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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF FALLS WATER CO., INC., FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER SERVICE IN THE STATE OF IDAHO	**CASE NO. FLS-W-23-01** **COMMENTS OF THE COMMISSION STAFF**

COMMISSION STAFF ("STAFF") OF the Idaho Public Utilities Commission ("Commission"), by and through its Attorney of record, Dayn Hardie, Deputy Attorney General, submits the following comments.

BACKGROUND

On May 15, 2023, Falls Water Co., Inc. ("Falls Water" or "Company") filed a corrected general rate case application requesting authority to increase rates by approximately $1,174,000 or approximately 47.3%, with a proposed effective date of July 1, 2023.

On June 5, 2023, the Commission issued a Notice of Application, Notice of Suspension of Proposed Effective Date, Notice of Intervention Deadline, Order No. 35806. On August 2, 2023, the Commission scheduled a virtual public workshop, set deadlines for Staff testimony the Company's rebuttal testimony. The scheduled virtual customer workshop was held August 16, 2023.

On October 2 and 3, 2023 Falls Water and Staff (collectively, "Parties") met for two settlement conferences and exchanged additional information afterwards to reach a settlement agreement. On October 13, 2023, the Commission vacated the comment deadlines to allow the Parties to present this Settlement to the Commission for review.

On October 27, the Company filed a Motion for Approval of Stipulation and Settlement ("Settlement").

STAFF COMMENTS

Staff recommends the Commission approve the proposed Settlement. The Settlement strikes a balance between mitigating the increase to customers while providing the Company the opportunity to recover its costs and earn a reasonable return on its investment. Staff believes the Settlement represents a fair compromise of all issues included in the case and establishes rates that are just, fair, and reasonable, and are in the public interest. If approved, the Settlement would increase the Company's revenue requirement by $714,562 or approximately 28.8%. The proposed revenue requirement is based on a 9.70% Return on Equity ("ROE") and a hypothetical capital structure consisting of 45% debt and 55% equity for a Weighted Average Cost of Capital ("WACC") of 7.19% applied to net rate base of $9,589,322. The Parties agreed to move towards a consolidation of the three water systems' rates. The proposed revenue requirement will be collected in accordance with the rate design set forth in Exhibit No. 3 to the Settlement and discussed in greater detail later in these comments.

System Description

Falls Water consists of three different water systems: Falls Water ("FW"), Taylor Mountain ("TM"), and Morning View ("MV"). The three systems combined serve over 6,300 residential and commercial customers.

The FW system provides service to customers east of the City of Idaho Falls and north of the City of Ammon in Bonneville County. The FW system consists of nine production wells, ten total pumps with two of them driven by variable frequency drives ("VFD"), and four wellhouses equipped with backup generators.

The TM system provides services to the south of the City of Idaho Falls in Bonneville County. The TM system has two production wells, two pumps, and one backup generator.

The MV system serves customers southeast of the City of Rigby in Jefferson County and is not contiguous with the other two systems. The MV system consists of two production wells, three pumps, and one backup generator.

There are currently no storage reservoirs or booster pumps present across the three water systems. The distribution system includes pipes ranging from 2 to 12-inches, made from various materials including cement, ductile iron, PVC, etc. Water is delivered to customers using service meters ranging from 5/8-inch to 4-inch. Approximately 98% of all customers have a 3/4-inch or 1-inch service meter size.

REVENUE REQUIREMENT

The Parties agree that the Company should be allowed to implement revised tariff schedules designed to recover $3,199,665 in total revenue requirement, reflecting an increase of $714,562, or approximately 28.8%. The Parties agree that the revenue requirement includes the components, as summarized in Settlement Exhibit Nos. 1 and 2, a rate base of $9,589,322, and a ROE of 9.7%. The Parties agree to the adjustments to the Application as shown in the Settlement and are explained in further detail below.

Gross Revenue Multiplier

The gross revenue multiplier increases the revenue requirement to account for revenue-dependent charges, such as taxes and regulatory fees. The Parties agree to decrease the Company's requested revenue requirement by $17,397 to account for adjustments to the Company's gross revenue multiplier. The first adjustment replaces the Commission's regulatory assessment rate from the 2022 rate to current 2023 rate, while the second adjustment removes bank service fees completely from the gross revenue multiplier in compliance with Commission Order No. 34925 in Case No. FLS-W-20-03.

Interest on Debt

The Parties agree to a 4.698% interest rate on the debt portion of the capital structure, which is used to create the hypothetical capital structure of 55% equity and 45% debt. In its Application, the Company used an interest rate on debt of 5.495%. The interest rate of 4.698%

aligns with the parent company's actual cost of debt and decreases the Company's proposed revenue requirement by $34,464.

Return On Equity

The Parties agree to an ROE of 9.7% as opposed to the 10.2% requested in the Company's Application. The reduction in ROE decreases revenue requirement by $37,944.

Ground Water Mitigation Fees and Deferral Amortization

The Company is located within the Bonneville-Jefferson Ground Water District ("District"), which is a member of the Idaho Ground Water Appropriators, Inc. ("IGWA"). In 2016, IGWA entered into the 2015 Stipulated Mitigation Plan ("Mitigation Plan") with the Surface Water Coalition ("SWC"). The Mitigation Plan provided a framework for administrating groundwater rights, including Falls Water's groundwater rights, in a manner designed to decrease conflict between groundwater and surface water users. In 2022, the District levied an assessment fee up to $100 per acre-foot ("AF") pumped above the Company's baseline of approximately 3,754 AF. When the Application was filed, the baseline did not include the additional water rights purchased by the Company but was later updated to 3,838 AF for 2022 and will be 3,955 AF in 2023. In Order No. 35706, the Commission authorized the Company to defer, without interest, the special assessment fees and other costs associated with groundwater mitigation into a regulatory asset account, with recovery subject to a prudency review in its next general rate case.

In its Application, the Company proposed to recover an estimated deferral balance of $275,000, however actual water mitigation fees imposed by the District were $148,136. The Parties agree to amortize the actual assessed fees over two years which decreases the revenue requirement by $64,268.

The Parties agree that the Company will establish a balancing account effective December 15, 2023, for recovery of future water mitigation fees. The Settlement establishes an annual baseline recovery of $182,920 which will be trued up in the Company's next general rate case based on the actual Ground Water Mitigation Fees assessed by the District. Staff expects an increase in future assessment fees on the Company and believes it is necessary to plan accordingly for these fees to avoid rate shock on the Company's customers in the future. The

Company can propose updates to the recovery and Staff will review the prudency of the actual expenses in the balancing account in the Company's next general rate case.

Rate Case Expense Amortization

The Company included proforma rate case expense of $47,000 in its Application and requested that the amount be recovered annually. The rate case expenses are comprised of external consulting fees and legal fees necessary to process the case. The Parties agree that the expenses were reasonable for the size and scope of this rate case and that the Company should recover the expenses over a three-year amortization period. The amortization of the rate case expenses over three years decreases the revenue requirement by $31,746.

Amortization Expense Reclassification

The Company recorded all amortization expenses in Account 666 – Rate Case Expense (Amortization). The Parties agree that amortization expenses should be reclassified to Account 407 – Amortization Expense Other. This reclassification does not affect overall amortization expense, but it removes it from Operation and Maintenance ("O&M") expense. Since O&M expense is a component of the Working Capital Allowance calculation, this adjustment affects the Company's working capital and reduces revenue requirement by $2,234.

Update Depreciation Rates

The Company currently depreciates its assets on a project-by-project basis. This can lead to disparate depreciation rates within each account. Staff and the Company agree to adjust depreciation rates to better align with National Association of Regulatory Utility Commissioners Depreciation Practices for Small Water Utilities Manual, which establishes depreciation rates for each asset account. The agreed upon depreciation lives are provided on Page Nos 4-5 of the Settlement. This adjustment to deprecation rates decreases the revenue requirement by $75,637.

Proforma Plant in Service

In its Application, the Company included several proforma capital projects that were not completed at the time of settlement discussions with Staff. The Parties agree that these capital projects should be removed from Plant in Service because they are not currently used and useful.

The adjustment to remove capital projects that have not yet been completed, including associated depreciation expense and accumulated depreciation, reduces revenue requirement by $105,246.

Proforma Plant to Actual Costs

The Parties agree to update proforma Plant in Service projects to actual project costs. The Company provided actual costs in response to Staff's Production Request Nos. 4 and 99. This adjustment increases revenue requirement by $1,173.

Restricted Stock Unit Benefit

The Parties agree that the Restricted Stock Unit ("RSU") employee benefit should be excluded from the revenue requirement. In response to Staff's Production Request No. 53, the Company responded that the RSU benefit would make its final distribution in September of 2023. Staff and the Company agree that it would not be fair, just, and reasonable to continue to recover these expenses beyond their final distribution in 2023. Removing the RSU employee benefit reduces revenue requirement by $29,437.

Employee Bonuses

The Parties agree to remove the annual employee Christmas bonuses and 50 percent of the manager's bonus from the revenue requirement. This adjustment decreases revenue requirement by $11,071.

Actual 401k Expense

In its Application, the Company used proforma 401k employee contribution estimates for 2023, because actual 2023 401k employee contributions were not available at the time. The Parties agreed to use 2022 actual 401k contributions. This adjustment to 401k employee contributions reduces revenue requirement by $4,876.

Seasonal Employee

The Company included a proforma seasonal employee wage allowance for six months. The actual duration of the seasonal employee was less than the anticipated six months. The Parties agree to adjust the seasonal employee's wage to account for the actual duration of employment only. This adjustment to reduce seasonal employees annual wage allowance decreases revenue requirement by $9,754.

Normalizing Purchase Power

The Parties agree to normalize purchase power expense. The Company provided twelve months (January to December) of electric invoices that were used to calculate normalized purchase power expenses for the year 2022. The adjustment to purchase power reduces revenue requirement by $2,376.

RATE DESIGN

The Parties agree to move towards consolidation of rates for the three water systems. Each system will have the same volumetric rates of $0.64 and $1.439 per 1,000 gallons for second and third block allotted usage, respectively. The basic charges for the TM and FW system will be consolidated by meter size, and basic charges for the MV system will be separated by acre size.

All systems will share a three-block tier structure as proposed by the Company. TM and FW customers will be subject to the Company's proposed three-block tier based on their meter size, whereas all MV customers will be subject to the consolidated one-inch meter size block tier allotments. Details of the specific charges for each meter size and system are provided in Exhibit No. 3 to the Settlement.

Volumetric Charges

Under the Settlement, all three systems will use the same volumetric rates. These volumetric rates hold the same 2.25 differential between the second and third block tiers as proposed by the Company. All customers will be subject to their respective block allotments for their meter size. However, regardless of meter size, all Morning View customers will be subject to the consolidated one-inch meter size block tier allotments.

The Settlement represents a shift in revenue recovery from 65.61 percent to 61.55 percent in fixed charge revenue and from 34.39 percent to 38.45 percent in volumetric charge revenue. Staff believes this revenue allocation shift is a reasonable transition to help shift more recovery into the volumetric rate to promote water conservation.

The Settlement accomplished Staff's goal to incentivize conservation of water, move all three systems towards consolidation, and minimize the impact to rate payers. The Company is facing large assessment fees due to the overproduction of groundwater above the baseline set by the District. Staff views these fees as difficult to avoid due to increased customer growth on the system but recognizes that a rate design promoting conservation can help to avoid these fees and further reduce the impact of District fees on customers. The Settlement shifts more of the Company's revenue collection from the fixed monthly charge to the volumetric charge; therefore, customers will see a price signal encouraging water conservation.

Secondary Irrigation

The Settlement includes a new tariff for secondary irrigation systems as proposed by the Company. The addition of a secondary irrigation tariff using non-potable canal water from the Progressive Irrigation District will align with the Company's groundwater mitigation efforts. The Company states that a secondary irrigation tariff will allow them to charge new development for maintenance of secondary irrigation system infrastructure, which allows better utilization of irrigation water rights and mitigates the demand for potable groundwater. Secondary irrigation is not currently in effect and the rates are based on the estimated annual lot assessment from the Progressive Irrigation District, power cost, and annual maintenance. The proposed rate structure is unmetered with a fixed rate of $16.85 per month. The monthly rate is subject to review in the future as customers begin taking services under this tariff and actual costs are realized.

Non-Recurring Charges and New Billing Options

The Settlement consolidates all the non-recurring charges regardless of system. All water systems will adopt Falls Water current non-recurring charges under Schedule No. 2. There will also be a new equal pay plan for customers to opt into.

Addressing Systemic Water Loss

The Parties have agreed to three sets of actions the Company will implement over the first 6 months of 2024 to address systemic water loss. These actions are important steps to minimize water mitigation fees and expenses that the Company will be recovering from its customers.

First, the Parties have agreed that the Company will provide facility plans currently under development for the MW and TM systems to Staff by February 1, 2024. The Company has already developed facility plans for the FW system. Having these plans provides a baseline for potential future investment necessary to meet future growth and to improve the Company's system.

Second, the Parties have agreed that the Company will develop plans to identify root causes of water losses and related mitigation measures to be delivered to Staff by June 1, 2024. The Company has experienced large water loss in the MV system over the past two years and has significant opportunities for improvement in the other two systems.

Third, the parties have agreed that the Company will develop plans to implement a meter accuracy testing program to be submitted to Staff by June 1, 2024. Meter accuracy is not only important to obtain accurate water loss data, but it is also important to ensure customers are billed correctly. Collecting data on meter accuracy when there are suspect meters or by pulling meters and testing them using an audit sampling plan will provide data necessary to identify suspect meters to eliminate meter inaccuracy as a contributing factor to water loss.

CUSTOMER RELATIONS

Equal Pay Plan

The Settlement includes a proposed Equal Pay Plan which allows customers with at least a 12-month account history at the current address to establish an average monthly bill over the next twelve months. The customers must be current on their bill(s) to qualify. The Equal Pay Plan would be reviewed annually and adjusted based on the previous 12months' average bill.

Customers would have the option to pay off a negative balance or have the balance calculated as part of the new Equal Pay Plan amount. An account with a negative balance of 25 percent or more would have to be brought current at the end of the 12 months to continue the Equal Pay Plan. The Equal Pay Plan is similar to those offered by Veolia Water of Idaho, Avista Utilities, Idaho Power Company, and Rocky Mountain Power. Staff supports approval of the Equal Pay Plan.

STAFF RECOMMENDATION

Staff believes the Settlement establishes fair, just, and reasonable rates and is in the public interest, therefore Staff recommends the Commission approve the Settlement without material modifications.

Respectfully submitted this 15th day of November 2023.

Dayn Hardie
Deputy Attorney General

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Joe Terry
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 15TH DAY OF NOVEMBER 2023, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF TO FALLS WATER COMPANY, INC,** IN CASE NO. FLS-W-23-01, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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