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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF FALLS WATER CO.,)	
INC. TO AMEND CERTIFICATE OF PUBLIC)	CASE NO. FLS-W-21-03
CONVENIENCE AND NECESSITY NO. 236)	
)	
)	COMMENTS OF THE
)	COMMISSION STAFF
)	

STAFF OF the Idaho Public Utilities Commission, by and through its Attorney of record, Taylor Brooks, Deputy Attorney General, submits the following comments.

BACKGROUND

On November 15, 2021, Falls Water Co., Inc. (“Company”), applied to modify its Certificate of Public Convenience and Necessity No. 236 by enlarging and extending the boundary of the area in which it is authorized to provide service. On December 8, 2021, the Commission issued a Notice of Application and Notice of Modified Procedure—allowing interested persons to comment on the Company’s Application until February 8, 2022 and allowing the Company to reply to those comments by February 17, 2022. *See* Order No. 35250.

The proposed service area, known as Honey Bee Acres, is surrounded by the Company’s existing certificated area. The proposed area currently has two (2) small wells and sufficient

water rights to provide water service to 18 connections. The Company stated that it is willing to absorb the existing water system and assume ownership of the water system's assets.

All customers in the proposed area (and each household) have signed an easement agreement consenting to having their homes connected to the Company's system.

The Company recommends that an eight-inch water main be installed and that ¾-inch meters be installed for each connection. The Company represents that this will benefit existing customers and homeowners by providing necessary looping to improve fire flows in the area north of Iona Road and west of 45th East.

The Company represents that existing Company rate tariffs for ¾-inch meter customers would be used once the customers of the Honey Bee Acres water system are connected to the Company's water system. The Company also represents that this amendment is consistent with public convenience and necessity.

Falls Water is a wholly owned subsidiary of Northwest Natural Gas Company. Northwest Natural Gas Company is a 160-year-old natural gas utility that serves customers in the Pacific Northwest. As part of a recent reorganization, Northwest Natural Gas Company formed the Northwest Natural Holding Company, which holds companies including NW Natural Water Company, LLC and its subsidiary, NW Natural Water of Idaho, LLC—which the Company is a wholly owned subsidiary of. In 2018, the Commission approved NW Natural Water Company, LLC's acquisition of Falls Water. *See* Order No. 34103.

STAFF ANALYSIS

Idaho law does not specifically address the acquisition of water companies, but in previous water company acquisition cases, Staff relied on *Idaho Code* § 61-328, which establishes standards related to the sale of electric utilities. Those standards require the Commission to determine that:

- a. The transaction is consistent with the public interest;
- b. The cost of and 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 service.

Having reviewed all relevant documentation related to the acquisition through the lens of *Idaho Code* § 61-328 Staff recommends that the Commission approve the acquisition of Honey Bee Acres by Falls Water and the modification CPCN No. 236 to include Honey Bee Acres' existing service area.

Acquisition Documentation Review

Staff reviewed the Application including the Easement Agreement ("Agreement"), Honey Bee Acres service area legal description, responses to production requests, and Idaho Department of Environmental Quality ("IDEQ") sanitary surveys. One of the objectives of the document review is to determine if the assets being acquired and/or transferred will allow the system to operate at least as reliably as it has been under the current owner by matching assets in the Agreement to those contained in IDEQ's sanitary surveys. Staff confirmed that the legal description of the Honey Bee Acres system is accurate and that the assets included in this Agreement will allow the system to be operated at least as reliability as it has historically.

However, during its review of IDEQ documents, Staff identified positive tests for coliform in 2018 and 2020, which it determined could be a future issue since the Company plans to interconnect its current system with the Honey Bee Acres system. In Production Request No. 6, Staff asked the Company about preventing future contaminations and/or the potential cross-contamination to its current water system. The Company stated that heavy rainfall and the potential of backflow from customers from a lack of backflow prevention were the probable causes of the coliform issues. To address this issue, Honey Bee Acres has added 18 inches to the top of its well casing to avoid heavy rainfall issues in the future. The Company also plans to verify backflow prevention when connecting Honey Bee Acre customers to the Falls Water system to prevent cross-contamination.

The Transaction is Consistent with the Public Interest

Staff believes the transaction is consistent with the public interest because it will be mutually beneficial for customers of both systems once the systems are interconnected. By Falls Water acquiring the Honey Bee Acres system, Staff believes Honey Bee Acre customers will benefit from replacing the aging water system infrastructure and enhanced customer services. The upgrades recommended as part of this Application will also provide benefit to current Falls

Water customers by providing necessary looping to improve fire flows in the area north of Iona Road and west of 45th East.

Currently, Honey Bee Acres is operated by a homeowner within Honey Bee Acres subdivision. This homeowner no longer wishes to be responsible for the water system and is not able to find a customer willing to assume ownership and operational responsibility. Falls Water has the ability to provide reliable service and enhanced customer services to Honey Bee Acres customers by monitoring customer consumption and providing professional employees to operate the system.

NW Natural Water Company, LLC, in conjunction with its parent companies, is actively seeking to expand its operations in Idaho. NW Natural Water Company, LLC and associated companies have shown commitment to their growth plan through the acquisition of other water systems in Idaho, such as Falls Water (FLS-W-18-01), Spirit Lake East/Lynnwood Water (SPL-W-19-01), Bar Circle S Water/Diamond Bar Estates (BCS-W-19-01/DIA-W-19-01), Taylor Mountain Water (FLS-W-19-01), Happy Valley Water and Bitterroot Water (GSW-W-19-01), and Troy Hoffman Water (GSW-W-21-01). The acquisitions of water systems by NW Natural Water Company, LLC should provide benefits through operational efficiencies and economies of scale as it acquires more systems.

The Cost and Rates for Supplying Service

Falls Water is proposing Honey Bee Acres customers use existing Falls Water rate tariffs for a ¾-inch meter once they are connected to the Falls Water system. Prior to connecting to the Falls Water system, Honey Bee Acres customers would maintain their current \$30 per month flat rate per connection. Staff is not able to determine an accurate impact on the Honey Bee Acres customers by changing to Falls Water rate tariffs because the current Honey Bee Acres system does not have consumption meters for individual customers.

Nevertheless, Staff requested the average monthly bill for Falls Water residential customers in 2021 to help determine the effect on Honey Bee Acres customers. The Company reported that the average Falls Water residential customers bill with ¾-inch meter during 2021 was \$29.67. Honey Bee Acres customers who use the same or less amount of water than the average Falls Water residential customer will not see an increase in their costs. However, higher use Honey Bee Acres customers have the potential to see an increase in their water cost under

the Falls Water volumetric rate tariffs. However, since Honey Bee Acre customers have agreed to the acquisition and connection to the Falls Water system, Staff believes the potential for an increase in rates is reasonable. Additionally, once metered and connected to the Falls Water system, Honey Bee Acres customers will have the ability to control their bill by monitoring and adjusting consumption levels.

Falls Water has the Bona Fide Intent and Financial Ability to Operate and Maintain the System in the Public Service

The Company has demonstrated its bona fide intent and financial ability by the operation of its current system and the recent acquisition of other water systems. Falls Water has committed in its Application to have an adequate source of supply to provide service in a safe and reliable manner to the amended service area.

Water systems routinely require repair, replacement, and extension of infrastructure to provide reliable and ample water service to customers. Financing this infrastructure at a reasonable cost is a challenge for smaller water systems. Falls Water, through its parent company, Northwest Natural Holdings, has the necessary access to capital markets to proactively address Honey Bee Acres infrastructure needs in a timely manner and at a competitive cost.

CUSTOMER NOTIFICATION AND PRESS RELEASE

Rules 125 of the Commission's Rules of Procedure does not require customer notification unless the Company is requesting a rate change. IDAPA 31.01.01.125. The Company's Application states that once the improvements are complete it would begin to bill the customers at the current residential rate for ¾-inch meters identified in the Company Tariff.

The Application included a copy of the sales agreement, dated June 26, 2020, and signed by all customers in the neighborhood. Staff was able to verify that all customers that signed the agreement still own the property within the neighborhood, so are aware of the transaction.

Because of the uncertainty as to whether the rates would increase, Staff requested the Company generate a customer notice and send a copy of the notice as well as the Explanation of Rates and the Annual Rules Summary to all Honey Bee Acres customers, which are required to be sent on an annual basis. The notice dated January 10, 2022, a copy of which was submitted

to the Commission by the Company, suggests that rates are similar. Staff also believes that the agreement and subsequent customer notice satisfy the requirements of Rule 125.

No customer comments have been submitted to the Commission as of February 7, 2022.

COMPANY TARIFF

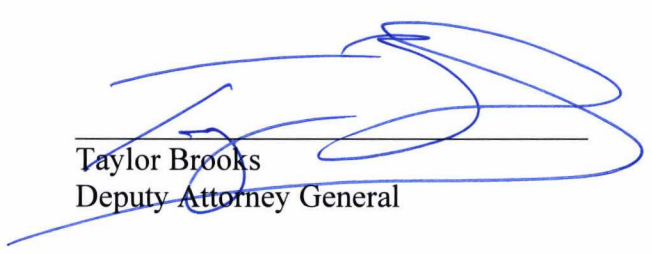
The Application states that once the improvements are complete, it would begin to bill the customers at the current residential rate for ¾-inch meters identified in the Company Tariff. The customers will be billed in accordance with the existing rates for Honey Bee Acres until that time. Staff recommends that the Company revise its tariff to include the Honey Bee Acres rates on a separate schedule to expire when work is complete.

STAFF RECOMMENDATIONS

Staff recommends the Commission:

1. Approve the acquisition of Honey Bee Acres Water Co. by Falls Water Company, Inc.
2. Approve the proposed amendment to CPCN No. 236 to include the Honey Bee Acres service area.
3. Order Falls Water to work with Staff to create a separate schedule following issuance of the final order in this case.

Respectfully submitted this 8th day of February 2022.



Taylor Brooks
Deputy Attorney General

Technical Staff: Michael Eldred
Travis Culbertson
Kathy Stockton
Chris Hecht

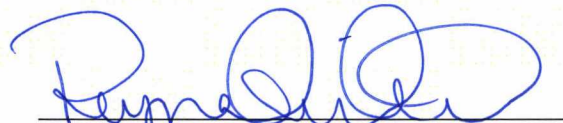
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 8th DAY OF FEBRUARY 2022, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. FLS-W-21-03, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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SECRETARY

CERTIFICATE OF SERVICE