BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF PICABO WATER SYSTEM'S APPLICATION FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER SERVICE IN THE STATE OF IDAHO	))))))	**CASE NO. PIC-W-21-01** **ORDER NO. 35240**

On March 8, 2021, Picabo Water System dba Picabo Livestock Co. ("Company") applied to increase its rates and charges for water service by about 50%. The Company is 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. Staff filed comments to which the Company did not reply. No public comments were received by the Commission.

Having reviewed the record, the Commission issues this final Order approving the Company's Application as provided herein.

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 still in use today, had wooden water lines and used water from a desert spring. It is now 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 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.

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 Company argued that 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. 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. Staff noted that accounting for the Company is not separated from its' parent company. Staff recommended adjustments and updates to the Company's operations. 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 reported 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 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. Revenue Requirement, Rate Base and Expenses

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 amount to $30,108. Staff recommended a revenue requirement of $24,980.

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, based on total Plant-in-Service of $212,908 and total accumulated depreciation of $80,713, discussed in more detail below.

Staff identified an additional $50,300 of capital investments in hydrants, a flow meter, and new distribution pipes that it recommended be included in Plant-in-Service. These assets are currently in use. Staff also supported the Company's decision to paint and coat the elevated storage tank. Staff asserted that the exterior paint will extend the life of the asset and the interior coating will improve water quality. Staff believed the Company used reasonable efforts to acquire multiple bids to establish competitive pricing.

In the Company's last IDEQ report, IDEQ recommended to begin immediately installing a new secondary well for redundancy and additional water flow for the System and for fire protection. The Company has obtained a loan through the IWRB to fund a new secondary well and requests to include $95,000 as a proforma adjustment to Plant-in-Service for the costs of the new well. Staff believes the secondary well will improve System reliability and increase water flow for fire protection. Staff also expected that the well will be used and useful and in operation by the time rates are effective.

Staff identified that the Company's Annual Report does not reflect any accumulated depreciation. Using the annual depreciation expense from the Company's accounting records and considering accumulated depreciation of capital additions, Staff calculated the Company's total accumulated depreciation on December 31, 2020, as $80,713.

C. 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 absorbs all the labor expense for the Company. 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. No adjustment is required because the Company did not seek recovery of labor expenses.

Staff asserted that the Company incorrectly booked a portion of the expenses for the exterior tank painting. The Company 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 remove all tank painting expenses from the Company's test year. Staff further recommended that both the exterior tank painting and interior tank coating be capitalized and amortized over 20 years. These adjustments result in an increase to amortization expense of $4,170. This will allow the Company to recoup the costs over time while keeping customer rates at a reasonable level.

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 also identified $3,092 in taxes and fees.

D. Rate of Return

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. 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.

The Company entered into a loan agreement with the IWRB for a revolving development account loan contract. The Company needs the financial resources to pay for its new secondary well. The Company has not officially requested debt authorization, but supplied a copy of the loan documents from the IWRB. The agreement is for 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%.

E. Rate Design

Staff proposed an increase to rates that will generate revenues of $24,987 for the Company.

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. Staff recommended that the Company work with Staff to update its tariff to comply with the Commission's rules and regulations.

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 is fair, just, and reasonable. 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 and approximately 52% over the 2020 revenues.

We find that this revenue requirement increase is necessary due to the Company experiencing losses for many years and expenses incurred to maintain the System. Adjusting the revenue requirement 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 are reasonable. This amount includes annual depreciation expense of $4,437 and $4,170 in amortization expense for the exterior and interior tank painting. The Company did not request, therefore we do not approve, labor expenses to be included in the revenue requirement.

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 is 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. A return of 3.5% will allow the Company to recover the interest payments on its debt.

We find that the rates and rate design 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. The purpose of the debt incurred is appropriate and is approved for ratemaking purposes.

The Company's customer notice did not meet Commission requirements and its tariff has not been updated in some time. Consequently, we direct the Company to work with Staff in the creation of future notices to its customers and in updating and filing 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 as more fully described herein. 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 rules.

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 30th day of November 2021.

PAUL KJELLANDER, PRESIDENT

KRISTINE RAPER, COMMISSIONER

ERIC ANDERSON, COMMISSIONER

ATTEST:

Jan Noriyuki
Commission Secretary

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