

DECISION MEMORANDUM

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

FROM: TERRI CARLOCK

DATE: AUGUST 24, 2006

**RE: APPLICATION OF FALLS WATER COMPANY FOR
AUTHORITY TO BORROW \$1,200,000 FROM THE STATE
DRINKING WATER FUND; CASE NO. FLS-W-06-1**

Falls Water Company (Falls Water) requests authority to borrow not more than \$1,200,000 from the State Drinking Water Revolving Fund administered through the Idaho Department of Environmental Quality (DEQ). The terms for the loan amount of \$1,200,000 are expected to include an annual interest rate of 3.25% for twenty years with semiannual payments of principal and interest of \$41,033.67. The terms are also expected to include a reserve provision where by the end of the fifth year of the loan, an amount equal to one annual payment will be established in the reserve. The loan will be closed in about one year when construction is completed.

Staff has reviewed Falls Water's Application and believes the loan will be used primarily to meet new growth requirements while assuring adequate fire flows and pressures. The funds will be used to purchase land and water rights; drill the well (20" diameter, approximately 350 feet deep); purchase and install a 300 Hp pump and controls; emergency generator, transfer switch and diesel tank; build a building sufficient to house the well and generator plus be expandable for a booster pump station and chlorination; fencing and engineering costs.

The plant-in-service investment and loan will impact the revenue requirement for Falls Water and its customers. These plant investments will increase the total plant in service by 130%. After the loan is finalized and absent additional equity contributions, Falls Water Company will have less than 1% equity. The capital investment for rate base and the revenue

requirement will be reviewed in the next rate case for inclusion in rates. If revenues were increased to cover the loan it could result in approximately a 9% increase.


STAFF RECOMMENDATION

Staff recommends that the Commission approve the DEQ loan request of \$1,200,000. Staff also recommends that Falls Water provide copies of the final DEQ loan documents, any compliance reports and calculations that may be required, and the actual final costs in summary format similar to the engineering estimate. The final investment cost records will be reviewed during audit with the rate impact to be established in the next rate case.

COMMISSION DECISION

Does the Commission approve the requested DEQ loan authority of \$1,200,000?

Does the Commission adopted Staff's recommended reporting requirement?



Terri Carlock

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