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Attorney for the Commission Staff

**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. )** **COMMENTS OF THE**  
**)** **COMMISSION STAFF**  
**)**

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**COMES NOW** 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 Application and Notice of Modified Procedure issued in Order No. 29716 on February 24, 2005, and submits the following comments.

**BACKGROUND**

On February 9, 2005, Terra Grande Water (Company) 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 January 2005, routine monitoring at the Terra Grande Water System showed that all three Company production wells exceeded the Maximum Contaminate Level (MCL) for Trichloroethylene (TCE). Additional samples taken on January 20, 2005 confirmed the

contamination. TCE is not a naturally occurring substance. It is colorless liquid that is used mainly as a solvent to remove grease from fabricated parts and some textiles.

These confirmation tests exceeding the MCL required the Division of Environmental Quality (DEQ) to take immediate action and begin working with the water company to get public notices distributed. On January 21, 2005, the Company and DEQ provided individual public notices to all customers as well as press releases to the media. DEQ and Terra Grande also contacted United Water Idaho (UWI) to explore interconnection. The Company formally requested an interconnection with UWI and the process for interconnection was completed by January 28, 2005. The Terra Grande wells were brought offline, the system was flushed and UWI became the sole source of water for the Terra Grande System.

## **STAFF ANALYSIS**

### **Interim Rates**

Upon interconnection and installation of a meter at the interconnection site, UWI began recording consumption of the Terra Grande water system for future billing as if it were a single customer with a three-inch metered service. Terra Grande will be billed bi-monthly at UWI's tariffed commodity rate and customer charge for a three-inch meter.

Staff agrees with Terra Grande Water Company that the emergency situation (contamination of the existing Terra Grande water supply) that resulted in interconnection with UWI will cause Company costs to exceed those incurred prior to interconnection. Staff also recognizes that while the source of contamination has not been determined, the Company did not cause the contamination and Terra Grande acted quickly to remedy the situation.

Clearly the charges assessed Terra Grande for metered service under UWI'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, Staff believes that some combination of the existing flat rate charge and the new UWI metered charges should be collected from Terra Grande customers.

The metered charges assessed by UWI will depend upon the total combined consumption of all Terra Grande customers and the existing UWI rates for 3-inch metered service. Therefore, Terra Grande will be billed a customer charge of \$82.42 bi-monthly and a commodity rate of \$0.9825 per 100 cubic feet (ccf) in winter and a commodity rate of \$1.2281 per ccf in summer. Preliminary

information based upon a Terra Grande meter reading on February 16, 2005 showed a 17-day consumption of 691 ccf. This equates to a consumption level of about 2439 ccf for a 60 day bi-monthly billing period. When the UWI winter rate is applied to this level of consumption, the customer charge is added to billed consumption and the total is divided by the total number of Terra Grande customers, each customer would be responsible for about \$22 bi-monthly for the metered service under the Company's proposal. Charges would obviously be greater in summer due to the higher commodity rate and the higher expected consumption levels.

Although this is technically a resale arrangement between UWI and Terra Grande, Staff agrees that under the circumstances the service arrangement at existing retail rates is appropriate in this case on an interim basis. Given the lack of individual meters in the Terra Grande system, Staff also agrees with the Company's proposal to divide the UWI bi-monthly charges by the total number of Terra Grande customers and collect the amount over the following two months.

However, Staff does not fully agree with the Company's proposal regarding assessment of existing flat rate charges in addition to the UWI metered charges. Staff's objection is primarily with respect to the continuation of the higher flat rate charge during summer months. The 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 UWI. Terra Grande costs recovered through the flat rate will not increase in summer (UWI meter charges will) and customers will pay higher charges in summer based on UWI metered rates.

With respect to the level of year round monthly charges that are appropriate, Staff is still in the process of evaluating reasonable revenue requirement for Terra Grande. In Order No. 29512, the Commission directed Terra Grande to continue providing water service at the Company's present flat rates. The Commission also opened an investigation to determine whether the existing rates for water service were just and reasonable. Staff was in the process of gathering system cost information when water contamination required interconnection with UWI.

Under the present service arrangement, it is difficult to determine Terra Grande revenue requirement based on system cost information available prior to interconnection. Staff's preliminary estimate of 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 establish an interim flat rate

based upon limited information, Staff recommends that the Commission accept the \$16 monthly charge on a year round basis.

Approval of the \$16 monthly charge continues an existing rate and provides the Company with reasonable recovery of anticipated costs. It also allows the Company to pursue permanent service arrangement alternatives and defers consideration of specific rate base treatment of plant and associated expenses until more information is known. Finally, it recognizes that Terra Grande will be required to collect UWI metered charges from its customers up to two months in arrears. The resulting \$32 bimonthly flat rate charge is about twice as high as the \$14.57 bi-monthly charges that residential customers would pay if served directly by UWI.

### **Further Proceedings**

The Company has also requested further proceedings to establish just and reasonable rates, and deferred accounting treatment for excess water supply costs above interim rates if appropriate. The Commission has already opened an investigation to determine whether existing rates are just and reasonable. Staff was in the process of investigation when the water quality problems developed. Staff believes that until the Company completes its evaluation of service arrangement options and affects a permanent solution, it is premature to establish permanent rates. Staff also believes that the Commission should only allow deferral of additional service costs 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.

Staff believes that this requirement is all the more critical given the severe water quality problems encountered by the Company.

### **Customer Notice**

Based on information provided to customers by the Company and the media coverage of Terra Grande's water quality problem, Staff believes customers are well aware of the current

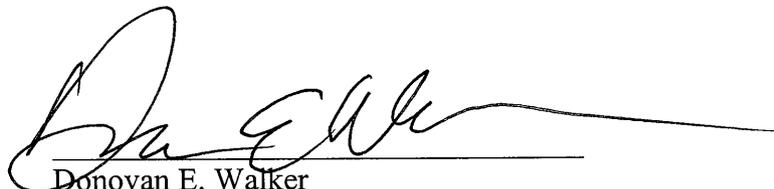
situation. However, the interim interconnection with UWI and the resulting proposed rates will subject customers to consumption charges that they are not accustomed to. Moreover, because none of the customers are individually metered, system consumption will be divided equally. Consequently, Staff believes 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.

### STAFF RECOMMENDATIONS

Staff makes the following recommendations:

- 1) That UWI bill Terra Grande bi-monthly under its existing tariffs as if it were a single customer with 3-inch metered service.
- 2) That Terra Grande divide the UWI bi-monthly bill equally among its customers and collect the amount over the following two-month period, commencing with UWI's first billing period which started on January 28, 2005.
- 3) That Terra Grande collect a \$16 monthly flat rate customer charge year round in addition to charges collected for metered service.
- 4) That Terra Grande develop a permanent service arrangement plan and submit it to the Commission for approval prior to the establishment of permanent rates or deferral of any additional costs.
- 5) That the Company send periodic notices to its customers during summer months as a reminder that the costs of system consumption will be shared by all customers and of the need to control water consumption.

Respectfully submitted this 4th day of March 2005.



Donovan E. Walker  
Deputy Attorney General

Technical Staff: Randy Lobb  
Donn English  
Carol Cooper

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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 4<sup>TH</sup> DAY OF MARCH 2005, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. TGW-W-05-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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