tracked and accounted for its hook-up fees once they were collected. Although Eagle Water's 2004 Annual Report indicates it received about \$148,000 in hook-up fees, its plant in service only increased about \$12,000. Staff believes the revenue from the hook-up fees has most likely forestalled or delayed a need for a general rate increase. *Id.* at 8.

Given the recommendation for a limited surcharge of \$160,389, Staff proposed recovering this surcharge over a one-year period. Instead of recovering the surcharge as a uniform percentage increase upon all tariff rates, Staff argued that it was more appropriate to recover the surcharge on the commodity charge only. *Id.* at 9. A surcharge added to monthly water usage over the 600 cubic foot minimum would result in a surcharge of approximately 42.5%. This would raise the commodity rate from \$.451 per 100 cubic feet to \$0.643 per 100 cubic feet. "Even with this increase, Eagle Water commodity rate would still be 41% below United Water's winter rate and 53% below its summer rate." *Id.* at 9.

DISCUSSION AND FINDINGS

In Order No. 29840 we directed Eagle Water to file a surcharge application to recover the costs of: (1) the immediate system improvements correcting the low-pressure

problems; (2) the system-wide engineering report; and (3) the legal and accounting costs incurred in preparing the surcharge application. As set out above, Eagle Water seeks recovery of \$125,422 for these initial costs. Based upon our review of the Application and the comments, we authorize the Company to implement a surcharge to recover this amount with one reservation. Although we find the application costs and engineering report costs (totaling \$85,395) to be reasonable, we are not persuaded that it is reasonable to allow the Company to recover the \$40,027 for replacing the 8-inch mainline. The Staff and several customers questioned the use of “temporary” easements to construct utility infrastructure and whether other entities might be liable for undermining the 12-inch line.

To examine the issue of the \$40,027 replacement costs, Eagle Water shall submit additional information to substantiate recovery of this amount. In particular, Eagle Water shall file a report addressing at a minimum: (1) the reasonableness of using a temporary easement for a 12-inch mainline; (2) whether the easement agreement provided for adequate notification regarding gravel operations which might affect the mainline; (3) what is the basis for the \$2,511 in legal costs; and (4) whether it has adequately explored seeking recovery of damages to the mainline from other parties. Eagle Water shall file this information within 21 days of the service date of this Order.

In addition to seeking recovery of its initial expenses, the Company also sought permission to drill a new well with an estimated cost of \$390,305. Based upon our review of the record, we agree with the Staff and those commenters who recommended that the engineering report be completed before authorizing the cost recovery of major infrastructure projects. While we recognize the engineering report may substantiate the need for a new well, we believe that the report will serve as a “road map” for determining exactly what infrastructure improvements are necessary to serve the present and future needs of Eagle Water and its customers. We expect that the engineering report will be completed as soon as possible and that the Company will timely file its plan to implement the findings of the engineering report.

Finally, we turn to the proposed surcharge. We find it is reasonable to implement a surcharge that allows the Company to recover its initial costs in the amount of \$125,422 with the reservation noted above. We further find the reasonable gross-up factor for taxes is 127.88%. Consequently, the surcharge should be designed to recover no more than \$160,389.

We concur with Staff's recommendations that the surcharge should be recovered over a one-year period. We also find it is reasonable that the surcharge should apply to water usage over the 600 cubic foot minimum. We find that this represents a surcharge of approximately 42.5%. We direct Eagle Water to file new tariffs designed to recover no more than \$160,389 by implementing a 12-month surcharge for water usage in excess of 600 cubic feet per month.

To avoid the mixing of surcharge revenue with other Company revenue, Eagle Water shall book the surcharge revenues in a separate account. Withdrawals from the separate account shall be restricted to payments for the engineering study, and for legal and accounting expenses incurred in preparation of the Surcharge Application and actions authorized in this Order. Staff shall audit this account for compliance. Once the Commission has reviewed the Company's report on the costs of replacing the 8-inch line, the Commission shall determine whether to authorize recovery of the \$40,027.

ORDER

IT IS HEREBY ORDERED that Eagle Water Company's Application for a temporary surcharge is approved in part and denied in part.

IT IS FURTHER ORDERED that Eagle Water is authorized to implement a temporary one-year surcharge to recover no more than \$160,389, with the Commission reserving judgment on the recovery of \$40,027. The Company shall submit the requested information regarding the replacement costs for the 8-inch line within 21 days of the service date of this Order.

IT IS FURTHER ORDERED that Eagle Water book the surcharge revenue in a separate account. Withdrawals from this account shall only be for the purpose of defraying costs attributable to the engineering study, and the legal and accounting expenses associated with this Application and Order.

IT IS FURTHER ORDERED that the Company submit new tariffs conforming to this Order within seven (7) days from the service date of this Order. The new tariffs should reflect that the surcharge will apply to monthly water usage over 600 cubic feet.

IT IS FURTHER ORDERED that the Company complete its engineering study as soon as possible.

THIS IS A FINAL ORDER EXCEPT FOR THE RESERVED ISSUE. Any person interested in this Order (or in issues finally decided by this Order) may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any final matter decided in this Order or in any interlocutory Orders previously issued in this case. 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 27th day of October 2005.



PAUL KJELLANDER, PRESIDENT



MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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