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IDAHO PUBLIC UTILITIES COMMISSION

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Attorney for the Commission Staff

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE INVESTIGATION )**  
**OF TERRA GRANDE WATER AND THE )** **CASE NO. TGW-W-04-1**  
**ISSUANCE OF RELATED CERTIFICATE OF )**  
**PUBLIC CONVENIENCE AND NECESSITY NO. )**  
**429. )** **COMMENTS OF THE**  
**)** **COMMISSION STAFF**  
**)**

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The Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Donovan E. Walker, Deputy Attorney General, in response to the Notice of Stipulation and Notice of Comment Deadline in Order No. 29933 issued on December 21, 2005, submits the following comments.

On December 16, 2005, Staff of the Idaho Public Utilities Commission (Staff) filed a Stipulation (attached) by which United Water will take over the operation of Terra Grande's water distribution system. The Stipulation is entered into by and among Terra Grande Water Inc. (Terra Grande), United Water Idaho (United Water) and Staff (collectively referred to as the "Parties"). The Parties agree that the Stipulation represents a fair, just, and reasonable resolution and disposition of the investigation of Terra Grande and is in the public interest. The parties request that the Idaho Public Utilities Commission (Commission) approve and adopt this Stipulation by subsequent Commission Order.

## HISTORY

The Terra Grande water system has been operating for over 50 years and provides water service to approximately 117 residential customers in the Terra Grande Subdivision in Ada County, Idaho.

On February 19, 2004, in Case No. UWI-W-04-2, United Water and Terra Grande filed a joint Application with the Commission for an Order approving the purchase by United Water of Terra Grande's water system. Originally the agreed upon purchase price for the system was \$47,000. However, on April 2, 2004, Staff filed comments recommending that the purchase price be reduced to \$0.00 because after United Water's acquisition of the system, more capital than initially anticipated would have to be invested. Staff Comments at 6-7 (Case No. TGW-W-04-1). Staff also stated that if Terra Grande would not agree to transfer the system to United Water for no value then it should be brought within the jurisdiction of the Commission. *Id.* United Water, in turn, offered an Amendment to the Purchase and Sale Agreement reflecting a \$0.00 price. Reply Comments at 2-3. At that time Terra Grande determined it was not in its best interest to proceed with the purchase and sale transaction, therefore the Application was withdrawn.

On June 8, 2004, the Commission issued Order No. 29512 in Case No. TGW-W-04-1, issuing Terra Grande a Certificate of Public Convenience and Necessity and opening an investigation to establish: (1) whether the existing rates for water service charged by Terra Grande are just and reasonable, *Idaho Code* § 61-301; and (2) whether Terra Grande furnishes, provides, and maintains service, instrumentalities, equipment and facilities that promote the safety and health of its patrons, employees and the public and is in all respects adequate, efficient, just and reasonable. *Idaho Code* § 61-302.

On January 21 and January 24, 2005, the Commission was notified by Terra Grande and by the Idaho Department of Environmental Quality (DEQ) that the three water supply wells of Terra Grande were contaminated with Trichloroethylene (TCE), a hazardous chemical, and thus were unusable. As a result, an emergency interconnection between Terra Grande's distribution system and United Water's supply system was completed. The Commission issued Order No. 29735 in Case No. TGW-W-05-1 that approved interim rates for Terra Grande based upon the interconnection with United Water. Terra Grande was also ordered to develop a permanent service arrangement plan and submit it to the Commission for approval prior to the establishment of permanent rates.

On August 12, 2005, a petition signed by approximately 61 Terra Grande customers was filed with the Commission requesting that it require Terra Grande to install individual water meters.

Commission Staff, Terra Grande and United Water subsequently entered into discussions whereby United Water would take over operation of the water system, install meters, make other necessary and prudent improvements, and incorporate Terra Grande's customers into its service territory.

## **STAFF ANALYSIS**

As part of Order No. 29735 issued in this case, the Commission directed Terra Grande to make an emergency interconnect of its distribution system with that of United Water's due to chemical contamination of the entire Terra Grande Water supply. The Commission also directed Terra Grande to develop a permanent service arrangement plan and submit it to the Commission for approval.

The Stipulation submitted by the parties in this case, if approved by the Commission, will bring to a close the retail water service responsibility of Terra Grande Water Company. Staff believes that approval by the Commission of a Stipulation to transfer the distribution system and water service responsibilities to United Water Idaho (UWI) resolves all outstanding water service issues associated with Case No. TGW-W-04-1 and is in the public interest.

## **Current Conditions**

In agreeing to the terms of the Stipulation, the Staff evaluated the situation that exists today in the Terra Grande Water system. The water supply owned by Terra Grande, consisting of three ground water wells, is contaminated by Trichloroethylene (TCE) and unusable for potable purposes. The source of the contamination is unknown as is the cost of cleanup if it is possible at all. Given the limited financial capabilities of Terra Grande, it is unlikely that the Company could develop an alternative source of supply in the foreseeable future. Thus, the existing interconnection with UWI will continue to be the only viable supply option.

The existing Terra Grande distribution system is antiquated and in need of mainline replacement. Several mainline ruptures occurred during the irrigation season causing a reduction of service pressure and extensive water loss for extended periods. Because all water delivered by UWI to Terra Grande is metered and individual customers are not metered, all Terra Grande customers paid for water lost due to mainline rupture. The financial limitations that make alternative supply unlikely also make mainline replacement by Terra Grande difficult.

Individual customers of Terra Grande are not currently metered and therefore, split equally the system metered supply provided by UWI. Besides paying for the distribution system losses occurring

due to mainline rupture, customers are unable to directly control their own water bill by reducing consumption. This results in inequitable treatment whereby a small consumer of water subsidizes a large consumer of water. This inequity is the primary complaint behind the 61-customer petition filed with the Commission requesting individual metering. Again, the financial limitations of Terra Grande make timely installation of individual meters unlikely.

### **Proposed Conditions**

The transfer of the distribution system from Terra Grande to UWI will be made without any payment to Terra Grande. Once the transfer is completed as specified by the Stipulation, UWI will make the following improvements to the distribution system:

Multiple, enlarged inter-ties between UWI and the Terra Grande distribution system will be installed to improve pressure, reliability and flows for fire protection.

Individual meters with meter boxes and relocation of service lines to mainlines fronting customer property will be installed to allow identification of individual consumption and improved billing.

Aging mainlines will be replaced, blow offs will be installed and fire hydrants will be added to improve reliability, improve the Company's ability to maintain the system and enhance fire protection.

Because UWI is already interconnected to Terra Grande and indirectly billing customers for metered consumption, rates charged customers directly by UWI will be essentially the same. Instead of monthly billing at UWI commodity rates for 1/117 of the metered consumption and a Terra Grande customer charge of \$13.00, UWI will bill each customer bi-monthly for individual metered consumption at current UWI commodity rates and charge the current UWI residential customer charge of \$15.10 bi-monthly. Small users will see a bill reduction, average users will pay about the same and large users will pay more to reflect their actual unsubsidized consumption.

## **Transfer Costs**

Staff has reviewed the system improvements proposed by UWI and believe the Company's proposal and estimated costs are reasonable. Staff also recognizes that some uncertainty remains with regard to the condition of existing facilities and additional costs could be incurred for system improvements. However, no fees are paid to Terra Grande and the contaminated ground water wells remain the property and responsibility of Terra Grande.

The cost of known UWI system improvements after the transfer (attached to the Stipulation as Exhibit A) is estimated to be about \$243,800. This results in an increased annual revenue requirement of approximately \$27,680. The estimated annual revenue from Terra Grande customers is estimated to be approximately \$32,600. While the annual revenue from customers will cover the installation of meters and improvements in the distribution system, it will contribute little to incremental cost increases for water supply, operation and maintenance, storage and customer meter reading and billing.

Consequently, it is likely that some incremental costs of serving Terra Grande customers will be borne by the general body of UWI customers. Given the relatively small number of Terra Grande customers, Staff believes any subsidy will be minimal and is in the public interest by improving the substandard service arrangement that currently exists under Terra Grande.

Staff has agreed, for the purposes of this case, to recommend as part of the Stipulation that UWI be allowed to recover prudently incurred investments in the Terra Grande system as if the capital investment were in service for an entire test year rather than subject to the 13-month rate base average. Staff has further agreed to recommend continued accrual of AFUDC after the plant is placed in service but before it is included in rates. Staff notes that this AFUDC accrual should be limited due to the intention of the Company to file a rate case in the early part of 2006.

Staff believes that deviation from the 13-month rate base average and special AFUDC accrual are warranted in this case to facilitate transfer of the system and meet what UWI has determined is required to be made whole on the transaction.

## **CONCLUSION AND RECOMMENDATION**

Staff believes that the water service situation that currently exists in the Terra Grande water system should not be allowed to continue. The combination of contaminated water supply, antiquated distribution network and lack of meters makes immediate system improvements imperative. Terra Grande's lack of financial ability to resolve the problems in a timely manner makes transfer of the system to UWI the only viable long-term solution.

UWI has the ability to make immediate system improvements at a cost Staff deems reasonable. Staff further believes the terms of the Stipulation regarding special accounting treatment are reasonable to facilitate the transaction and that any potential subsidy on the part of UWI's other customers is justified to remedy the situation and satisfy the public interest.

UWI, Terra Grande and Staff agree that time is important for conversion of the customers to individually metered rates prior to the 2006 summer irrigation season. Therefore, the goal as stated in the Stipulation is to have all initial construction completed by May 31, 2006. Completing construction by the 2006 irrigation season will allow individual customers to control their consumption and billing amounts without significant change in rates charged. Consequently, Staff recommends that the Commission approve the Stipulation as filed.

Respectfully submitted this 13<sup>th</sup> day of January 2006.



Donovan E. Walker  
Deputy Attorney General

Technical Staff: Randy Lobb

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**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

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**IN THE MATTER OF THE INVESTIGATION )  
OF TERRA GRANDE WATER AND THE )  
ISSUANCE OF RELATED CERTIFICATE )  
OF PUBLIC CONVENIENCE AND )  
NECESSITY NO. 429. )  
\_\_\_\_\_ )**

**CASE NO. TGW-W-04-01**

**STIPULATION**

IDAHO PUBLIC UTILITIES COMMISSION

This Stipulation is entered into by and among Terra Grande Water Inc. (Terra Grande), United Water Idaho Inc. (United Water), and the Staff of the Idaho Public Utilities Commission (Staff) (collectively referred to as the "Parties").

The terms and conditions of this Stipulation are set forth herein. The Parties agree that this Stipulation represents a fair, just, and reasonable resolution and disposition of the investigation of Terra Grande, and that this Stipulation is in the public interest. The Parties therefore recommend that the Idaho Public Utilities Commission (Commission) approve and adopt this Stipulation by subsequent Commission Order. See, IDAPA 31.01.01.248.

Nothing in this Stipulation, including the recommended accounting and rate-making treatment, may be used as a precedent in future cases whether involving United Water or any other utility. Execution of this Stipulation shall not be deemed to constitute an acknowledgment by any Party of the validity or invalidity of any particular method, theory, or principle of regulation or cost recovery, and no Party shall be deemed to have agreed that any method, theory, or principle of regulation or cost recovery employed in arriving at this Stipulation is appropriate for resolving any issues in any other proceeding in the future.

**BACKGROUND**

On February 19, 2004, in Case No. UWI-W-04-02, United Water and Terra Grande filed a joint Application with the Commission for an Order approving the purchase by United Water of water service properties owned by Terra Grande. Originally the agreed upon purchase price for the system was \$47,000.00. However, on April 2, 2004 Staff filed comments which concluded that after United Water's acquisition of the system it would have to invest more capital than initially anticipated and thus the purchase price should be reduced to \$0.00. *Staff Comments* at 6-7 (Case No. TGW-W-04-1). Staff also stated that if Terra Grande would not

agree to transfer the system to United Water for no value then it should be brought within the jurisdiction of the Commission. *Id.* United Water, in turn, offered an Amendment to the Purchase and Sale Agreement reflecting a \$0.00 price. *Reply Comments* at 2-3. At that time Terra Grande determined it was not in its best interest to proceed with the purchase and sale transaction, therefore the Application was withdrawn.

On June 8, 2004, the Commission issued Order No. 29512 in Case No. TGW-W-04-01, issuing Terra Grande a Certificate of Public Convenience and Necessity and opening an investigation to establish: 1) whether the existing rates for water service charged by Terra Grande are just and reasonable, *Idaho Code* § 61-301, and 2) whether Terra Grande furnishes, provides, and maintains service, instrumentalities, equipment and facilities that promote the safety and health of its patrons, employees and the public and is in all respects adequate, efficient, just and reasonable. *Idaho Code* § 61-302.

On January 21 and January 24, 2005, the Commission was notified by Terra Grande and by the Idaho Department of Environmental Quality (DEQ) that the three water supply wells of Terra Grande were contaminated with Trichloroethylene (TCE), a hazardous chemical, and thus were unusable. As a result, an emergency interconnection between Terra Grande's distribution system and United Water's supply system was completed. The Commission issued Order No. 29735 in Case No. TGW-W-05-01 that approved interim rates for Terra Grande based upon the interconnection with United Water. Terra Grande was also ordered to develop a permanent service arrangement plan and submit it to the Commission for approval prior the establishment of permanent rates.

On August 12, 2005, a Petition signed by approximately 61 Terra Grande customers was filed with the Commission requesting that it require Terra Grande to install individual water meters.

Commission Staff, Terra Grande, and United Water subsequently entered into discussions whereby the Parties have agreed that it is in the public interest to enter into this Stipulation to effectuate the transfer of Terra Grande's water distribution system to United Water, who would, upon closing of the transactions contemplated herein (the "Closing"), take over the operation of the water system, install meters and other necessary and prudent improvements, and incorporate Terra Grande's customers into its service area.



## STIPULATION

1. CAPITAL INVESTMENT - Commission Staff recommends and agrees that United Water be allowed to recover any prudently made investments in the Terra Grande system, both the known capital investments outlined in United Water's October 21, 2005 letter (attached as Exhibit A) and the prudently incurred unknown capital investments necessary to provide service to Terra Grande customers. Staff agrees that these capital investments be allowed in rate base at 100% value and not be subject to a 13-month average calculation.
2. ACCOUNTING RE: CAPITAL INVESTMENT - Commission Staff recommends and agrees that United Water accrue AFUDC on capital expenditures up to the date the plant is placed in service. After the plant is placed in service, but before the capital investment is included in rates, United Water will accrue AFUDC and calculate depreciation against the plant. When the plant is included in rates, United Water will include the original cost of the plant, plus AFUDC, in rate base at its full amount net of depreciation.
3. AGREEMENT TO CONVEY ASSETS -- On the date of Closing (the "Closing Date") Terra Grande agrees to execute a bill of sale and assignments conveying to United Water:
  - a. Domestic Water System. All tangible personal property and only that tangible personal property used and useful in connection with the operation and maintenance of Terra Grande's domestic water distribution system including, equipment, valves, pipes, water lines, services, meters, meter boxes, machinery, inventory, surveys, maps, records, and supplies (all hereinafter collectively referred to as the "Domestic Water System" or as the "Tangible Property"). The Domestic Water System/Tangible Property includes the items listed on the attached Exhibit B. The Domestic Water System pipelines are depicted on the illustrative map attached hereto as Exhibit C. Specifically excluded from the Tangible Property are all wells, pumps and motor equipment, well structures, associated well facilities, well land, well easements, and water rights, further described in Exhibit D.
  - b. Intangible Property. All intangible property used and useful in connection with the operation and maintenance by Terra Grande of the Domestic Water System including, permits, easements, rights-of-way, customer lists and records, maintenance records, tariffs and rules and regulations governing the rendering of service, provided however, Intangible property shall not include any easement for ingress and egress to Terra Grande's real property described in Exhibit D (the "Real Property").
4. LIABILITIES NOT ASSUMED: United Water shall neither assume nor be responsible for, nor take any property subject to, any liability or obligation of any kind, known or unknown, absolute, contingent, or otherwise. Without limiting the foregoing, it is specifically

agreed that Terra Grande shall have sole responsibility for all claims, losses, liabilities, obligations, and damages, whenever arising, which arise from Terra Grande's act, failure to act or arising out of Terra Grande's operation of the Domestic Water System prior to the Closing Date.

Without limiting the foregoing, United Water shall not assume:

- a. Any liability or obligation resulting from violations of any applicable laws or regulations by Terra Grande prior to the Closing Date;
- b. Any employee liabilities of Terra Grande, if any, relating to present and past employees of Terra Grande with respect to plans, programs, policies, commitments, and other benefit entitlements established or existing on or prior to the Closing Date (whether or not such liabilities are accrued or payable on the Closing Date, and whether or not such liabilities are contingent in nature); and,
- c. Any liability or obligation, including, without limitation, for any personal injury or property damage or harm to the environment, resulting from the presence or release of hazardous substances at or from the Real Property prior to the Closing Date or any disposal of hazardous waste within the Terra Grande service territory prior to the Closing Date.

5. CONDITIONS PRECEDENT TO CLOSING - Terra Grande and United Water agree that consummation of the transaction contemplated by this Agreement is also subject to the issuance of an order from the Commission that:

- a. Confirms that United Water will be permitted in future rate proceedings to earn upon the total acquisition costs as herein set forth;
- b. Authorizes the issuance of an amendment to United Water's certificate of convenience and necessity by the Commission indicating approval of the transaction contemplated hereby;
- c. Confirms the right of United Water to provide service to the area being serviced by Terra Grande as of the date hereof; and,
- d. Confirms the right of United Water to provide service at rates set forth in its tariffs.

If there is any portion of such ruling by the Commission that, in either United Water or Terra Grande discretion, is substantially inconsistent with this Stipulation the parties, or a party, may, within five (5) business days after receipt of such Commission ruling, provide the other party with written notice that this Agreement is null and void, and the parties shall have no further obligations or liabilities hereunder. If neither party provides such notice in the time

permitted, the parties agree to amend this Stipulation within thirty (30) days of both parties' receipt of such ruling by the Commission, to the effect that this Agreement shall be made consistent with the Commission's ruling.

It is understood and agreed by the parties that an appropriate due diligence period consisting of 30 days immediately following the execution of this Stipulation will be established to allow United Water and Terra Grande the opportunity to further investigate all issues regarding the acquisition of the Terra Grande's Domestic Water System. Terra Grande agrees to make available to United Water its repair contractor to assist in inspection of the distribution system and consultation with respect thereto. The parties agree to cooperate and make all appropriate documents available in pursuing the due diligence.

6. CLOSING RELATED MATTERS; POST-CLOSING – Terra Grande and United Water agree to the following:

- a. Closing Date; Time of the Essence. The closing shall take place no later than thirty (30) days after receipt of the regulatory approvals set forth above provided, however, that if the thirtieth (30th) day not be a business day, then the Closing Date shall be the next Tuesday after the thirtieth (30th) day.
- b. Closing. The closing of the transaction contemplated herein shall take place at the office of McDevitt & Miller LLP, 420 West Bannock, Boise, Idaho or such other place as may be agreed upon by the parties.
- c. Possession. Possession of the Tangible Property and the Intangible Property shall be delivered to United Water on the Closing Date.
- d. Billing. Upon the closing date, or as soon immediately prior thereto as possible, Terra Grande shall render bills to its customers for water service provided from the time of the last most previous billing date up to but not including the closing date. Terra Grande shall be entitled to receive the revenue and accounts receivable resulting therefrom. Thereafter, United Water shall render bills for water service provided on and after closing date and shall be entitled to receive the revenue resulting therefrom. In the event United Water receives payment for any bill rendered by Terra Grande which was for service prior to the Closing Date United Water shall remit said payment to Terra Grande.

7. CLOSING DOCUMENTS - On the Closing Date, Terra Grande shall deliver the following documents:

- a. Bill of Sale executed by the Terra Grande with full warranties of title conveying the Tangible Property to United Water;

- b. General Assignment executed by Terra Grande transferring the Intangible Property to United Water;
- c. Originals, if available, of all certificates, licenses, permits, authorizations, and approvals required by law, and issued by all governmental authorities having jurisdiction; and,
- d. Such other documents as the parties determine are reasonably necessary in order to effectuate any provision in this Stipulation.

8. PRORATIONS AND ADJUSTMENTS - The following items shall be prorated and adjusted as of the Closing Date:

- a. All accounts payable and other obligations incurred by Terra Grande prior to the Closing Date shall be caused to be paid or performed by Terra Grande on or before the Closing Date or as soon as possible thereafter, and United Water assumes no obligations or responsibility for the payment or performance thereof. Bills received after Closing which relate to expenses incurred or service performed allocable to the period prior to the Closing Date shall be paid by Terra Grande; and,
- b. Such other items as are customarily prorated in transactions of the type contemplated in this Agreement.

All such prorations shall be based on the most recent ascertainable bills, and be made on the basis of the actual number of days and the year and month which shall be elapsed as of the Closing, and to the extent reasonably practicable such prorations shall be made at Closing. Such items of income and expenses for the period prior to the Closing date will be for the account of Terra Grande and such items of income and expense for the period on and after the Closing Date will be for the account of United Water, all as determined by the accrual method of accounting.

9. INDEMNIFICATION AND DEFENSE OF CLAIMS - Terra Grande will indemnify, defend and hold United Water harmless against and in respect of:

- a. All liabilities or obligations of, or claims against Terra Grande not assumed by United Water pursuant to this Agreement;
- b. Any damage or deficiency resulting from any breach of warranty; and,

- c. All actions, suits, proceedings, demands, assessments, judgments, reasonable court costs and attorney fees and expenses incident or incurred by United Water in connection with any of the foregoing.

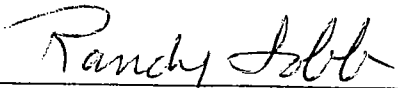
The indemnification obligations in this section shall expire three (3) years after the Closing Date.

10. PROPERTY RETAINED BY TERRA GRANDE - Terra Grande and United Water understand and agree that Terra Grande is retaining all wells, well lots, associated pumping and well equipment and any water rights or permits associated therewith. When Terra Grande's abandons the wells, it shall do so at its sole cost and expense, and shall cause the wells to be properly sealed and abandoned, or otherwise disposed of, controlled, and/or maintained in accordance with methods approved by, and at the direction of the Idaho Department of Water Resources and Idaho Department of Environmental Quality.

11. REPRESENTATIONS. - Terra Grande warrants that its has good and sufficient title to the Tangible Property and the Intangible Property which are being transferred hereunder free and clear of all liens, claims and encumbrances. Terra Grande further represents and warrants that it has secured all necessary consents and authorizations for the conveyance of the Tangible Property and Intangible property required by that certain Trust Agreement dated November 4, 1959 by and between Real Estate Sales Corporation and First Security Bank of Idaho, NA and subsequently assigned to Terra Grande and Wells Fargo Bank NA.

TERRA GRANDE MAKES NO REPRESENTATION OR WARRANTY WITH RESPECT TO MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE, AND ANY SUCH OTHER REPRESENTATIONS OR WARRANTIES ARE HEREBY EXPRESSLY DISCLAIMED. UNITED WATER HEREBY ACKNOWLEDGES AND AGREES THAT IT IS RECEIVING THE TANGIBLE PROPERTY AND INTANGIBLE PROPERTY ON AN "AS-IS, WHERE-IS" BASIS

DATED this 14 day of December 2005.



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RANDY LOBB  
Utility Division Administrator  
Idaho Public Utilities Commission



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DONOVAN E. WALKER  
Deputy Attorney General  
Idaho Public Utilities Commission

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GREGORY P. WYATT  
Vice President  
United Water Idaho, Inc.



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DEAN J. MILLER  
McDevitt & Miller, LLP  
Counsel for United Water Idaho, Inc.

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BARBARA V. CHILD  
President  
Terra Grande Water, Inc.

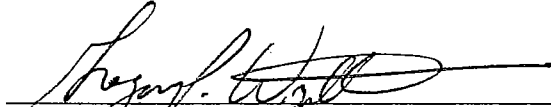
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JOHN R. HAMMOND  
Batt & Fisher, LLP  
Counsel for Terra Grande Water, Inc.

DATED this \_\_\_\_ day of December 2005.

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RANDY LOBB  
Utility Division Administrator  
Idaho Public Utilities Commission



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GREGORY P. WYATT  
Vice President  
United Water Idaho, Inc.

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DONOVAN E. WALKER  
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DEAN J. MILLER  
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BARBARA V. CHILD  
President  
Terra Grande Water, Inc.

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JOHN R. HAMMOND  
Batt & Fisher, LLP  
Counsel for Terra Grande Water, Inc.

October 21, 2005

Mr. Randy Lobb, Utilities Division Administrator  
Idaho Public Utilities Commission  
472 West Washington  
Boise, Idaho 83720-0074

McDEVITT & MILLER, LLP

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Re: Terra Grande

Dear Randy:

At our meeting on October 6, 2005, we discussed various issues regarding United Water Idaho acquiring the Terra Grande water system; and you also asked me to submit United Water's proposal for doing so. The following information responds to your request.

### **Known Capital Investments Required**

United Water Idaho believes the following capital investments are required to provide safe and adequate service to the Terra Grande system. Additionally, certain main replacement projects have been included in this proposal based on our knowledge of the system gained during our previously unsuccessful attempt to acquire the system. A map and a summary of the capital additions are enclosed with this submission.

#### System Inter-ties

In order to provide adequate water flow and pressure for fire protection, the existing 4-inch inter-tie installed early this year will be abandoned and replaced with an 8-inch line connecting the United Water system on South Entertainment Way with the Terra Grande system on South Ash Park. An additional 8-inch inter-tie and a fire hydrant will be installed at the southern end of the system from United Water's main in Targee to Terra Grande's main in Skilleen Drive in order to maintain a two-way feed into the system and to provide some fire protection in the southern portion of the system.

#### Metering

The Terra Grande system is currently un-metered and customers are billed according to a flat-rate tariff. In order to meter the entire system, United Water proposes to install meter risers and meters in the approximately 59 services that currently have adequate meter boxes (but no meters), and to install complete meter boxes and meters in the remaining services with no existing meter box.

Attachment A  
Case No. TGW-W-04-1  
Staff Comments  
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### Abandon Main Lines and Install Customer Services

There are several locations where existing Terra Grande main lines run along the back and side property lines of lots. These lines should all be abandoned and new customer service lines installed from the street to the home, including meter boxes and meters.

The lines to be abandon are:

- The 4-inch lines in the area north of Dorian, between Penninger and Ash Park.
- The 2-inch and 4-inch lines south of Dorian, between Penninger and Ash Park.
- The 2-inch line north of Lemhi, between Penninger and South Ash Park

Completely new customer service lines, meter boxes, and meters will need to be installed from the street to the home, including the customer side service, for the seven (7) lots previously served by the abandoned main lines.

### Main Line Replacements

Based on our previous due diligence on this system and from knowledge gained during sewer installation work in the area, United Water is aware that the water lines in the north end of the Terra Grande system are of poor quality and should be replaced now.

The following main line improvements are required:

- 130 feet of 8-inch and 280 feet of 4-inch water main installed from the Ash Park inter-tie north on Ash Park and a blow-off to replace the existing 3-inch line.
- 425 feet of 8-inch water main installed in Dorian from Ash Park to Penninger, replacing the 260 feet of 2-inch main in Dorian.
- 575 feet of 4-inch water main installed in Penninger, north from Dorian, and a blow-off to replace the existing 3-inch line.
- 235 feet of 8-inch water main and a blow-off installed in Penninger, south from Dorian to 1717 Penninger, and reconnect with existing main line, replacing existing 3-inch main in Penninger.
- 185 feet of 2-inch water main and blow-offs installed in Penninger Court to replace existing 2-inch and 1-1/2-inch main line.
- Installation of one fire hydrant located at 8023 Dorian.
- Replace blow-off at south end of Ash Park due to unusable condition of existing blow-off.
- Remove main line T's at wells No. 3 and 4 and replace with main line.

### **Unknown Capital Investments Required**

There are three basic areas where capital investments will likely have to be made as the above-described work is performed. However, the quantity and cost of such work is currently unknown. First, as risers and meters are installed in the existing meter boxes, we may find that some of the existing boxes are unusable and must be adjusted and/or replaced. Second, as meter boxes are installed in services where no box previously existed, we may find that the

Attachment A  
Case No. TGW-W-04-1  
Staff Comments  
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service line (either customer side or company side, or both) is in such poor condition that it must be replaced to maintain service to the customer. Third, as replacement services are installed, we may find that the existing main to which the service must be connected is in such poor condition that one or more sections of the main must be replaced.

As of this writing, we cannot speculate on the quantity or cost of these kinds of investments, but we believe that they will occur at some level simply due to the age and condition of other portions of the system.

### **Acquisition and Construction Timing**

We have not had contact with Mrs. Barbara Child since mid-2004, when the initial acquisition attempt was foiled and the docket on Case No.UWI-W-04-02 was closed. During our acquisition attempt, we performed due diligence with regard to obtaining clear title to the water system assets and believed that it was possible. We would need to follow up at this time to ensure that rights and title to the system assets have not changed. I estimate that this investigation would take about two to three weeks. Assuming cooperation from all parties, a closing on the acquisition is conceivable 30-45 days following Commission approval.

Construction of the above-mentioned investments would be possible only after a closing and transfer of the assets was finalized. Depending on the timing of the acquisition, and considering winter weather, we currently estimate a construction time of approximately three months for the above-mentioned known investments. The quantity, if any, of unknown investments, as mentioned above, could lengthen the time to complete the entire project. In any event we would like to see all initial construction completed by May 31, 2006.

### **Customer Billing and Conversion to Metered Rates**

Upon closing the acquisition United Water would read the current master meter serving the entire Terra Grande system and render a final bill to Mrs. Child. At the same time, we propose to initiate service with each individual Terra Grande customers on a flat-rate basis in accordance with United Water's current Tariff Schedule No 1B, Flat Rate Service. Each customer would receive service on the flat rate tariff until their meter was installed, at which time they would be converted to service in accordance with Tariff Schedule 1, General Metered Service. This is identical to the approach used when we converted the Barber system from flat rate to metered service.

### **United Water's Return on Investment**

In order to adequately compensate United Water for the investments it will need to make after acquiring the Terra Grande system, I propose that United Water be allowed to calculate and record on its books AFUDC, as determined in the most recent rate case, on all of the above-described investments that it prudently makes in the Terra Grande system, until such time as those investments are allowed to be recovered in its next rate case. I also propose that those

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investments be allowed in rate base at 100% value and not be subject to a 13-month average calculation.

Currently United Water is billing Mrs. Child for all water used in the Terra Grande system via the metered service interconnection installed January 28, 2005. Water revenues billed from 1/28/05 through the last meter reading on 9/20/05 amount to \$36,973. Based on the existing history, I estimate a full year's revenue, adjusted for the current rate increase, to be approximately \$47,000. United Water believes that these revenues are included in the revenue requirement calculated in the most recent rate case since they represent part of the growth revenue United Water provided as offset for the Columbia Plant.

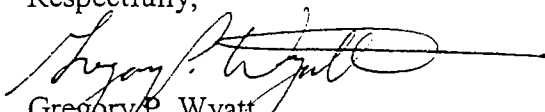
After acquisition, it is certain that United Water will earn less revenue and less operating income from the Terra Grande customers via individual meters than from the current master metering arrangement. This is true because customers will be able to monitor their usage through bi-monthly billings and adjust their use accordingly, the overall system leakage will no longer be billed, and United Water will incur additional system operating, billing, and collections costs. Assuming that the Terra Grande customers provide a revenue stream at 80% of the average residential rate, due to smaller homes and yards, the annual revenue would be approximately \$32,600 (116 customers @ \$351 per year X 80%). Thus, United Water will suffer at least a \$14,400 revenue deficiency even before any return on investment is considered.

#### **Miscellaneous**

United Water understands that Mrs. Child wishes to maintain ownership of all Terra Grande land, wells, pumping equipment, and water rights. United Water anticipates only taking ownership of the distribution system assets and all (if any) easements and rights-of-way required to operate and maintain those assets. It is United Water's strong belief that all existing Terra Grande wells should be properly abandoned and capped in accordance with Idaho Department of Environmental Quality requirements. United Water desires that the Commission instructs Mrs. Child to perform such abandonment, and it desires to be held harmless from any and all claims or liabilities arising as a result of any contamination from the said wells.

If you have any questions or need additional information, please contact me at 208-362-7327.

Respectfully,



Gregory P. Wyatt  
General Manager

cc: J. Miller, McDevitt & Miller  
P. Foss, M. Gennari, J. Healy, S. Rhead

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