

KARL T. KLEIN
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0312
IDAHO BAR NO. 5156

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IDAHO PUBLIC
UTILITIES COMMISSION

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5918

Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF TETON WATER AND)
SEWER COMPANY'S APPLICATION) **CASE NO. TTS-W-12-01**
REGARDING THE SALE OF TETON SPRINGS)
WATER AND SEWER COMPANY AND) **COMMENTS OF THE**
TRANSFER OF CERTIFICATE OF PUBLIC) **COMMISSION STAFF**
CONVENIENCE AND NECESSITY NO. 475)
)

The Staff of the Idaho Public Utilities Commission submits the following Comments on Teton Water and Sewer Company LLC's Application.

BACKGROUND

On June 19, 2012, Teton Water and Sewer Company, LLC (Applicant) filed an Application apprising the Commission that it purchased Teton Springs Water and Sewer Company (Teton Springs) effective May 23, 2012. On July 18, 2012, the Applicant filed additional information about the sale and requested that Certificate of Public Convenience and Necessity (CPCN) No. 475 be transferred to the Applicant. These two documents and attachments are collectively referred to as the "Application."

The Application attaches the following items: (1) executed Sale Agreement; (2) the Idaho Drinking Water Distribution Operator license for the Applicant's managing member, Jon Pinardi; (3) Mr. Pinardi's financial statement; (4) a warranty deed from Teton Springs to

Applicant; (5) Applicant's initial and amended certificates of organization; (6) Applicant's business plan; (7) Notice of Sale sent to customers; and (8) Idaho Department of Water Resources letter to Applicant acknowledging change in ownership of water right.

STAFF ANALYSIS

Sale Agreement

Staff reviewed the documents submitted by the Applicant. Staff confirms that the Applicant is an Idaho limited liability company that filed a certificate of organization with the Idaho Secretary of State on April 12, 2012. Staff also confirms that Applicant has submitted a May 14, 2012 warranty deed from Teton Springs that grants, bargains, sells and conveys Teton Springs' real estate and personal properties, easements, permits, licenses and certificates to the Applicant.

Company Management

Applicant's managing member, Mr. Jon Pinardi, has managed the Teton Springs water system since 2006. Mr. Pinardi will continue managing the public water system for the Applicant. The Applicant submitted a business plan describing the water system's daily operations, Mr. Pinardi's responsibilities, and contact information for the Applicant's key personnel. The Applicant also noted that it has retained Teton Water, Inc. to be the primary operator of the Applicant's public water system. Teton Water, Inc. also was the primary water operator for the system when it was owned by Teton Springs. Staff verified with the Idaho Bureau of Occupational Licenses (IBOL) that Teton Water, Inc.'s owner and President, Rick Nansen, has a valid Drinking Water Distribution Operator – Class II license that is current to July 28, 2013. Staff also verified with IBOL that Mr. Pinardi's Drinking Water Distribution Operator – Class 1 license is current to August 25, 2013. Staff believes 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.

IDEQ Compliance

Staff contacted the Idaho Department of Environmental Quality (IDEQ) – Idaho Falls Regional Office to insure that Teton Springs and the Applicant have complied with IDEQ regulations. IDEQ informed Staff that IDEQ personnel conducted a Sanitary Survey of the

Teton Springs water facility on September 21, 2011. The Sanitary Survey is an onsite review of the water source, facilities, equipment, operation and maintenance; it assures that a public water system provides an adequate water supply source and is distributing safe water. The IDEQ's 2011 Sanitary Survey of the Teton Springs water system identified *no significant deficiencies*, and found the water system to be in good condition overall and the system to be in compliance with the Idaho Rules for Public Drinking Water Systems. The Applicant is working with IDEQ to correct the few minor deficiencies that were noted during the Sanitary Survey.

Water Right Review

Staff also reviewed the Applicant's water right to ensure that Teton Springs appropriately transferred it to the Applicant, thereby protecting the system's water right assets and water supply source. The Applicant provided a June 20, 2012 letter from the Idaho Department of Water Resources (IDWR) indicating that IDWR has modified its record to reflect the water right's owner has changed from Teton Springs Golf and Casting Club to the Applicant. It appears that the water right's prior owner, Teton Springs Golf and Casting Club, may not have transferred the water right to Teton Springs. Staff believes the Applicant acted timely and appropriately in filing for a change of ownership of the water right.

Certificate of Convenience and Necessity

The Commission issued CPCN No. 475 on June 12, 2008 to provide a domestic water supply to the Teton Springs Golf and Casting Club planned unit development in Teton County, Idaho.¹ The water system's prior owner, Teton Springs, still holds that CPCN. As part of the Application, the Applicant requests that CPCN No. 475 be transferred to the Applicant. Staff supports the Applicant's request and recommends that CPCN No. 475 be cancelled and that a new certificate be issued to the Applicant.

¹ Case No. TTS-W-08-01, Order No. 30736.

Accounting Issues

The Applicant is a limited liability company with Jon Pinardi as managing member. Mr. Pinardi has managed the Teton Springs water system since 2006, and he will continue to manage the system for the Applicant. Staff believes Mr. Pinardi has the business experience and wherewithal to own and operate the water utility.

The Applicant acknowledges that the Commission's valuation of the system will be the basis established by the Commission when the present rates were established, with adjustments for depreciation and improvements. The Applicant's purchase price will be assigned to the water, sewer and other assets purchased. Staff recommends that any premium paid on water utility assets not be recorded on the regulatory books as an item to be recovered from customers. Such a premium should not be a recoverable acquisition adjustment, an asset to be included in rate base, or an item that will earn a return. The Applicant understands that it must maintain the accounting for the water system on a stand-alone basis, separate and apart from any other business activities.

Customer Relations

The Application includes copies of two customer notices mailed in 2012. A May 23, 2012 notice announced the change in ownership. A July 6, 2012 notice contained the Applicant's contact information. The Applicant did not notify customers of its June 18, 2012 Application to change ownership and transfer the CPCN.

Commission Order No. 32627, dated August 28, 2012, set an October 5, 2012 deadline for customer comments. The Commission issued a press release September 21, 2012 regarding the Application. Three comments have been received to date. None of the commenters expressed an opinion regarding the change in water system ownership.

Mr. Pinardi is familiar with the Commission's regulatory authority and the Utility Customer Relations Rules. He has been responsive and helpful in working with Staff to resolve customer complaints filed with the Commission.

While the Applicant did not request an adjustment in its rates, Staff recommends that new tariff sheets be filed reflecting the Applicant now owns the system.

STAFF RECOMMENDATIONS

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

1. Staff recommends that the Commission approve the sale of Teton Springs to the Applicant.
2. Staff recommends that CPCN No. 475 be cancelled.
3. Staff recommends that a new CPCN be issued to the Applicant.
4. Staff recommends that the Applicant be directed to file new tariff sheets, signed by an authorized representative, reflecting that Applicant now owns the system.

Respectfully submitted this 5th day of October 2012.



Karl T. Klein
Deputy Attorney General

Technical Staff: Gerry Galinato
Chris Hecht
Terri Carlock

i:umisc/comments/tsw12.1kkgdgcwhtc comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 5TH DAY OF OCTOBER 2012, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. TTS-W-12-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

JON PINARDI MANAGING PAR
TETON SPRINGS WATER &
SEWER COMPANY LLC
PO BOX 786
DRIGGS ID 83422



SECRETARY