

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF MORNING VIEW WATER COMPANY) CASE NO. MNV-W-10-01
FOR AUTHORITY TO BORROW FUNDS TO)
MAKE UPGRADES TO ITS WATER) ORDER NO. 31061
SYSTEM)**

On March 24, 2010, Morning View Water Company (“Morning View”) submitted an Application requesting authority to borrow funds in order to perform upgrades on its water system and ensure compliance with certain Idaho Department of Environmental Quality (“IDEQ”) standards. The Application contained several attachments including, but not limited to, correspondence between Morning View and IDEQ regarding Morning View’s compliance with IDEQ standards and the Company’s interest in enrolling in IDEQ’s Drinking Water Revolving Loan Program.

APPLICATION

Morning View requests authority to borrow \$275,000 under the IDEQ’s Drinking Water Revolving Loan Program to correct the problems identified in the 2009 facility plan and engineering report. On January 13, 2010, the Company submitted to IDEQ a letter of interest in obtaining a Drinking Water Planning Grant or a Drinking Water Loan. The loan proceeds will be used to fund various projects as follows:

Installation of variable speed drive	\$10,000
Installation of 25 meters on 1-acre lots	50,000
Pump testing of two pumps	10,000
Installation of backup generator	40,000
Drilling of new well	150,000
Grant match	<u>15,000</u>
Grand Total	\$ 275,000

IDEQ has accepted letters of interest in its drinking water and wastewater planning grants and State Revolving Fund loans. Each letter was rated using several criteria and a draft Intended Use Plan (IUP) for State fiscal year 2011 has been published, with projects listed in order of ranking. This IUP list of fundable loan projects shows that Morning View Water System is currently ranked second on the draft project priority list. The IUP report was issued

for public review and comment and will be presented by IDEQ Staff to the Board of Environmental Quality for final approval during its regular meeting on April 22, 2010.

Staff contacted the IDEQ Staff on April 7, 2010, and IDEQ indicated that Morning View's Drinking Water Loan would also be eligible as a disadvantaged loan under its Drinking Water State Revolving Fund (DWSRF) program. Preliminary analysis conducted by IDEQ indicates that Morning View would qualify for a zero interest rate loan, a loan repayment term of 30 years and a loan principal forgiveness of approximately \$60,000 making a net principal loan amount of \$215,000.

Morning View also expressed a letter of interest for a \$15,000 planning grant. The grant requires a 50% match from the Company. If the Company is also offered a drinking water loan, the \$15,000 match is a loan eligible expense. The planning grant can be used to complete the facility planning study including completion of an Environmental Information Document, which is required before a loan can be offered.

STAFF ANALYSIS

Staff believes that the installation of variable speed drive, installation of customer meters, pump testing of the two pumps, installation of back-up generator, and drilling of new well if necessary depending upon the result of pump testing the two wells are all necessary to bring the Morning View water systems to compliance with IDEQ rules as recommended by the 2009 facility plan and engineering study. The estimated costs of these projects appear reasonable, with the exception of the installation of 25 meters. Staff questions the Company's rationale in proposing to install only 25 customer meters on one-acre lots and the cost of installing the customer meters.

Metering Requirement Issues Outline:

1. In Commission Order No. 29104 (Case No. MNV-W-02-01), the Company was directed by the Commission to "prepare and plan for transitioning to metering (including time and estimated costs) and present it to the Commission for approval." The Company never submitted such a plan.
2. In Case No. MNV-W-06-02, Staff reported to the Commission that the Company did not prepare a plan and the system is still unmetered. In Commission Order No. 30420 of this case, it directed the Company as follows "The Commission requires the Company to submit an implementation plan for meter installation (including time and estimated

costs) within 30 days.” In this Order, the Commission also established a moratorium on new connections pending the Company’s metering of customers and acquisition of adequate water rights for its water system.

3. On December 31, 2007, Morning View submitted to the Commission a copy of bids as follows: (a) acquisition of 105 service meters (5/8 x 3/4 - inch and 1-inch meters) and gaskets of \$9,957.90 and (b) labor for installing meters of \$5,500. The grand total of the bids for materials and installation is approximately \$15,458. However, the Company never completed the installation of the meters.
4. In accordance with the Consent Order from the Idaho Department of Environmental Quality, the Company hired Aspen Engineering to complete a facility plan. The Final Facility Report was completed by Aspen Engineering in April 2009. One of the recommendations for capital improvements noted in the engineering report is the purchase and installation of meters for each residence. Based on installing 3/4-inch meters, meter base and meter box for 100 customers, the estimated total costs is \$200,000 (100 customers x \$2,000 per installed meter).
5. In this Application, the Company requested authorization from the Commission to borrow approximately \$275,000 to correct the problems identified in the facility plan and engineering report. Out of this total amount to be borrowed, approximately \$50,000 would be allocated for the acquisition and installation of meters for 25 homes in subdivisions that are one acre in size. The Company used the unit price in installing meters from the 2009 engineering report. The Company asserts that based on its observations over the years, there has been significant usage on these lots for irrigation purposes and that the Company believes that metering such uses would encourage these homeowners to implement greater water conservation measures which will lessen demand on the system and improve pressure and service to other members of the subdivision. Company letter to IDEQ, January 13, 2010, p. 4.
6. There is a big difference in the costs of installing meters between the bid obtained by the Company in December 2007 (\$15,458 or \$147.22 per meter) for 105 meters and the cost estimate made by Aspen Engineering in April 2009 (\$200,000 for 100 meters based on \$2,000 per meter). After further investigation by Commission Staff and discussions with the Company, it was determined that out of the 105 current customers, 95 already have existing meter bases and boxes and 10 customer connections do not have meter boxes. These 10 connections are all serving the 1/2 acre lots. According to the Company, the cost to put in the meter base and box is approximately \$500 or a total of \$5,000 for the 10 connections.

7. Staff discussed the initial cost estimate of meter installation as presented in the 2009 engineering report with Ryan Loftus of Aspen Engineering and he indicated that the cost per meter installation should have been \$200 per meter instead of \$2,000 per meter. Therefore, the total cost for 100 meters would have been \$20,000 instead of \$200,000 as initially reported. Adding the amount of \$5,000 for the meter base of 10 connections results in an updated cost to install meters for all customers of approximately \$25,000.
8. As shown above, the amount of IDEQ loan funds allocated for metering is \$50,000. Staff believes that this amount will be sufficient to cover the cost of installing meters for all customers instead of installing 25 meters as initially proposed. When all customers are metered, Staff believes that a more equitable rate design can be developed for all classes of customers of Morning View Water in future rate cases.

STAFF REVIEW

Staff conducted a review of the improvements to the Company's public drinking water system and verified that these improvements were necessary in order to meet the minimum requirements of the Idaho Rules for Public Drinking Water Systems.

____ Loan approval will provide Morning View with the capital necessary to make the improvements required by IDEQ and as outlined in the 2009 Engineering Report. The specific recovery level in customer rates for the underlying costs will be evaluated in a rate filing(s) when Morning View has completed the projects and makes an Application requesting customer rates be changed to reflect the investments. If the \$275,000 loan is repaid in equal monthly payments and included in rates, the increase to each customer would be approximately \$7.20 per month. If a grant reduces the loan by \$60,000, the cost per customer would be approximately \$5.60 per month. The final investment cost records will be reviewed by Staff during audit with the rate impact to be established in the next rate case(s).

STAFF RECOMMENDATIONS

Staff recommended the Commission approve the loan request up to \$275,000. Staff recommended the Company install meters for all customers not just for the 25 customers with one-acre lots. Cost evaluations indicate all of the meters could be installed within the \$50,000 amount requested in the loan application. Staff also recommended Morning View Water be required to provide copies of the following: Final loan documents with IDEQ; all compliance reports and calculations that may be required; all approval letters; all executed agreements for the

loan; any amendments to the loan application, and the actual final costs in summary format similar to the engineering estimate.

COMMISSION FINDINGS

The Commission finds that Morning View's filing satisfies the requirements of *Idaho Code* §§ 61-901 *et seq.* and the Commission's Rules of Procedure 141-150, IDAPA 31.01.01.141- 150. The purpose of the requested borrowing authority is appropriate and we find this Application should be approved pursuant to *Idaho Code* § 61-902. After reviewing the Application and Staff's recommendations, the Commission finds that it is reasonable and prudent to allow Morning View to borrow up to \$275,000 under IDEQ's Drinking Water Revolving Loan Program in order to make necessary upgrades to its water system. The Commission finds that the loan principal is more than adequate to allow for the installation of meters for Morning View's entire customer base. Immediately upon loan approval, the Company shall install appropriate water meters at all customer locations.

Further, the Commission agrees with Staff's recommendation and orders Morning View to submit, in an expeditious manner, copies of the following documents to the Commission: All final loan documents with IDEQ; requisite compliance reports and calculations; approval letters; executed loan agreements; any amendments to the loan application; and the actual final costs in summary format similar to the engineering estimate that was previously prepared by Aspen Engineering and referenced in Staff's comments.

The issuance of this Order granting borrowing authority to Morning View "does not constitute agency determination/approval of the type of financing or the related costs for ratemaking purposes." Order No. 30120 at 2. Accordingly, the Commission defers its final evaluation and determination regarding the prudence of such costs and "the effect of issuance on rates to be charged by [Morning View] to consumers in the State of Idaho" until the Company's next general rate case. *Id.*

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over Morning View Water Company, a water utility, pursuant to *Idaho Code* §§ 61-124, 61-125, 61-129, 61-301, 61-303, 61-501-502, 61-901, and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

O R D E R

IT IS HEREBY ORDERED that the Application of Morning View Water Company for authority to borrow funds in order to make necessary upgrades to its water system is granted. Morning View is hereby permitted to borrow up to \$275,000 under the IDEQ's Drinking Water Revolving Loan Program.

IT IS FURTHER ORDERED that proceeds from the aforementioned loan shall be utilized by Morning View in order to make the improvements required by IDEQ and as outlined in the 2009 Engineering Report, and shall include the installation of meters for all Morning View customers.

IT IS FURTHER ORDERED that Morning View shall, immediately upon receipt, submit copies of the following documents to the Commission: All final loan documents with IDEQ; requisite compliance reports and calculations; approval letters; executed loan agreements; any amendments to the loan application; and the actual final costs in summary format similar to the engineering estimate prepared previously by Aspen Engineering and referenced herein.

IT IS FURTHER ORDERED that nothing in this order shall be construed to obligate the state of Idaho to pay or guarantee in any manner whatsoever any security authorized, issued, assumed, repurchased, defeased or guaranteed under the provisions of this Order.

IT IS FURTHER ORDERED that this authorization is without prejudice to the regulatory authority of this Commission with respect to rates, services, accounts, evaluation, estimates or determination of costs, or any other matter which may come before this Commission pursuant to its jurisdiction and authority as provided by law.

IT IS FURTHER ORDERED that the issuance of this Order does not constitute acceptance of Morning View's exhibits or other material accompanying this Application for any purpose other than the issuance of this Order.

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 with regard to any matter decided in 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 22nd
day of April 2010.


JIM D. KEMPTON, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


MACK A. REDFORD, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

O:MNV-W-10-01_np