

DAYN HARDIE  
DEPUTY ATTORNEY GENERAL  
IDAHO PUBLIC UTILITIES COMMISSION  
PO BOX 83720  
BOISE, IDAHO 83720-0074  
(208) 334-0312  
BAR NO. 9917

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Street Address for Express Mail:  
11331 W. CHINDEN BLVD, BLDG 8, SUITE 201-A  
BOISE, IDAHO 83714

Attorney for the Commission Staff

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

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

**COMES NOW** the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Dayn Hardie, Deputy Attorney General, submits the following comments.

**BACKGROUND**

On May 7, 2021, Falls Water Company Inc. ("Falls Water" or "Company") applied to the Commission for approval to construct three capital projects: (1) a new water source identified as Well #11; (2) a new water-storage tank including other related facilities; and (3) a wellhouse with other improvements associated with the Taylor Mountain Water System. The Company also requests authority to fund all or part of these projects through the Company's Special Plant Reserve Fund ("Reserve Fund").

Previously in Order No. 33863, the Commission approved the Company's request to construct Well #10 (Case No. FLS-W-17-01). In the Order, the Commission recognized Staff's concerns that the Company would remain unable to "meet pressure requirements for firewater

flow” even with the addition of Well #10, and recommended the Company complete a hydraulic model to identify and list priorities for future needed system improvements.

In 2019, the Company commissioned an engineering study and Drinking Water Capital Facilities Plan (“Plan”) to identify system water needs for the Falls Water system. The Plan included a system hydraulic model and identified two alternative solutions to address system diurnal pressure swings and the need to meet fire flow: (1) build two new wells, Wells #11 and #12 (“Alternative 1”); or (2) build Well #11, a two-million-gallon water storage tank, and a booster pump station (“Alternative 2”).

According to the Company, Alternative 2 would have the following benefits: (1) address pressure-swing issues; (2) increase the combined peak capacity of existing Wells #5 and #9; (3) reduce the water right’s peak diversion rate avoiding the need to acquire more water rights; (4) improve system stability; and (5) provide a means for filtering sand. The Company has proposed to pursue Alternative 2 requesting the Commission pre-approve its plan prior to moving forward with its proposal.

The estimated total cost of Alternative 2 is \$5.15 million—Well #11 is estimated at \$1.05 million and the two-million-gallon water storage tank and related facilities at \$4.1 million.

The Commission approved the Company’s acquisition of assets for the Taylor Mountain Water and Sewer District (“Taylor Mountain”).<sup>1</sup> The Company assumed operation in August 2020. The Taylor Mountain system is not connected to the Falls Water system and has its own tariff rate schedules. Currently, the Taylor Mountain Well #2 lacks a wellhouse and fencing, creating an unsafe working environment and security issues. The Company requests authorization to build a wellhouse, a fence, and a water runoff system at Taylor Mountain Well #2. The Company estimates the cost of this project at about \$300,000.

## **STAFF ANALYSIS**

Staff reviewed the Company’s Application, including the attached exhibits, and subsequent responses to production requests. Staff recommends the Commission approve the Company’s requests to:

1. Construct a new water source, identified as Well #11;
2. Construct a new two-million-gallon water storage tank, including related facilities;

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<sup>1</sup> Case No. FLS-W-19-01; Order No. 34486.

3. Construct a new wellhouse and other related improvements specific to Well #2 within the Taylor Mountain Water System; and
4. Use the Special Plant Reserve Fund as a funding source for part of Well #11 and/or the two-million-gallon water storage tank, as funds allow.

Actual costs will be verified in the next general rate case. Staff's recommendations are supported by the Plan and prior Commission orders for use of the Special Plant Reserve Fund.

### **Falls Water System Issues Identified in the Plan**

Staff believes the Plan provides a comprehensive engineering review of the Company's existing water supply and distribution system. The Plan detailed existing system conditions and deficiencies. It also projected future system requirements over the next 20 years. Specific recommendations within the Plan were made to correct known system deficiencies as well as provide recommendations to meet future growth.

Basic deficiencies identified within the Plan include: (1) a lack of well water source redundancy resulting in low system pressures during certain demand scenarios; (2) inadequate firewater flow within the system in several locations; and (3) insufficient transmission capacity for certain pipelines. Other concerns include aging asbestos-cement piping and a lack of a cross-connection control program.

The Plan provides specific recommendations for capital projects to address both current deficiencies and future system needs. Of the 21 projects identified as existing system deficiencies, 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.<sup>2</sup>

### **Well #11 – New Source Well**

The Plan's list of recommended improvements includes the construction of a new well now identified as Well #11.<sup>3</sup> Well #11 is already drilled; however, the Company has not mechanically completed this well for system use. Well #11 is included in both Alternatives 1 and 2 and is necessary to address system water pressure and firewater flow deficiencies identified in the Plan.

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<sup>2</sup> Response Production Request No. 22.

<sup>3</sup> Referred to as the Ryan Anderson Development Well in the Plan.



Starting early June of this year, the Company became concerned with increased peak flow demand due to high temperatures and dry weather conditions. In a conference call with Staff on June 16, 2021, the Company indicated they were experiencing low pressure conditions related to peak demand use in the early morning hours when customers irrigate. Staff believes the Company made reasonable effort to inform customers of their need to limit water use, and for limiting water use through an alternate day watering schedule. Even though customer participation was about 50 percent, the Company indicated that the low-pressure issues continued to persist.

In the call, Staff made it clear that only the Commissioners can provide authorization for recovery for the cost of the well, but it was ultimately the Company's obligation to provide reliable service to customers. Given Staff's review of the information provided, Staff believes it is reasonable for the Company to complete Well #11 as requested. Additionally, Staff believes the Company should be able to recover prudently incurred actual costs for completing Well #11 in the Company's next general rate case.

#### Alternative 1 – Well #12 and Future Water Rights

The Company currently has limited water rights, which is a major roadblock to implementing Alternative 1. If the Company were to pursue Alternative 1, and not pursue Alternative 2, additional water rights would be required. 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.<sup>4</sup>

Acquisition of water rights is a long and expensive process, with uncertain outcomes.

The Plan stated:

Combined, the projected costs for improvements during the coming 20-year period is \$25,271,800. Of that total, the single largest contributor is water right purchases. Between existing and future recommendations, the projected cost to obtain water rights through approximately 2040 is \$9,510,500. Due to the outsized contribution of water rights to the total cost, it is apparent that Falls Water Company should be particularly diligent in planning and managing their water right portfolio. Exhibit 1 at 40.

Staff believes that the Company is following the Plan recommendations.

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<sup>4</sup> Response Production Request No. 1.

Staff submitted several Production Requests for additional information regarding the status of water rights and potential ways to reduce the need for incremental water right acquisitions. At this point, the Company has no additional water right acquisition leads, but continues to work with a broker to remain aware of potential water right availability.

A potential source of water rights would be to acquire water systems located adjacent to the Company's service area that hold excess water rights. In Production Request No. 9, Staff asked if acquisition of any or all these systems would help resolve water rights issues. The Company indicated that these systems would not resolve water rights issues. The Company explained that in most cases these systems only have water rights to satisfy their own needs.

#### Alternative 2 - Two-Million Gallon Water Storage Tank

There is a substantial cost difference between Alternatives 1 and 2. Alternative 2 will cost about \$5.15 million whereas completing Well #11 and adding Well #12 in Alternative 1 would cost about \$2.95 million. However, as stated above, the major impediment to adding Well #12 is the availability and ability to acquire additional water rights.

In addition, the two-million-gallon water storage tank will provide significant benefits to the system over adding Well #12. As noted in the Plan, the water storage tank alternative, which includes a new booster station and pipeline upgrades, will provide the following 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.

Based on the planned location, the water storage tank would be on Company-owned property and adjacent to an existing well. Being adjacent to the well source is more efficient, allowing the pumping of well water directly into the tank, rather than pumping water to full system pressure multiple times when the tank is not co-located with a well.



The location of the proposed water storage tank is centrally located within the Falls Water system's distribution network, and significant piping transmission capacity already exists in the location planned for the tank.

Significant amounts of sand from its wells enter the system requiring sand filters, given the location and geology of the system. Pumping directly into the tank from the well allows sand from the well to settle into the storage tank, which reduces the amount of sand introduced into the system, thus eliminating the need for sand filters at the well.

Given the nature of the storage tank as a reservoir, the tank would provide better pressure control for the system. The water storage tank would also provide a reservoir to dampen the constraints in meeting system peak flows while also maintaining system pressure requirements using booster pumps. Booster pumps, generally provide more reliable service, require less maintenance, and would provide redundancy in the system when compared to another well.

As noted in the Plan, it is difficult to assess the monetary value derived from adding a water storage tank and booster station, but Staff believes these benefits outweigh the increased expense compared to Alternative 1. Staff believes these benefits, 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, make this the most reasonable alternative.

#### Asbestos-Cement Pipe

The Company has approximately 7,790 feet of asbestos-cement pipe in its system. The Plan states that deteriorating asbestos-cement pipes can allow asbestos fibers into the drinking water. Additionally, the aging pipes are brittle and prone to breakage. For these reasons the Plan recommended that the remaining asbestos cement pipes in the Company's system be replaced. The Company provided an estimated timeline of three years, 2025-2027, to replace the asbestos-cement pipe.<sup>5</sup> Staff believes the Company's acceptance of the Plan's recommendation and schedule for the removal of asbestos-cement pipe is reasonable.

#### Cross-Connection Control

The Company does not have an active cross-connection control program. A program, once implemented, would eliminate backflow that could occur from the customer's service lines

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<sup>5</sup> Response Production Request No. 8.

back into the Company's system. The Plan recommended the Company create a database to identify possible cross connection problems, and to use this data to be prepared to design a cross connection control plan that fits their needs. The Company will begin to collect data to determine the extent to which a cross-connection plan can be created.<sup>6</sup> Staff believes the initiation of a data collection process supports the Plan's recommendation and is a reasonable course of action.

### **Taylor Mountain Capital Projects**

The capital projects for the Taylor Mountain Water System include building a wellhouse for Well #2, fencing off the wellhouse, and installing a surface water collection system to address water system runoff from Company property into other areas within the subdivision. Staff believes that these projects are necessary and recommends that the Commission allow prudently incurred actual costs to implement these projects be evaluated for recovery in the next general rate case.

Taylor Mountain Well #2 lacks a wellhouse and fencing, which creates an unsafe working environment and security issues for the system. Public water system wells are typically enclosed in wellhouses and surrounded by fences to prevent unauthorized access, which can create liability issue for the Company. In addition, without a wellhouse, Falls Water employees must enter a cramped space to access this well creating an unsafe work environment.

The Application explains there is a surface water runoff problem at the site of the Taylor Mountain Well #2. As a part of the Taylor Mountain system projects, the Company proposes to install a surface water collection system. In a Production Request, Staff questioned why the developer did not address water runoff during construction of the subdivision. In response, the Company explained that they did not own the water system when the subdivision was constructed and that installing a runoff system will minimize potential liability to itself and customers.<sup>7</sup> To reduce the potential liability from storm runoff, the project would grade the site to provide proper channeling of stormwater flow away from adjacent lots.

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<sup>6</sup> Response Production Request No. 7.

<sup>7</sup> Response Production Request No. 4.



## **Curtailment Plans for Falls Water and Taylor Mountain Systems**

The Company is currently working on a Curtailment Plan applicable to both Falls Water and Taylor Mountain with an expected implementation occurring in early 2022. If curtailment is necessary before implementation of the plan, the customers will be notified using the Company's mass notification system and local TV news media, with additional information mailed to the customers to provide details about the water restrictions.<sup>8</sup> Staff appreciates the Company's willingness to develop a curtailment plan and looks forward to seeing the document.

## **Project Funding**

### **Funding of the Capital Projects**

The Company proposes to finance the three capital projects through its parent company, NW Natural Water of Idaho, LLC ("NW Natural"). NW Natural will use a combination of debt and cash to pay for the projects. Staff notes that a security issuance request for the debt has not been filed with the Commission. The Company must verify if debt funding for the three capital projects requires Commission approval under *Idaho Code* §§ 61-901 *et seq.*

### **Usage of the Special Plant Reserve Fund**

Another source of funding the Company proposes to use for the three capital projects is the Reserve Fund, which was established by Order No. 32663.<sup>9</sup> The Company seeks authority to fund all or—as funds allow—part of the capital projects using the Reserve Fund funds. The Reserve Fund accrued approximately \$27,000 per year in depreciation expenses, and as of December 31, 2020, 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 is accurate. Staff supports the use of the Reserve Fund for financing the construction of the improvements identified in Alternative 2. Staff does not believe it is appropriate to use these funds for the improvements at the Taylor Mountain water system, since it was not part of Falls Water when the fund was established, and it continues to have a separate tariff. The recovery of the Taylor Mountain portion of capital improvement—\$289,623—will be evaluated separately from Falls Water capital improvements.

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<sup>8</sup> Response Production Request No. 10.

<sup>9</sup> See Case No. FLS-W-12-01.



## **Customer Notification and Customer Comments**

Rule 125 of the Commission's Rules of Procedure does not require direct customer notification unless the Company is requesting a rate change. IDAPA 31.01.01.125.

On July 15, 2021, the Commission issued a press release announcing an informational public workshop to be held Tuesday, July 27, 2021, at 7:00 pm online and by telephone. There were no customers in attendance.

On July 30, 2021, the Commission issued a press release announcing a telephonic hearing for customers to be held Monday, August 9, 2021, at 7:00 pm.

As of August 2, 2021, no customer comments have been received.

## **STAFF RECOMMENDATION**

Staff recommends that the Commission approve the Company's request to implement the following capital projects and that the Company be allowed to submit prudently incurred actual costs for evaluation and recovery in the next general rate case.

1. The construction of Well #11 as a new water source;
2. The construction of a two-million-gallon water storage tank, including a related booster pump station adjacent the tank; and
3. The construction of a wellhouse, security fencing, and a surface water collection system at the Taylor Mountain Well #2.

In addition, Staff recommends that the Commission authorize the Company's request to use the Special Plant Reserve Fund to fund the capital improvements identified as Alternative 2.

Respectfully submitted this <sup>4<sup>th</sup></sup> day of August 2021.



Dayn Hardie  
Deputy Attorney General

Technical Staff: Rick Keller  
Kevin Keyt  
Johan Kalala-Kasanda  
Chris Hecht

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 4<sup>TH</sup> DAY OF AUGUST 2021, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF** IN CASE NO. FLS-W-21-01, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

PRESTON CARTER  
601 W BANNOCK ST  
BOISE ID 83702  
E-MAIL: [prestoncarter@givenspursley.com](mailto:prestoncarter@givenspursley.com)  
[harmonywright@givenspursley.com](mailto:harmonywright@givenspursley.com)

ERIC W NELSEN  
SR REGULATORY ATTORNEY  
NW NATURAL  
220 NW 2<sup>ND</sup> AVE  
PORTLAND OR 97209  
E-MAIL: [eric.nelsen@nwnatural.com](mailto:eric.nelsen@nwnatural.com)

K SCOTT BRUCE  
FALLS WATER CO INC  
2180 N DEBORAH DR  
IDAHO FALLS ID 83401  
E-MAIL: [scott1@fallswater.com](mailto:scott1@fallswater.com)

  
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SECRETARY