

MATT HUNTER
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0318
IDAHO BAR NO. 10655

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

Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF GEM STATE WATER)
COMPANY’S APPLICATION FOR) **CASE NO. GSW-W-21-01**
APPROVAL OF ACQUISITION OF THE)
ASSETS OF THE WATER BUSINESS OF)
TROY HOFFMAN WATER CORPORATION) **COMMENTS OF THE**
) **COMMISSION STAFF**
)

The Staff of the Idaho Public Utilities Commission comments as follows on Gem State Water Company, LLC’s Application.

BACKGROUND

On March 1, 2021, Gem State Water Company, LLC (“Gem State Water”) requested the Commission approve its purchase of Troy Hoffman Water Corporation, Inc.’s (“Troy Hoffman Water”) assets and the transfer of Certificate of Public Convenience and Necessity (“CPCN”) No. 280 from Troy Hoffman Water to Gem State Water.

Gem State Water and Troy Hoffman Water entered into an Asset Purchase Agreement (“Agreement”) on December 18, 2020. The Agreement, if approved by the Commission, will transfer all of Troy Hoffman Water’s real property and personal property, including water rights, to Gem State Water.

Troy Hoffman Water is a regulated water utility that serves approximately 147 residential customers in Kootenai County, Idaho under CPCN No. 280. Gem State Water serves customers near Troy Hoffman Water's service territory.

Gem State Water does not seek to change rates, rate structure, or other charges with this Application. Gem State Water states that any future changes would be based on prudently incurred capital expenditures and other accepted ratemaking principles.

Gem State Water states it intends to work with Commission Staff before and during future rate proceedings to consider consolidating the rates, rate structure, and other charges for Gem State Water and Troy Hoffman Water customers.

Gem State Water states its employees will assume the roles previously undertaken by Troy Hoffman Water's contractors.

STAFF ANALYSIS

Idaho law does not specifically address the acquisition of water companies. As in previous water company acquisition cases, Staff relied on the standards outlined in *Idaho Code* § 61-328 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 used these requirements for its analysis, and after a thorough review of all relevant documentation related to the sale, Staff recommends approval of the acquisition of Troy Hoffman Water by Gem State Water and approval of the transfer of CPCN No. 280 for Troy Hoffman Water to Gem State Water. Staff's comments will address the transaction with regard to the standards outlined in *Idaho Code* § 61-328.

Acquisition Documentation Review

Staff reviewed the Application including the Agreement, 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 purchased and/or transferred

will allow the system to operate at least as reliably as it has under the current owner by matching assets in the Agreement to those contained in IDEQ's sanitary surveys.

During its review, Staff discovered two fire hydrants that do not provide sufficient fire flow. In its Application, Gem State Water stated that the Troy Hoffman Water system is designed to supply fire flows. Application at 7. The two fire hydrants were identified in the DEQ 2016 Sanitary Survey as not having sufficient fire flow. Gem State Water explained that the Troy Hoffman Water system is not required to provide fire flow and was not designed to do so. Twelve fire hydrants owned by the City of Coeur d'Alene, located within the Troy Hoffman service area, provide required fire flows. The Troy Hoffman Water fire hydrants are only used for system flushing.

Staff also asked how potential damage to the Troy Hoffman Water system is mitigated in the unlikely event that the Coeur d'Alene Fire Department connected to its flush hydrants. In its response, Gem State Water explained that it had received confirmation from the Coeur d'Alene Fire Department that it is aware of Troy Hoffman's flush hydrant locations. Additionally, Gem State Water stated that it "will lock out the "flush hydrants" and tag the Troy Hoffman hydrants, to avoid any confusion as to the nature of the hydrants." Gem State Water Response Production Request No. 1. Staff believes the response and course of action is reasonable and appropriate.

A. The Transaction is Consistent with the Public Interest

Staff notes that Gem State Water, in conjunction with its parent companies, is actively seeking to expand its operations in Idaho. Gem State Water and associated companies have shown commitment to their growth plan through the acquisition of 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), Morning View Water Company (FLS-W-20-04), and the submission of this Application. The acquisitions of water systems by Gem State Water may provide benefits through operational efficiencies and economies of scale as it acquires more systems. In the case of Troy Hoffman Water, Staff expects any efficiency or overhead savings to remain relatively small unless or until Gem State Water can acquire more water systems sufficiently close in proximity to operate in conjunction with each other.

B. The Cost of and Rates for Supplying Service will Not Increase Due to the Transaction

Gem State Water states it will maintain the existing rates and charges post-acquisition, and that it will not seek to include the transaction expenses related to the acquisition in rates. Palfreyman Direct at 6-7. When Gem State Water eventually files a general rate case, Staff will ensure that the requested rate increase was not driven by the transaction, and that rates will not be higher than they would have been absent the transaction.

C. Gem State Water has the Bona Fide Intent and Financial Ability to Operate and Maintain the System in the Public Service

Staff believes Gem State Water has demonstrated its bona fide intent and financial ability to provide continued operation of the system and reliable service. Gem State Water has committed in its Application to provide safe and reliable service and to meet the infrastructure needs of Troy Hoffman Water. *See* Application at 4. Gem State Water employs Leslie Rayner as its general manager. Ms. Rayner is an experienced water operator with whom Commission Staff has worked with in the past. In these past interactions, Ms. Rayner has been responsive to requests for information from Staff and has complied with Commission orders.

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. Gem State Water, through its parent company, Northwest Natural Holdings, has the necessary access to capital markets to proactively address Troy Hoffman Water's infrastructure needs in a timely manner at a competitive cost. *See* Application at 3. Northwest Natural Holdings has an A2 credit rating from Moody's and an AA-credit rating from Standard and Poor's. Northwest Natural Holdings has consolidated net income of \$70.3 million from continuing operations, cash flow from operations of \$143 million, and a revolving credit line of \$400 million. Northwest Natural Holdings' Form 10-K for 2020, pages 80 and 84. Improved access to capital markets usually helps lower financing costs that ultimately are passed on to customers.

CUSTOMER NOTIFICATION, PRESS RELEASE, AND CUSTOMER COMMENTS

Rule 125 of the Commission's Rules of Procedure does not require customer notification unless the utility is requesting a rate change. IDAPA 31.01.01.125. In its Application, Gem State Water stated its intention to publish a Customer Notice in the local newspaper regarding Gem

State Water's agreement to purchase Troy Hoffman Water. Additionally, Gem State Water asserted it would provide written notice to each customer and file in this proceeding verification when the notice is sent.

On March 29, 2021, Gem State Water informed the Commission that it published a press release in the Idaho Coeur d'Alene Press on March 12, 2021, notifying the public of the Application. Gem State Water also mailed notice of the Application to each customer of Troy Hoffman Water on March 4, 2021.

If the Commission approves the sale of the system, Staff recommends that Gem State Water provide another direct notice to customers of the purchase, either through a separate mailing, a message on bills, or as an insert sent with bills. Staff also recommends that Gem State Water include the new contact information, including telephone numbers, emergency phone numbers, mailing address, and billing and payment information.

As of June 14, 2021, no customer comments have been received.

GEM STATE WATER COMPANY TARIFF

Currently, Troy Hoffman Water has Commission-approved tariffs. If the sale is approved and Gem State Water wishes to create a single, combined tariff for Gem State Water, Staff recommends Gem State Water work with Staff to create separate rate schedules for Troy Hoffman Water. Gem State Water will need to include the meter reading schedule in the Recurring Rates Schedule.

GEM STATE WATER CUSTOMER DOCUMENTS

Gem State Water must update customer documents to reflect any changes brought about by the sale of the Troy Hoffman Water. Staff is willing to work with Gem State Water to update its billing and collection documents as well as its Explanation of Rates and Annual Rules Summary. Staff recommends Gem State Water work with Staff to make any necessary revisions within three months of issuance of the final order in this case.

STAFF RECOMMENDATIONS

Staff recommends the Commission:

- Approve the sale of Troy Hoffman Water to Gem State Water.
- Approve the transfer of Troy Hoffman Water's CPCN No. 280 to Gem State Water.
- Order Gem State Water to notify customers of the purchase of Troy Hoffman Water and new contract information either through a separate mailing, a message on bills, or as a bill insert.
- Order Gem State Water to work with Staff prior to filing a case if the Company wishes to create a single combined tariff for the water systems owned and operated by Gem State Water.
- Order Gem State Water to work with Staff to make any necessary revisions to its billing and collection documents and its Explanation of Rates and Annual Rules Summary within three months of issuance of the Commission's final order in this case.

Respectfully submitted this 15th day of June 2021.



Matt Hunter
Deputy Attorney General

Technical Staff: Kathy Stockton
Michael Eldred
Chris Hecht
Kevin Keyt

i:umisc/comments/gsww21.1mhklskskmcw comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 15TH DAY OF JUNE 2020, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. GSW-W-21-01, BY E-MAILING A COPY THEREOF TO THE FOLLOWING:

PRESTON N CARTER
CHARLIE S BASER
GIVENS PURSLEY LLP
601 W BANNOCK ST
BOISE ID 83702
E-MAIL: prestoncarter@givenspursley.com
charliebaser@givenspursley.com
kendrah@givenspursley.com

ERIC W NELSEN
SR REGULATORY ATTORNEY
NW NATURAL
250 SW TAYLOR ST
PORTLAND OR 97204
E-MAIL: eric.nelsen@nwnatural.com



SECRETARY