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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

The Staff of the Idaho Public Utilities Commission comments as follows on Morning View Water Company's Application.

BACKGROUND

On October 13, 2016, Morning View Water Company ("Morning View" or "Company") provided a letter to the Commission requesting approval to defer and recoup costs related to a well system failure and flood. The Company requested an Accounting Order allowing it to defer and record the costs with an opportunity to recover those costs as soon as possible.

Morning View had a well system failure and flood on October 6, 2016. The Company states it believes the system failure and flood were due to the malfunction of a newly installed well system. The Company states that a security feature failed to alert the Company's owners of the well system's attempt to operate at low pressure. As a result, the well continued to pump at high pressure, causing a service pipe to blow out and damaging the well system, pump house, and other equipment. Application at 1.

The Company incurred certain costs because of the well system failure and resulting flood. Based on a letter the Company provided the Commission on December 6, 2016, the Company indicated it was pursuing warranties and guarantees from the designers and installers of the well system, to offset potentially recoverable costs. However, no further information was provided.

On April 13, 2017, Commission Staff filed discovery, requesting potential deferred expenditures, future expenses, employee costs related to the failure, updated warranty and legal action information, engineering schematics and data, and a variety of other information for Staff to better understand the Company's pending request. The Company responded to Staff's discovery request on May 8, 2017.

STAFF REVIEW

System Description and Overview

Morning View provides water service to 107 residential customers in Jefferson County, Idaho. Prior to 2015, the system consisted of a single pump house ("Old Pump House"), a primary well ("Old Well") with a 20 HP pump, and a secondary well with a 6 HP pump ("Old Pump"). In 2015, the Company completed a new pump house (New Pump House) and a new well ("New Well") with a 60 HP pump ("New Pump"). The wells from both pump houses are interconnected, so operation of any well pump will pressurize the entire system.

Staff determined that the plumbing and equipment in the Old Pump House was designed to accommodate the pressure produced by a 20 HP pump, which is unlikely to exceed 60 pounds per square inch (psi). Staff determined that the New Pump can induce pressures exceeding 172 psi throughout the system without pressure limiting equipment. Although Staff does not believe that the Company could have reasonably anticipated the root cause of the October 6, 2016 failure, Staff believes this failure signals a fundamental incompatibility of the New Pump with the equipment and plumbing in the Old Pump House.

Staff maintains that the Old Pump House can be isolated from the rest of the system by using existing valves. Staff recommends that the Old Pump House and its associated wells be removed temporarily from service and isolated from the rest of the system while plumbing in the Old Pump House is inspected and renovated to accommodate the pressures that can be generated by the New Pump.

Staff also determined that the security system used to detect and notify Company personnel of equipment failure was programmed incorrectly, and that it did not notify Company personnel that a line had burst; however, Staff was unable to ascertain the degree to which failure of the security system contributed to the extent of the damage caused by the leak. Staff believes that the security system should be checked, reprogrammed, and tested to ensure that it will function properly if another system failure occurs.

Staff Engineering Analysis

On October 6, 2016, customers of Morning View notified the Company that system pressure was low. Company personnel then investigated and discovered a large plumbing leak in the Old Pump House. The Company shut-down the water system and determined that the leak was due to a failed compression flange fitting. The compression flange is used to connect two pipe segments. According to the Company, the failed compression flange fitting was rated for a pressure of 100 psi. While pressure limit switching and a variable speed pump drive have been installed to limit system pressure to 85 psi, Staff determined that the New Pump is capable of producing pressures exceeding 172 psi in the Old Pump House if pressure limiting equipment fails to operate properly..

The Company provided photographs of the failed flange, but it did not provide sufficient information to determine whether the flange was appropriate for the type of pipe on which it was installed. Nevertheless, Staff believes this particular flange was installed incorrectly. Here, a compression flange was secured to the pipe with a soft metal gasket that is compressed around the pipe when the flange is tightened. Contact between the metal gasket and the pipe creates a witness mark that records how the pipe and flange were connected when the flange was installed. Staff observed witness marks created by a set of flange alignment bolts that help secure the flange to the pipe. Staff observed that witness marks from the flange gasket and flange alignment bolts are superficial, indicating that the gasket was not aligned properly, or was not tightened completely. The Company stated this flange was installed by their plumbing contractor.

This flange is near a 90 degree pipe bend, making it prone to the effects of surge, or “water hammer.” Surge occurs when the mass of water in a system's pipes abruptly changes speed or direction. The resulting force can induce a large pressure spike throughout the system, but can be particularly acute near 90 degree bends or near the ends of pipe. The Company

explained that it relies on electrical pump limit switches and on a variable frequency drive to assure that system pressure does not exceed 85 psi. No information was provided showing that the pressure limiting equipment operated improperly. Nevertheless, electrical limit switches, by themselves, are incapable of mitigating the effects of surge due to customer consumption patterns that are largely beyond the Company's control. Engineering practice requires the use of mechanical or hydraulic safety devices, such as properly sized surge tanks and relief valves, to protect against surge and other transient pressure spikes. The Company provided no evidence that any such devices were in use in the Old Pump House at the time of the incident.

The Company has also identified a new leak in a shutoff valve in the Old Pump House. Using photographs provided by the Company, Staff determined that most of the compression flange and ring lock fittings used inside the Old Pump House are rated for pressures of, at most, 150 psi, so it is possible for the New Pump to induce pressures exceeding the rated pressure of fittings in the Old Pump House. Although the October 6, 2016 failure occurred at an incorrectly installed flange, Staff believes that the higher operating and surge pressures made possible by the New Pump pose a substantial ongoing risk to plumbing and equipment in the Old Pump House.

The Company stated that it used an Omni security system to notify Company personnel, via smart phone and internet, when an abnormal flow condition occurs. However, the Company could not explain why this system did not notify Company personnel of high flow rates and low pressures that would have indicated a rupture. Based on statements made by the Company, Staff surmises that the security system's alarm limits were improperly configured at the time of the incident. Had the system worked properly, it is possible that some of the damage caused by the leak could have been prevented; however, given the high flow rate from the New Pump, it is also possible that the flooding described by the Company could have occurred in less than one hour.

Deferral Treatment

Under normal accounting treatment, noncapital repair costs would be expensed. Normally any damaged plant would be removed from the books, along with any associated accumulated depreciation. Absent an order from the Commission authorizing a deferral, the Company could not recover these expense amounts in rates.

With Commission approval, the Company could defer incremental expenses associated with the equipment failure and flood damage until the next rate case by posting these expenses in

Account 186 – Other Deferred Charges. The amortization period and expense will be determined then. Staff intends to recommend an amortization period that is shorter than the life of the plant. The Company's revenue requirement would then increase by the amortization expense, allowing the Company to recover the costs associated with the event. The Commission can decide whether the Company may earn a return on the deferred asset. *Idaho Power v. Idaho State Tax Commission*, 141 Idaho 316, 323 (2005). Staff believes that allowing the Company to defer expenses for future recovery when they would otherwise be unrecoverable is sufficient relief for the Company. Therefore, Staff recommends that Company not be allowed to earn a return on the deferral amounts. *See* Order 30638 at 4 (Case No. AVU-E-08-03); Order No. 30235 at 3 (Case No. IPC-E-06-06); and Order No. 33304 at 15 (Case No. PAC-E-14-10).

Through discovery, Staff requested documentation of all costs incurred related to the system failure and flood. The Company provided documentation showing that the expenses for the repair of the flange were covered by the warranty and therefore are not included in the expenses for the deferral. All additional expenses were for repairs caused by damage from the flood, and other expenses in dealing with this event. The Company provided a schedule showing \$2,960.23 of expenses as of May 4, 2017. As a whole Staff believes the documentation was adequate. However, there were no invoices for expenses totaling \$29.36 to Speedy Print CPS, even though two check stubs were provided for the amount. The Company stated both expenses were related to payments made for printing of reports and water shutoff notices. Staff accepts this amount for deferral. *See* Attachment A, line 3.

In addition, Staff requested information on incremental time the owners, Nolan Gneiting, Dawn Gneiting, and David Reading (a related party, *see* Order No. 33658), spent dealing with the incident. Staff reviewed the labor hours and explanations supplied by the Company and agree these costs are also reasonable to include in the deferral. Staff used the hourly rates for Nolan Gneiting and David Reading set in Morning View's recent general rate case (Case No. MNV-W-16-01) and then used the median rate for office help for the hours spent by Dawn Gneiting and her Granddaughter to determine the amount to include in the deferral. Staff then added an estimated payroll tax addition to this amount for a total incremental employee cost of \$2,027 as of May 5, 2017. *See* Attachment A, line 8.

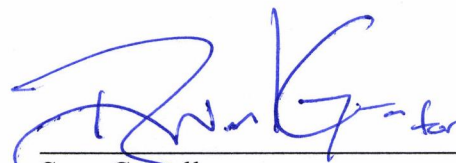
The Company provided an estimate of additional expenses yet to be incurred totaling \$2,060. *See* Attachment A, line 9. While Staff is not opposed to additional expenses, related to

this incident, being included in the deferral amount, these 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. Staff recommends that the Company continue to document incremental hours spent related to this incident by all Company employees.

STAFF RECOMMENDATIONS

1. The Commission order the Company to check and test its Omni security system and reprogram it as necessary to ensure that it will function properly if another failure;
2. The Commission order that the Company isolate the Old Pump House until it is inspected and renovated to accommodate the pressures that can be generated by the New Pump;
3. The Commission issue an accounting order granting the deferral of these costs;
4. The Company book \$2,960.23 of expenses incurred to date and additional \$2,027 in incremental employee expenses in the deferral, Account 186—Other Deferred Charges;
5. The Commission not approve any return on the deferred asset; and
6. The Commission order the Company to provide sufficient documentation and other support in the next rate case for additional costs and incremental hours requested to be included in the deferral.

Respectfully submitted this 29th day of June 2017.



Sean Costello
Deputy Attorney General

Technical Staff: Joe Terry
Mike Morrison

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Morning View Water
Calculation of Deferral

Invoices to date

1 Repairs	\$ 1,852.69
2 Additional Protections	<u>\$ 1,107.54</u>
3 TOTAL EXPENSES	<u>\$ 2,960.23</u>

	Hours	Hourly Wage	Wage Expense	Payroll Tax (Est 18%)	Total Employee Expense
4 Dawn	52.25	\$ 13.77	\$ 719	\$ 129	\$ 848
5 Grandaughter	1	\$ 13.77	\$ 14	\$ 3	\$ 17
6 Nolan	47.5	\$ 18.16	\$ 863	\$ 155	\$ 1,018
7 David	8	\$ 15.27	\$ 122	\$ 22	\$ 144
8 Total	<u>108.75</u>		<u>\$ 1,718</u>	<u>\$ 309</u>	<u>\$ 2,027</u>

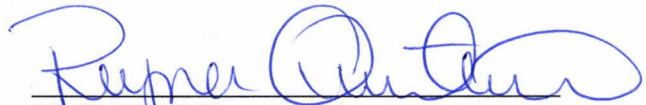
Estimated Additional Expenses

9 Repairs	\$ 2,060.00
10 Total Expenses (line 3 + 9)	\$ 5,020.23
11 Employee Costs	<u>\$ 2,027.00</u>
12 Total Estimated Deferrral	<u>\$ 7,047.23</u>

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 29th DAY OF JUNE 2017,
SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN
CASE NO. MNV-W-16-02, BY MAILING A COPY THEREOF, POSTAGE PREPAID,
TO THE FOLLOWING:

NOLAN GNEITING PRESIDENT
MORNING VIEW WATER CO
PO BOX 598
RIGBY ID 83442
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SECRETARY