

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF TERRA GRANDE WATER FOR) **CASE NO. TGW-W-05-1**
INTERIM RATE RELIEF AND FURTHER)
PROCEEDINGS TO ESTABLISH JUST AND)
REASONABLE RATES) **ORDER NO. 29735**
)

On February 9, 2005, Terra Grande Water filed an Application with the Commission requesting immediate interim rate relief, further proceedings to establish just and reasonable rates, and deferred accounting treatment for excess water supply costs above interim rates if appropriate. This Application is based upon the emergency interconnection of Terra Grande Water with United Water Idaho Inc.

In Order No. 29716 the Commission found that, because of the emergency situation, there was good cause to process the Company's Application for interim rate relief on expedited proceedings with comments due on March 4, 2005. The Commission received comments from seven of Terra Grande's customers, as well as comments filed by the Commission Staff. In this Order the Commission establishes Terra Grande's interim rate as a \$13 per month, flat rate, year round customer charge in addition to charges collected for United Water's metered service.

BACKGROUND

On June 8, 2004, the Commission issued Terra Grande Water a Certificate of Public Convenience and Necessity and authorized the Company's current two-season flat rate fee schedule of \$26 per month in the summer and \$16 per month in non-summer months. Order No. 29512. Case No. TGW-W-04-1. Additionally, that Order initiated an investigation of the Company. *Idaho Code* §§ 61-501, 61-503. The investigation is to establish: (1) whether the existing rates for water service are just and reasonable; and (2) whether Terra Grande Water 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* §§ 61-301, 61-302.

Staff was in the process of its investigation when, on January 21 and January 24, 2005, the Commission was informed by the Company and by Department of Environmental Quality (DEQ) officials that the three water supply wells of Terra Grande Water were

contaminated with Trichloroethylene (TCE), a hazardous chemical. Customers were notified on January 21, 2005 not to consume the water and to minimize all other uses of the water. DEQ recommended an emergency interconnection of Terra Grande's water system to United Water's supply system, and offered to make funds available from the Idaho Hazardous Waste Emergency Response Fund to pay for the costs of making the connection. On January 28, 2005, the Commission was notified that the interconnection with United Water was completed.

THE APPLICATION

According to its Application, Terra Grande has provided water service to the Terra Grande Subdivision for over 50 years, and currently has approximately 117 residential customers. The Company states that it notified customers of the contamination on January 21, 2005, and advised them to cease the use of water for drinking and to minimize all other uses, such as bathing and showering. The Company also started supplying bottled water to its customers and arranged for them to purchase water at wholesale price from a Wal-Mart across from the subdivision. Terra Grande notified customers that it would provide them with a billing credit against future bills for their purchase of water. According to the Application this amount has not yet been calculated. Terra Grande and DEQ are working together to determine the cause of the contamination, but have not yet been able to identify the party responsible for the contamination of the Company's water source.

The Application states that the connection with United Water's supply system was completed on January 28, 2005 and United Water began providing water service to the Company around 5:00 p.m. on that same day under United Water's current Schedule 1, General Metered Service. This connection consists of: (1) a 3" meter installed in a concrete vault; (2) 4" pipe connecting the United Water System with Terra Grande's system; and (3) a backflow device to prevent any residual contamination from the Terra Grande system from entering into United Water's system. DEQ provided funds from the Idaho Hazardous Waste Emergency Response Fund to pay for the costs of this connection.

According to the Company's Application, United Water's charges under Schedule 1 for General Metered Service consist of a volume charge for all water use of \$0.9825 per 100 cubic feet (CCF) in the winter, and \$1.2281 per CCF for the summer as well as a customer charge for a 3" meter of \$82.42 bi-monthly. Summer rates apply for all water consumed between May 1 and September 30 each year. United Water also assesses a 50¢ bi-monthly

charge as required by DEQ to fund the State Drinking Water Program and a 3% municipal franchise fee as required by the City of Boise.

Terra Grande's Application requests immediate interim rate relief, effective as of the date it filed the Application, February 9, 2005. The Company subsequently filed an Amendment and Supplement to its Application. In this Amendment the Company requests that any interim relief be made effective as of January 28, 2005, the date on which United Water began supplying water to the Company's system. The Amendment also advised the Commission that the Company had received the first billing from United Water. That bill was \$723.49 for a 17-day period starting from the initial hookup. Finally, the Company advised that it was recently annexed into the City of Boise, and requests that the Commission, to the extent possible, take into consideration the effect of the potential impact on rates of a possible municipal franchise fee that the Company may have to pay in the future.

CUSTOMER COMMENTS

The Commission received comments from seven of Terra Grande's customers. Three of the comments were not opposed to paying United Water's charges for water use, but were opposed to paying Terra Grande's fee in addition to United Water's charges. Two of the comments opposed paying anything for the United Water bill, stating that it was not the customers' fault that the water was contaminated and they should not be punished for it. One comment stated that the customers should not pay for the hookup to United Water's system. Several of the comments took issue with Terra Grande crediting customers for only two liters of water per day for their purchase of bottled water.

FINDINGS OF FACT

I. INTERIM RATES

Terra Grande requests that the Commission allow it to continue charging its customers \$16 per month for water service based on the Company's current, filed tariff. Additionally, the Company requests that it be authorized to add the costs of purchasing water from United Water to the Company's existing flat rate. The Company proposes to divide the United Water bill by the total number of Terra Grande customers, and pass this expense on to each customer equally by adding it to their existing flat rate. United Water bills on a bi-monthly basis, and Terra Grande bills its customers in advance for two months of service.

Commission Staff also recommended that the Commission allow Terra Grande to continue charging its customers \$16 per month for water service and that it be authorized to add the costs of purchasing water from United Water to the Company's existing flat rate by dividing the United Water bill by the total number of Terra Grande customers. Staff recommended that the \$16 monthly charge continue year round, with no increase for the summer months. Staff contends that approval of the \$16 monthly charge continues an existing rate, provides the Company with reasonable recovery of anticipated costs, allows the Company to pursue permanent service arrangement alternatives, defers consideration of specific rate base treatment of plant and associated expenses until more information is known, and recognizes that the Company will be required to collect United Water's metered charges from its customers up to two months in arrears.

We find that some combination of the existing flat rate charge and the new United Water metered charges should be collected from Terra Grande customers. Clearly the charges assessed Terra Grande for metered service under United Water's Schedule 1 were not anticipated by any party when the Commission approved the Company's existing flat rate charges. It is equally true that other costs previously incurred by the Company, such as pumping power costs, will not be incurred during the period of interconnection with UWI. Consequently, we cannot authorize Terra Grande's full, previously charged rate of \$16 per month in addition to the water charges from United Water because Terra Grande will have reduced expenses.

We find it just and reasonable to authorize Terra Grande to charge its customers a monthly charge of \$13 year round, in addition to United Water's metered charges. If Terra Grande's customers were direct customers of United Water they would be assessed a customer charge of \$14.57 bi-monthly in addition to the Schedule 1 rates for water consumption. However, this is based upon all of the considerations specific to setting rates for United Water including their economies of scale, cost of service, etc., which is quite different than a much smaller company like Terra Grande. Additionally, Staff's preliminary estimate of a post-interconnection revenue requirement (excluding UWI charges) produces a flat rate of approximately \$11 per month. This amount assumes a rate base of approximately \$52,000, a return on equity of 8% and annual expenses of \$7,300. No expenses are included for pumping or management. However, rather than trying to anticipate the permanent flat rate based upon limited, preliminary information, and given the fact that Terra Grande's expenses will be less

than they were before interconnection, we find it reasonable to set the interim monthly charge at \$13 per customer per month. In establishing this interim rate we reject the Company's request to take into consideration the effect of a possible future municipal franchise fee that may or may not be imposed.

We find that the \$13 monthly charge should be year round, with no increase during the summer months. The existing flat rate differential between summer and winter assumes that the Company will incur additional costs in summer due to increased water consumption. Absent a metered rate, a higher summer rate was needed to recover those costs. That is not the case after interconnection with United Water. UWI meter charges will increase in the summer but Terra Grande's costs recovered through the flat rate will not. Customers will pay higher charges in summer because they will be charged for the water provided by United Water.

We find that the United Water retail rate is appropriate at this time. Although this is technically a resale arrangement between United Water and Terra Grande, we find that, under the circumstances of this case, the service arrangement at existing retail rates is appropriate on an interim basis. United Water does not have a separately tariffed wholesale rate. Given the lack of individual meters in the Terra Grande system, we also find it reasonable for Terra Grande to divide United Water's charges by the total number of Terra Grande customers and to collect the amount on a monthly basis along with its monthly flat rate charge.

Although United Water's tariffed rates are billed on a bi-monthly basis we find it reasonable and prudent for United Water to make a special exception in this particular set of circumstances and bill Terra Grande on a monthly basis. This is based upon the circumstances surrounding the contamination of Terra Grande's wells, the resulting emergency interconnection with United Water, the bulk nature of Terra Grande's service, (all of Terra Grande's 117 customers are on one meter from United Water), and United Water's cooperation. This is also based upon the fact that bills for Terra Grande's customers are going to change rather dramatically, and a monthly monitoring and price signal is vital, especially because this change comes at the beginning of the summer season. We also note that United Water has a pending rate increase request at the Commission.

The Commission wishes to complement United Water on its prompt and professional response and cooperation in this emergency situation. We additionally find that United Water is specifically authorized to deviate from its tariff for this one customer, Terra Grande, and bill on a

monthly basis. We find that this unique situation does not establish precedent for requiring monthly billing of any other United Water customer or group of customers.

Commission Findings: We find, based upon the contamination of Terra Grande's water source and the resulting emergency interconnection of the water system to United Water's system as an alternative source, and pursuant to the finding of good cause to process the Company's Application for interim rate relief on expedited proceedings in Order No. 29716, that Terra Grande's current rates are insufficient to cover the costs of providing water to its customers.

We find that Terra Grande should collect a \$13 monthly flat rate customer charge, year round, in addition to charges collected for metered service from United Water.

We find that Terra Grande should divide the United Water bill equally among its customers and collect that amount, with its \$13 customer charge, on a monthly basis commencing with United Water's first billing period that started on January 28, 2005.

II. FURTHER PROCEEDINGS

Terra Grande requested that the Commission allow further proceedings in conjunction with the investigation in Case No. TGW-W-04-1 to establish just and reasonable rates for its customers on a going-forward basis once more detail is developed regarding the Company's operations. In the event that actual cost recovery is not authorized by the Commission, the Company also requested authorization to defer any excess water supply costs, until new rates are implemented that provide for recovery of excess water supply costs, over and above any interim rate that is put in place.

We have already opened an investigation to determine whether Terra Grande's existing rates are just and reasonable. Staff was in the process of this investigation when the water quality problems developed. We find that until the Company completes its evaluation of service arrangement options and affects a permanent solution, it is premature to establish permanent rates. Deferral of additional service costs is not authorized at this time, but may be considered after a specific source of supply remedial plan or permanent service arrangement is submitted and approved by the Commission. This is consistent with Commission Order No. 29512, which states:

The Commission further finds it reasonable to require Terra Grande Water to file a written plan for any additional capital investment in the water system,

with estimated costs and proposed timing. No further capital investment is to be made in the water system without Commission approval.

We find this requirement is all the more critical given the severe water quality problems encountered by the Company.

Commission Findings: We find that Terra Grande should develop a permanent service arrangement plan and submit it to the Commission for approval prior to the establishment of permanent rates or consideration of deferral of any additional costs.

III. CUSTOMER NOTICE

The Company states that notice to its customers concerning this interim and more general rate request has been accomplished by news media releases simultaneously with the filing of the Application and by individual notice mailed to each customer. The notice is attached to the Company's Application as Attachment C.

Based on information provided to customers by the Company and the media coverage of Terra Grande's water quality problem, customers are likely well aware of the current situation. However, the interim interconnection with UWI and the rates approved by the Commission will subject customers to unaccustomed consumption charges. Moreover, because none of the customers are individually metered, system consumption will be divided equally. Consequently, we find it is important for the Company to routinely notify its customers of the need to control water consumption, particularly in summer months to assure that water service remains affordable.

Commission Findings: We find that Terra Grande should notify its customers that the costs of water system consumption will be shared by all customers and inform them of the need to control their water consumption. We find that Terra Grande should also notify its customers that conservation materials and kits are available upon their request, describe what those materials are, and facilitate the distribution of those materials to those that request them. Terra Grande shall work in conjunction with Commission Staff and United Water to compile and provide a list and description of the pamphlets and the indoor and outdoor water conservation kits in order to provide that information to its customers. Terra Grande shall distribute the materials upon request by customers.

**ULTIMATE FINDINGS OF FACT
AND CONCLUSIONS OF LAW**

Terra Grande Water is a water corporation providing water service to the public within the State of Idaho, *Idaho Code* §§ 61-124, 61-125, and is operating as a public utility. *Idaho Code* § 61-129.

The Commission has jurisdiction over this matter as authorized by Title 61 of the Idaho Code, and more particularly *Idaho Code* §§ 61-501, 61-502, 61-503, 61-520, 61-523.

As set out in the body of this Order, the Commission finds that the existing rates are unreasonable. The approved rates set forth in this Order are just and reasonable. *Idaho Code* § 61-622.

ORDER


IT IS HEREBY ORDERED that Terra Grande is authorized to collect a \$13 monthly flat rate customer charge, year round, in addition to charges collected for metered service from United Water. Terra Grande shall divide United Water's monthly bill equally among its customers and collect that amount, with the above mentioned \$13 customer charge, on a monthly basis commencing with United Water's first billing period that started on January 28, 2005.

IT IS FURTHER ORDERED that the Company submit tariffs conforming to the rates set out above no later than March 31, 2005.

IT IS FURTHER ORDERED that Terra Grande shall develop a permanent service arrangement plan and submit it to the Commission for approval prior to the establishment of permanent rates or consideration of deferral of any additional costs. No cost deferral is authorized at this time.

IT IS FURTHER ORDERED that Terra Grande shall notify its customers that the costs of water system consumption will be shared by all customers and inform them of the need to control their water consumption. Terra Grande shall also notify its customers that conservation materials and kits are available upon their request, describe what those materials are, and distribute those materials upon request.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 21st
day of March 2005.



PAUL KJELLANDER, PRESIDENT

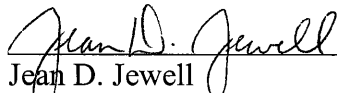


MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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