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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)	
FALLS WATER CO., INC. FOR APPROVAL OF)	CASE NO. FLS-W-19-01
ACQUISITION OF THE ASSETS OF THE)	
WATER BUSINESS OF TAYLOR MOUNTAIN)	
WATER AND SEWER DISTRICT)	COMMENTS OF THE
)	COMMISSION STAFF
)	

The Staff of the Idaho Public Utilities Commission comments as follows on Falls Water Co., Inc.'s Application.

BACKGROUND

On August 5, 2019, Falls Water Co., Inc. ("Falls Water" or "Company") filed an Application seeking approval of the Company's acquisition of Taylor Mountain Water and Sewer District's¹ assets ("Taylor Mountain" or "District"), and amendment of the Company's Certificate of Public Convenience and Necessity ("CPCN") to include the area served by the District.

Northwest Natural Gas Company is a 160-year old natural gas utility that serves customers in the Pacific Northwest. As part of a recent reorganization, Northwest Natural Gas Company formed the Northwest Natural Holding Company, which holds companies including

¹ An affiliate of Falls Water, Gem State Infrastructure, LLC, is acquiring the assets of the District's sewer system. As the Commission does not have regulatory authority over sewer systems, Falls Water's Application covers only the proposed acquisition of the water business assets.

NW Natural Water Company, LLC and its subsidiary, NW Natural Water of Idaho, LLC. In 2018, the Commission approved NW Natural Water Company, LLC's acquisition of Falls Water. Order No. 34103.

Falls Water is a wholly owned subsidiary of NW Natural Water Company, LLC., and seeks to acquire the District's assets. The Company also seeks to amend its CPCN to add the area served by the District to the Company's service area. The District is a special purpose water and sewer district under Chapter 32, Title 42 of Idaho Code, and serves about 158 residential customers and one commercial customer.

Falls Water is not requesting any changes to rates, rate structure, or other charges in this Application, and states that any future changes would be based on prudently incurred capital expenditures and other accepted ratemaking principles.

STAFF REVIEW

As it has done in previous water company acquisition cases, Staff relied on the standards outlined in *Idaho Code* § 61-328 related to the sale of electric utilities. Those standards require the Commission to determine that:

- a) The transaction is consistent with the public interest;
- b) The cost of and rates for supplying service will not be increased by reason of such transaction; and
- c) The applicant for such acquisition or transfer has the bona fide intent and financial ability to operate and maintain the system in the public service.

Having considered these requirements in its analysis, Staff recommends approval of the acquisition of the District's assets. Staff also recommends the Company's CPCN be amended to include the area served by the District.

For its investigation, Staff relied on DEQ surveys, information provided in the Application, and production request responses. Staff found Exhibit 6's service area description did not match descriptions of the service territory provided elsewhere in the Application. Staff worked with the Company to determine the legal description of the new territory to be added to the Company's CPCN, and verified that the description corresponds to the actual territory currently being served by Taylor Mountain. The Company subsequently submitted a corrected description of the certificated service territory as Revised Exhibit 6 on October 15, 2019. Staff determined that this territory is similar to but does not exactly correspond with the territory

served by Taylor Mountain's predecessor, the regulated public utility Country Club Hills Utilities, Inc. (CPCN No. 312). The primary difference is a small strip of land along the west edge of the SE ¼ of SW ¼ of Section 21.

A. The Transaction is Consistent with the Public Interest.

Staff notes that NW Natural Water Company, LLC, in conjunction with its parent companies, is actively seeking to expand its operations in Idaho. NW Natural Water Company, LLC and associated companies have shown commitment to their growth plan through the acquisition of Falls Water (FLS-W-18-01), Spirit Lake East/Lynnwood Water (SPL-W-19-01), Diamond Bar Estates (DIA-W-19-01), Bar Circle S Water (BCS-W-19-01), and the submission of this Application. The acquisition of the District by NW Natural Water Company, LLC may provide benefits through operational efficiencies and economies of scale as it acquires more water systems. In addition, Falls Water Company's professional and licensed employees will be running the system. Currently, Taylor Mountain is operated by volunteers from the District.

B. The Cost of and Rates for Supplying Service will Not Increase Due to the Transaction.

The Company states it will maintain the existing rates and charges post-acquisition, and will not seek to include the transaction expenses related to the acquisition in rates. *See* Palfreyman Direct at 8; Application at 8.

Basic Service Charges and Usage Rates

Staff supports maintaining the current basic rate charge of \$20.00, and commodity charges of \$0.71 per 1000 gallons for usage over 15,000 gallons for customers of Taylor Mountain, consistent with Falls Water's request in the Application. *See* Application at 8. These rates were determined by the District and have not been approved by the Commission; however, an abbreviated audit performed for this proceeding indicates the Company is not overearning.

Current rates are similar to those granted to the predecessor company, Country Club Hills Utilities, in Order No. 33384, Case No. CCH-W-12-01. At that time, the basic service charge for metered residential customers was set at \$17.00, with the usage set at \$0.71 per 1,000 gallons for usage over 15,000 gallons. Falls Water intends to keep the existing tariff structure until a new

rate case is completed. The Company stated that the cost of capital and structure are assumed to be similar to that of Falls Water.

Non-Recurring Charges

The Non-Recurring Charges seen below are listed in the Application, proposed Schedule No. 3 (Exhibit 5), and include charges previously not allowed by the Commission:

Non-Recurring Charges:

Water Shutoff: \$25

Restoration of Water Services: \$25

Monthly Late Fee: \$10

Water Shutoff Late Fee: \$50

Hookup Fee: \$1,400

The Company has provided no description of either the Water Shutoff Fee or the Restoration of Water Services Fee. Such fees for the purpose of allowing the customer to perform maintenance have been previously considered by the Commission in other small water company cases. Such fees have also been allowed when a customer wishes to terminate service on a seasonal basis.

The Restoration of Water Service appears similar to a reconnection charge allowed after disconnection for nonpayment and Staff recognizes the need for such a charge. The Commission previously approved a Reconnect Fee of \$20 for Country Club Hills if the reconnect was requested during normal business hours and a \$40 fee outside of normal business hours. These rate levels have also been approved for other water companies.

The Monthly Late Fee has been allowed by the Commission, but only as a percentage of the past due balance. The Commission has previously allowed Country Club Hills a Late Payment Fee of 1% (one percent) of the unpaid balance at the time of the next billing statement.

It is unclear how the Company would apply a Water Shut-off Late Fee of \$50, and it has not presented any justification for the charge.

The Hookup Fee is higher than the amount previously allowed when the system was operated as Country Club Hills, and the Company has provided no support for the increase. Staff verified that the actual hookup fee charged to new customers by Taylor Mountain is \$1,400, and Falls Water in its Application is not proposing any changes to Taylor Mountain's Hookup Fee.

Staff recommends that the Commission disapprove the Schedule 3 Non-Recurring Charges submitted in the Application because several charges have previously not been allowed and others have been increased from the charges allowed when this system was operated as Country Club Hills Utilities.

Before 2015, the District existed as Country Club Hills under Certificate No. 312. In Case No. CCH-W-12-01, the Commission set the following non-recurring charges for Country Club Hills. Order No. 32662. Staff recommends setting the non-recurring charges as copied from the most recently approved Country Club Hills Tariff and shown below:

RATE SCHEDULE NO. 2 NON RECURRING CHARGES

1. RECONNECT FEES

Reconnection Charge: A reconnection charge will be assessed to any customer who has been involuntarily disconnected by the Company for any reason allowed by the UCRR. Charges do not apply when a customer was involuntarily disconnected for the convenience of the Company. Charge is per occurrence.

During normal business hours \$20.00

Other than normal business hours \$40.00

- 2. HOOKUP OR CONNECTION FEE - \$1,179.00** - This charge is applicable when a new service is connected to the system for the first time.
- 3. LATE PAYMENT CHARGE** - One percent (1 %) per month of the unpaid balance at the time of the next monthly billing statement.

As stated above, some of the non-recurring charges existing under the District are not allowed by the Commission; therefore Staff recommends the Company adopt the Non-Recurring Charges previously approved for Country Club Hills.

C. Falls Water has the Bona Fide Intent and Financial Ability to Operate and Maintain the System in the Public Service.

Staff believes the Company has demonstrated its bona fide intent and financial ability to provide continued operation of the system and reliable service. Falls Water has committed in its

Application to provide safe and reliable service and to meet the infrastructure needs of District customers. *See* Application at 8.

The District currently has no employees. If the transaction is approved, Falls Water employees will assume the roles previously undertaken by volunteer members of the District's Board. The licensed water system operator for Falls Water will serve as the licensed water system operator for the assets of the District's water operation. Application at 7.

Water systems routinely require repair, replacement, and extension of infrastructure to provide reliable and ample water service to customers. Financing this infrastructure at a reasonable cost is a challenge for smaller water systems. Falls Water, through its parent company, Northwest Natural Holdings, has the necessary access to capital markets to proactively address Taylor Mountain's infrastructure needs in a timely manner at a competitive cost. *See* Application at 8. Northwest Natural Holdings has an A1 credit rating from Moody's and an AA- credit rating from Standard and Poor's. Northwest Natural Holdings' market capitalization exceeds \$2 billion. Improved access to capital markets usually helps lower financing costs that ultimately are passed on to customers.

COMPANY TARIFF

Staff is willing to work with the Company to create recurring and non-recurring rate schedules for District customers following issuance of the final order in this case. Staff recommends that the customers be governed under the General Rules and Regulations previously approved by the Commission for Falls Water in Case No. FLS-W-09-01. *See* Order No. 31022. Staff recommends that the Company create separate rate schedules for the recurring charges and non-recurring charges for 'Former Customers of Taylor Mountain Water and Sewer District' to be included in the Falls Water Tariff.

CUSTOMER NOTIFICATION AND PRESS RELEASE

Rules 125 of the Commission's Rules of Procedure do not require customer notification unless the Company is requesting a rate change. IDAPA 31.01.01.125. In its Application, the Company stated its intention to publish a Customer Notice in the local newspaper regarding its agreement to purchase the District. It is unclear whether the Company has already published this notice. Regardless of whether the Company published this notice, if the Commission approves the sale of the system, Staff recommends that the Company provide direct notice to customers of

the purchase, approved rates, and Company contact information either through a separate mailing, a message on bills, or as an insert sent with bills.

COMPANY DOCUMENTS


The Company will need to update customer documents to reflect any changes brought about by the acquisition of the District's assets. Staff is willing to work with Falls Water to update its billing and collection documents as well as its Explanation of Rates and Annual Rules Summary. Staff recommends the Company work with Staff to make any necessary revisions within three months of issuance of the final order in this case.

STAFF RECOMMENDATIONS

Staff recommends the Commission:

- Approve the sale of the District to Falls Water.
- Amend Falls Water Co. Inc.'s CPCN to include the District's service territory
- Order Falls Water to notify the customers directly of the sale of Taylor Mountain to Falls Water, provide approved rates, and Company contact information either through a separate mailing, a message on bills, or as a bill insert.
- Order Falls Water to work with Staff to create separate rate schedules following issuance of the final order in this case.
- Order Falls Water to work with Staff to make any necessary revisions to its billing and collection documents and its Explanation of Rates and Annual Rules Summary within three months of issuance of the Commission's final order in this case.
- Order Falls Water to adopt the previously approved Non-Recurring Charges for Country Club Hills, as discussed above.

Respectfully submitted this 30th day of October 2019.



Matt Hunter
Deputy Attorney General

Technical Staff: Kathy Stockton
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Michael Morrison

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 30TH DAY OF OCTOBER 2019, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF** IN CASE NO. FLS-W-19-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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