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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)
HAPPY VALLEY WATER SYSTEM, INC.) **CASE NO. HVW-W-13-01**
REQUESTING APPROVAL TO TRANSFER ITS)
CERTIFICATE OF PUBLIC CONVENIENCE) **COMMENTS OF THE**
AND NECESSITY.) **COMMISSION STAFF**
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COMES NOW the Staff of the Idaho Public Utilities Commission (Commission), by and through its attorney of record, Neil Price, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 32903 on October 8, 2013 in Case No. HVW-W-13-01, submits the following comments.

BACKGROUND

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. 390 from its previous owners, Brett and Nora McCarty, to its current owners, Ken and Cathy Rickel. The Company name will not change.

The Company's Application provided the following documentation:

- 1) Purchase/Sales Agreement
- 2) Warranty Deed from Brett McCarty and Nora McCarty to Happy Valley Water System, Inc.
- 3) Signed Resignation of Previous Corporate Officers (Brett McCarty and Nora McCarty)
- 4) Form of Organization with Articles of Incorporation of Happy Valley Water System
- 5) Property description and map
- 6) Happy Valley Water System's Unaudited Financial Statements (Five years, 2008-2012)
- 7) IPUC Annual Reports
- 8) Change of Registered Agent with Idaho Secretary of State
- 9) Buyer's Qualifications
- 10) Drinking Water Distribution Operator Licenses (Ken Rickel)
- 11) Ken and Cathy Rickel's Statement of Net Worth (Unaudited)
- 12) Business Plan
- 13) Copy of Customer Notice concerning the sale of Happy Valley Water System

STAFF ANALYSIS

Sale Agreement and Warranty Deed

Staff confirms that Brett C. and Nora L. McCarty sold all their outstanding and issued stock in Happy Valley to Kenneth and Cathy Rickel on October 1, 2010. A filing for approval from the Idaho Public Utilities 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 Brett McCarty and Nora McCarty executed a warranty deed on September 21, 2010 transferring real estate of Happy Valley.

Company Management

The Applicant's president and general manager is Kenneth Rickel and the secretary is Cathy Rickel. The Applicant says that Ken and Cathy Rickel are owners of two other successful water companies (Rickel Water Company and Bitterroot Water Company). Further, the Application states that 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 business expertise, financial ability and water system experience to operate and maintain Happy Valley. Mr. Rickel is very 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.

Ken and Cathy Rickel 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 has complied with IDEQ's regulations. IDEQ informed Staff that IDEQ conducted a sanitary survey of Happy Valley's water facility on May 16, 2013. The sanitary survey is an onsite review of the water source, facilities, equipment, operation and maintenance. It assures that a public system provides an adequate water supply source and is distributing safe water. IDEQ's survey indicated that the Happy Valley water system was well run and mostly in compliance with Idaho Rules for Public Drinking Water Systems. IDEQ identified some system deficiencies and also offered some recommendations in operating the water system. Staff contacted the Company concerning the status of complying with these deficiencies. Staff was apprised by the Company that it is working with IDEQ to correct the various deficiencies as noted during the sanitary survey.

Water Right Review

Staff also reviewed the Applicant's water right to ensure that the previous owner transferred the water right to Happy Valley thereby protecting the system's water right assets and water supply source. 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 record indicates 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 (i.e., proof of beneficial use).

Certificate of Public Convenience and Necessity

The Company's Application requests that CPCN No. 364 be transferred to the new owners, Ken and Kathy Rickel. During the review of this case, Staff found that the Certificate of Public Convenience and Necessity No. 390 is currently held by the Happy Valley Water System, Inc., not CPCN No. 364 as indicated by the Company in its Application.¹ 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 Ken and Cathy Rickel, and the corporate identity did not change, Staff believes it is not necessary to transfer the ownership of CPCN to Ken and Cathy Rickel. This case is similar to previous cases of ownership transfer processed by the Commission such as 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. 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 to 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

¹ During the review process of this case and additional communication with the Company, Staff found that the reference to CPCN No. 364 in the Company's Application was based on a letter sent by Commission Staff dated April 1, 2011, which erroneously stated that CPCN No. 364 needs to be transferred.

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 Kenneth and Cathy Rickel 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 flyer 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 October 21, 2013, the Commission has not received any comments from customers.

STAFF RECOMMENDATION

Staff believes that this sale will not adversely impact the water system's operation or its customers. Staff recommends the following:

1. Staff recommends that the Commission approve the sale of Happy Valley Water System Inc.'s Common Stock to Ken and Cathy Rickel.
2. Staff recommends that the Commission prohibit Happy Valley from including any costs of this transaction on the regulatory books of the corporation.
3. Staff recommends that the Commission direct the Company to attain full compliance with all the system deficiencies and recommendations identified during the May 16, 2013, IDEQ sanitary survey.
4. Staff recommends that the Commission direct the Applicant to file new tariff sheets, signed by an authorized representative, reflecting that Applicant now owns the system.

Respectfully submitted this 29th day of October 2013.



Neil Price
Deputy Attorney General

Technical Staff: Gerry Galinato
John Nobbs
Chris Hecht

i:umisc/comments/hvww13.1npgdgjncwh comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 29TH DAY OF OCTOBER 2013, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. HVW-W-13-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

KEN & CATHY RICKEL
HAPPY VALLEY WATER SYSTEM
PO BOX 2306
HAYDEN LAKE ID 83835
EMAIL: kcrickel@hotmail.com



SECRETARY