

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	CASE NO. TTS-W-18-01
OF TETON WATER & SEWER COMPANY)	
FOR AUTHORITY TO ACCESS THE)	
COMPANY'S EMERGENCY RESERVE)	ORDER NO. 34278
ACCOUNT)	
)	

On December 7, 2018, Teton Water & Sewer Company applied to the Commission for an order authorizing the Company to use its Emergency Reserve Account to pay for \$18,761 in unplanned valve repairs that the Company completed in 2018. The Company requested that the matter be processed by Modified Procedure.

On December 18, 2018, the Commission issued a Notice of Application and Notice of Modified Procedure that set deadlines for interested persons to file comments and for the Company to file a reply. *See* Order No. 34218. Commission Staff filed the only comments. No reply was filed.

Having reviewed the record, the Commission enters this Order approving the Company using its Emergency Reserve Account to pay for: (1) the \$18,761 in unplanned valve repairs from 2018 that were the subject of the Application; and (2) another \$13,984 in unplanned leak repairs from 2014. However, the Commission also notes the Company improperly used the Emergency Reserve Account to pay \$3,430 to buy a backflow device in 2015 to comply with longstanding state regulations. The Commission's decision is further explained below.

BACKGROUND

In January 2009, the Commission found that the Company was under-capitalized. This occurred because the Company developed its water system using lot sales to recover infrastructure costs. Because the system was funded with contributed capital, the Company had no plant-in-service that qualified for rate base treatment, and thus no earnings should it experience a financial emergency. Order No. 30718. Accordingly, the Commission established an Emergency Reserve Account, and parameters for access to it, should such an emergency arise. *Id.* The Commission stated, "[t]he reserve fund is to be used only for emergencies and major unplanned capital expenditures (plant repair, maintenance and replacement). It is not intended to... fund capital expenditures that should have been planned." *Id.* at 12.

THE APPLICATION

With its current Application, the Company sought permission to use its Emergency Reserve Account to pay for two emergency valve repairs that the Company completed in July and October 2018. These included \$13,206 in repairs at the Targhee Trail Corp Stop, and \$5,555 in repairs at the 50 Moulton Lane Curb Stop. The Company included detailed invoices and photographs with its Application.

STAFF COMMENTS

Staff reviewed the Application and audited all transactions in the Emergency Reserve Account since the current owner acquired the Company in 2012. Staff analyzed all invoices provided with this Application and prior applications, and verified all transactions recorded in the bank statements and the QuickBooks ledger submitted by the Company. Based on its review, Staff believes both repairs qualified as “emergencies and major unplanned capital expenditures.” Staff recommended that the Commission allow the Company to use the Emergency Reserve Account to pay for the \$18,761 unplanned-repair costs incurred in 2018.

During the audit, Staff discovered the Company had used the Emergency Reserve Account to pay for \$17,414 in expenses in 2014 and 2015 without obtaining Commission approval. These expenses included \$13,984 incurred in 2014 for leak repairs, and \$3,430 incurred in 2015 to buy a backflow device. Staff recommended the Commission ratify the \$13,984 expenditure for the unplanned leak repair in 2014. But Staff recommended the Commission disapprove the \$3,430 expenditure for the backflow device purchased in 2015, and order the Company to return that amount to the Emergency Reserve Account. Staff noted the Commission has explained the Emergency Reserve Account is not to be used to fund capital expenditures that should have been planned. Order No. 30718. Staff noted the Company should have planned to install the backflow device before 2015 because Idaho Department of Environmental Quality (IDEQ) rules required backflow devices for several years before the Company installed the backflow device in 2015 after IDEQ found the Company had violated the rules by not installing one. Staff thus recommended the Commission direct the Company to credit the \$3,430 back into the Emergency Reserve Account, with the cost of the backflow device to be capitalized and recovered through depreciation expense in the Company’s next general rate case.

After accounting for Staff’s proposed adjustment to the Emergency Reserve Account for the 2015 expenses and the increased annual contribution to the Account the Commission

required the Company to pay beginning in 2018,¹ Staff determined the ending balance of the Emergency Reserve Account on December 31, 2018 should be \$7,848. Staff noted the expense of repairing recurring service line leaks has been the major drain on the Emergency Reserve Account. Staff expressed concern that the trend in recurring line leaks could deplete the Emergency Reserve Account of sufficient funds to cover future emergency repair expenses. Staff thus recommended the Company consult with Staff about alternative ways to fund future repairs.

DISCUSSION AND FINDINGS

The Company 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, including Idaho Code §§ 61-129, -502, -503, and -524. Having reviewed the record, including the Application and Staff's comments, the Commission finds the Company reasonably used the Emergency Reserve Account to pay for the \$18,761 in unplanned-repair expenses the Company incurred in 2018.

We further find it reasonable to utilize Emergency Reserve Account funds for \$13,984 in unplanned-repair expenses the Company incurred in 2014. However, the Commission only learned the Company spent \$13,984 in 2014 for repair expenses because Staff discovered and commented on those expenses in this case. While we will allow the use of Emergency Reserve Account funds to pay for those unplanned repairs, the Commission reminds the Company that those withdrawals are subject to later Commission approval. After the Company withdraws funds from the Emergency Reserve Account, the Company must *promptly* apply to the Commission for an order confirming that the withdrawals were appropriate under the circumstances.

The Company did not reasonably use the Emergency Reserve Account to buy the backflow device in 2015 that the Company had to install under IDEQ regulations. We reiterate that, as we stated in 2009, “[t]he reserve fund is to be used only for emergencies and major unplanned capital expenditures (plant repair, maintenance and replacement). It is not intended to... fund capital expenditures that should have been planned.” Order No. 30718 at 12. We thus find it reasonable to direct the Company to reimburse the Emergency Reserve Account for the \$3,430 the Company withdrew from it to buy the backflow device. The Company shall capitalize the device and have an opportunity to recover its cost through depreciation expense in the Company's next general rate case.

¹ In Order No. 34174, the Commission ordered Teton Water & Sewer Company to increase its annual contribution to the Emergency Reserve Account by \$468 to account for tax benefits from the Tax Cuts and Jobs Act of 2017.

Last, the Commission is concerned about the recurring leaks on the Company's system. As shown in this case, repairing those leaks can be expensive. With a December 2018 ending balance of only \$7,848, the Emergency Reserve Account could easily be depleted if the system continues to leak. We thus find it reasonable for the Company to consult with Staff about possible alternative ways to fund future emergency repairs.

ORDER

IT IS HEREBY ORDERED that the Company's use of the Emergency Reserve Account to pay \$18,761 in unplanned-repair expenses from 2018 and \$13,984 in unplanned-repair expenses from 2014 is approved.

IT IS FURTHER ORDERED that the Company's use of the Emergency Reserve Account to pay for the \$3,430 backflow device is disapproved. The Company shall promptly reimburse the Emergency Reserve Account in that amount.

IT IS FURTHER ORDERED that the Company shall consult with Commission Staff about possible alternative ways to pay for future emergency repairs on the Company's system.

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.

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DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this
day of March 2019.

19th



PAUL KJELLANDER, PRESIDENT



KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Diane M. Hanian
Commission Secretary

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