

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF MORNING VIEW WATER COMPANY) CASE NO. MNV-W-16-02
FOR A DEFERRED ACCOUNTING ORDER)
) ORDER NO. 33826
)
)**

On October 13, 2016, Morning View Water Company (“Morning View” or “Company”) applied to the Commission for an Accounting Order authorizing the Company to defer, for potential recovery through rates, its costs related to a well system failure and flood. Application at 1-2.

On June 8, 2017, the Commission issued a Notice of Application and Modified Procedure, setting a June 29, 2017 comment deadline, and a July 6, 2017 reply deadline. *See* Order No. 33783. Staff and two customers filed comments, and the Company filed reply comments.

We have reviewed the record, including written comments and analysis from the Company, Commission Staff, and the Company’s customers. We find it reasonable to allow Morning View to defer certain proven expenses for potential recovery through rates in the Company’s next rate case. Our decision is explained below.

BACKGROUND

Morning View had a well system failure and flood in October 2016 that resulted in certain cleanup, repair, engineering, and personnel expenses. Application at 1. In its Application, Morning View stated it would pursue warranty claims against contractors who had worked on the well system, which was finished in 2015, and that it would provide repair estimates to the Commission. *Id.* at 2.

Through discovery, the Company produced evidence of claimed deferred expenditures, future expenses, employee costs related to the failure, updates on warranty recovery and legal actions, engineering schematics and data. *See* Staff Comments at 2. The Company showed \$2,960.23 in expenses related to the failure, \$2,027 in employee costs and \$2,060 in future expenses. *See* Attachment A to Staff Comments.

PUBLIC COMMENTS AND COMPANY REPLY

Two Company customers commented on this case. The first commented about personality conflicts and the general reputation of the Company's owner. The customer also complained about variable water pressure. The customer stated that the Commission has known about the water pressure issues since at least the public hearing and workshop in the Company's last rate case. The customer also stated that the Company's engineer had been fired and then brought back in to quickly fix the issues caused by the October failure. The customer further stated that the Company's owners should never have fired the engineer and that they would not properly utilize the increased revenue from the recent rate increase to make repairs as needed, instead implying that the monies would be used for other purposes.

The second customer complained that the Company continually makes poor business decisions and that customers should not have to bail out the Company for not properly insuring its new water system.

The Company replied to the public comments by stating that it had never fired its engineer and that it is still exploring the possibility of insurance. Company Reply at 1. The Company also stated it performed pressure testing whenever it received a low-pressure complaint in the last year, and that in all instances, other than those related to the well system failure and flood, the pressure was adequate. *See Id.*

Commission Findings – Customer Comments: As noted in the public comments, the Commission is aware of previous concerns regarding water pressure. As a result, during the Company's last general rate case, and on numerous previous occasions, the Commission Staff investigated Company water pressure issues and complaints. However, during the Company's last general rate case we stated:

We sympathize with Morning View's customers, for whom water pressure issues have historically been a frustrating recurrence. However, as it is now configured, the Company's water system is providing more than adequate water pressure to serve the needs of its customers. Water pressure tests revealed pressure readings well above the minimum required by [the Idaho Department of Environmental Quality ("DEQ")]. We encourage the Company to continue to be proactive in addressing water pressure complaints according to system factors within its control.

Order No. 33658 at 20, Case No. MNV-W-16-01. The Commission continues to find that the water system presently provides sufficient water pressure to serve the needs of its customers.

Outside of emergency situations, such as the October failure and flood at issue in this case, water pressure tests have shown pressure readings above the minimum required by DEQ. As we did in the rate case, we encourage the Company to continue to address water pressure complaints according to system factors within its control.

The Commission also understands the customers' concerns about insurance. Whether and how the Company should procure insurance is a decision that resides with the Company's management and business advisors. The Commission expects the Company to act reasonably and consider industry norms in making its decision regarding insurance needs. We thus encourage the Company to discuss insurance options with a licensed insurance agent and with other like-sized small water utilities in Idaho who may have similar business needs. We remind the Company that failure to act prudently in this regard may result in any imprudently incurred costs being excluded from rates in the Company's next rate case.

STAFF COMMENTS AND COMPANY REPLY

A. Engineering Analysis

Staff: Staff stated that, prior to 2015, the system consisted of a single pump house, a primary well with a 20 HP pump, and a secondary well with a 6 HP pump (the "Old System"). *See* Staff Comments at 2. In 2015, the Company completed a new pump house and a new well with a 60 HP pump (the "New System"). The wells from both pump houses are interconnected, so operating any well pump will pressurize both systems. *Id.*

Staff noted that the Company could not have reasonably anticipated the root cause of the October well system failure but that, at base, the two systems have incompatible pressure allowances. *Id.* Staff stated that the Old System lacked properly installed safety devices that could prevent pressure from the New System overwhelming the Old System. *Id.* at 4.

Staff maintained that a pressure surge ultimately caused an incorrectly installed compression flange to fail, resulting in the system breach, failure and flood. *Id.* at 3. Staff suspected (but is not certain) that the Company's plumbing contractor incorrectly installed the compression flange that failed. *Id.* Staff is concerned the incorrectly installed flange highlights the substantial ongoing risk related to incompatible pressures in the two systems. *Id.* at 4.

Staff also surmised that the alarm system was improperly configured because it did not alert the Company to the abnormal flow conditions or pressures. *Id.* at 4.

Based on its engineering analysis, Staff recommended that the Commission order the Company to: (a) check and test the Company's Omni security system and reprogram it as necessary to ensure that it will function properly under another failure condition; and (b) isolate the Old System from the New System until the New System has been inspected and renovated to accommodate the pressures that can be generated by the New System. *Id.* at 6.

Company Reply: In its reply, the Company stated it was pleased with the corrections its contractors (including its pump installer, engineer, and security system vendor) had undertaken since the October 2016 failure and flood. *See* Company Reply at 1. The Company maintained that since the failure, the issues addressed by Staff have already been corrected and that Staff should confer with the water system's engineer to better ascertain whether the two systems are incompatible and should not be integrated. *Id.*

The Company also asserted that the Commission had previously "approved" the plans and costs and extensive remodel of the well system, and asked why Staff's current concerns were not addressed during that process.¹

Commission Findings – Engineered System: A public utility must safely and reliably serve its customers. The Commission thus finds that the Company must verify that the repairs undertaken by it as a result of the system failure do not pose a substantial ongoing risk because of system incongruity, as stated by Staff. Therefore, we find that the Company should file with the Commission, within 30 days of the date of this Order, verification from its contractors that the two systems are pressure compatible and that the security system has been programmed to operate correctly in emergency scenarios.

B. Accounting Analysis

Staff: Staff analyzed the Company's evidence supporting the requested deferrals, and accepted all claimed deferral amounts. Staff recommended that Morning View be allowed to book and defer the following expenses for potential recovery in the Company's next general rate case: (a) current expenses of \$2,960.23; and (b) incremental employee costs of \$2,027 (which

¹ The Company had to build the new well and well house, and install new meters and variable frequency drive pumps, as a result of DEQ enforcement actions against the Company for violations of Idaho's Rules for Public Drinking Water Systems. The new construction cost about \$530,000, and the Company paid for it through a loan from the State's Drinking Water Treatment Facility Loan Account. The Commission *authorized* the Company to take out the loan(s) by increasing its allowed borrowing authority (*see* Order No. 33259) and DEQ re-approved Morning View's drinking water system in 2015. The Commission did not otherwise approve or analyze the water system's engineering, it only recognized the Company's incurrence of the debt as being reasonable and in the public interest.

were calculated using the hourly rates for Company employees in the most recent rate case, Case No. MNV-W-16-01, and includes a payroll tax addition). *See* Staff Comments at 5. Staff also did not object to the Company deferring \$2,060 in future expenses, but noted that “these [future] expenses are not actuals and Staff recommends the Company provide adequate documentation for these costs in the next rate case prior to their inclusion in rates.” *See id.* at 6. Staff also recommended that the Company continue to document in the deferral account, for possible future recovery through rates, incremental hours spent by Company employees related to the incident. *Id.* Staff’s recommended accounting treatment is provided for in Attachment A to its comments.

Staff recommended that the Commission not allow the Company to earn a rate of return on the deferral amounts, because “Staff believes that allowing the Company to defer expenses for future recovery when they would otherwise be unrecoverable is sufficient relief for the Company.” *Id.* at 5.

Commission Findings – Deferred Accounting: Idaho law provides the Commission with wide discretion in establishing a utility’s system of accounting. *Idaho Code* § 61-524. The Commission recognizes that, although one customer is concerned about continually bailing out the Company, no party opposes the deferral of expenses related to the water system failure. We find it reasonable to approve the Company’s request for a deferred Accounting Order using the accounting treatment specified in Attachment A to Staff’s Comments. The Commission finds that the Company reasonably incurred costs because of the water system failure. The Commission notes the actual, additional deferral amounts, will be audited and recommendations made on recovery in the Company’s next general rate case. As such, this deferred Accounting Order will not have an immediate impact on customer rates.

While the Commission believes it was in the public interest for the Company to incur the costs outlined above, we reserve a final ruling regarding inclusion of these costs in rates until presented to the Commission by the Company in its next general rate case.

Finally, the Commission finds allowing the Company to defer these expenses, and thus afford the Company an opportunity to potentially recover them in the future, is fair, just and reasonable. The deferral amount will not earn a rate of return. The Commission will scrutinize and evaluate actual deferred costs during the next rate case.

CONCLUSIONS OF LAW

Morning View is a water corporation under *Idaho Code* § 61-125, and a public utility under *Idaho Code* § 61-129. The Commission has jurisdiction and authority over Morning View and the issues raised in this case, under Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000, *et seq.*

Based on our review of the record, we find that it is fair, just and reasonable to allow the Company to defer certain specified expenses for potential inclusion in base rates in the Company's next general rate case. We also find it fair, just and reasonable for the Company to provide, within 30 days of the date of this Order, verification from its contractors that the Old and New Water Systems are properly integrated and that the security system has been programmed to operate correctly in emergency scenarios.

ORDER

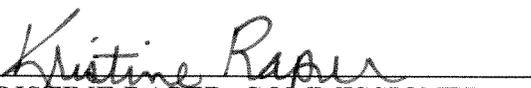
IT IS HEREBY ORDERED that Morning View's Application for a deferred Accounting Order is approved, and the Company shall take such further actions, as described above. The Commission reserves its final ruling on the prudence and ratemaking treatment of the deferred expenses until the Company's next general rate case.

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.

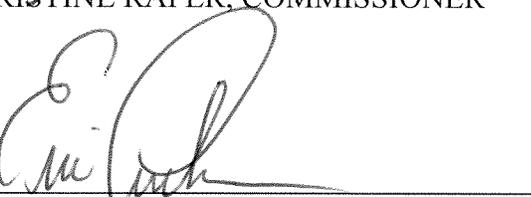
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this ^{31st}
day of July 2017.



PAUL KJELLANDER, PRESIDENT



KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Diane M. Hanian
Commission Secretary

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