

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF FALLS WATER ) CASE NO. FLS-W-20-03**  
**COMPANY’S APPLICATION FOR AN )**  
**ORDER AUTHORIZING INCREASES IN )**  
**THE COMPANY’S RATES AND CHARGES ) ORDER NO. 34925**  
**FOR WATER SERVICE IN THE STATE OF )**  
**IDAHO )**

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On June 30, 2020, Falls Water Company, Inc. (“Falls Water” or “Company”) filed an Application requesting authorization to raise the rates it charges for water service, with the new rates to take effect on August 15, 2020.

On July 16, 2020, the Commission provided notice of the Company’s Application and suspended the proposed effective date for 30 days plus five months. *See* Order No. 34725. *citing Idaho Code* § 61-622(4). The Commission then set deadlines for interested persons to submit comments on the Application, and for the Company to reply. *See* Order No. 34858 (as corrected by Errata issued December 21, 2020). The Commission also scheduled a telephonic public hearing for interested persons to testify in the case. *Id.*

Commission Staff conducted a public workshop for interested persons on January 5, 2021. The Commission then held a telephonic public hearing on January 14, 2021. No one testified at the hearing. However, Commission Staff and three members of the public filed written comments about the Application. Additionally, the Company filed a reply.

Having reviewed the record, the Commission enters this Order on the Company’s Application.

**BACKGROUND**

Falls Water is a wholly owned subsidiary of NW Natural Water Company, LLC, which is itself a wholly owned subsidiary of NW Natural Holdings Company, which was created during a corporate reorganization of Northwest Natural Gas Company and its affiliates. The Commission approved Northwest Natural Water Company, LLC’s acquisition of Falls Water in July 2018. FLS-W-18-01, Order No. 34103. The Company’s water system is located east of Idaho Falls and north of Ammon. As of December 31, 2019, the Company served 4,263 residential customers, 41 multi-family customers, and 104 commercial customers. The Commission last approved an

increase to the Company’s basic rates and charges in October 2012. Order No. 32663, Case No. FLS-W-12-01.

### APPLICATION

The Company requested a revenue requirement of \$2,144,602, which would be an increase of \$344,175, or 19.12% over the revenue requirement approved by the Commission for the Company in FLS-W-12-01. Falls Water Application at 1, 8. The Company stated that without a change to its revenue requirement, its earned return on equity would be 1.2%. *Id.* at 7. The Company’s proposed revenue requirement is based on a 10.5% Return on Equity (“ROE”), a hypothetical capital structure of 45% debt and 55% equity, and a weighted average cost of capital (“WACC”) of 7.24% applied to a net rate base of \$5,015,849. *Id.* at 2, 7. To recover its revenue requirement, the Company proposed to increase its commodity charge by 38.89%, which would result in a base charge/commodity charge ratio of 64.4%/35.6%. *Id.* at 8. The Company proposed no changes to the usage allowances. *Id.* The Company proposed to increase its metered rates as follows:

Meter Size	Current Rate	Proposed Rate	% Change
¾” or smaller	\$17.75 for up to 12,000 gallons	\$18.75 for up to 12,000 gallons	5.63% Increase
1”	\$25.00 for up to 17,000 gallons	\$26.41 for up to 17,000 gallons	5.63% Increase
1 ½”	\$32.25 for up to 22,000 gallons	\$34.07 for up to 22,000 gallons	5.63% Increase
2”	\$41.00 for up to 28,000 gallons	\$43.31 for up to 28,000 gallons	5.63% Increase
4”	\$73.25 for up to 49,000 gallons	\$77.38 for up to 49,000 gallons	5.63% Increase
Commodity Rate per 1,000 gallons	\$0.689	\$0.957	38.89% Increase

The Company mailed notice to its customers and provided a press release to the Post Register in late June and early July 2020 informing its customers of its request to raise rates and showing the proposed average monthly bills compared to the current average monthly bill. *See id.* at 8, Exhs. 6, 7.

### COMMENTS

Commission Staff recommended a total revenue requirement of \$1,967,016 for an increase of \$166,588, or 9.25%. Commission Staff Comments at 2. Staff’s proposed revenue requirement is based on a 9.9% ROE, the same hypothetical capital structure of 45% debt/55% equity proposed by the Company, and a WACC of 6.91% applied to a net rate base of \$4,928,979.

*Id.* Staff proposed no adjustments to the Company’s test year revenues. *Id.* at 3. Staff’s comments on specific parts of the Company’s Application are discussed below under “Discussion and Findings.” The Company’s reply is also addressed on an issue by issue basis below.

### **PUBLIC COMMENTS**

The Commission received written comments from three customers. The comments generally opposed the Company’s proposed rate increase.

### **COMMISSION JURISDICTION**

This Commission has jurisdiction over “every corporation or person, their lessees, trustees, receivers or trustees, appointed by any court whatsoever, owning, controlling, operating or managing any water system for compensation within this state.” *Idaho Code* § 61-125. A “water corporation” as defined in *Idaho Code* § 61-125 is a “public utility” as defined by *Idaho Code* § 61-129. Public utilities are “subject to the jurisdiction, control and regulation of the commission and to the provisions of [The Public Utilities Law].” This Commission is “vested with power and jurisdiction to supervise and regulate every public utility in the state and to do all things necessary to carry out the spirit and intent of [The Public Utilities Law].” *Idaho Code* § 61-501. The Commission, upon finding that the rates charged by a public utility are “unjust, unreasonable, discriminatory, or in any wise in violation of any provision of law, or that such rates . . . are insufficient . . . shall determine the just, reasonable or sufficient rates . . . to be thereafter observed and in force and shall fix the same by order . . .” *Idaho Code* § 61-502; *see also Idaho Code* § 61-503.

Public utilities are entitled to a reasonable rate of return on prudent investments. “[A] public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public, equal to the return generally being made at the same time and in the same general part of the country on investments and other business undertakings which are attended by corresponding risks and uncertainties.” *Utah Power & Light Co. v. Idaho Public Utilities Comm’n*, 105 Idaho 822, 827 (1983). The Commission has the power and the duty to set rates of return within a “broad zone of reasonableness.” *Intermountain Gas Co. v. Idaho Public Utilities Comm’n*, 97 Idaho 113, 128 (1975). “The main elements in fixing reasonable rates for service rendered by [a] public utility are the cost of rendering service on an economical and efficient basis, fair return to the utility on its property used and useful in such

service and fairness to consumers.” *Application of Pacific Tel. & Tel. Co.*, 71 Idaho 476, 480-81 (1951).

## **DISCUSSION AND FINDINGS**

Under our statutory authority, we have reviewed the record in this case, including the Company’s Application, public comments, Commission Staff comments, and the Company’s reply comments. Based on that review, we approve a new, total revenue requirement for the Company of \$2,112,749. A schedule summarizing the Commission’s decision is attached as Attachment 1. The Company’s new rates shall go into effect February 16, 2021.

### **1. Return on Equity.**

The Company requested the Commission maintain the Company’s currently approved ROE of 10.5%. Application at 7. The Company calculated its revenue requirement based on a hypothetical capital structure of 55% equity and 45% debt. *Id.* The Company reported that Falls Water’s actual capital structure was 84.6% equity and 15.4% debt. *Id.*

Staff stated that as a subsidiary of NW Natural Holdings, Falls Water should have better access to capital. Staff Comments at 10. Additionally, Staff stated that capital costs have declined since the 10.5% ROE for Falls Water was approved. Staff Comments at 10. Staff compared Falls Water’s ROE with NW Natural Holdings’ other subsidiaries and other Idaho investor-owned utilities. *Id.* Staff supported the Company’s use of a hypothetical capital structure of 55% equity and 45% debt because it is more representative of a typical capital structure for investor-owned utilities. *Id.* Staff recommended the Commission approve a ROE of 9.9%, which would result in a WACC of 6.91%. Staff stated a 6.91% WACC is comparable to NW Natural Holding’s 6.97% WACC for its Oregon natural gas utility. *Id.*

**Commission Decision:** The Commission finds that a ROE for Falls Water of 10.2% is fair, just, and reasonable. We reduce the currently approved ROE because required returns are lower than when the 10.5% ROE was authorized, and the Company now has lower financing risk with better access to capital through its parent companies. Obtaining capital at better rates is a benefit of having an established and professional parent company such as NW Natural Holdings. It is one of the benefits we anticipated when the acquisition of Falls Water was approved. It is also appropriate for this benefit to flow through to customers. The appropriate point of comparison to determine the authorized ROE for smaller water companies is first to other water companies, while also acknowledging Falls Water’s operating and financial benefits from its parent

organization. The business model utilized by NW Natural Water Company when acquiring small water companies in Idaho is a model we want to encourage for providing safe and reliable service to water customers at reasonable rates. We find that a 10.2% ROE appropriately balances this smaller water utility's need to earn a fair return on its property used and useful in providing water service while maintaining fair rates for customers.

## **2. Employee Compensation.**

The Company proposed to include an additional \$92,251 in employee compensation. Application at 5. The Company stated it is losing employees to other companies in its area due to its low wages and that it requires quality employees to provide quality customer service. *Id.* at 4.

Staff proposed eliminating the Company's proposed salary increases for 2020, 2021, and 2022, thereby keeping the Company's recovery at its actual labor expense for 2019. Staff Comments at 4. Staff acknowledged that the Company's wages have historically been lower than other water systems but stated that since 2012 the Company has awarded salary increases greater than those awarded by other utilities or the broader workforce in general. *Id.* Staff compared the Company's historic and proposed wage increases to other investor-owned utilities in Idaho, Idaho Falls Water, City of Eagle Water, Bureau of Labor Statistics information, and State of Idaho wages. Staff determined the Company's proposed increases were equal to or larger than any other single-year percentage increase it looked at. *Id.* Staff supported a more gradual increase of 4% annually in employee compensation than that proposed by the Company. *Id.* Staff stated the Company's proposed wage increases in 2020 and beyond would be excessive in light of the financial impact felt by customers due to the ongoing COVID-19 pandemic. *Id.*

In reply, the Company stated that it is losing employees to local businesses that offer higher wages, not to other parts of the state or other states. Falls Water Reply Comments at 6. Falls Water stated that Staff's comparison only focused on percentage change and did not address that Falls Water must play catch up to maintain competitiveness in its market. *Id.* at 6-7. Falls Water stated that the wage differential between the Company and the City of Idaho Falls is an average of 26% lower for Falls Water and noted that public sector employers can offer pensions and other benefits that are a competitive challenge for private companies like Falls Water to match. *Id.* at 7. The Company stated that Staff's proposal would exacerbate the existing wage disparity, making the Company fall farther behind its competition and put it in an unnecessary position to request a larger increase later to catch up. *Id.*

**Commission Decision:** We find it fair, just, and reasonable to approve the Company's proposed wage increases. The large increases over several years noted by Staff traditionally would not be included in a single rate increase, but for this utility it must be considered in tandem with the significant deficit that existed prior to the increases. The Company's service territory is growing rapidly, and the Company must offer competitive wages to attract and retain quality employees. Attracting and retaining skilled employees will be to the long-term benefit of customers. The impacts of the COVID-19 pandemic do not invalidate the Company's need to attract and retain quality employees now and in the near future. Because the Company adequately justified its request for wage increases, we approve the Company's proposed wage increases.

**3. Shared Services Expense.**

The Company requested \$79,225 for services rendered by NW Natural Water including "accounting, executive, corporate, communications, human resources/payroll, information services, legal, rates/regulation, risk/land, tax, treasury, business development, administrative charges, and other miscellaneous services." Application at 6. The Company stated that it used the Massachusetts method to allocate these shared costs among water companies owned by NW Natural Water. *Id.*

Staff proposed to reduce the shared services to be recovered by Falls Water to \$39,570, a \$39,655 decrease from the Company's proposal. Staff Comments at 7. Staff identified accounting, corporate communications, human resources/payroll, and information services as services Falls Water employees provided before the acquisition by NW Natural Water. *Id.* at 6. Staff also recommended removal of the corporate administrative charge because it believed that some services covered by the charge do not directly benefit Falls Water customers. *Id.*

In reply, the Company stated that Falls Water's former owner previously performed the functions included in the shared services expense. The Company thus adjusted its test year revenue to remove the former owner's 2019 wages, benefits, and payroll taxes. Falls Water Reply Comments at 8. The Company stated that its proposal of shared services costs represented a savings of \$69,127 or 47% when compared to the costs of the eliminated position. *Id.* Falls Water stated that its platform model improves back office functions and allows Falls Water employees to focus on day-to-day work. *Id.* The Company provided greater detail about the 27.5% corporate administrative charge, detailed additional actions taken by NW Natural in human resources and cybersecurity, and reiterated that its platform model allows the Company to apply greater expertise

to these back office functions at a lower overall cost to customers. *Id.* The Company noted that it receives access to better cost of capital because it can provide audited financial statements, which require increased and improved back office support. *Id.* at 9.

**Commission Decision:** We find that the Company's proposed shared services expenses are fair, just, and reasonable for this case. It is important for the Company to directly assign costs when possible before allocating costs. The Massachusetts model fairly allocates expenses based on plant in service, revenues, and employee count. The consolidation of back office services in NW Natural Water and the fair allocation of these costs across its subsidiaries allows the Company to apply greater expertise in a more cost-effective manner than if each function were performed individually at each water company. Moreover, costs for shared services in this case were actually less than payroll for former employees, confirming the efficiencies that can be captured through a large parent company. We note that the annual shared services expenses have increased annually so it will be important for the Company to provide greater documentation supporting future shared services expenses.

#### **4. Use of the Special Plant Reserve Fund.**

The special plant reserve fund was established in FLS-W-12-01 because the Commission found that the Company spent too much on advanced meters without prior input from customers, Commission Staff, or the Commission. Order No. 32663 at 11. Rather than disallow recovery of the costs, the Commission determined it would be prudent to establish the special plant reserve fund so as not to jeopardize the Company's financial integrity. *Id.* The Company was ordered to place meter-related depreciation into the account. *Id.* The Company was also ordered to place \$8,315 per year over 25 years into the fund, which represented annual savings associated with reduced labor for meter readings. *See id.* The Commission ordered the fund be used to finance infrastructure projects like trunk line improvements, storage tank and booster stations, and replacing old water line. *Id.* The Commission ordered the special plant reserve fund be maintained in a separate account and stated that Staff would routinely audit the deposits and plant investment expenditures. *Id.* The Commission strongly encouraged the Company to consult with Commission Staff before it began potential infrastructure projects. *Id.* The special plant reserve fund accrues approximately \$27,000 per year in depreciation expenses, and as of July 1, 2020, had a balance of \$96,149. Staff Comments at 9.

Staff verified that the Company has properly funded the account since its last rate case. Staff Comments at 5. The Company did not propose to use the special plant reserve fund. The Company proposed to capture the annual operational savings of \$8,315 per year by embedding the saved operating expenses in its proposed revenue requirement, rather than directing the operational savings to the special plant reserve fund. *See* Staff Comments at 5. Staff proposed the Company continue to fund the special plant reserve fund with the approximately \$27,000 per year of depreciation expense. *Id.*

Staff recommended that the Company deplete the special plant reserve fund because it is intended to be used for infrastructure projects. *Id.* at 9. To implement the use of these funds, Staff also recommended that a \$100,000 contribution from the special plant reserve fund be treated as a contribution in aid of construction (“CIAC”). *Id.* Staff stated that this treatment would be consistent with treatment ordered by the Commission in FLS-W-17-01. *Id. citing* Order No. 33863 at 4.

In reply, the Company agreed that using the special plant reserve fund would be appropriate, but it disagreed that the entire fund should be treated as a CIAC. Falls Water Reply Comments at 10. The Company argued that under Order No. 33863, only the meter reading labor savings portion of the special plant reserve fund should be treated as CIAC. *Id.* at 11. The Company stated that as of December 31, 2020, \$28,134.04 of the \$112,753.33 in the special plant reserve fund is attributable to meter reading labor savings. *Id.* The Company stated that treating the meter depreciation contribution in the special plant reserve fund as a CIAC would result in a disallowance of the expenditures, which the Company argued would be contrary to the Commission’s intent when establishing the fund. *Id.*

**Commission Decision:** We find it appropriate to use the special plant reserve fund in the amount of \$100,00 as a CIAC. The Commission originally established the fund and required the annual advanced meter depreciation of approximately \$27,000 and annual operational savings of \$8,315 to be recorded annually in the fund. Staff and the Company agree that the \$8,315 annual savings are now properly reflected in operating results. Because these savings are included in actual operating costs and the advanced meters are now prudently incurred, we also find that continuing to record amounts to the special plant reserve fund should stop as of the effective date of this order. The remaining balance in the fund, once new additions have stopped, will be used in the same manner in the next general rate case.



## **5. Training Expenses.**

Staff stated that the Company's training expenses in the 2019 test year were more than triple the expenses in the previous two years combined. Staff Comments at 4. Staff also stated that the COVID-19 pandemic has resulted in more travel restrictions and virtual trainings, and therefore stated that the Company's proposed increase is unwarranted. *Id.* Staff proposed to use the average of the 2018 and 2019 training expenses, which would reduce the expense by \$2,983 from \$6,984 to \$4,001. *Id.* at 5. The Company disagreed with Staff's proposal and reiterated the importance for its employees to obtain adequate training. Falls Water Reply Comments at 2, 7.

**Commission Decision:** The Commission finds the Company's proposed training expenses to be fair, just, and reasonable. Similar to our findings regarding the Company's proposed wage increases, we find it is to the long-term benefit of customers to have skilled and trained employees at the Company, and impacts due to the COVID-19 pandemic should not be a basis for setting training expenses going forward.

## **6. Taxes.**

Staff accepted the Company's method of calculating its tax burden but stated that several of Staff's proposed adjustments would increase the Company's property tax and income tax burdens. Staff Comments at 7. Staff stated the Company's proposed property tax expense is 1.16% of net plant in service. *Id.* In reply, the Company accepted Staff's proposal for a rate of 1.16% of net plant in service to calculate property taxes and agreed that the income tax expense should be adjusted to reflect expense and rate base adjustments. Falls Water Reply Comments at 10.

**Commission Decision:** We acknowledge property taxes and income taxes change with the Commission's decision. These changes have been incorporated in the final revenue requirement approved in this order.

## **7. Bank Service Charge Fee.**

Staff recommended the Company not include bank service charge fees in the calculation of its gross up factor. Staff Comments at 10. Staff stated that because an increase to the Company's revenue requirement does not necessarily increase the fees due to the vendor, it is not appropriate to include the fees in the gross up factor. *Id.* at 10-11. In reply, the Company disagreed with Staff's recommendation and stated that part of the gross up factor is related to billed revenues. Falls Water Reply Comments at 12.

**Commission Decision:** Bank service charge fees, per contract with the vendor, are assessed based on the number of transactions not the dollar amount of the transaction. The gross up factor is designed to reflect costs that will increase based on the increased revenue requirement. Therefore, we find it appropriate and reasonable to disallow the Company to include bank service charge fees in the calculation of its gross up factor.

**8. Rate Design.**

The Company proposed a 5.6% increase to its base charge and a 38.89% increase to its commodity charge. Application at 8. This brings the base charge/commodity charge ratio to 64.4%/35.6%. Staff Comments at 12. The Company stated that a benefit to the larger increase in its commodity charge would be greater conservation of water. Application at 8.

Staff proposed the rate increase be recovered entirely through the commodity component. Staff Comments at 12. Based on Staff's proposed reductions to the Company's revenue requirement, Staff's proposal would result in 33.6% of the Company's revenue being recovered through the commodity charge, less than the Company's proposed 35.6% recovery through the commodity charge. *Id.*

In reply, the Company expressed concern that placing the entire increase in the commodity charge could result in reduced usage by customers and the Company may not recover its authorized revenue requirement. Falls Water Reply Comments at 11. The Company stated that lowering the usage allowance amounts would help compensate for potential lost revenue due to conservation. *Id.*


**Commission Decision:** The rate design approved by the Commission includes base charges that are similar to those requested by the Company. We have rounded the base rates to the nearest five cent increment. This rounding slightly changes the base charge/commodity charge ratio to 65.4%/34.6% based on the revenue requirement of \$2,112,749 approved by the Commission. We find it fair, just, and reasonable to increase the Company's base charges by 5.6% and to increase its commodity charge to \$0.917 from \$0.689. A summary of the Commission's approved rate design by meter size is attached as Attachment 2.

**ORDER**

IT IS HEREBY ORDERED that Falls Water shall have an annual revenue requirement of \$2,112,749, with expenses, rate base, rate of return, capital structure, and rate design as detailed in the body of this Order and its Attachments. The Company shall submit tariffs in compliance with the rates and charges identified in this Order no later than fourteen (14) days from the service date of this Order. The rates and charges authorized by this Order shall become effective for service rendered on and after February 16, 2021.

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 with regard to any matter decided in 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.

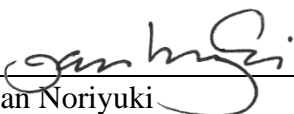
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 16<sup>th</sup> day of February 2021.

  
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PAUL KJELLANDER, PRESIDENT

  
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KRISTINE RAPER, COMMISSIONER

  
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ERIC ANDERSON, COMMISSIONER

ATTEST:

  
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Jan Noriyuki  
Commission Secretary

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Falls Water Co.  
 Revenue Requirement  
 FLS-W-20-03

1 Rate Base	\$	4,944,762
2 Required Rate of Return		7.07%
3 Net Operating Income Requirement	\$	349,718
4 Net Operating Income Realized	\$	121,390
5 Net Operating Income Deficiency	\$	228,329
6 Gross up Factor (line 20)		1.3679
7 Total Incremental Revenue Requirement	\$	312,323
8 Revenues at existing rates	\$	1,800,427
9 Total Revenue Requirement	\$	2,112,749
10 Percent Increase Required		17.35%

**Net to Gross Multiplier**

11 Total Gross Revenues		1.000000
12 Less Uncollectibles		0.003219
13 Less 2019 Regulatory Fees		0.002529
14 Less Bank Service Charge Fees		-
15 Net Revenue		0.994252
16 State Income Tax Rate (6.925%)		0.068852
17 Federal Income Tax Base		0.925400
18 Federal Income Tax Rate (21%)		0.194334
19 Net Operating Revenue		0.731066
20 Net Income to Gross Revenue Multiplier		1.3679

Falls Water Co.  
Approved Rates  
FLS-W-20-03

Commission Approved Revenue Requirement \$2,112,749

Minimum Customer Base Rates

Meter Size (Inches)	Current Rate
$\frac{5}{8}$ or $\frac{3}{4}$ in.	\$18.75 for up to 12,000 gal/mo.
1 in.	\$26.40 for up to 17,000 gal/mo.
1.5 in.	\$34.05 for up to 22,000 gal/mo.
2 in.	\$43.30 for up to 28,000 gal/mo.
4 in.	\$77.35 for up to 49,000 gal/mo.

Commodity Rate above Minimum

Commodity Rate per 1,000 gal.	\$0.917
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