

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF FALLS WATER CO.,)	CASE NO. FLS-W-21-01
INC'S. APPLICATION FOR APPROVAL OF)	
THREE CAPITAL PROJECTS: (1))	
CREATION OF A NEW WATER SOURCE;)	ORDER NO. 35206
(2) CONSTRUCTION OF A STORAGE)	
TANK; AND (3) CONSTRUCTION OF A)	
WELLHOUSE)	

On May 7, 2021, Falls Water Co. Inc. (“Company”) applied to the Commission for approval to build: (1) a new water source—Well #11; (2) a new water-storage tank and related facilities; and (3) a wellhouse and related improvements at the Taylor Mountain Water System (“Taylor Mountain”). The Company also requested authority to fund all or part of these projects through the Company’s Special Plant Reserve Fund (“Reserve Fund”). The Company requested its Application be processed by Modified Procedure.

On June 24, 2021, the Commission issued a Notice of the Company’s Application, established comment deadlines, and scheduled a public workshop and customer hearing. Staff held a public workshop on July 27, 2021. The Commission held a customer hearing on August 9, 2021. No one testified. Staff filed comments to which the Company replied. No other comments were received.

Having reviewed the record in this case the Commission issues this final Order approving the Company’s Application.

BACKGROUND

The Commission approved the Company’s request to build Well #10 in Order No. 33863, Case No. FLS-W-17-01. In Order No. 33863, the Commission recognized Staff’s concern that the Company still would be unable to “meet pressure requirements for firewater flow” even with the addition of Well #10. The Commission ordered the Company to complete a hydraulic model to list priorities for future system investments. Well #10 was completed and put into service in June 2018.¹

In 2019, the Company commissioned an engineering study and Drinking Water Capital Facilities Plan (“Plan”) to identify system needs. The Plan contained a hydraulic model that

¹ Even with the addition of Well #10, the Company’s system has struggled to meet the Idaho Department of Environmental Quality’s standards for pressure in certain situations.

recommended projects including high-priority projects involving two wells—Wells #11 and #12—or building Well #11 plus storage.

The Commission subsequently approved the Company’s acquisition of the assets of Taylor Mountain. *See* Order No. 34486. In August 2020, the Company assumed responsibility for operating and maintaining the Taylor Mountain system. Currently, Taylor Mountain’s wells lack wellhouses and fencing, which creates potential liabilities for the Company.

THE APPLICATION

The Company’s Falls Water system is generally in compliance with Idaho Department of Environmental Quality (“IDEQ”) requirements. But even with the addition of Well #10, the system is about 3,000 gallons per minute (“GPM”) capacity deficient. The Company states that if Well #9 lost power, the system would not meet IDEQ’s redundancy or pressure standards.

The Company anticipates that adding Well #11 would increase capacity by 1,500 GPM and enable the system to provide sufficient pressure and source redundancy even if Well #9 loses power.

The Company requests authority to build Well #11 at an estimated cost of about \$1.05 million.² The Company would use the remainder of its Reserve Fund to finance its construction.

The Plan identified two alternative solutions to the Company’s difficulties associated with the water system’s large daytime pressure swings. First, the Company could build two new wells, Wells #11 and #12 (“Alternative 1”). Second, the Company could build Well #11 plus a 2.0-million-gallon storage tank (“Alternative 2”). According to the Company, Alternative 2 would address pressure-swing issues and provide additional advantages the first alternative might not. Alternative 2 would increase the combined peak capacity of Wells #5 and #9, reduce the water right’s peak diversion rate, improve system stability, and filter sand. Alternative 2 would also avoid the need to acquire more water rights.

The Company wants to pursue Alternative 2—constructing a 2.0-million-gallon storage tank and related facilities for about \$4.1 million plus Well #11. The total cost of Alternative 2 is approximately \$5.15 million.

² On June 17, 2021, the Company filed an update to its Application. The update states the Company is “investigating possible ways to accelerate the project [Well #11] to have the well in service as soon as possible.” The Company cites its customers having already used significantly more water as of June 27, 2021 and the dry and warm spring as reasons for emphasizing the completion of Well #11 even while the Application is pending.

The Company notes that building Well #12 (Alternative 1) would cost less than building a 2.0-million-gallon storage tank (Alternative 2) and may address pressure swings the Company is trying to control, but there are many unknowns in relying on the construction of Well #12. For example, the Company's recent water-rights purchase leads it to believe it could take several years to acquire the water rights it would need for Well #12. Additionally, until Well #12 is drilled, the Company can only speculate on how much water Well #12 might deliver.

The Company also requests authority to build a wellhouse, fence, and water runoff system at Taylor Mountain Well #2. The Company estimates this additional project would cost about \$300,000.

THE COMMENTS

Staff filed comments recommending Commission approval. The Company filed reply comments to clarify a financing question flagged in Staff's comments.

Staff comments

Staff recommended the Commission approve the Company's requests. Staff noted that actual costs will be verified in the next general rate case. Staff's recommendations were supported by the Plan and prior Commission orders for use of the Reserve Fund.

Staff's comments discussed the Falls Water system's basic deficiencies identified within the Plan including: (1) lack of well water source redundancy resulting in low system pressures during certain demand scenarios; (2) inadequate firewater flow at several locations within the system; and (3) insufficient transmission capacity for certain pipelines. Other concerns addressed in Staff's comments include the Company's proposed replacement of aging pipe and a lack of a cross-connection control program.

According to Staff, the Plan provides specific recommendations for capital projects to address current deficiencies and future Falls Water system needs. Of the 21 projects identified as existing system deficiencies, Staff noted the Company has completed four projects; has three projects in progress; and has plans to complete the remaining 14 projects over the next five years.

1. Falls Water System Capital Projects

According to Staff, the Plan's list of recommended improvements includes the construction of Well #11. Well #11 is already drilled; however, the Company has not mechanically completed this well for system use. Staff stated that Well #11 is included in both Alternatives and is necessary to address system water pressure and firewater flow deficiencies identified in the Plan.

Staff mentioned the substantial cost difference between Alternatives 1 and 2. Alternative 2 would cost about \$5.15 million whereas Alternative 1 would cost about \$2.95 million. Staff noted that a limitation of Alternative 1 was the uncertainty of the Company's ability to acquire water rights for Well #12. If the Company were to only pursue Alternative 1 additional water rights would be required. Staff noted that on May 28, 2021, the Company acquired 208 acre-feet of water rights, at a cost of \$387,950—sufficient capacity for the addition of Well #11 only. Staff hypothesized that a potential source of water rights would be to acquire adjacent water systems that hold excess water rights. The Company, however, indicated that adjacent systems would not resolve water rights issues. The Company explained that in most cases the adjacent systems only have water rights to satisfy their own needs.

Staff discussed Alternative 2 and the added “hard to quantify” benefits it provides with the inclusion of the 2.0-million-gallon water storage tank. As noted in the Plan, Alternative 2, which also includes a new booster station and pipeline upgrades, would provide these additional advantages:

- Reduced pressure swings to the system;
- Increased combined peak hour capacity of other system wells;
- Reduced peak water right diversion rate;
- Additional capacity for firewater flows;
- Improved system reliability by providing a redundant system booster pump capacity;
- Increased system operating pressure stability; and
- Elimination of sand filtering costs.

Given the nature of the storage tank as a reservoir, Staff believed the tank would provide better pressure control for the system. The storage tank would also provide a reservoir to dampen the constraints in meeting system peak flows while also maintaining system pressure requirements by using booster pumps. As noted in the Plan, it was difficult to quantify the monetary value derived from adding a storage tank and booster station, but Staff believed the benefits outweighed the increased expenses when compared to Alternative 1. Staff also believed the benefits of Alternative 2, in addition to the ability of the water storage tank to use existing water rights more efficiently—especially when the availability of incremental water rights is a constraint—made this the most reasonable alternative.

Pipe Removal

Staff noted the Company has approximately 7,790 feet of asbestos-cement pipe in its Falls Water system. The Company provided an estimated timeline of three years, 2025-2027 to remove and replace the pipe. Staff believed the Company's acceptance of the Plan's recommendation and schedule for the removal of the pipe was reasonable.

2. Taylor Mountain Capital Projects

Staff's comments also addressed the Taylor Mountain capital projects which Staff opined were necessary and recommended the Commission allow the projects to be completed with prudence evaluated for recovery in the next general rate case. Staff agreed with the Company that the construction of a wellhouse and fencing at Well #2 will help create a safer working environment for employees and address security issues. Additionally, Staff agreed the construction of a surface water collection system would help reduce potential liability from storm water runoff from the site by channeling water away from adjacent lots.

3. Project Financing

The Company proposed to finance the three capital projects through its parent company, NW Natural Water of Idaho, LLC ("NW Natural"). According to the Company, NW Natural would use a combination of debt and cash to pay for the projects. Staff noted that a security issuance request for the debt had not been filed with the Commission which would be required under *Idaho Code* §§ 61-901 *et. seq.* for a debt issuance.

The Company also proposed to use the Reserve Fund to finance the capital projects. The Company requested Commission authority to fund all or—as funds allow—part of the capital projects using the Reserve Fund. The Reserve Fund accrues approximately \$27,000 per year in depreciation expenses, according to Staff. As of December 31, 2020 the Reserve Fund had a balance of \$110,029.93.

Staff verified that the Company has properly funded the account since its last rate case and confirmed that this balance was accurate. Staff supported the use of the Reserve Fund to finance the construction of the improvements identified in Alternative 2. However, Staff did not believe it would be appropriate to use these funds for the improvements at the Taylor Mountain system since it was not part of the Falls Water system when the fund was established, and it continues to operate with a separate tariff. Staff proposed that the recovery of the Taylor Mountain

capital investments— \$289,623—should be evaluated for prudence separately from Falls Water system capital investments.

Falls Water Reply Comments

Falls Water replied acknowledging Staff’s comments about issuing debt. The Company clarified that the capital projects would be financed with an intercompany cash transfusion that will not require the issuance of new debt. The Company noted its awareness that the Commission must approve the issuance of new debt and stated it would seek approval before any such debt is issued.

COMMISSION FINDINGS AND DECISION

The Commission has reviewed the record in this case including the Company’s Application, Staff’s comments, and the Company’s reply. 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 finds it just and reasonable to approve the Company’s Application to construct the capital projects identified in Alternative 2 in its Falls Water system and the Taylor Mountain improvements. We agree with Staff and the Company that the construction of Well #11 and a 2.0-million-gallon storage tank will serve the Falls Water system better than Alternative 1. Additionally, we find that the uncertainty of the Company’s ability to secure water rights for Well #12 makes Alternative 1 unviable. Alternative 2 also addresses concerns we have expressed in our previous orders, notably those regarding IDEQ requirements for firewater flow. The investment made by the Company, and recovered through its customers, is significant. However, we find this to be the most prudent and beneficial option to address the Falls Water system’s needs. These projects, when connected to the system, will allow the Company to continue offering safe and reliable water service to its customers. We further find the Company’s proposed timeline for removal and replacement of pipe reasonable.

We find it reasonable for the Company to construct safety improvements and a surface water collection system at Well #2 in the Taylor Mountain system. We find these investments are necessary for the Taylor Mountain system and will also help limit potential liabilities for the Company.

We find it appropriate for the Company to use the balance of the Reserve Fund for all or part of the investments that will be made in the Falls Water system. To the extent the Reserve Fund cannot fully finance the construction and connection of the investments in Alternative 2, it is reasonable for the Company's parent—NW Natural—to finance the remainder. We will evaluate the prudence of the capital expenditures for the Falls Water and the Taylor Mountain systems when the Company seeks recovery in a future rate case.


ORDER

IT IS HEREBY ORDERED that the Company's Application to construct Well #11 and a 2.0-million-gallon storage tank for its Falls Water system and to make safety improvements at its Taylor Mountain system is approved as more specifically described herein.

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 22nd day of October 2021.



PAUL KJELLANDER, PRESIDENT

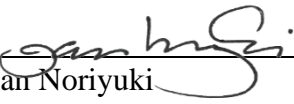


KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Jan Noriyuki
Commission Secretary

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