

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF HAPPY VALLEY WATER SYSTEM, INC.) CASE NO. HVW-W-13-01
SEEKING COMMISSION APPROVAL TO)
TRANSFER ITS CERTIFICATE OF PUBLIC) ORDER NO. 32924
CONVENIENCE AND NECESSITY)

On June 11, 2013, the Commission received correspondence from Happy Valley Water System Inc. (“Happy Valley” or “Company”) seeking Commission approval to transfer the Company’s existing Certificate of Public Convenience and Necessity (CPCN) No. 364¹ from its previous owners to its current owners.

In its letter to the Commission, Happy Valley provided the following documentation: copy of purchase/sales agreement; copy of the warranty deed; signed resignation of previous corporate officers; form of Organization with Articles of Incorporation; property description and map; unaudited financial statements (five years) for the Happy Valley Water System Inc.; copy of the 2010 IPUC Annual Report; change of registered agent with Idaho Secretary of State; buyer’s qualifications; Drinking Water Distribution Operator Licenses for Ken Rickel; unaudited statement of net worth for Ken and Cathy Rickel (“Rickels”); business plan; and customer notice.

On October 8, 2013, the Commission issued a Notice of Application and Modified Procedure with a corresponding 21-day comment period. *See* Order No. 32903.

STAFF COMMENTS

Sale Agreement and Warranty Deed

Staff confirmed that Brett C. and Nora L. McCarty (“McCarts”) sold all their outstanding and issued stock in Happy Valley to the Rickels on October 1, 2010. A filing for approval from the Idaho Public Utilities Commission (“Commission”) should have been made prior to the completion of the sale of all stock and the transfer of property. Under the terms of the sale agreement, the system was sold for \$8,000. Staff also confirms that the McCarts executed a warranty deed on September 21, 2010, transferring the real estate property belonging to Happy Valley.

¹ IPUC records indicate that Happy Valley was awarded CPCN No. 390, *see infra*. p. 3.

Company Management

Happy Valley's president and general manager is Kenneth Rickel and the secretary is Cathy Rickel. The Applicant says that the Rickels are owners of two other water companies (Rickel Water Company and Bitterroot Water Company). According to the Application, the Rickels are very familiar with the Commission's regulatory authority, Utility Customer Relations Rules and Customer Information Rules, and are prepared to abide by them. Their involvement in the water utility industry has given them the requisite business expertise, financial ability and water system experience to operate and maintain Happy Valley.

Mr. Rickel is familiar with the water system testing requirements of the Idaho Department of Environmental Quality. Staff verified with the Idaho Bureau of Occupational Licenses that Mr. Rickel is licensed as a Drinking Water Distribution Operator for Very Small System in the State of Idaho. Staff believes that the Applicant has the capability to operate and maintain the public water system in a manner that will provide safe and adequate service to its customers. The Rickels have been managing and operating the Company since the sale of the Company was finalized on October 1, 2010.

IDEQ Compliance

Staff contacted the Idaho Department of Environmental Quality (IDEQ) to ensure that Happy Valley is in compliance with applicable IDEQ regulations. IDEQ informed Staff that a sanitary survey of Happy Valley's water facility was conducted on May 16, 2013. IDEQ's survey indicated that the Happy Valley water system was mainly in compliance with Idaho Rules for Public Drinking Water Systems. IDEQ identified a few system deficiencies and offered some recommendations in operating the water system. Staff contacted the Company concerning the status of complying with these deficiencies. The Company informed Staff that it is working with IDEQ to correct the various deficiencies.

Water Rights Review

Staff also reviewed the Applicant's water right to ensure that the previous owner transferred the water right to Happy Valley. Staff was apprised by the Idaho Department of Water Resources (IDWR) that an application for water permit was filed by the previous owners of Happy Valley on September 10, 2010, shortly before the final sales agreement was finalized. IDWR records indicate that Happy Valley was purchased by Mr. Rickel and requested to file a

change of address form on February 28, 2011. To date, the Applicant is working with IDWR to complete the process of obtaining a water right.

Certificate of Public Convenience and Necessity

The Company's Application requests that CPCN No. 364 be transferred to the new owners, the Rickels. During its review, Staff found that CPCN No. 390 is currently held by the Happy Valley Water System, Inc., not CPCN No. 364 as indicated by the Company in its Application. The Commission issued CPCN No. 390 to Happy Valley Water System, Inc. on August 2, 2001, Case No. HVW-W-01-01, Order No. 28816. Because all the outstanding shares of Happy Valley Water System, Inc. were essentially purchased by the Rickels and the corporate identity did not change, Staff believes it is not necessary to transfer ownership of the CPCN to the Rickels. Staff believes that this scenario is similar to previous cases of ownership transfer processed by the Commission, including the transfer of ownership of Troy Hoffman Water Company (Case No. TRH-W-09-01, Order No. 30992) and Algoma Water Company (Case No. AWS-W-07-01, Order No. 30567).

Accounting Issues

Staff reviewed the annual reports, unaudited statement of net worth and the stock purchase agreement. Plant in Service, Account No. 101, is shown at a cost of \$14,634 on the 2010 balance sheet submitted by the Company. The supporting schedule for plant in service reflects \$3,070 in organizational costs. Staff's analysis of the balance sheet accounts show this \$3,070 was properly reported in 2009 as Utility Plant Acquisition Adjustment, Account No. 114. This \$3,070 amount resulted from a previous owner paying more for the plant in service than its regulatory net book value.

In 2010, the acquisition adjustment was reclassified as Plant in Service, Account No. 101. This \$3,070 should not be included in regulatory plant in service and the 2010 reclassification should be reversed so it is properly reflected as an acquisition adjustment. Account No. 114, Utility Plant Acquisition Adjustment, is not included in rate base and does not earn a return. Account No. 114 may be amortized but any reported depreciation or amortization expense of the \$3,070 should be excluded from regulatory expenses used to determine rates. Based on the annual reports, net book value at December 31, 2010 for Happy Valley should be \$3,343 (\$11,565 plant less \$8,221 accumulated depreciation).

The Application and documentation characterizes the transaction transferring the operation and ownership of the Company to the Rickels as a stock purchase. The issuance value of the outstanding stock is \$10,000. Although the well lot was transferred as part of the transaction it is not listed in the plant in service. Further, the documentation shows no cost for it. As a result of the stock sale and transfer there is no increase in rate base, no purchase premium recorded, and no change in rates.

Customer Relations

Following the transfer of ownership to the Rickels in 2010, the Company sent customers a flier in their November bills announcing the change of ownership. The Company sent customers a notice regarding its Application to transfer the CPCN on June 7, 2013. A copy of the June 2013 notice was filed with the Company's Application. As of November 1, 2013, the Commission has not received any comments from customers.

In summary, Staff made the following recommendations:

1. Approve the sale of Happy Valley's common stock to Ken and Cathy Rickel.
2. Prohibit Happy Valley from including any costs of this transaction on the regulatory books of the corporation.
3. Direct the Company to achieve full compliance with all the system deficiencies and recommendations identified in the May 16, 2013 IDEQ sanitary survey.
4. Direct Happy Valley to file new tariff sheets, signed by an authorized representative, and reflecting that the Applicant now owns the system.

COMMISSION FINDINGS

Based upon our review of Happy Valley's Application and Staff comments, the Commission finds that it is fair, just and reasonable to transfer the Company's existing CPCN to its current owners, Ken and Cathy Rickel. The Commission approves the sale of the Company's common stock to the Rickels and notes that the Rickels have been operating the Company competently and without incident for several years. Happy Valley shall submit new tariff sheets signed by current ownership within 21 days of the service date of this Order.

Happy Valley is prohibited from including any costs associated with this 2010 sale of Happy Valley's common stock on the Company's regulatory accounts. Further, the Commission

directs the Company to continue to work cooperatively with IDEQ and comply with all applicable recommendations contained in the IDEQ sanitary survey.

ORDER

IT IS HEREBY ORDERED that the Application of Happy Valley Water System Inc. seeking Commission approval to transfer the Company's existing Certificate of Public Convenience and Necessity (CPCN) No. 390 from its previous owners to its current owners, Ken and Cathy Rickel, is granted. Accordingly, CPCN No. 390 shall be modified to reflect current ownership of the Company.


IT IS FURTHER ORDERED that Happy Valley shall submit new tariff sheets reflecting the change in ownership within 21 days of the service date of this Order.

IT IS FURTHER ORDERED that Happy Valley is prohibited from including any costs associated with 2010 sale of the Happy Valley's common stock on the Company's regulatory accounts.

IT IS FURTHER ORDERED that the Company shall continue to work cooperatively with IDEQ and comply fully with all applicable recommendations contained in the 2013 IDEQ sanitary survey.

THIS IS A FINAL ORDER. Any person interested in the Order may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in 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 12th
day of November 2013.



PAUL KJELLANDER, PRESIDENT

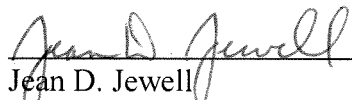


MACK A. REDFORD, COMMISSIONER



MARSHA H. SMITH, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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