

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF FALLS WATER CO., ) CASE NO. FLS-W-20-04**  
**INC.’S APPLICATION FOR APPROVAL OF )**  
**ACQUISITION OF THE ASSETS OF )**  
**MORNING VIEW WATER COMPANY ) ORDER NO. 34833**  
**)**

---

On July 31, 2020, Falls Water Co., Inc. (“Falls Water”) applied for Commission approval of Falls Water’s acquisition of the water system assets of Morning View Water Company (“Morning View”). Falls Water also asked for approval to transfer Morning View’s certificate of public convenience and necessity (“CPCN”) to Falls Water.

On September 9, 2020, the Commission issued a Notice of Application and Modified Procedure, setting an October 15, 2020 comment deadline and an October 29, 2020 reply comment deadline. The Notice also provided notice of a customer workshop and customer hearing. Order No. 34774. On September 30, 2020, Commission Staff held a public, telephonic workshop to provide information regarding Falls Water’s Application. On October 7, 2020, the Commission held a telephonic customer hearing. No customers attended the hearing. Staff filed written comments, and Falls Water filed reply comments. No customer comments were filed.

Having reviewed the record, we approve the acquisition of Morning View by Falls Water and approve the transfer of the purchased water company’s CPCN.

**THE APPLICATION**

Falls Water is a Commission-regulated water corporation holding CPCN No. 236. Falls Water has operated a water system near Idaho Falls since 1958 and serves about 5,500 customers. Falls Water is a direct subsidiary of NW Natural Water of Idaho, LLC, which through its parent companies is owned by Northwest Natural Holdings. Morning View is a Commission-regulated water corporation serving about 118 residential customers under CPCN No. 314. Morning View’s service territory is in and around Rigby and about 9 miles from Falls Water’s office location.

On July 2, 2020, Falls Water and Morning View signed an asset purchase agreement governing the transaction (“Agreement”). Under the Agreement, Falls Water will acquire Morning View’s water system assets. The Agreement is conditioned upon Commission approval of all requests in the Application.

In its Application, Falls Water stated that its employees will operate the Morning View water system. Falls Water asserted it “is not requesting any change to rates, rate structure, or other charges in this Application,” and that “[a]ny future changes will be based on prudently incurred capital expenditures and other accepted ratemaking principles.” Application at 4. However, Falls Water requested the Commission “treat Falls Water’s future...prudently incurred investments in Morning View’s Water Business as 100% equity, rather than debt, until Morning View’s Water Business reaches a 50% debt / 50% equity capital structure.” *Id.* at 6. Falls Water also requested CPCN No. 314 be transferred to Falls Water.

## THE COMMENTS

### 1. Staff Comments

Staff recommended the Commission approve the sale of Morning View and the transfer of its CPCN to Falls Water. Staff noted Idaho law does not specifically address the acquisition of water companies, but that it would rely on the statute governing sales of electric utilities—*Idaho Code* § 61-328—to analyze the transaction. *Idaho Code* § 61-328 requires the Commission to find a) the transaction is consistent with the public interest, b) the cost of the rates for supplying service will not be increased by reason of such transaction, and c) the applicant for such acquisition or transfer has the bona fide intent and financial ability to operate and maintain the system in the public interest.

Staff believed the sale of Morning View is consistent with the public interest. NW Natural Water Company, LLC is Falls Water’s parent company. *See* Notice of Corporate Structure Reorganization, Case No. FLS-W-20-04. Staff noted Northwest Natural Water Company, LLC’s continued acquisition of water companies in Idaho may provide benefits through operational efficiencies and economies of scale.

Staff noted that Falls Water has asserted it will maintain Morning View’s existing rates and charges post-acquisition. Regarding Falls Water’s request that future prudently incurred investments in Morning View’s water system be treated as 100% equity, Staff reviewed the proposed regulatory treatment and determined it would be a reasonable regulatory treatment for customers and the utility. Staff agreed with Falls Water that Morning View could be considered a “distressed small water utility,” as the capital structure approved in Morning View’s last rate case was 99.76% debt and 0.24% equity. After comparing Falls Water’s proposed solution to other

possible regulatory treatments, “Staff found Falls Water’s proposal minimizes future rate impacts to customers while adhering to *Idaho Code* § 61-328(3)(b). . . .” Staff Comments at 4.

Finally, Staff believed Falls Water has the bona fide intent and financial ability to operate and maintain Morning View’s water system in the public interest. Staff noted that Falls Water’s employees, including Falls Water’s licensed water system operator, will run the Morning View Water system if the Application is approved, and Falls Water has committed “to provide safe and reliable service and to meet the infrastructure needs of Morning View customers.” *Id.* Staff also observed Falls Water, through its parent companies, has access to capital that will likely lower financing costs for system repairs and upgrades—ultimately benefiting customers. Staff noted that Falls Water has already identified three potential capital improvement projects: 1) one of Morning View’s wells may need to be upgraded, 2) a system-wide leak check may need to be conducted, and 3) additional water rights may need to be acquired or a water conservation plan implemented.

While investigating Falls Water’s Application, Staff discovered that the property description in Morning View’s CPCN No. 314 is incorrect. “As currently written, CPCN No. 314 describes a location approximately six miles west of the territory being served by Morning View.” Staff Comments at 5. Staff believed CPCN No. 314’s property description should be amended to: **N ½, NE ¼, Section 30, T04N, R039E BM.**

If Falls Water’s Application is approved and Falls Water wishes to create a single, combined tariff for Falls Water, Staff recommended Falls Water work with Staff to create separate rate schedules for Morning View. Likewise, Staff recommended the Commission direct Falls Water to work with Staff to make any necessary revisions to its company documents within three months of issuance of a final order approving the Application.

Staff noted Falls Water provided direct notice to each Morning View customer of the proposed acquisition and its Application. If the Application is approved, Staff recommends Falls Water provide direct notice of the acquisition to Morning View’s customers, and that the notice include Falls Water’s contact information.

## 2. Falls Water Reply Comments

Falls Water filed timely reply comments, noting that it “agrees with, and intends to abide by, the recommendations provided by Staff in its comments.” Falls Water Reply Comments at 1.

## COMMISSION FINDINGS AND DECISION

The Commission has jurisdiction over this matter and the issues in this case under Title 61 of Idaho Code. Specifically, the Commission regulates “public utilities,” including “water corporations” that serve the public or some portion thereof for compensation. *See Idaho Code* §§ 61-125, -129, and -501. The Commission has an established practice of evaluating the transfer of water systems under the criteria found in *Idaho Code* § 61-328. Falls Water and Morning View are privately held water companies and public utilities as defined in these laws. Having reviewed the record, we find the acquisition fair, just, reasonable, and in the public interest. Consequently, we approve the Application.

Falls Water will provide organizational support, access to capital, and economies of scale for the Morning View water system. It is in the public interest for an experienced owner and operator of public utility infrastructure to acquire this system. Falls Water has demonstrated the financial ability and bona fide intent to operate the system in the public service. Northwest Natural Holdings, of which Falls Water is a wholly-owned subsidiary, has a \$100 million revolving line of credit, a net income of \$61.7 million, cash flow from operations of \$185.3 million, an A2 credit rating from Moody’s, and an AA- credit rating from Standard and Poor’s. *See Staff Comments* at 4; Palfreyman Direct, Exhibit 2. The bona fide intent to operate the system in the public interest is demonstrated by Falls Water’s detailed understanding of the Morning View system’s needs, Falls Water’s commendable operation of its existing system, and the Company’s strategic plan to purchase and operate multiple small water companies in the region. Finally, customer rates will not increase because of the transaction. Any further rate increases will be the result of prudent expenditures to improve the system.

We recognize that Morning View’s existing capital structure is primarily debt. We find it reasonable to treat all prudently incurred capital expenditures for the Morning View water system as 100% equity for ratemaking purposes until the water system reaches a more balanced capital structure. We commend Falls Water for proposing this solution, as it is the rate structure that will likely have the least impact on ratepayers.

We direct Falls Water to notify Morning View’s customers directly of the acquisition. This notice may be a separate mailing, a message on bills, or a bill insert. We encourage the Company to work with Staff to make any necessary revisions to its customer documents within three months of the service date of this Order. If Falls Water chooses to create a single combined

tariff for water systems owned and operated by Falls Water, we encourage Falls Water to work with Staff to file a conforming combined tariff.

**ORDER**

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

IT IS FURTHER ORDERED that CPCN No. 314 be updated with the correct property description, and that the CPCN No. 314 be transferred to Falls Water.


IT IS FURTHER ORDERED that all prudently incurred capital expenditures for the Morning View water system shall be treated as 100% equity for ratemaking purposes until the water system reaches a more reasonable capital structure.

IT IS FURTHER ORDERED that Falls Water notify Morning View customers of the sale of the Morning View water system—either through a separate mailing, a message on bills, or as a bill insert.

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.

///

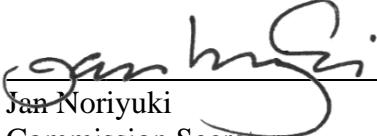
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 13<sup>th</sup>  
day of November 2020.

  
\_\_\_\_\_  
PAUL KJELLANDER, PRESIDENT

  
\_\_\_\_\_  
KRISTINE RAPER, COMMISSIONER

  
\_\_\_\_\_  
ERIC ANDERSON, COMMISSIONER

ATTEST:

  
\_\_\_\_\_  
Jan Noriyuki  
Commission Secretary

I:\Legal\WATER\FLS-W-20-04\orders\FLSW2004\_final\_mh.docx