Office of the Secretary
Service Date
March 1, 2023

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF GEM STATE WATER COMPANY LLC'S APPLICATION FOR AN ORDER AUTHORIZING AN INCREASE IN ITS RATES AND CHARGES FOR WATER SERVICE IN THE STATE OF IDAHO	**)**	**CASE NO. GSW-W-22-01** **ORDER NO. 35692**

On July 21, 2022, Gem State Water Company, LLC ("Company" or "Gem State") applied to the Idaho Public Utilities Commission ("Commission") for authorization to increase its rates and charges for water service ("Application"). The Company requested its Application be processed by Modified Procedure and that any changes to its rates and charges be effective for bills rendered on or after September 1, 2022.

On September 6, 2022, the Commission issued a Notice of Application, a Notice of Intervention Deadline, and a Notice of Suspension of the Proposed Effective Date under *Idaho Code* § 61-622. Order No. 35498. There were no intervenors in this case. On October 6, 2022, the Commission issued a Notice of Modified Procedure, and set public comment and Company reply comment deadlines. Order No. 35548. Staff conducted an in-person public workshop in Coeur d'Alene, Idaho on November 15, 2022.

On December 20, 2022, the Commission scheduled customer hearings and extended the public comment deadline to January 20, 2023. Order No. 35635.

Commission Staff ("Staff") filed comments on January 11, 2023.

On January 18, 2023, the Commission held two separate in-person customer hearings in Athol, Idaho where 11 different people gave testimony on the record.

Over 110 written public comments were received by the comment deadline. On January 31, 2023, the Company filed reply comments.

Having reviewed the record, the Commission enters this Order on the Company's Application.

BACKGROUND

Gem State is a wholly owned subsidiary of NW Natural Water of Idaho, LLC, a wholly owned subsidiary of NW Natural Water Company, LLC, which itself is a wholly owned subsidiary of NW Natural Holding Company ("NW Natural"). Application at 4; Staff Comments at 1.

From 2019 to 2021, Gem State acquired eight small water systems in north Idaho: Spirit Lake East ("Spirit Lake") and Lynnwood Estates ("Lynnwood"), Case No. SPL-W-19-01, Order No. 34372[1]; Bitterroot, Rickel Water ("Rickel"), and Happy Valley, Case No. GSW-W-19-01, Order No. 34616[2]; Bar Circle "S" and Diamond Bar Estates ("Diamond Bar"), Case No. BCS-W-19-01/DIA-W-19-01, Order No. 34416[3]; and Troy Hoffman, Case No. GSW-W-21-01, Order No. 34977.

Over all of its systems, the Company serves over 1,000 residential connections on parcels ranging from a 1/4 acre to ten acres in size. The Spirit Lake system serves residences on ten-acre, forested parcels and has 344 connections. Staff Comments at 2. The Lynnwood system serves residences on five-acre, forested parcels and has 24 connections. Staff Comments at 2; Company Reply Comments, fn. 2 at 2. The Bitterroot and Rickel systems—physically interconnected systems— together have 168 connections serving five-acre residential parcels. Staff Comments at 2. The Bar Circle "S" system serves 253 connections to residences on five-acre parcels, as well as Garwood Elementary. *Id.* Diamond Bar has 57 connections to residences on five-acre parcels. *Id.* at 3. The Happy Valley system consists of 24 connections providing service to residences on five and ten-acre parcels. *Id.* The Troy Hoffman system is located in the city of Coeur d'Alene and provides 147 connections to residences sited on 1/4-acre parcels. *Id.*

In addition to owning and operating its Commission regulated systems, the Company, through its non-Commission regulated affiliate, Gem State Infrastructure, LLC ("GSI") operates the Pelican Point Water system ("Pelican Point") in the state of Washington and other non-Commission regulated systems in Idaho.[4] Application at 5.

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[1]In approving the Company's acquisition of Spirit Lake East and Lynnwood Estates in Order No. 34372, the Commission noted that because Lynnwood Estates (referred to there as "Lynnwood Water") was, before the Company's acquisition, an unregulated company, a "comprehensive review of Lynnwood's rates and rate structure is more properly deferred to a general rate case." Order No. 34372 at 4.

[2] Ownership of the Happy Valley system was transferred to the owners of the Rickel and Bitterroot systems (Ken and Cathy Rickel) in 2010. *See* Case No. HVW-W-13-01. The Bitterroot and Rickel systems subsequently merged into one entity, Bitterroot Water Company Inc., in Case No. RIC-W-17-01, Order No. 34027. In approving the merger, the Commission directed the "combined Company" to use "the currently approved rates for Bitterroot and Rickel until it filed and obtained new rates through a general rate case." Order No. 34027 at 2.

[3] In Order No. 34416, the Commission approved the Company's acquisition of Diamond Bar Estates and Bar Circle "S", two regulated water utilities, and noted that the prudency of the Company's costs for acquiring assets to operate the systems would be determined "at the next rate case for these systems." Order No. 34416 at 5.

[4] Gem State explained that "[t]he total payroll costs are allocated among Gem State . . . Gem State Infrastructure, LLC (a non-Commission regulated affiliate) ("Infrastructure"); and the Pelican Point Water system in Moses Lake, Washington, owned by Cascadia Water, LLC and operated by Infrastructure (regulated by the Washington Utilities and Transportation Commission) on a direct allocation and customer count basis." Application at 6. Staff explained

This case is the first general rate case for the Company. The most recent rate increase approved by the Commission for any of these systems was in 2016 for Diamond Bar in Case No. DIA-W-15-01, Order No. 33578. *See id.* at 3.

APPLICATION

The Company proposed a $402,000 increase in revenues, a 69.9% increase from its current revenue requirement. *Id.* at 1. The Company's proposed revenue requirement was based on a 10.2% Return on Equity ("ROE") and a hypothetical capital structure of 45% debt to 55% equity and a weighted average cost of capital ("WACC") of 7.8% applied to a net rate base of $1,406,120. *Id*. at 4, Exhibit 1 of the Application. The Company requested authorization to incorporate the partial consolidation of rates into four systems under a Company tariff and incorporate the proposed rates for the 1-1/2 inch and 2-inch meter customers. Application at 6. Under the Company's proposal, the Spirit Lake and Lynnwood systems would consolidate (Schedule No. 1), the Bar Circle "S" and Diamond Bar systems would consolidate (Schedule No. 2), and the Bitterroot, Rickel, and Happy Valley systems would consolidate (Schedule No. 3). Troy Hoffman would remain under its own schedule (Schedule No. 4). *Id.* at 6, 8. As a result, the Company would have one tariff containing four separate schedules for recurring charges for each of the consolidated groups described above. Application at 6, 7, and Exhibits 7 and 8 of the Application.[5]

The Company's proposal would implement a uniform minimum fixed customer charge of $35.00 for all 1-inch metered customers; $70.00 for 1.5-inch metered customers; and $112.00 for 2-inch metered customers, and a separate charge for irrigation customers. Application at 1, 2, 6. In addition, the Company proposed the following customer volumes included with the minimum charge:

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that "[t]he Company has eight regulated water systems in Idaho, making up 65% of its total customers, and two systems that are not regulated by the Commission which make up the reaming 35%." Staff Comments at 4. And that the "Company failed to allocate a portion of the truck to its Washington subsidiary, Pelican Point Water and . . . [GSI] . . . a non-regulated service company." *Id*. at 11. To put it simply, 35% of Gem State's customers receive service on non-Commission regulated systems.

[5] The redlined version of the Company's proposed tariff and the clean version attached to the Company's Application, while not demarcated separately as "Exhibit 7" or "Exhibit 8", are referenced as such in the Application. Application at 8.

Proposed	Current	Meter Size	Current Volume Included in Min Charge	Proposed Volume Included in Min Charge
Spirit Lake East (including customers formerly of Lynnwood Estates Subdivision)	Spirit Lake East	1- Inch	8000	8000
	Spirit Lake East	1 1/2-Inch	8000	20000
	Spirit Lake East	2- Inch	8000	32000
	Lynnwood Estates Subdivision		20,000	8000
Bar Circle "S" (including customers formerly of Diamond Bar)	Bar Circle "S"	1- Inch	7500	7500
	Bar Circle "S"	1 1/2-Inch	7500	20000
	Bar Circle "S"	2- Inch	7500	32000
	Diamond Bar		5500	7500
Bitterroot (including customers formerly of Rickel and Happy Valley)	Bitterroot		15000	10000
	Rickel		15000	10000
	Happy Valley	1- Inch	20000	10000
	Happy Valley	1 1/2-Inch	20000	20000
	Happy Valley	2- Inch	20000	32000
Troy Hoffman	Troy Hoffman		20000	10000

Id. at 2. The Company proposed the following commodity charge (per 1,000 gallons above minimum):

Proposed	Current	Current Rate	Proposed Rate
Spirit Lake East (including customers formerly of Lynnwood Estates Subdivision)	Spirit Lake East	$2.33	$5.10
	Lynnwood Estates Subdivision (20,000 – 100,000 gallons)	$1.00	$5.10
	Lynnwood Estates Subdivision (100,001 – 200,000 gallons)	$2.00	$5.10
	Lynnwood Estates Subdivision (over 200,001 gallons)	$3.00	$5.10
Bar Circle "S" (including customers formerly of Diamond Bar)	Bar Circle "S"	$1.74	$2.26
	Diamond Bar	$1.16	$2.26
Bitterroot (including customers formerly of Rickel and Happy Valley)	Bitterroot	$1.73	$2.85
	Rickel	$1.10	$2.85
	Happy Valley	$0.70	$2.85
Troy Hoffman	Troy Hoffman	$1.12	$4.15

Id. at 3. The Company mailed notice to its customers and provided a press release to the Coeur d'Alene Press on July 29, 2022, informing its customers of its request to raise rates and showing the proposed average monthly bills compared to the current average monthly bill. *Id.* at 8, Exhibit 6.

STAFF AND COMPANY COMMENTS

Staff recommended a total revenue requirement of $682,248, an increase in the Company's annual revenues of $107,648 or 18.7%, but $294,000 less than requested by the Company. Staff Comments at 2. Staff's proposed revenue requirement was based on a 9.5% ROE and a hypothetical capital structure of 45% debt and 55% equity for a WACC of 7.41% applied to a net rate base of $944,552. *Id.* Staff allocated the Company's costs among its eight Commission regulated water systems and the non-Commission regulated GSI and Pelican Point, such that the Company's eight Commission regulated systems in Idaho accounted for 65% of the Company's total costs, and the remaining 35% of the Company's costs were attributed to GSI and Pelican Point. *Id.* at 4, Table No. 1 "Allocation Method."[6]

The Company agreed with Staff's allocation method, as applied to non-capital assets, Staff's adjustments to the expenses for the lease for rental property and equipment, water testing, the Geographic Information System, and the implementation of the gross revenue conversion factor. Company Reply Comments at 2-3. The Company also agreed with Staff's proposed adjustments to overtime pay and rates for the Company's existing employees. *Id.* at 2, and fn. 4. The Company and Staff were also aligned on Staff's proposed well pump depreciation adjustment and method for determining working capital. Company Reply Comments at 4. Finally, the Company agreed with Staff's proposed rate design and stated its willingness to work with Staff to implement these proposals based on whatever revenue requirement was ultimately determined by the Commission. *Id.*

However, the Company disagreed with Staff's adjustments to certain payroll, depreciation, and other revenue expenses. The Company also disagreed with Staff's adjustments to claimed capital project costs, Contributions in Aid of Construction ("CIAC"), and the overall ROE. *See id.* at 2-4.

Staff's comments and the Company's reply on specific contested adjustments are discussed below under the "Discussion and Findings" section.

PUBLIC COMMENTS

The Commission received 116 public comments on its website—35 comments were from customers on the Spirit Lake system; 34 comments came from customers on the Bitterroot system;

[6] On Staff's table GSI was shown as having 515 customers and Pelican Point as having 47; however, the inverse is correct. Company Reply Comments at fn. 2.

20 comments came from customers on the Troy Hoffman system; 12 comments came from customers on the Bar Circle "S" system, and the remaining 14 comments came from customers on the other systems. The Commission also took testimony from 11 different people in Athol, Idaho at the January 20, 2023, customer hearing. Six of the customers testifying at the public hearing were connected on the Bitterroot system, three customers were on the Spirit Lake system, and the remaining two customers were each on the Rickel and Happy Valley systems.

The majority of the public comments expressed frustration with the amount of the Company's proposed rate increase. More than half of the commenters stated they were against any rate increase whatsoever. Many commenters stated that inflation and the fact that many Gem State customers were on a fixed income were additional factors that made the impact of the Company's proposed rate increase particularly onerous for them. Other commenters wondered if the Company could phase the rate increase in over a longer time or allow customers to "bank" credits for non-use of water during the winter.

A significant portion of the public testimony and comments expressed frustration with service problems on the system, including low water pressure, extended outages, and poor water quality. Customers also alleged that the Company failed to provide sufficient notice of its rate increase proposal. Other issues included the impact the rate increase would have on customer's ability to maintain defensible space around their homes to protect against wildfire, grow gardens, and maintain habitat for wildlife. One person testified that it was not clear why the Company proposed to charge more for 1.5-inch metered customers' water use. Several people also expressed concern with the proposed changes to the minimum use amounts for the different systems.

COMMISSION JURISDICTION

The Commission has jurisdiction over "every corporation or person, their lessees, trustees, receivers or trustees, appointed by any court whatsoever, owning, controlling, operating or managing any water system for compensation within this state." *Idaho Code* § 61-125. A "water corporation" as defined in *Idaho Code* § 61-125 is a "public utility" as defined by *Idaho Code* § 61-129. The Commission is "vested with power and jurisdiction to supervise and regulate every public utility in the state and to do all things necessary to carry out the spirit and intent of [The Public Utilities Law]." *Idaho Code* § 61-501. The Commission, upon finding that the rates charged by a public utility are "unjust, unreasonable, discriminatory, or in any wise in violation of any provision of law, or that such rates . . . are insufficient . . . shall determine the just, reasonable or sufficient rates . . . to be thereafter observed and in force and shall fix the same by order . . . . ". *Idaho Code* § 61-502; *see also Idaho Code* § 61-503.

A public utility has the obligation to provide efficient, adequate, just, nondiscriminatory, and reasonable service to all customers who desire service with the utility's service territory. *Idaho Code* § 61-302, 61-315, 61-507. At the same time, public utilities are entitled to a reasonable rate of return on prudent investments. *See Fed. Power Comm'n v. Hope Nat. Gas Co*., 320 U.S. 591, 603-605, 64 S. Ct. 281, 288-289 (1944). Gem State, as a public utility, is entitled to rates that permit it the opportunity to earn a return on the value of its property "which it employs for the convenience of the public, equal to the return generally being made at the same time and in the same general part of the country on investments and other business undertakings which are attended by corresponding risks and uncertainties." *Utah Power & Light Co. v. Idaho Public Utilities Comm'n*, 105 Idaho 822, 827 (1983). The Commission has the power and the duty to set rates of return within a "broad zone of reasonableness." *Intermountain Gas Co. v. Idaho Public Utilities Comm'n,* 97 Idaho 113, 128 (1975). "The main elements in fixing reasonable rates for service rendered by [a] public utility are the cost of rendering service on an economical and efficient basis, fair return to the utility on its property used and useful in such service and fairness to consumers." *Application of Pacific Tel. & Tel. Co.,* 71 Idaho 476, 480-81 (1951).

DISCUSSION AND FINDINGS

Under our statutory authority, we have reviewed the record in this case, including the Company's Application, public comments and testimony, Staff comments, and the Company's reply comments. Based on that review, we approve a new, total revenue requirement for the Company of $789,004, a 37% increase from its current revenues. This is the first general rate case for the Company as owner of the water systems that make up Gem State. Before being acquired by the Company, many of these systems had not had a general rate case or rate increase for a decade or more, if at all. Further, the previous owners of these water systems were unable or unwilling to make the necessary investments to provide safe and adequate water services to their customers. Only one of the eight systems appears to be fully compliant with state water standards. Staff Comments at 3. And more than half of these systems would be unable to meet the daily water requirement if a single pump fails. *Id.* In short, most, if not all, of these systems require substantial investments to meet water quality standards, emergency readiness, and reliability requirements.

Although many of these systems remain in substantial need of improvement, we note that, since acquiring the various water systems, the Company has expended significant time and capital in performing electric repairs, constructing back up wells, and in other capital projects that improve the systems' reliability and water quality in compliance with Idaho Department of Environmental Quality standards.

In return for maintaining and improving the systems to comply with regulatory standards, the Company is statutorily entitled to a fair return on investment. At the same time, the Company, in exchange for the exclusive right to provide water in an area, is obligated to provide safe and reliable service to those customers in that area. With increased revenue through this general rate case, we envision the Company should have the resources to effectively address issues related to extended outages, water quality, service, and low pressure—issues identified by customers in their testimony at the hearing and in written comments. The Commission directs the Company to continue to be diligent in addressing customer and system service issues and apprise the Commission of any significant developments affecting the same.

A schedule summarizing the Commission's decision is included as Attachment 1. A table summarizing the Commission's approved rates is included as Attachment 2. The Company's new rates shall be effective as of March 1, 2023.

1. Seasonal Employee

Staff proposed removing all expenses associated with hiring what the Company referred to as a "part-time seasonal employee" position. Company Reply Comments at 4. In support of its recommendation, Staff noted that the Company was unable to fill this position during the 2022 season and that a major job function of this employee—reading meters—would be unnecessary as the Company moved to radio-read meters. Staff Comments at 6.

The Company replied that it was unable to hire a seasonal employee due to its relatively low wages and that work that was not completed in the summer of 2022 due to the absence of this seasonal employee still needed to be done. Company Reply Comments at 5. The Company argued, contrary to Staff's position, this seasonal employee was necessary for a plethora of additional tasks—unrelated to reading meters—that would only increase as time went on. *Id*.

Commission Decision: The Commission finds that pro-forma expenses associated with hiring an additional employee are not known and measurable. We note that the Company was unable to fill this position in 2022, and there is no evidence in the record indicating how successful the Company will be in filling this position in 2023. Consistent with our practice in other rate cases, the Commission does not find it reasonable to grant the Company revenue for costs that have yet to be incurred and remain unknown. Should the Company hire a seasonal employee this year, or anytime in the future, it may seek recovery of any associated expenses in its next general rate case.

2. <u>401(k) Match</u>

Staff recommended that the Company's pro forma adjustment to its 401(k) employee match contributions of $4,685 be removed due to the possibility of employees changing or discontinuing their contribution rates throughout the year, the amount the Company must match its employee contributions is not "known and measurable." Staff Comments at 6 (citing Order No. 29838). The Company replied that its "employees' actual 401(k) contributions are roughly 3.8% of payroll." Company Reply Comments at 6. Therefore, the Company requested $9,083, rather than the $9,561 requested in its Application for a total reduction of $478 to payroll expense.

Commission Decision: We find it fair, just, and reasonable to remove the Company's pro forma adjustment from its 401(k) match contributions. As we have stated before, "with vacant positions, employee turnover, and the unknown elections of each employee to commence or cease deductions, pro forma adjustments to the test year data are not known and measurable." Order No. 29838. We see no reason to make an exception to our standard practice in this case. Accordingly, we find it appropriate and reasonable to disallow the Company's inclusion of pro forma employee 401(k) match adjustments of $4,685 in its payroll expenses.

3. <u>Work Truck</u>

Staff argued a reduced value of the Company's 2019 Ford F-350 truck was appropriate. Staff Comments at 11. Staff then, "us[ed] the Company's allocation method"[7] to further reduce the value of the truck by allocating portion of its value to GSI and Pelican Point. *Id.* The Company disagreed with Staff's two-part reduction. The Company argued that the price it paid for the truck, $85,746 with a cash discount, was reasonable. Company Reply Comments at 9-10, Attachment 7. The Company further argued that only 3% of the expense should reasonably be allocated to Pelican Point. Company Reply Comments at 6-7.

For the reasons discussed below, the Commission finds that the truck was a prudent investment and that the price paid for the truck was reasonable. However, because the record is

[7] See, again, Table 1 of Staff's Comments on page 4 for the allocation method.

unclear as to what extent the truck will be used to support the Company's Commission-regulated operations and non-Commission regulated operations, we find that 20% of the truck's value should be allocated to the Company's non-Commission regulated systems and 80% to Commission-regulated systems.

a. Purchase Price Reduction

Staff believed that, although "the purchase of the truck was necessary for maintaining safe and reliable service[,]" it was overvalued by $9,058. Staff Comments at 11. In support of this argument, Staff used the truck's price before tax and other fees then reduced that price by the average market price of three online truck listings with similar mileage, make, and year to make this determination. Staff Comments at 11, Attachment 3.

The Company replied that Staff's proposal was based on the invoice amount, which did not include a cash discount of $1,402—an amount which the Company agreed should be deducted from the value of the truck that was initially put forth in its Application. Company Reply Comments at 9. The Company further noted that the purchase price of the truck also included $2,660 for a service contract and $4,475 for extended warranty coverage for a total of $7,135. *Id.* The Company believed these were reasonable expenses made to protect the value of the asset and to avoid costly future services. *Id.* The Company noted that the trucks Staff used for its comparison did not appear to include costs for either a service contract or extended warranty. *Id.* at 10.

The Company further argued that it purchased its truck in May 2022 from a local vendor. *See id.* at 11, Attachment 7. The Company contended that Staff's online searches of three vehicles as far away as Salida, Colorado and Tacoma, Washington conducted in what appears to have been October or November 2022, did not contain sufficient factual information to make an equivalent comparison nor account for the volatility of the used vehicle market in 2022. *Id.* at 10.

Commission Decision: The record provides that the truck was purchased for hauling large payloads including portable generators, tools, pumps, and other heavy equipment. Staff Comments at 10-11; Application at 5. Prior to purchasing the truck, the Company represented that it was using employees' personal vehicles to perform these activities. *Id*. The Company identified risks with using employees' personal vehicles for work related activities, including but not limited to 1) relying on employees to maintain personal vehicles used in utility operations; 2) separation of employees from the Company whose vehicles are used in utility operations; and, 3) an employee's personal activities conflicting with work needs. *Id*. The record supports a finding that the truck is necessary for the Company to carry out its Commission-regulated operations. We acknowledge that the volatility of the used vehicle market in 2022 could lead to significant price swings in just a matter of months. We also note that the price for a vehicle on the internet in one geographic location at one point in time may vary widely from the price of a similar vehicle in a different geographic location at a different point in time. Accordingly, we find that the price the Company paid for the truck, as provided in the invoice attached to its Reply Comments, is fair and reasonable.

b. Price Allocation

Staff allocated the truck's value to Pelican Point and to GSI, consistent with the Company's allocation method. The Company replied that, although it agreed the allocation method was appropriate and common for expenses, it did not believe it should be similarly applied to allocate the value of the truck. *Id.* at 11. The Company clarified that the truck was purchased specifically to be used in Gem State's Commission-regulated operations and that the four trips the truck made to Pelican Point were "an anomaly that the Company does not expect to be routine in the future." *Id*. The Company stated that it provided documentation showing time-card entries showing the four trips to Pelican Point. *Id.* In addition, the Company noted that, since chlorine was now being delivered directly to Pelican Point, there was no reason to use the truck for that purpose in the future. However, the Company acknowledged that "it is possible that sporadic trips to Pelican Point for other reasons could occur in the future[,]" and therefore did not object to allocating 3% of the total depreciable expenses to Pelican Point. *Id.* at 11.

Commission Decision: We find that the evidence in this case is insufficient to establish that 35%, as Staff recommends, or 3%, as the Company suggests, of the value of the truck should be allocated to the Company's non-Commission regulated operations. The record lacks any documentation showing the truck was purchased exclusively for the Company's Commission-regulated operations. It is unclear how the Company allocates ~35% of its employees' time to Pelican Point and GSI but no Company employee uses the Company truck more than 3% of the time in performing employment-related tasks associated with its affiliate entities. Additionally, there is insufficient evidence in the record to support the Company's argument that the Commission allocate merely 3% of the truck's value to Pelican Point when the Company appears to agree that ~35% of its employee costs are attributable to non-Commission regulated operations.

Nonetheless, we do acknowledge the Company's representation that the truck is no longer necessary to deliver chlorine to Pelican Point and is not used for GSI operations. We also understand that now more than evermore work can be done remotely. It is not unreasonable to assume that many of the functions formerly performed in the field can be performed remotely. Thus, while employees of Gem State may spend ~35% of their time performing tasks for Pelican Point and GSI, it does not necessarily follow that the truck is used ~35% of the time for non-Commission regulated operations. Accordingly, we find, based on the record developed in this case, that allocating 20% of the truck's value to Pelican Point and GSI strikes a reasonable balance between the Company and Staff's position. This decision does not prevent the Company from documenting and collecting evidence establishing that the truck is used solely for its Commission-regulated operations in a future proceeding.

4. Miscellaneous expenses

Staff proposed removing $40,749 from miscellaneous expenses based on the Company's statement "that these expenses were mostly a double counting for its Pelican Point water system located in Washington." Staff Comments at 7-8.

The Company replied that the opposite of Staff's conclusion was the case; that is, that the Company overcharged Pelican Point by $40,749 that should have been properly charged to Gem State. Company Reply Comments at 7. The Company explained that it "erroneously charged approximately $80,000 in certain overhead expenses to the Pelican Point water system[,]" and that when "it discovered this error, the Company removed half of the total charge from Pelican Point and moved it to Gem State Water." *Id*. at 7. Therefore, the Company stated that the $40,749 which Staff sought to remove was properly included as a miscellaneous expense.

Commission Decision: The Commission finds it fair, just, and reasonable to allow the Company recovery of $40,749 in miscellaneous expenses.

5. Capital Projects

Staff proposed reducing the Company's claimed capital investments for the Bar Circle "S" system in 2010, 2011, 2017, and 2018 by a total of $162,310. Staff Comments at 10. Staff also proposed disallowing capital investments in the total amount of $20,155 for investments to the Spirit Lake system. *Id.* Staff based these recommendations on the Company's failure to provide sufficient justification and detail for its claimed capital costs. *Id.*

In response, the Company stated that it "spent hours contacting all the pump and drilling contractors in the area, identified the contractors that performed the work in 2010, 2016 and 2017, and successfully obtained documents, including invoices, that verify and support the capital investments for the Bar Circle "S" system." Company Reply Comments at 8. The Company pointed out that these invoices amounted to $166,518 "for the well, backup generator and other related assets." *Id.* at 8-9.

The Company explained that it expended similar time and effort in tracking down invoices supporting the capital improvements on the Spirit Lake system as it did for the Bar Circle "S" system but was unsuccessful. Notwithstanding, the Company argued that, based on the unique circumstances of this case, it should be permitted to recover these costs. The Company explained that many of the previous water systems' owners failed to maintain adequate records of capital project costs and did not properly operate the systems. The Company asserted that it would continue to maintain adequate documentation for all the systems it operated and that it should not be denied a return on capital costs of $20,155 for the Spirit Lake system because of the legacy owner's previous mistakes. *Id.* at 8.

Commission Decision: The Commission finds the Company's claimed expenses in the amount of $166,518 for capital projects on the Bar Circle "S" system to be fair, just, and reasonable. The Company's provision of invoices verifies and support the capital investments that were made on the Bar Circle "S" system.

The Commission acknowledges the Company's promise to maintain adequate documentation for all the systems it operates. However, absent any documentation or other evidence in the record, the Commission does not find it fair and reasonable to keep $20,155 in rate base related to capital costs on the Spirit Lake system. Accordingly, $20,155 in rate base related to capital costs is removed.

6. <u>Contributions in Aid of Construction</u>

Staff proposed adjustments to CIAC of $173,250 for the Bitterroot/Rickel systems and an adjustment to CIAC of $70,050 for the Spirit Lake system for a total adjustment of $243,300. Staff Comments at 12, Table No. 5. Staff pointed out that Spirit Lake, in its 2014 Annual Report, showed a net CIAC of $70,050 and that Bitteroot/Rickel, in its 2018 Annual Report, showed a net CIAC of $158,231. *Id.* However, as Staff further noted, the Company failed to support "that the CIAC amounts have been fully amortized" and therefore recommended that the CIAC amounts for the systems be adjusted by $243,300. *Id.*

The Company responded that it acquired the Bitterroot/Rickel system in 2020 and that the 2022 Annual Report for these systems reflected a Net Utility Plant of $26,147 and no CIAC amount. Company Reply Comments at 12. The Company also asserted that Staff's CIAC adjustment for the Bitterroot/Rickel system would result in a "large negative rate base" and would be punitive, unreasonable, and have a devastating impact on the small water system. *Id.* The Company mentioned that, although the Spirit Lake Annual Reports for 1995 to 2014 show $70,050 in CIAC, this amount was removed in the 2015 Annual Report based on the system's previous bookkeeper's conversations with Staff "and the lack of documentation or explanation in that amount of CIAC." *Id.* at 13. The Company also noted that imputing $70,050 against Net Plant in Service would constitute a significant economic impact on the system. *Id.*

Commission Decision: At the time Gem State purchased these systems, CIAC was not represented on the books of Rickel or Spirit Lake. It is likely that had this CIAC been recorded, this would have influenced Gem State's decision to buy these systems. Based on the record, and the lack of any evidence of any of the disputed CIAC being recorded after 2018, for the Bitterroot/Rickel System's case, and 2015, for the Spirit Lake system, we find it fair, just, and reasonable to not include $243,300 in CIAC.

7. <u>Return on Equity</u>

Staff recommended a ROE of 9.5% based on its analysis indicating a potential ROE range from 4.754% to 9.89%. Staff Comments at 15. Staff applied this ROE to the hypothetical capital structure proposed by the Company: 55% equity/ 45% debt. *Id.* at 13. To create a ROE range, Staff used the Discounted Cash Flow ("DCF") method and the Capital Asset Pricing Model ("CAPM") then compared the results of these two methods to the ROE agreed to by NW Natural Gas Company (a subsidiary of NW Natural) in an Oregon rate case (9.4%). Ultimately, Staff recommended an ROE of 9.5%. Staff believed this rate recognized the higher risk of failure for Gem State and, at the same time, its access to equity from its large parent company. *Id*. An ROE of 9.5%, Staff noted, produced a WACC of 7.41% when using the Company's proposed capital structure. *Id.*

In response to Staff's recommendation, the Company stated it was "particularly concerned" with Staff's reference to the ROE attained for Gem State's "affiliated out-of-state natural gas utility . . . ." Company Reply Comments at 14. Gem State asserted, as a small water company, it was more appropriate to compare it to other small water companies in Idaho. *Id.* at 15 (citing Order No. 34925 at 5). The Company cited previous Commission orders determining that ROEs between 11%-12% were appropriate for small water companies. *Id.* at 15-16. The Company noted the

Commission's previous recognition of the benefits NW Natural Water provided in acquiring small water companies. *Id.* at 16 (noting that the Commission approved a 10.2% ROE for Falls Water, a subsidiary of NW Natural Water that operates water systems in east Idaho, in Order No. 34925). The Company stated that Veolia Water Idaho hired an expert witness (an expense which the Company chose to forgo) who suggested a 10.8% ROE in that company's pending rate case (Case No. VEO-W-22-02). Based on the above reasons, the Company believed that its requested 10.2 % ROE was reasonable.

Lastly, the Company pointed out that its adopted hypothetical capital structure—rather than its actual capital structure (100% equity)—was "reasonable and quite modest." *Id.* at 17. In sum, the Company requested the Commission consider its previous determination in Order No. 34925 and grant the Company's request for a 10.2% ROE with the proposed hypothetical capital structure. *Id.* at 17.

Commission Decision: In determining the appropriate ROE, we must balance the needs of the customer to overpay for services and the needs of the utility to be fairly compensated for its capital investment. We must ensure that rates are increased no more than necessary to provide fair compensation to the Company for its investment in the water systems, while mitigating the rate impact to customers. We find that a 9.5% ROE, with a 7.41% WACC, accomplishes that goal, is supported by the record, and is fair, just, and reasonable.

8. <u>Rate Design</u>

The Company asserted that it "agrees with Staff's proposals regarding rate design and will work with [S]taff to implement them on the final revenue requirement." Company Reply Comments at 4. Staff's rate design proposal reduced the Company's proposed basic charges for all the systems except for Lynnwood and Diamond Bar (which, under Staff's proposal, remain unchanged from the current rates) and decreased the volumetric commodity charge for water consumption exceeding the amount included with the basic charge across all systems. Staff Comments at 19-20.

Commission Decision: The rate design approved by the Commission includes base charges that are similar to those requested by the Company and a commodity charge (for water consumption exceeding that included in the basic charge) similar, but not identical, to Staff's proposal. Our approved rate design results in a basic charge/commodity (volumetric) charge ratio of 44%/56% based on the revenue requirement of $789,004 approved by this Order. The partial consolidation of the systems as put forth in the Commission's approved rate design offers administrative efficiency and is a necessary step towards attaining uniform rates and charges for all customer classes on the eight Commission-regulated systems owned and operated by Gem State. A summary of the Commission's approved rate design by meter size is included as Attachment 2.

It is important to reiterate that most of these systems were severely noncompliant due to the actions or inactions of their previous owners and lacked the necessary infrastructure to continue providing safe and reliable water service. The capital costs required to ensure these systems are compliant were, and remain, in the hundreds of thousands of dollars. Had Gem State not acquired these systems and filed this rate case, rather than recovering these costs from Gem State's entire customer base, currently numbering more than a thousand customers, the costs of these system improvements would have likely been borne solely by the customers on each individual system.

Although at the system level, some customers may be affected differently than other customers on other systems as a result of our decision in this Order, in the long term, consolidating systems by implementing uniform rates and charges will help spread the costs of system-wide improvements among a larger body of customers more equitably. This will ultimately benefit all Gem State customers now and in the future.

O R D E R

IT IS HEREBY ORDERED that Gem State shall have an annual revenue requirement of $789,004, with expenses, rate base, rate of return, capital structure, and rate design as detailed in the body of this Order and its Attachments. The Company shall submit tariffs in compliance with the rates and charges identified in this Order no later than fourteen (14) days from the service date of this Order. The rates and charges authorized by this Order shall become effective for service rendered as of March 1, 2023.

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 with regard to any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *Idaho Code* § 61-626.

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DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 1st day of March 2023.

ERIC ANDERSON, PRESIDENT

JOHN R. HAMMOND, JR., COMMISSIONER

EDWARD LODGE, COMMISSIONER

ATTEST:

Jan Noriyuki
Commission Secretary

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CALCULATION OF REVENUE REQUIREMENT

1	Rate Base	1,375,818
2	Rate of Return	7.41%
3	Net Operating Income Requirement	101,948
4	Net Operating Income Realized	(57,289)
5	Net Operating Income Deficiency	159,237
6	Net Operating Income Deficiency	159,237
7	Gross up Factor	1.34645
8	Total Incremental Revenue Requirement	214,404
9	Revenues at existing rates	574,600
10	Total Revenue Requirement	789,004
11	Percent Increase Required	37.3%

Gem State Water, Approved Revenue Requirement, GSW-W-22-01

	Company Application	Labor Adj	Bldg Lease	Company Truck	Chemical Testing	Removing Inventory from Depreciation	Depreciation Adj	GIS Labor Adjustment	Adjustment to Plant In Service	
Income										
400 · Operating Revenue										
461.1 · Metered Residential	572,799									572,799
464 · Other Water Sales Revenue	1,801									1,801
Total 400 · Operating Revenue	574,600	-	-	-	-	-	-	-		574,600
Total Income	574,600	-	-	-	-	-	-	-	-	574,600
Expense										
601.1-6 Labor - Operation & Maintenance	127,673	(25,695)						(6,037)		95,942
601.7 Labor - Customer Accounts	18,694	(1,965)								16,729
601.8 Labor - Administrative & General	92,662	(5,763)								86,899
604 · Employee Benefits	65,329	(14,913)						(1,620)		48,796
610 · Purchased Water	5,086									5,086
615-16 · Electrical Power & Fuel for Power	88,731									88,731
618 · Chemicals	791									791
620.1-6 · M&S - O&M	15,891									15,891
620.7-6 · M&S - A&G	50,385									50,385
620.7 · Postage	-									-
620.8 · Office	-									-
620.81 · Telephone Expense	-									-
620.82 · Bank service charges	-									-
620.83 · Office Utilites Expense	-									-
631.1-34 · Contracting Services - Professional	72,849									72,849
635 · Contracting Services - Water Testing	1,923				3,741					5,664
636 - Contracted Services - Other	9,148									9,148
641-42 · Rental of Property & Equipment	59,319		(27,408)							31,911
650 · Transportation Expense	6,572									6,572
656 · Insurance Expense	14,146									14,146
675 · Miscellaneous	49,021									49,021
Total Expense	678,221	(48,337)	(27,408)	-	3,741	-	-	(7,657)	-	598,560
Net Ordinary Income	(103,620)	48,337	27,408	-	(3,741)	-	-	7,657	-	(23,960)
Other Income/Expense										
Other Expense										-
403 · Depreciation Expense	114,917			(2,650)		(2,230)	(40,230)		(2,909)	66,897
408 · Taxes										-
408.11 · Property Taxes	21,322									21,322
408.12 · Payroll Taxes	18,469	(2,584)						(444)		15,442
408.13 · Other Taxes	4,077									4,077
Total 408 · Taxes	43,868	(2,584)	-	-	-	-	-	(444)	-	40,841
Income Taxes	(74,409)									(74,409)
408.10 · Regulatory Fee	-									-
409.10 · Federal Income Tax	-									-
409.11 · State Income Tax	-									-
Total Other Expense	84,376	(2,584)	-	(2,650)	-	(2,230)	(40,230)	(444)	(2,909)	33,329
Net Other Income	(84,376)	2,584	-	2,650	-	2,230	40,230	444	2,909	(33,329)
NET Income	**(187,996)**	**50,921**	**27,408**	**2,650**	**(3,741)**	**2,230**	**40,230**	**8,101**	**2,909**	**(57,289)**

Plant in Service	Total									
301 - Organization	-									-
302 - Franchises and Consents	-									-
303 - Land & Land Rights	14,545									14,545
304 - Structures & Improvements	40,438									40,438
305 - Collecting & Impounding Reserviors	120,672									120,672
307 - Wells	1,365,304								-	1,365,304
309 - Supply Mains	84,319									84,319
310 - Generators	140,880									140,880
311 - Pumps & Accessories	410,891					(55,753)				355,138
320 - Purification Systems	1,504									1,504
330 - Distribution Reserviors & Standpipes	7,195									7,195
331 - Trans. & Distrib. Mains & Accessories	140,252									140,252
332 - Services	-									-
334 - Meters	129,431									129,431
335 - Hydrants	4,405									4,405
339 - Other Plant and Misc Equip	117,626			(18,552)					(20,155)	78,919
340 - Office Equipment	120,834									120,834
343 - Tools & Equipment	11,523									11,523
345 - Power Operated Equipment	42,352									42,352
346 - Communications Equipment	5,728									5,728
347 - Miscellaneous Equipment	3,168									3,168
348 - Other Tangible Property	2,655									2,655
	-									-
Total Plant in Service	2,763,722	-	-	(18,552)	-	(55,753)	-	-	(20,155)	2,669,262
Less Accumulated Depreciation	(1,428,485)					1,118			17,245	(1,410,122)
Net Plant in Service	1,335,237	-	-	(18,552)	-	(54,635)	-	-	(2,910)	1,259,140
Less Contributions in Ad of Construction										
Gross Contributions (12/31/2021)	9,307									9,307
Less Accumulated Amortization (12/31/2019)	-									-
Net Contributions in Aid of Construction	9,307	-	-	-	-	-	-	-	-	9,307
										-
Net Plant in Service	1,325,930	-	-	(18,552)	-	(54,635)	-	-	(2,910)	1,249,833
Working Capital (1/8 of Operation and Maintenance Expense)	84,778	(6,042)	(3,426)	-	468	-	-	(957)	-	74,820
Materials and Supplies	-					55,753				55,753
Deferred Taxes	(4,587)									(4,587)
Total Rate Base	1,406,120	(6,042)	(3,426)	(18,552)	468	1,118	-	(957)	(2,910)	1,375,818

Gem State Water, Approved Rates, GSW-W-22-01
Attachment 2

Commission Approved Revenue Requirement $789,004

Water System	Meter Size	Fixed Monthly Charge	Volume Included (gallons)	Price for Excess	Fixed Monthly Charge	Price for Excess
Spirit Lake East	1-Inch	35.00	7,500	2.3300	37%	0%
Spirit Lake East	1 1/2-Inch	70.00	15,000	2.3300	174%	0%
Spirit Lake East	2-Inch	112.00	30,000	2.3300	338%	0%
Bar Circle “S” Water Company	1-Inch	35.00	7,500	2.3300	28%	34%
Bar Circle "S” Water Company	1 1/2-Inch	70.00	15,000	2.3300	155%	34%
Bar Circle “S" Water Company	2-Inch	112.00	30,000	2.3300	308%	34%
Diamond Bar Estates	1-Inch	41.00	7,500	2.1500	0%	85%
Lynnwood Estates Subdivision	1-Inch	35.00	15,000	2.1500	0%	
First Block			15,001 - 100,000	-		115%
Second Block			100,001 - 200,000	-		8%
Third Block			over 200,001	-		-28%
Bitterroot Water Company, Inc	1-Inch	35.00	10,000	2.1500	67%	24%
Rickel Water Company	1-Inch	35.00	10,000	2.1500	17%	95%
Troy Hoffman Water Corporation, Inc	1-Inch	35.00	7,500	2.1500	27%	92%
Happy Valley Water Systems, Inc	1-Inch	35.00	15,000	1.4000	30%	100%
Happy Valley Water Systems, Inc	1 1/2-Inch	70.00	15,000	1.4000	159%	100%
Happy Valley Water Systems, Inc	2-Inch	112.00	30,000	1.4000	315%	100%