

West Valley Crystal Water Co.**PO Box 35****Springville, NY 14141****Phone: (716) 803-7517, Fax (716) 592-4216****Letter of Transmittal****Date: 05/26/2010****Job # 09053**

To: Dept. of Public Service
Office of Gas & Water
Water Rates Section
Three Empire State Plaza
Albany, NY 12223

Attn: Ms. Janet DelVecchio

Re: West Valley Crystal Water Co.

We are forwarding to your attention:

- ☐ Drawings ☐ Specifications
☐ Engineers Report ☐ Other:

☐ Letter ☒ Attached

These are transmitted as checked below:

- ☒ For approval ☐ For your use ☐ For review and comment
☐ As requested ☐ For Bids Due: _____
☐ Other: _____

Copies	Date	Rev.	Description
1	05/26/10		Application for a Rate Increase/Rate year 2011.

NYS DEPT OF PUBLIC SERVICE
RECEIVED

MAY 27 2010

Remarks:

Water Rates Section

Copy to: _____**SIGNED: Robert J. Runge II**

APPLICATION FOR A RATE INCREASE

For:

*West Valley Crystal Water Co., Inc.
Rate Year 2011*

NYS DEPT OF PUBLIC SERVICE
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MAY 27 2010

Water Rates Section

May 26, 2010

WEST VALLEY CRYSTAL WATER CO., INC.,
PO BOX 35 • SPRINGVILLE • NY • 14141
716-803-7517

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1.0 EXECUTIVE SUMMARY

The West Valley Crystal Water Company, Inc. was incorporated in 1910. The company has had compliance issues dating back to 1916. The continued compliance issues resulted in the determination that the spring fed system was groundwater under the direct influence of surface water. This caused the system to become an EPA Significant Non-complier. This determination puts more regulatory and testing requirements on the water system. Testing has more than doubled since 2008 and is expected to keep rising as requirements become more stringent.

The water company services the Hamlet of West Valley in the Town of Ashford in Cattaraugus County. The total serviced population is approximately 880 people. This serviced population is decreasing with time. At the same time, due to the age of the entire system, repairs are increasing. The last significant upgrades were in the 1960's. Since then, many of the materials used are no longer appropriate and the system has aged past its useful life. This has resulted in an estimate 30% increase in leaks and repairs per year. This trend is expected to continue until the entire system is finally repaired.

To perform the necessary operations and maintenance, the Water Company is requesting a significant rate increase for the 2011 rate year. A 571% increase is requested. This will be used for operation and maintenance projects including securing springs, burying transmission lines, sealing the water building, and performing regular system maintenance and leak repairs and testing.

The total increase revenue requested is \$300,944.05 for rate year 2011. This is \$271,480.40 more than the 2008 base year total of \$29,513.65.

To see the current rates, the proposed rates, and the number of customers served under each rate, refer to Appendices I-J.

2.0 PURPOSE

The purpose of this report is to submit for approval, the rate increase application for the West Valley Crystal Water Company, Inc. (Water Company) from the Public Service Commission. Enclosed is the required information regarding a request for a rate increase. Under the current rate system, the company does not have the income or financial reserves to maintain the system or be in compliance with federal mandates.

3.0 HISTORY

West Valley Crystal Water Company, Inc. was established in 1910 and was originally called West Valley Water Works. This privately owned water company currently utilizes a series of three springs to supply water to the Hamlet of West Valley in the Town of Ashford in Cattaraugus County in New York State. In November of 2009, ownership was taken over by Robert J. Runge II and Brett Hannon from Cliff Feldman. The change in company contact information has been included with the rate increase documents as Appendix A.

According to water company records, the Water Company has approximately 200 service connections. Approximately 420 people reside within the homes serviced by the Water Company. Additionally, the largest customer is the West Valley Central School. The school currently contains 377 students and approximately 70 faculty and staff. This leads to a serviced population of about 880 people. The West Valley Central School is experiencing declining enrollment and its ability to stay open is question.

4.0 SOURCE/TRANSMISSION

Water is collected from only three of the five original springs. The use of the Feldman and Railroad Springs was lost when the water company changed ownership. The three springs currently in use are Indian Spring, Maple Spring, and Pine Spring. Indian Spring is the major water supplier to the system. No part of the system is metered, so productions of each of the springs are unknown. Consumption also remains unknown. Surface water infiltration and vandalism have been recorded on a number of occasions.

The three springs supplying water have been determined by the NYS Department of Health to be groundwater under the direct influence of surface water and therefore need modifications. Appendix B includes a copy of this report. The construction of all three of these spring collection sources does not meet current standards. The spring boxes are not adequately protected from surface water infiltration and possible vandalism. In addition, the water piping collection system in the ground is susceptible to surface water contamination as is evident by multiple positive E.coli test results. A history of positive E.coli results is included in the Appendices. Appendix C shows a positive result dating from 1916. Appendix D includes positive tests spanning the last 15 years of testing.

The transmission lines from the springs to the collection building are laid over the top of the ground. For Indian Spring, after the line goes through a railroad culvert, the line is buried to the water building. This is not in keeping with current standards.

It is our intent to perform maintenance on the spring sources, transmission lines, and access roads to the springs and transmission lines. It is our intent to rebuild the spring boxes to meet current protection standards.

5.0 TREATMENT/STORAGE

Storage consists of a steel blending tank and two concrete storage tanks in series. The large concrete tank holds 28,576 gallons, and the smaller concrete tank holds 7,204. The steel tank holding 12,000 gallons is above ground and put on line during low spring production times. This is usually midsummer to early fall. A 12.5% sodium hypochlorite drip is used for disinfection in the 28,576 gallon concrete tank. Though the water is disinfected, currently there is no filtration component to the system. This is a violation because in October of 2006 the spring sources were determined to be Ground Water Under the Direct Influence (GWUDI) of surface water, as determined by the CCHD. A copy of this report is included in Appendix B. According to New York State Sanitary Code, this designation requires that the water company filter the water for public consumption. This has not been done due to lack of funding. This has made the system a Significant Non-Complier according to the EPA for almost two years. Details on this classification are included in Appendix E. The Cattaraugus County Health Department (CCHD) also has opinions on necessary upgrades for the system that coincide with those of the EPA. A letter from the CCHD is included in Appendix F.

6.0 DISTRIBUTION

Materials that compose the distribution system are no longer acceptable for conveying drinking water. Current pipe materials include galvanized steel, polyethylene, steel, lead, flex copper, cast steel, rigid copper, and PVC. Galvanized steel, cast steel, lead, and rigid copper specifically do not meet current standards. Improper line materials could be leading to galvanic action corrosion. The positive presence of lead and copper in the water samples are indicative of this type of pipe corrosion.

According to the former owner, Cliff Feldman, up to half of the service whips within the distribution system are made of lead. Mr. Feldman also reports that all of the water services are copper, however the testing documentation says there is a preponderance of galvanized steel service lines. Because the system is so old and many parts of the distribution system are unknown, no matter what the possible materials are, they are well beyond their useful life and need replacement and are prone to failure at any time.

7.0 TESTING

Substantial testing requirements have been required thus increasing the costs of time, material, and equipment. This is identified in Appendix J.

8.0 PROPOSED MAINTENANCE/REPAIRS

Extensive work is required to bring the system into compliance. Repairs to the system will follow the guidelines set forth in the Ten State Standards. All repairs will result in operation changes that improve and insure adequate technical, managerial, and financial capacity of the system in order to ensure compliance. Currently a set of standard operating guidelines are being developed that are specific to the West Valley Crystal Water Company, Inc. that will ensure the system will operate in the most competent and efficient way possible.

Separate funding is being sought for the capital improvements to the system.

9.0 SOURCE MAINTENANCE/REPAIRS

All three spring boxes require replacement to come into compliance and allow for regular maintenance. The transmission lines from the springs to storage and treatment require improvements to reduce the risks of contamination and vandalism. In particular, the transmission line from Indian Spring has documented cases of repeated vandalism. To secure the transmission lines, all transmission lines should be buried as much as practical. Accesses to all three spring sites are inadequate for maintenance and repairs. Access roads need to be constructed and vegetation removed. Roads must be created back to each of the sources to provide ease of access for maintenance and inspection. They will follow the transmission lines, as much as practical, back to the spring sources.

10.0 TREATMENT/STORAGE

Treatment systems require upgrading so as to accommodate variations in flow through the system. Record keeping is increasingly more onerous and requires additional training and equipment. Storage capacity requires increase in volume and protection of storage and treatment equipment through building modifications and electrical upgrades.

The water building is not secure, vermin proof, or insulated. It would not take much effort to break into the building. Though the doors have locks, the windows have been broken and could be climbed through. When the 12,000 gallon tank was added to the water system, a hole was cut in the side of the building. This hole was never properly sealed around the edges and is an easy point of entry for vermin. Due to this, dead mice and frogs are periodically found in the reservoirs. The entire building will be sealed to make it vermin proof as well. The doorway located on the south wall, when opened, allowed dirt, leaves etc. from the exterior to enter the building and, due to the close proximity to the small reservoir, the particles ended up on the finished water surface. A debris guard will be created to cut down on this type of contamination. The grading around the building needs to be fixed so that water flows away from, not toward, the building. This will require extensive excavation work to be done.

As part of the improvements to this building, insulation will be added. Insulation can cut down or rid the building of condensation that may fall into the reservoirs and provide a pathway for potential contamination. The insulation will also serve to seal the building to prevent vermin from entering.

11.0 DISTRIBUTION MAINTENANCE AND REPAIRS

The entire distribution system is beyond its useful life, except for the one run of 6" PVC piping, the entire system require replacement. Thus, until funding becomes available through the Drinking Water State Revolving Fund, repairs work will steadily increase each year.

Due to limited funding, only leaks and necessary repairs will be done to the distribution system in the coming year. Due to the age and degradation of the system, many repairs are expected. Since January, three substantial leaks have been repaired and at least three more leaks found and not yet repaired. This trend is expected to increase with time.

12.0 WATER RIGHTS AND MAPPING

Though the Water Company has already been purchased, easements and water rights must be obtained and verified for each of the springs and transmission lines not located on the properties owned by the Water Company as indicated by J.C. Smith of the Environmental Facilities Corporation. The entire transmission and distribution system will be surveyed and mapped.

13.0 FINANCIAL INFORMATION

In order to arrive at a percent increase, the company evaluated what was spent on particular items since the company was purchase. These costs were then extrapolated over the entire year. Each cost was placed into one the categories dictated by the Comparative Income Statement. All lump sum costs have been amortized at 8% interest for 30 years. Included with the Comparative Income Statement is a modified statement that includes the applicable subcategories determined by the company for clarification purposes. The completed comparative income statement for the 2011 rate year is located in Appendix G. A breakdown of projected finances is included as Appendix H.

Enclosed with this report is a proposed Leaf 12 as Appendix I. It is requesting just over 571% increase for our customers in the coming year. This would change the current household bill from \$179.86 semi-annually to \$1,207.15 semi-annually. As a supplement to the Leaf 12, there are two other sheets included. The first is the current rate structure, included as Appendix J. The current billing structure was entered into Excel so that the percent of the total revenue of the company for each type of unit could be determined. This percentage structure was carried over to the second sheet, projected rate structure, as Appendix K. The total cost of the projects for the 2011 rate year was broken down by the percent structure to determine the future billing structure for each unit within the water company.

No alternative sources of funding outside a rate increase and applying to the Drinking Water State Revolving Fund are currently available to the water company. Federal, state, and private grant options are not available for privately owned for-profit companies. Loan options might be possible; however the Water Company lacks the financial reserves to pay the interest rates.

14.0 CONCLUSION

In order to bring the West Valley Crystal Water Company, Inc. into operational stability, a significant rate increase is necessary in the near future. The rates have been held too low for many years. The infrastructure is beyond its useful life and requires a total replacement. The customers of the company know that these increases are needed in order to keep the system in operation. Any further delay in upgrades could see the system shut down. It is in the best interest of the residents to allow a rate increase that will help keep the company functioning safely and effectively.

If you have any questions, please call the West Valley Crystal Water Company, Inc. at (716) 803-7517 or email westvalleycrystalwater@gmail.com.