

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION     )   CASE NO. SPL-W-19-01**  
**OF SPIRIT LAKE EAST WATER COMPANY    )**  
**AND LYNNWOOD FOR AMENDMENT AND     )**  
**TRANSFER OF CPCN                         )   ORDER NO. 34372**

On February 15, 2019, Gem State Water Company, LLC (“Gem State Water”) filed an Application with the Commission requesting approval of Gem State Water’s acquisition of the assets of Spirit Lake East Water Company (“Spirit Lake”) and Lynnwood Water, and approval to amend Spirit Lake’s certificate of public convenience and necessity (“CPCN”) to incorporate the customers currently served by Lynnwood and transfer the amended CPCN to Gem State Water (collectively, the “Application”).

On March 13, 2019, the Commission issued a Notice of Application and Notice of Modified Procedure. Order No. 34271.

Now, after reviewing the record, the Commission approves the Application, subject to conditions identified herein.

**THE APPLICATION**

Gem State Water, through its parent companies, is held by Northwest Natural Holding Company, which was created during a recent corporate reorganization of Northwest Natural Gas Company and its affiliates. Application at 2. Northwest Natural Gas Company is a 160-year-old natural gas utility that serves customers in the Pacific Northwest. *Id.* Spirit Lake and Lynnwood Water are in Kootenai and Bonner counties and have been owned and operated by the same person since 2015. *See Id.* at 3-4. Spirit Lake is a regulated water utility that serves approximately 315 customers in north Idaho. *Id.* at 3. Lynnwood Water serves approximately 18 customers. *Id.* at 4. Gem State Water seeks to acquire the assets of Spirit Lake and Lynnwood Water, to amend CPCN No. 293 to include the service territory of the customers currently served by Lynnwood Water, and to transfer CPCN No. 293 from Spirit Lake to Gem State Water. *Id.* at 1. Gem State Water does not ask for a change to current rates or rate structure for either water company with this Application. *Id.* at 4. Gem State Water states it intends to retain the existing management and other employees of the water companies. *Id.* at 3.

## THE COMMENTS

### *a. Comments of Commission Staff.*

Staff recommends the Commission approve the Application. Staff conducted its analysis under *Idaho Code* § 61-328 and determined that the transaction is consistent with the public interest, that rates will not increase due to the transaction, and that Gem State Water has the bona fide intent and financial ability to operate and maintain the system in the public service.

Staff believes the transaction is in the public interest because Gem State Water has greater access to capital than Spirit Lake or Lynnwood Water on their own, and because of potential operational efficiencies and economies of scale that can be achieved as Gem State Water continues to pursue its strategy of acquiring small water companies in the region. Staff believes rates will not increase as a result of the transaction because the systems will function post-acquisition much the same as they have functioned pre-acquisition. Any future improvements to the system, Staff believes, would not be a result of the transaction. Staff believes Gem State Water has the bona fide intent and financial ability to operate and maintain the system in the public service because Gem State Water has made the continued employment of the current owner and operator of the system a condition to the closing of the transaction, and has stated that it plans to retain existing management and other employees. Staff notes that Gem State Water, through its parent companies, has extensive revolving credit facilities and very strong credit ratings.

Staff notes that Lynnwood Water has not previously been regulated by the Commission, and therefore its rates and charges have not been approved by the Commission. Staff performed an abbreviated audit of Lynnwood Water's rates and determined that the company is not overearning. Staff believes Gem State Water's strategy of waiting until a future rate case to potentially consolidate rates is a reasonable and prudent approach.

Staff reviewed Lynnwood Water's non-recurring charges and has numerous recommendations regarding these charges. Staff recommends the Commission 1) Deny Lynnwood Water's Account Change (Account Transfer Fee) of \$35 because Spirit Lake does not have a similar charge and the charge has not been justified; 2) Deny Lynnwood Water's proposed Meter Set Fee of \$4,500 and approve Spirit Lake's Hook-up Fee of \$2,500 for Lynnwood Water; 3) Deny Lynnwood Water's proposed Turn On Fee of \$95.00 and approve Spirit Lake's Reconnection Fees of \$16.00 if reconnected during normal business hours and the account has been closed for thirty days or less, \$32.00 if reconnected after business hours and the account has

been closed for thirty days or less, \$52.00 if reconnected during normal business hours and the account has been closed for over thirty days, and \$65.00 if reconnected after normal business hours and the account has been closed for over thirty days; 4) Deny Lynnwood Water's Bounce Check Fee and approve the Insufficient Funds Charge at the statutory limit of \$20.00 for Lynnwood Water; 5) Deny Lynnwood Water's Finance Charge of 1%, which is applied to the unpaid balance owed after the due date, and approve a Late Payment Fee of 1% of the unpaid balance owed at the time of the next billing statement.

Staff also requests the Commission order Gem State Water to: 1) directly notify customers of the sale, either through a separate mailing or as a billing insert; 2) file updated Tariff rate schedules consistent with the Commission's decision before the effective date; 3) work with Staff to revise the Company's Tariff, including its Rules and Regulations; 4) work with Staff to revise the billing and collection documents and the Explanation of Rates and Rules Summary.

***b. Public Comment.***

One member of the public filed a comment on this matter and expressed concern whether Gem State Water's parent company has plans to sell the water outside of the subdivision and also wondered how long Gem State Water's assertion that rates will not raise as part of the transaction will hold.

***c. Reply Comments of Gem State Water.***

Gem State Water filed reply comments stating that it appreciates Staff's review and willingness to work with Gem State Water to update its tariffs and revise billing and collection documents, and that it agrees with Staff's recommendations. Gem State Water also stated that it will provide customers notice of the sale through a separate mailing or billing insert.

**FINDINGS AND DISCUSSION**

Gem State Water is a water corporation under Idaho Code § 61-125. The Commission has jurisdiction over it and the issues in this case under Title 61 of the Idaho Code. Having reviewed the record, including the Application, Staff's comments, and Gem State Water's reply comments, the Commission finds it reasonable to approve Gem State Water's Application subject to the conditions described hereafter.

The Commission finds that Gem State Water has the financial and operational abilities to manage the water systems in the public service and has the bona fide intent to do so. It is persuasive that Gem State Water contracted to keep the services of the previous owner and operator

of the systems. The Commission also finds that rates will not rise as a result of the transaction. Any future rate increases for customers of Spirit Lake and Lynnwood Water will be to recover costs for prudent investments made to the water systems, and will not be a result of this transaction. The Commission finds that the public interest is furthered by having a respected organization with experience in the regulated public utility industry purchase and operate the systems. The Commission is confident that Gem State Water is fully aware of the administrative requirements of running a public utility, and knows the infrastructure investments necessary to maintain a water system in the public service. Further, Gem State Water has access to capital to make these investments. As Gem State Water and its parent companies continue to pursue their strategy of purchasing small water companies in the Northwest, some operational and administrative efficiencies of scale are likely to be achieved, which can be passed on to customers.

Lynnwood Water has been an unregulated water company, so the Commission has not had the opportunity to review Lynnwood's rates, rate structure, and charges. At this time, the Commission is satisfied with Staff's abbreviated audit, which showed to reasonable certainty that Lynnwood Water is not overearning. A comprehensive review of Lynnwood's rates and rate structure is more properly deferred to a general rate case. However, we have reviewed Lynnwood's non-recurring charges and find that it is just and reasonable to make changes to these charges to bring them in line with the Commission-approved non-recurring charges of Spirit Lake, as more specifically described below.

### **ORDER**

IT IS HEREBY ORDERED that Gem State Water's Application is approved.

IT IS FURTHER ORDERED that CPCN No. 293 is amended to include the service territory of Lynnwood Water, and is transferred to Gem State Water.

IT IS FURTHER ORDERED that the following changes be made to Lynnwood Water's non-recurring charges: Lynnwood Water's Account Change (Account Transfer Fee) of \$35 is denied until the charge is justified; Lynnwood Water's proposed Meter Set Fee of \$4,500 is denied and Spirit Lake's Hook-up Fee of \$2,500 is approved for Lynnwood Water; Lynnwood Water's proposed Turn On Fee of \$95.00 is denied and Spirit Lake's Reconnection Fees of \$16.00 if reconnected during normal business hours and the account has been closed for thirty days or less, \$32.00 if reconnected after business hours and the account has been closed for thirty days or less, \$52.00 if reconnected during normal business hours and the account has been closed for over

thirty days, and \$65.00 if reconnected after normal business hours and the account has been closed for over thirty days are approved for Lynnwood Water; Lynnwood Water's Bounce Check Fee is denied and the Insufficient Funds Charge is set at the statutory limit of \$20.00 for Lynnwood Water; Lynnwood Water's Finance Charge of 1% applied to the unpaid balance owed after the due date is denied and a Late Payment Fee of 1% of the unpaid balance owed at the time of the next billing statement will be charged.

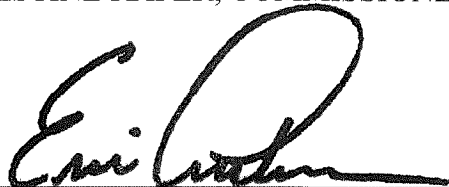
IT IS FURTHER ORDERED that Gem State Water: directly notify Spirit Lake and Lynnwood Water customers of the sale, either through a separate mailing or as a billing insert; file updated Tariff rate schedules consistent with the Commission's decision within fourteen (14) days of the service date of this Order; work with Staff to revise Gem State Water's Tariff, including its Rules and Regulations; work with Staff to revise Gem State Water's billing and collection documents and the Explanation of Rates and Rules Summary.

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 3<sup>rd</sup>  
day of July, 2019.

  
PAUL KJELLANDER, PRESIDENT

  
KRISTINE RAPER, COMMISSIONER

  
ERIC ANDERSON, COMMISSIONER

ATTEST:

  
Diane M. Hanian  
Commission Secretary

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