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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

The Staff of the Idaho Public Utilities Commission comments as follows on Teton Water & Sewer Company's Application.

BACKGROUND

On December 7, 2018, Teton Water & Sewer Company ("Company") applied for permission to use the Emergency Reserve Account to pay for \$18,761 in unplanned repair costs incurred in 2018. The costs consist of \$5,555 in repairs completed at the 50 Moulton Lane "curb stop" valve, and \$13,206 in repairs completed at the Targhee Trail "corp stop" valve.¹

By way of background, in January 2009, the Commission found that the Company was under-capitalized. This occurred because the Company developed its water system using lot

¹ A "curb stop" is a valve on a customer's property, or in the sidewalk next to it, where the utility's maintenance responsibility ends and the customer's maintenance responsibility begins. The "corp stop" is a valve on a main line that connects the main water line to the service line. The corp stop usually is in the street in front of a residence or business. A service line, typically a 1 or 2 inch line made of polyethylene, starts at the corp stop and ends at the curb stop.

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. The Commission thus established an Emergency Reserve Account to be funded by a \$6,972 increase to the Company's annual revenue requirement. The Commission stated, "the 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.

With this Application, the Company seeks to use its Emergency Reserve Account to pay for the \$18,761 in emergency repairs described above. The Company supported its claims with invoices and pictures.

STAFF REVIEW

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 recommends 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 the Commission approval. These expenses included \$13,984 incurred in 2014 for leak repairs, and \$3,430 incurred in 2015 to buy a backflow device. As discussed below, Staff recommends the Commission ratify the \$13,984 expenditure for the unplanned leak repair in 2014. But Staff recommends 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's analysis and recommendations are further detailed below. Staff's recommended balance of the Emergency Reserve Account is calculated in Table 1.

Table 1: Emergency Reserve Account Balance

Year	Beginning Balance	Contributions	Approved Expenses	Ending Balance
2012	0	6,972	0	6,972
2013	6,972	6,972	0	13,944
2014	13,944	6,972	13,984	6,932
2015	6,932	6,972	0	13,904
2016	13,904	6,972	0	20,876
2017	20,876	6,972	8,679	19,169
2018	19,169	7,440	18,761	7,848

After accounting for Staff's proposed adjustment to the 2015 expenses and the increased annual contribution beginning in 2018,² the ending balance of the Emergency Reserve Account on December 31, 2018 should be \$7,848.

2018 Expenses

The Company incurred two repair expenses in 2018 that it asks to pay for from the Emergency Reserve Account. In Staff's opinion both repairs qualified as "emergencies and major unplanned capital expenditures," and the requested payment should be allowed. In summary:

- The Targhee Trail repair cost the Company \$13,206. It required excavation, plumbing repairs, and road repairs because the Company had to dig up an asphalt road to access and fix a leak where the service line and main line connected at the corp stop. The Company ultimately replaced the entire service line between the corp stop and curb stop.
- The Moulton Lane repair cost \$5,555. The Company had to access a service line under the customer's stamped-concrete driveway to fix a leak at the curb stop.

After reviewing the Company's invoices, bank statements, QuickBooks ledger, and photographs of the leaks and repairs, Staff believes Targhee Trail and Moulton Lane involved

² 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.

unplanned, necessary, and prudent repairs. Staff thus recommends the Commission authorize the Company to pay for those repairs from the Emergency Reserve Account.

Prior Years Expenses

During the audit, Staff discovered the Company paid two unauthorized expenses from the Emergency Reserve Account. First, in 2015 the Company paid \$3,430 to buy and install a backflow prevention device after the Idaho Department of Environmental Quality (IDEQ) discovered the Company lacked the device in violation of IDAPA 58.01.08.511.04 (requiring that an accessible check valve be installed on a discharge line between a pump and well shut-off valve). While Staff commends the Company for promptly installing the device after the IDEQ noted the deficiency, Staff believes it was improper for the Company to pay for the device through the Emergency Reserve Account because the backflow-device requirement was not new and existed for several years before the deficiency was discovered. It is the utility operators' responsibility to know and comply with this requirement. In Order No. 30718, the Commission clarified the Emergency Reserve Account is not intended to fund capital expenditures that should have been planned. *Id.* at 12. Since the Company should have known about the backflow-device requirement and planned for the project, the expense to install it after the deficiency was discovered is outside the parameters for using the Emergency Reserve Account. Staff thus recommends 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.

Second, in 2014 the Company paid \$13,984 to repair three leaks. Staff examined the projects and determined they were conducted prudently and qualify as emergencies and unplanned capital expenditures.

However, although the Commission allowed the Company immediately access the Emergency Reserve Account, the Commission was to determine whether specific withdrawals would be allowed, after the fact, in later applications. The Company explained the current owner, Mr. Jon Pinardi, acquired the Company in 2012 and did not yet have a good grasp of regulatory requirements. Since then, Mr. Pinardi has had considerable contact with Staff and the Company has been in compliance since this issue was brought to Mr. Pinardi's attention.

Leak Causes and Analysis

Staff reviewed the prudence of leak repairs occurring in 2018 and in previous years. Staff is concerned about the number, and root cause, of recurring leaks in customers' service lines. Through conversations with the owner, Staff believes that the recurring leaks will continue and that, if they do, the Company will quickly exhaust the Emergency Reserve Account.

The Company has repaired seven leaks in the last five years. Six of them exhibited failure characteristics that indicate they share a similar cause. Specifically, all six leaks occurred in a polyethylene service line within one to two inches of the corp stop or curb stop valve. Although the owner acquired the Company in 2012, he has been affiliated with the Company since 2006, and has seen several leaks before 2012 that have exhibited the same characteristics.

The water system was built around 2003. It is abnormal for a water system under 20 years old to develop this number and frequency of leaks. Staff's conversations with the owner indicate the root cause of the leaks probably arose during construction of the system. First, the leaks occur throughout the system, which rules out location-specific causes and implies improper construction methods or defective materials. Second, as noted above, the leaks occur in polyethylene service lines within 1 to 2 inches of a corp or curb stop valve and on top of the line. This could indicate that builders used improper methods to attach service lines to valves, defective or out-of-specification service line materials, or improper trenching and backfilling techniques, or a combination of these and other factors.

Staff believes it would be cost prohibitive to try to prevent future leaks in existing construction. The Company could prevent reoccurrence of repaired leaks and minimize the repair costs by identifying the cause of future leaks and modifying its construction and repair practices. Further, the Company recognizes the need to continue gathering evidence that could help identify root cause during future repairs. Staff suggests: (1) taking more detailed pictures of the repair project before, after, and during the repair work; (2) documenting the size, location, and nature of the defects; (3) identifying the supplier, part numbers, and serial numbers/date codes of materials related to the defect; (4) documenting the type of embedment and backfill material and any evidence of compaction done during construction; and (5) keeping and studying defective material and components removed during repair. Staff encourages the Company to consult a water-systems engineer with expertise in failure and root cause analysis. Staff also has offered to consult with the Company when future leaks occur.

To reduce the cost of future repairs, Staff suggested acoustic leak detection technology and services that the Company could use to isolate the location of leaks. For example, the Targhee Trail repair required extensive excavation and restoration because the leak “day lighted” a considerable distance from the actual underground leak. The Company could avoid significant costs if it could precisely locate the leak before excavating. The Company showed a keen interest in potentially using leak detection methods to minimize costs.

STAFF RECOMMENDATIONS

Staff recommends that the Commission authorize the Company to use the Emergency Reserve Account to pay for: (1) \$18,761 in 2018 repairs; and (2) \$13,984 in 2014 repairs. Staff further recommends that the Commission not approve the Company’s request to use the Emergency Reserve Account to pay for the \$3,430 in expenses it incurred in 2015 to buy a backflow device, and order the Company to credit that amount back to the Emergency Reserve Account

Lastly, because the expense of repairing recurring service line leaks has been the major drain on the Emergency Reserve Account, Staff is concerned that trend could deplete the Emergency Reserve Account of sufficient funds to cover future emergency repair expenses. Staff recommends the Company consult with Staff about alternative ways to fund future repairs.

Respectfully submitted this 31st day of January 2019.



Karl Klein
Deputy Attorney General

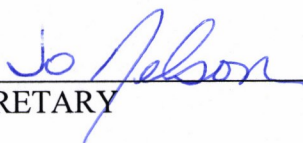
Technical Staff: Johan Kalala-Kasanda
Michael Eldred
Chris Hecht
Kevin Keyt

i:umisc/comments/ttswl8.1bkkkmejkcwhksc comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 31ST DAY OF JANUARY 2019, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. TTS-W-18-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

JON PINARDI
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SECRETARY