

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF FALLS WATER CO., INC. FOR AUTHORIZATION TO BUILD A NEW WATER SOURCE, AND ACCESS TO THE SPECIAL PLANT RESERVE ACCOUNT)))))	CASE NO. FLS-W-17-01 ORDER NO. 33863
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On February 10, 2017, Falls Water Company filed an Application requesting that the Commission advise the Company on a request to construct an additional well, well house, pumping equipment, and controls, and accept those expenses as rate base in a future rate case. The Company stated that the new well is needed because of systemic water pressure issues confirmed by the Idaho DEQ. The Company further requested access to a “special plant reserve fund” created by Commission Order in 2012.

BACKGROUND

The Company’s current rates took effect on October 16, 2012. Order No. 32663. As part of that rate case, the Commission required that the Company establish a special plant reserve fund to finance future infrastructure projects as approved by the Commission. *Id.* The Commission further stated that it “*strongly encourages the Company to consult with Commission Staff before it begins any such projects.*” *Id.* at 11 (emphasis in original).

THE APPLICATION

In compliance with that directive, the Company sought permission to construct a new well and associated plant. Application at 1. It stated that a new well is needed to comply with Idaho Department of Environmental Quality (DEQ) water pressure requirements. *Id.* at 2. The Company estimates a total project cost of \$647,215. *Id.* at 1. Further, the Company seeks certain ratemaking treatment and access to the special plant reserve fund.

THE COMMENTS AND REPLY

Commission Staff and the Company, the only parties to the case, filed written comments, summarized below:

A. Staff Comments

After reviewing the Company’s proposal, Staff made a recommendation to authorize the Company’s request to build a new well. Staff found that action was indeed required to meet DEQ requirements, and the proposed new well was a reasonable course. Staff stated that the well estimate was reasonably calculated, and the least cost alternative. Staff recommended the

Commission allow access to the special plant reserve fund, allow specific ratemaking treatment, recommended future accounting actions, and other actions. Staff examined several other ways to meet the system's demand requirements. *Id.* Also, Staff noted that prior to filing this Application, the Company implemented odd/even watering days to attempt to relieve peak demand issues and installed higher quality sand separators, and looped and interconnected mainlines. *Id. at 2-3.*

Staff stated that it believed that even with the new well, the system will continue to not meet pressure requirements for firewater flow. *Id.* Staff pointed out that this deficiency will need to be addressed outside of this case, and may require acquisition of additional water rights, or larger pumps, for example. *Id. at 4.* Staff recommended that going forward the Company complete a hydraulic model in order to prioritize the most effective future investments in the system. *Id.*

Staff's audit of the plant reserve fund established by Order No. 32663 was that "Falls Water has kept its books and records related to this Fund in a satisfactory manner," and that "no expenditures [have been made] since the Fund was established." *Id. at 5.* Staff does not make any recommendations regarding changes to the fund, but recommended that interest be calculated and deposits treated as if made on a monthly basis regardless of when deposits are actually made. *Id.* Ultimately, Staff felt that use of the funds on the new well project would be appropriate and should be approved.

With regard to accounting treatment of funds associated with the special reserve fund—annual savings of \$8,315, now approximately \$39,000—Staff recommended that such contributions be a reduction to rate base, explaining that funds from the special reserve fund are customer- and not investor-supplied capital.

B. Company Reply

The Company filed a short reply to the Staff comments, agreeing with Staff recommendations, taking issue with only one: treatment of the investment from the special plant reserve fund. Citing Commission Order No. 32663, the Company claimed the Commission has already decided this matter, and quoted the Order, "[t]o the extent any investments from this special plant reserve account are approved by the Commission, they will be allowed in rate base and depreciated like any other prudent plant investment." *Id.* Thus, the Company consented to

the recommendations of Commission Staff, contesting only the accounting treatment for the savings portion of the plant reserve fund.

DISCUSSION AND FINDINGS

At its core, the issue before the Commission is whether the proposed well and plant, access to the plant reserve fund, and associated ratemaking treatment is in the public interest. When determining whether a course of action is in the public interest, the Commission takes into account all relevant factors, including cost, to determine if the Application is consistent with the public interest:

In general, where the Commission is required to consider the “public interest,” it must look to “the interest of the public, their needs and necessities and location and, in fact, all the surrounding facts and circumstances to the end that the people be adequately served.”

Browning v. Wood, 99 Idaho 174, 579 P.2d 120 (1978); *see also*, IPUC Order No. 28213, Case No. PAC-E-99-1. Similarly, utilities have a statutory duty to maintain adequate service that is “adequate, efficient, just and reasonable.” *Idaho Code* § 61-302. Notably, the statute does not require that services be provided at the lowest possible cost. Rather, it takes into account broader concepts of safety, health, comfort, convenience of patrons, employees, and the public. Here, the Company’s request stems from the DEQ evaluation that the Company’s system is now unable to meet minimum pressure requirements for peak daily usage.

Available alternative solutions are either inadequate to satisfy DEQ pressure and flow requirements or cost significantly more than the Company’s proposed new well. The Company has already completed several loop and interconnect mainlines, and encouraged customers to limit use through a voluntary odd/even, early morning lawn watering program. These improvements did eliminate some pressure drops, but have not improved the system enough to meet DEQ requirements. The addition of new incremental storage and booster pumps are a potential alternative, and would likely meet DEQ requirements, but also appear to come at a cost three times that of the proposed well.

The cost estimate provided for the proposed well—by way of comparison to a well that the Company recently built—is reasonable. However, the exclusion of a DEQ-required backup generator should be corrected. While the Company provided a DEQ letter authorizing portable auxiliary power, we encourage the Company to move to on-site standby power in the future. *Id.*

The Company's position regarding the booking of funds from the plant reserve fund is understandable, but does not properly reflect the source of the money in the plant reserve fund. The treatment of annual savings of \$8,315 (resulting in a total contribution of \$39,172) as contributions in aid of construction (Staff Recommendation No. 3) is consistent with this Commission's Order No. 32663. That Order makes no differentiation between the meter-related depreciation and annual cost savings to be deposited in the special plant reserve fund.

Rate base is composed of many items including plant-in-service (the well), a deduction for accumulated depreciation and a deduction for contributions in aid of construction (CIAC). CIAC is removed from the rate base calculation because it is *non-investor* supplied capital. In this case, if the annual savings are not removed from the rate base calculation, the Company would earn a return on investments not funded by the Company, but by customers. Removing CIAC from rate base eliminates the double counting/over earning. "Contributions in Aid of Construction reduce the rate base as a source of non-investor supplied capital. For certain utilities (water) it is common for CIAC to be contained in its own rate base account." NARUC Staff Subcommittee on Accounting and Finance, *Rate Case and Audit Manual 22* (Summer 2003).

The remaining funding for the project would be through cash, and a non-interest bearing loan from the owner. The funds from the owner shall be treated as temporary paid-in-capital and may be paid back in three to nine months. The Company shall keep detailed records of all transactions, as they will be required for future review.

While the Company's request in this case does not include a rate change, based on the Company's estimates, the project would have an impact of 3.4% to 4.4% on customer rates. Any decision to include the well in rate base in a future rate case will be made after the actual expenditures have been fully audited and subject to proper regulatory review. This ratemaking treatment is not now before us.

After reviewing the Application and the comments filed in this case, we find that the Company's Application is reasonable and adheres to our prior Order regarding approval of projects and access to the special reserve fund. While other means such as storage may improve the system's water pressure issues, the proposed well appears to be the most cost-effective means of providing adequate service to its customers. Further, we find following appropriate:

1. Inclusion of the well expenditures are subject to review for accuracy and reasonableness prior to inclusion in customer rates;
2. The contribution of \$39,172 (annual savings) from the plant reserve fund shall be recorded as a contribution in aid of construction, and will be a reduction to rate base;
3. The Company shall maintain books and records for all transactions related to this project;
4. The Company shall continue its current practice of depositing the net book value of meter plant removed to the plant reserve fund in addition to the depreciation expense and annual savings;
5. The Company shall develop and maintain a hydraulic model of its system, and present that model to Staff when requesting any future system improvements or expansions;
6. The Company shall notify the Commission when on-site power is installed at the well and the cost of any such installation.


Thus, the Commission approves the Company's Application to install a new well, and access to the plant reserve fund, and finds it fair, just and reasonable.

O R D E R

IT IS HEREBY ORDERED that the Company's Application is approved. The Company is authorized to construct an additional water source and well house, and to access the plant reserve fund, along with the conditions noted above.

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. 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 21st
day of September 2017.



PAUL KJELLANDER, PRESIDENT




KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Diane Hanian
Commission Secretary

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