

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

<b>IN THE MATTER OF PICABO WATER</b>	)	<b>CASE NO. PIC-W-21-01</b>
<b>SYSTEM’S APPLICATION FOR</b>	)	
<b>AUTHORITY TO INCREASE ITS RATES</b>	)	
<b>AND CHARGES FOR WATER SERVICE IN</b>	)	<b>ORDER NO. 35213</b>
<b>THE STATE OF IDAHO</b>	)	
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On March 8, 2021, Picabo Water System dba Picabo Livestock Company Co. (“Company”) applied to increase its rates and charges for water service by about 50%. The Company is located in Blaine County in the town of Picabo, Idaho and services 35 residential and 4 commercial customers. Application at 1. The Company requested a May 1, 2021, effective date.

On March 29, 2021, the Commission issued a Notice of Application and suspended the Company’s proposed effective date for 30 days and five months. Order No. 34979; *see Idaho Code* § 61-622. On June 22, 2021, the Commission issued a Notice of Modified Procedure, Notice of Customer Hearing, and Notice of Public Workshop. *See* Order No. 35082.

Commission Staff (“Staff”) held a public workshop on August 11, 2021. The Commission held a customer hearing on August 17, 2021. No customers attended the public workshop or the hearing and no one testified. There were no customer complaints in 2018, 2019, 2020 and 2021 to the date of Staff’s comments. There was one inquiry in 2018 from the Idaho State Tax Commission. Staff filed comments to which the Company did not reply. The public did not provide comments.

Having reviewed the record in this case the Commission issues this final Order approving the Company’s Application as provided herein.

**BACKGROUND**

The System has been upgraded and provides water service to 35 residential and 4 commercial customers. It is comprised of wells, transmission mains, and distribution lines. The Company reported expenses for power, maintenance, materials, and water testing increased significantly since the Company’s last rate case. *See* Case No. PIC-W-04-01, Order No. 29538.

**THE APPLICATION**

The Company’s water system (“System”) was installed by ancestors of the current owners of the Company. The System was installed around the time Picabo was platted in 1917. At

that time the Company installed a 50,000-gallon water tank that is in use today, had wooden water lines and used water from a desert spring. The Company's proposed rate increases for water service are:

- Increase flat winter residential rate from \$22 per month to \$33 per month.
- Increase flat commercial rate from \$37 per month to \$55 per month.
- Increase summer flat rates from \$41 per month to \$62 per month.

Application at 1. The requested rate increases are due to the Company experiencing losses for many years, the need to install a new alternate well, "install a ¼ mile of power", and paint the inside of a 50,000-gallon storage tank. *Id.* at 2. In order to finance these projects, the Company represented it is seeking a loan from the Idaho Department of Water Resources. The Company asserted that the increased rates it proposes are comparable to surrounding towns rates. *Id.*

The Company asserted that it notified its customers of the Application by inserting a notice in each customer's bill mailed on March 1, 2021. *Id.*; *see also* Exhibit 10.

#### **STAFF COMMENTS**

Staff reviewed the Company's Application, Annual Reports, QuickBooks Accounting records, and responses to discovery. Four attachments were included by Staff in their comments that adjust and update the results of the Company's operations: 1) Attachment A presented Staff's adjustment to Plant-in-Service; 2) Attachment B presented Staff's adjustment to Depreciation and Accumulated Depreciation; 3) Attachment C presented Staff's adjustment to revenues and expenses; and 4) Attachment D presented Staff's recommended Rate Design. Staff recommended that the Commission authorize an annual revenue requirement of \$24,980 to be collected through the rates calculated in its Attachment D. Staff also recommended the Idaho Water Resources Board ("IWRB") loan be authorized and included for ratemaking purposes. Additionally, Staff recommended that the Company work with Staff to create and file conforming tariffs based on the Commission's order.

#### **A. Description of the System**

Staff noted that the Company has an un-metered water system currently composed of a single well, control system, elevated storage tank, and distribution piping. The elevated storage tank and water supply were constructed in the early 1900s. Past upgrades and reconstruction projects have kept the System current.

Repainting the exterior surface of the storage tank and construction of a new secondary well have been recent improvements. The previous secondary well was located on property not owned or controlled by the Company and is no longer available for system use. The new secondary well is located adjacent to the Company's storage tank. It provides increased flow for fire protection and improves system reliability. The Company applied for and received a loan through the IWRB to fund the new well, electric service, and piping to connect the well to the System. The Company indicates the new well will be used and useful for service by the time rates go into effect.

### **B. Audit**

Staff noted that accounting for the Company is not separated from its' parent company. Two accounts are utilized to track the performance of the Company. One account tracks actual revenue billed while the other is used to capture all direct expenses, which are paid by its parent company. Labor expense associated with operation and maintenance of the System is absorbed by its parent company's operation. Depreciation expense associated with the System's assets are embedded in the depreciation expense of its parent company's operation. Assets of the System are separately identified on a depreciation schedule maintained by the Company's outside accountant.

Staff noted that the Company requested a test year ending December 31, 2020. The Company also included proforma adjustments for: 1) the inclusion of a new secondary well for redundancy and to meet Idaho Department of Environmental Quality ("IDEQ") requirements; and 2) coating the interior surface of the storage tank which the Company indicates will be completed by the time new rates go into effect.

### **C. Revenue Requirement**

The Company's Application requests a 50% increase in rates, stating it will generate revenue of \$36,000. Staff stated that the Company's proposed monthly flat rates will generate \$23,520 rather than the \$36,000 claimed. Based on the expenses in the Company's Application, the revenue requirement would be \$30,108.

Staff recommended a revenue requirement of \$24,980. To generate this revenue requirement, the flat monthly rates will need to exceed those proposed by the Company. Staff's recommended revenue requirement is an increase of 85% over the previously approved revenue requirement in Order No. 29538, Case No. PIC-W-01-01, and approximately 52% over the 2020 revenues.

#### **D. Rate Base**

The Company's Application stated that its total plant-in-service balance on December 31, 2020, was \$67,607. The Company reported no accumulated depreciation, which results in a net rate base of \$67,607. Staff recommends a net rate base of \$132,195.

##### *1. 2007 Plant Additions*

Staff reviewed the Company's Annual Reports and the Company's QuickBooks files and identified an additional \$50,300 of capital investments in 2007. These investments consisted of hydrants, a flow meter, and new distribution pipes as shown on Staff Attachment A. The Company did not properly record these investments in QuickBooks. Staff recommended including the \$50,300 of capital investments made in 2007 in Plant-in-Service, as these assets are currently in use today.

##### *2. Proforma New Secondary Well*

Staff commented that the Company requested to include \$95,000 for a new secondary well because it no longer has access to the off-site secondary well. The Company obtained a loan through the IWRB to fund a new secondary well. In the Company's last IDEQ report, it was recommended to begin immediately installing a new secondary well for redundancy and additional water flow for the System and for fire protection. Staff reviewed the Company's production request responses, the provided IDEQ reports, and supported the Company's request to include the \$95,000 as a proforma adjustment to Plant-in-Service as shown on Staff Attachment A. Staff believed it will be used and useful and in operation by the time rates are effective.

##### *3. Accumulated Depreciation*

Staff stated that the Company's Annual Report does not reflect any accumulated depreciation. Using the annual depreciation expense from the Company's accounting records, Staff calculated an accumulated depreciation balance of \$66,237. Most of the Company's capital assets installed prior to 2007 have been fully depreciated. The capital additions added in 2007 had not been depreciated and Staff used the depreciation lives provided in the National Association of Regulatory Commissioners ("NARUC") Depreciation Manual for Small Water Utilities to calculate depreciation expense and associated accumulated depreciation on the 2007 capital additions. As of December 31, 2020, the accumulated depreciation on the 2007 capital additions should be \$14,476. Total accumulated depreciation on December 31, 2020, should be \$80,713 as shown on Staff Attachment B.

#### *4. Prudence of the Investments*

Staff reviewed both the current and future plant investments identified in the Application. Staff believed the investment for the second well will improve system reliability and increases flow for fire protection. The exterior painting and interior coating of the elevated storage tank will extend the life of the asset, the interior coating of the tank will improve water quality. Staff believed the Company used reasonable efforts to acquire multiple bids to establish competitive pricing. Staff recommends a new Plant-in-Service, including the well, of \$212,908.

#### **E. Expenses**

Staff reviewed all direct expenses recorded by the Company. The actual operating results for the System reflect a net loss for the year 2020. The parent company operation has absorbed this loss as well as the previous year's losses. Staff recommended removal of \$18,750 from operating expenses and capitalizing the full tank painting expenditure of \$37,500. Staff also recommended an annual depreciation expense of \$4,437, amortization expense of \$4,170, and taxes and fees of \$3,092. *See* Staff Attachment C.

##### *1. Labor - Operation and Maintenance*

The parent company absorbs all the labor expense for the Company, and the Company did not ask for labor expenses to be included in its Application. The Company estimated that 25% of the parent company's total labor is for the operations and maintenance of the System. Because the Company cannot separately track and identify its actual labor expenses associated with operations and maintenance of the System, Staff recommended excluding labor expense from its calculation of the revenue requirement.

##### *2. Operating & Maintenance - Tank Painting*

Staff asserted that the Company incorrectly booked the expenses for the exterior tank painting, totaling \$18,750, as Materials & Supplies - Operations & Maintenance in 2020. The exterior tank painting cost \$37,500 and the Company made two payments of \$18,750. One in 2019 and the other in 2020. Both payments were expensed. The Company has included half of the costs of the exterior tank painting in its 2020 test year. Tank painting is not done every year and recovery of the expense should be capitalized and amortized. Staff recommended an adjustment to reduce the Company's Materials & Supplies expense by \$18,750 to remove all tank painting expenses from the Company's test year. An adjustment to increase the Company's amortization expense by

\$1,875 to allow for recovery of the full tank painting cost of \$37,500 over a 20-year amortization period is recommended.

Staff stated that the Company's Application represented that the storage tank needs an interior coating. The Company provided copies of proposed bids. Staff believed the Company is using a least cost approach to have the work completed. The Company has assured the interior coating is scheduled for completion by the time new rates go into effect. Staff recommended the interior tank coating at a cost of \$45,900 be capitalized and amortized over 20-years, for an annual amortization expense of \$2,295. This will allow the Company to recoup the costs over time while keeping customer rates at a reasonable level.

In a prior order, Order No. 29838, the Commission allowed tank painting/coating costs to be amortized over a specified period. The Company's storage tank has been in use since the early 1900s. By coating the interior and painting exterior surfaces of the storage tank, it will extend the life of the asset. Staff recommended that the exterior and proforma interior tank coating expenses be amortized over 20 years. This adjustment is an increase to amortization expense of \$4,170.

### *3. Depreciation Expense*

Staff recommended an adjustment of \$4,437 to increase Depreciation Expense. The Company did not include any depreciation expense in its Application, but Staff identified an expense of \$152 embedded in the parent company's financials. Staff re-calculated the Company's depreciation expense based on the new Plant-in-Service identified using the NARUC guidelines.

## **F. Rate of Return**

### *1. Equity*

The Company reported negative retained earnings. Retained earnings are embedded in the financials of the parent company, indicating that there is no ownership equity in the System. Staff used a capital structure of 100% debt and zero equity for calculation of the return on the Company's rate base. In future rate cases, Staff recommended the Company perform proper accounting for the System, especially to retained earnings and owners' equity. Staff recommended removing the Company's accounting function out of the parent company's financial system and that the Company be treated as a stand-alone entity. This way the Company's financial records and Annual Reports will be more accurate.

## 2. Debt

The Company entered into a loan agreement with the IWRB for a revolving development account loan contract. The Company needs a new secondary well and financial resources to pay for it. The Company has not officially requested debt authorization as required under *Idaho Code* §§ 61-901, *et. seq.* However, the Company supplied a copy of the loan documents from the IWRB.

The loan document provides financing to the Company to construct a water project that must be used for the drilling of a new secondary well and the installation of new pumps and necessary electrical equipment to accompany the new secondary well. The Company has entered into a 20-year loan for \$95,000, at a 3.5% annual interest rate. Payments are to be made annually and the first payment is due one year from final disbursement of the loan. The annual loan payment is estimated to be \$6,684.30. Staff has reviewed the loan documents and recommended approval of the debt with the IWRB.

With the approval of the loan, the Company will become completely debt financed. With a cost of debt set at 3.50% and no equity, weighted average cost of capital (“WACC”) becomes 3.50%.

### **G. RATE DESIGN**

The Company’s proposed rates equate to an approximate 50% increase across all customer classes and seasonal uses. The Company’s proposed rates will not generate the requested revenue of \$36,000. The proposed rates will only generate \$23,520. Staff proposed an increase to rates that will generate revenues of \$24,987 for the Company. *See* Staff Attachment D.

Without meters installed, it is impossible to set rates that are based on consumption. Thus, Staff recommended a near uniform increase to all customer rate components – 60% increase to the residential winter seasonal rate, a 61% increase to the residential summer seasonal rate, a 59% increase to the commercial rate, and a 61% increase to the Company’s Outlet rate that spans five months of the year. Seasonal rates for winter start October 1, and end March 31, and summer rates start April 1, and end September 30.

The Company’s current tariff, including its Rate Schedules and the General Rules and Regulations for Small Water Utilities, was last updated in 2004 at the conclusion of Case No. PIC-W-04-01. In 2008, Staff developed a Model Tariff, which includes revised General Rules and Regulations and incorporates the Uniform Main Extension Rule for Water Utilities based on Order

No. 7830 (Case No. U-1500-22). Staff recommended that the Company work with Staff to update its tariff to comply with the Commission's rules and regulations.

#### **H. CONSUMER INPUT**

The Company's Application included a copy of the Legal Notice dated March 3, 2021, published in the Idaho Mountain Express. The Company also provided a copy of the notice it sent to customers. The legal notice and the customer notice included the proposed rates, but do not meet the requirements of the Commission's Rules of Procedure 125. Rule 125 provides that the notice shall give the proposed overall percentage change from current rates and the proposed percentage increase in revenue for each major customer class. The Company's notices did direct questions and comments to the Company but did not provide the Commission's contact information or the case number. The Company indicates that there has been no response to the Company's notices.

#### **COMMISSION FINDINGS AND DECISION**

The Company is a water corporation and a public utility, as defined under Title 61 of the Idaho Code, and provides water service to the public in Idaho. *Idaho Code* §§ 61-125, and -129. The Commission has jurisdiction over the Company and this matter under *Idaho Code* §§ 61-501, -502, -503, -507, -520, -523, and -622.

The Commission has reviewed the record in this case including the Company's Application and Staff's comments. The Commission finds that based on the Company's Application and Staff's recommendation that use of a test year ending December 31, 2020, is fair, just, and reasonable. The Commission also finds that an annual revenue requirement of \$24,980 for the Company to be fair, just, and reasonable. We find that this annual revenue requirement increase is necessary due to the Company experiencing losses for many years, the need to drill a new, alternate well, install a ¼ mile of power, and paint the inside of a 50,000-gallon storage tank. Adjusting the revenue requirement due to the listed projects will allow the Company to continue offering safe and reliable water service to its customers.

We find the Staff rate base adjustments are reasonable. They reflect actual investments serving customers and improvements to extend the plant life. The proforma adjustment for the secondary well is reasonable. It will be in service and therefore appropriately included in rates.

We find that total annual operating expenses of \$20,353 to be reasonable. This amount includes annual depreciation expense of \$4,437 based on depreciation rates in the NARUC



Depreciation Manual for Small Water Utilities, and \$4,170 in amortization expense for the exterior and interior tank painting. We find Staff’s proposal to exclude labor expenses from the revenue requirement to be appropriate. If the Company provides evidence that labor expenses are separately tracked for the water utility and the parent company, we will consider inclusion in the next rate case.

Because the equity of the Picabo Water System was not separated from the parent company, we find that Staff’s proposed capital structure of 100% debt to 0% equity to be reasonable. When Picabo Water System separates its accounting functions from the parent company so that owner’s equity and retained earnings can be properly identified, we will consider including equity in the capital structure. As such, Staff’s proposed return of 3.5% will allow the Company to recover the interest payments on its debt.

We find that the rates proposed by Staff will provide the Company a reasonable opportunity to recover its revenue requirement. Rates shall be established in accordance with Table No. 1 below. Winter rates for residential customers will be effective October 1 through March 31, and summer rates will be in effect April 1 through September 30.

Table No. 1: Approved Rates

Customer Class – Flat Rates	# of Customers	Months of Service	Monthly Rate	Revenue Generated	% Increase
Residential – Winter	35	6	\$ 35.25	\$ 7,403	60%
Residential – Summer	35	6	\$ 66.00	\$ 13,860	61%
Commercial	4	12	\$ 59.00	\$ 2,832	59%
Outlet – Summer	3	5	\$ 59.50	\$ 893	61%
Annual Revenue				\$ 24,987	

We find it appropriate for the Company to borrow up to and including \$95,000 through the IWRB loan to fund the System’s new secondary well and associated plant. The new secondary well will provide increased flow for fire protection and improve system reliability. It will also be used and useful for service by the time rates go into effect. The purpose of the debt incurred is appropriate and is approved for ratemaking purposes.

The Company’s customer notice did not meet Commission requirements, so we order the Company to provide a draft copy of future notices to Staff for input. Accurate conforming

tariffs are necessary to the ratemaking process. Accordingly, we require the Company to work with Staff to create and file conforming tariffs that comply with Commission rules and this order.

**ORDER**


IT IS HEREBY ORDERED that the Company is authorized to have an annual revenue requirement of \$24,980 to be recovered through the rates shown above in Table No. 1. The rates shall be effective on November 1, 2021. The Company shall work with Staff to promptly create and file conforming tariffs that comply with the Commission's authorities. The Company shall also provide a draft copy of future notices to Staff for input.

IT IS FURTHER ORDERED that the Company is authorized to incur debt up to and including \$95,000 through the IWRB Loan. The purpose of the debt incurred is appropriate and is approved for ratemaking purposes.

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. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code § 61-626.*

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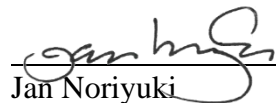
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 29<sup>th</sup> day of October 2021.

  
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PAUL KJELLANDER, PRESIDENT

  
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KRISTINE RAPER, COMMISSIONER

  
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ERIC ANDERSON, COMMISSIONER

ATTEST:

  
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Jan Noriyuki  
Commission Secretary

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