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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

The Staff of the Idaho Public Utilities Commission (“Staff”) comments as follows to the Picabo Water System’s Application.

BACKGROUND

On March 8, 2021, Picabo Livestock Company, Inc. filed an application with the Commission to increase rates for the Picabo Water System (“Picabo” or “Company”). The Company reported expenses for power, maintenance, materials, and water testing have increased significantly since the Company’s last rate case¹. The Company’s Application is requesting a 50 percent increase to each of the Company’s tariff rates. Currently, the Company’s Application reflects a net loss of \$12,131, with a rate base of \$66,607.

¹ Case No. PIC-W-04-01, Order No. 29538.

STAFF ANALYSIS

System Description

The Picabo Water System is 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.

Recent system improvements include repainting the exterior surface of the storage tank and construction of a secondary well. The previous secondary well was located on property not owned or controlled by the Company and is no longer available to Picabo for system use. The new secondary well would be located adjacent to the Company's storage tank. It would provide increased flow for fire protection and improve system reliability.

The Company has obtained a loan agreement with the Idaho Water Resources Board for funding of the new well, electric service, and piping to connect the well to the system. To date, the secondary well has been drilled and tested but is not mechanically complete. The Company indicates the new well will be used and useful for service by the time rates go into effect.

The Company also notes it has considerable knowledge of water systems, and as such, it operates and performs much of the maintenance and improvement activities itself, using the Parent Company-supplied labor.

Staff Audit

Accounting for the water system operations is rolled up into the financial records of the Parent Company. Only two accounts are utilized to track the performance of the water system. One account tracks actual revenue billed, and one account is used to capture all direct expenses, which are paid by the Parent Company. The Company does not record any labor expense associated with operation and maintenance of the water system. All labor expense is absorbed by the Parent Company's operation. Depreciation expense associated with the water system assets are embedded in the depreciation expense of the Parent Company's operation. The water system assets are separately identified on a depreciation schedule maintained by the Company's outside accountant.

The Company requested a test year ending December 31, 2020, with two proforma adjustments. The first adjustment is for the inclusion of a secondary well for redundancy and to

meet Idaho Department of Environmental Quality (“IDEQ”) requirements. The second adjustment is for coating the interior surface of the storage tank which the Company indicates will be completed by the time rates go into effect. Staff is including four attachments that adjust and update the results of Picabo operations. Attachment A presents Staff’s adjustment to Plant-in-Service. Attachment B presents Staff’s adjustment to Depreciation and Accumulated Depreciation. Attachment C presents Staff’s adjustment to revenues and expenses. Attachment D presents Staff’s recommended Rate Design.

Revenue Requirement

The Company charges a flat monthly rate for water service, with separate rates for winter and summer months for residential customers. The Company’s Application requests a 50% increase in rates, which it states will generate a revenue of \$36,000. Based on the expenses listed in the Company’s Application, the revenue requirement would be \$30,108. See Table No. 1. Staff calculated the revenue generated based on the flat monthly rates proposed by the Company to be \$23,520, as shown on Attachment D.

Staff recommends a revenue requirement of \$24,980. To generate Staff’s recommended revenue requirement, the flat monthly rates will need to be greater than the rates 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.

Table No. 1 – Revenue Requirement

	Application	Staff Adjusted
Expenses	\$27,404	\$8,654
Taxes and Fees	\$2,704	\$3,092
Depreciation/Amortization	\$0	\$8,607
Return	\$0	\$4,627
Total	\$30,108	\$24,980

Rate Base

The Company’s Application states that its total plant-in-service balance on December 31, 2020, was \$67,607². Application at 3. 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 as calculated in Table No. 2 below. Staff’s proposed adjustments to the Company’s rate base will be discussed in greater detail below.

Table No. 2 – Rate Base

	QuickBooks	2007 Additions	2 nd Well	Total
Plant-in-Service	\$67,607	\$50,300	\$95,000	\$212,908
Accumulated Depreciation	\$66,237	\$14,476	\$0	\$80,713
Total	\$1,370	\$35,825	\$95,000	\$132,195

2007 Plant Additions

Staff reviewed the Company 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. The Company did not properly record these investments in QuickBooks. Staff recommends including the \$50,300 of capital investments made in 2007 in Plant-in-Service, as these assets are currently in use today. See Attachment A Column B.

Proforma Secondary Well

In its Application, the Company requested to include \$95,000 for a secondary well. Through discovery, Staff learned that the Company no longer has access to the off site secondary well. The Company has gone through the Idaho Water Resources Board to get approval to install a new well. In the Company’s last IDEQ report, it was recommended to begin immediately installing a secondary well for redundancy and additional water flow for the system and for fire

² The Company’s 2020 Annual Report, pg. 5, presented with the Application as Exhibit No. 1 lists total Plan-in-Service as \$66,607, which has differences in three accounts netting to a \$1 difference than shown in the Company’s QuickBooks files.

protection. Staff reviewed the Company's production request responses, the provided IDEQ reports, and supports the Company's request to include the \$95,000 as a proforma adjustment to Plant-in-Service. The secondary well will be used and useful and in operation by the time rates are in effect. See Attachment A, Column C.

Accumulated Depreciation

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 as shown in Attachment B, Column D. Total accumulated depreciation on December 31, 2020, should be \$80,713. See Attachment B, Column E, Line 17.

Prudence of the Investments

Staff reviewed both the current and future plant investments identified in the Application. Staff believes 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 also provide benefit to customers by extending the life of the asset, the interior coating of the tank will also improve water quality. Staff believes the Company used reasonable efforts to acquire multiple bids to establish competitive pricing.

With the inclusion of the well, Staff recommends a new Plant-in-Service of \$212,908. See Attachment A, Column D, Line 11.

Expenses

Staff reviewed all direct expenses recorded by the Company. The actual operating results for the water system are shown in Attachment C, Column A and reflect a net loss for the year 2020. The Parent Company operation has absorbed this loss as well as the previous year's losses.

Attachment C presents Staff's adjustments in Column B through Column F. Staff is recommending removal of \$18,750 from operating expenses and capitalizing the full tank painting expenditure of \$37,500, as discussed below. Staff is also recommending including annual depreciation expense of \$4,437, amortization expense of \$4,170, and taxes and fees of \$3,092. These adjustments are discussed in detail below.

Labor – Operation and Maintenance

The Parent Company absorbs all the labor expense for Picabo Water, and the Company did not ask for labor expenses to be included in their Application. In its Response to Production Request No. 32, the Company estimated that 25% of the Parent Company's total labor is for the operations and maintenance of the water company. Until the Company can separately track and identify its actual labor expenses associated with operations and maintenance of the water company, Staff will exclude labor expense from its calculation of the revenue requirement.

Operating & Maintenance – Tank Painting

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. The first payment was made in 2019 and the second payment was made 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 recommends 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. Consequently, Staff recommends 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.

In its Application, the Company also states the storage tank needs an interior coating. The Company provided copies of proposed bids. Staff believes 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 rates go into effect. Staff recommends 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 Picabo water 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. Thus, Staff recommends 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. See Attachment C, Column E.

Depreciation Expense

Staff recommends an adjustment of \$4,437 to increase Depreciation Expense. Attachment C, Column D. The Company did not include any depreciation expense in its Application, but through discovery, 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. See Attachment B, Column B.

Rate of Return

Equity

The Company reports negative retained earnings. Retained earnings are embedded in the financials of the Parent Company, indicating that there is no ownership equity in the water company. Staff uses 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 recommends the Company perform proper accounting of Picabo Water System, especially to retained earnings and owners' equity. By removing the accounting function out of the Parent Company's financial system and accounting for the water company as a stand-alone entity, the Picabo Water Company's financial records and Annual Reports will be more accurate.

Debt

The Company entered into a loan agreement with Idaho Water Resources Board for a revolving development account loan contract. The Company needs a secondary well and needs 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 Idaho Water Resources Board.

The loan document provides financing to the Company to construct a water project that must be used for the drilling of a new back up well and the installation of new pumps and necessary electrical equipment to accompany the new well. The Company has entered into a 20-year loan for \$95,000, at 3.5 percent annual interest rate. Payments are to be made annually and 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 recommends approval of the debt with Idaho Water Resources Board.

With the approval of the loan, the Company will become completely debt financed. With a cost of debt set at 3.50 percent and no equity, weighted average cost of capital (“WACC”) becomes 3.50 percent. See Table No. 3.

Table No. 3 – Rate of Return

	Balance	Rate	Weighting	WACC
Equity	\$0.00	0.00%	0.00%	0.00%
Debt - IDEQ Water Loan	\$95,000	3.50%	100.00%	3.50%
Total	\$95,000			3.50%

RATE DESIGN

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

Without meters installed, it is impossible to set rates that are based on consumption. Thus, Staff is recommending a near uniform increase to all customer rate components -- 60 percent increase to the residential winter seasonal rate, a 61 percent increase to the residential summer seasonal rate, a 59 percent increase to the commercial rate, and a 61 percent 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, Commission 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 recommends that the Company work with Staff to update its tariff to comply with the Commission's rules and regulations.

CONSUMER INPUT

Customer Notice and Press Release

The Company 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 customer notice and the legal notice included the proposed rates, but do not meet the requirements of the Commission's Rules of Procedure, (IDAPA 31.01.01), Rule 125. The rule states 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 notices did direct questions and comments to the Company, but didn't provide the Commission contact information or the case number. The Company indicates that there had been no response to the notice.

Public Workshop and Customer Hearing

Commission Order No. 35082, established a public workshop to be held Wednesday, August 9, 2021, at 7:00 pm, and a customer hearing on Tuesday, August 17, 2021, at 7:00 pm. Both workshop and hearing could be attended electronically and/or telephonically. No customers attended the public workshop or the hearing.

Customer Comments

As of August 18, 2021, no comments have been submitted.

Customer Complaints and Inquiries

There were no customer complaints in 2018, 2019, 2020 and 2021 to date. There was one inquiry in 2018 from the Idaho Tax Commission.

STAFF RECOMMENDATIONS

Based on its review of the Company’s Application, Annual Reports, QuickBooks Accounting records, and responses to discovery, Staff recommends that the Commission authorize an annual revenue requirement of \$24,980 to be collected through the rates calculated in Attachment D. Staff also recommends the Idaho Water Resources Board Loan be authorized. Additionally, Staff recommends that the Company work with Staff to create and file conforming tariffs with the Commission’s order.

Respectfully submitted this *19th* day of August 2021.



Erick Shaner
Deputy Attorney General

Technical Staff: Travis Culbertson
Chris Hecht
Rick Keller

[i:umisc/comments/picw21.1mhtnrkcwh](#) comments

Plant-in-Service

Plant-in-Service		Column A	Column B	Column C	Column D		
Line No.	Acct Description	QuickBooks	In Service	QuickBooks	Annual Report	ProForma	Total Plant
1	304 Structures and Improvement	1992		\$ 6,000	\$ -	\$ -	\$ 6,000
2	307 Wells	2002	2021	\$ 8,000	\$ -	\$ 17,450	\$ 25,450
3	309 Supply Mains	1992	2007	\$ 23,000	\$ 28,800	\$ -	\$ 51,800
4	311 Power Pumping	1992	2021	\$ 10,000	\$ -	\$ 5,000	\$ 15,000
5	320 Purification Systems	1992		\$ 1,800	\$ -	\$ -	\$ 1,800
6	331 Trans & Dist Mains	2001	2021	\$ 10,000	\$ -	\$ 55,050	\$ 65,050
7	333 Services	1992	2021	\$ 5,000	\$ -	\$ 17,500	\$ 22,500
8	334 Meters		2007	\$ -	\$ 7,500	\$ -	\$ 7,500
9	335 Hydrants	2004	2007	\$ 3,000	\$ 14,000	\$ -	\$ 17,000
10	336 Backflow Prevention Device	2004		\$ 808	\$ -	\$ -	\$ 808
11	Total Plant In Service			\$ 67,608	\$ 50,300	\$ 95,000	\$ 212,908

Depreciation Accumulated Depreciation

Line No.	Acct Description	QuickBooks	Column A Life	Column B Annual Dep	Column C QuickBooks	Column D Staff Adj	Column E Total Acc Dep
1	304 Structures and Improvement	1992	30	\$ -	\$ 6,000	\$ -	\$ 6,000
2	307 Wells	2002	25	\$ -	\$ 8,000	\$ -	\$ 8,000
3	307 Wells	2021	25	\$ 698	\$ -	\$ -	\$ -
4	309 Supply Mains	1992	50	\$ -	\$ 23,000	\$ -	\$ 23,000
5	309 Supply Mains	2007	50	\$ 576	\$ -	\$ 7,488	\$ 7,488
6	311 Power Pumping	1992	20	\$ -	\$ 10,000	\$ -	\$ 10,000
7	311 Power Pumping	2021	25	\$ 200	\$ -	\$ -	\$ -
8	320 Purification Systems	1992	20	\$ -	\$ 1,800	\$ -	\$ 1,800
9	331 Trans & Dist Mains	2001	35	\$ -	\$ 10,000	\$ -	\$ 10,000
10	331 Trans & Dist Mains	2021	35	\$ 1,573	\$ -	\$ -	\$ -
11	333 Services	1992	40	\$ -	\$ 5,000	\$ -	\$ 5,000
12	333 Services	2021	25	\$ 700	\$ -	\$ -	\$ -
13	334 Meters	2007	40	\$ 188	\$ -	\$ 2,438	\$ 2,438
14	335 Hydrants	2004	25	\$ 120	\$ 1,920	\$ -	\$ 1,920
15	335 Hydrants	2007	40	\$ 350	\$ -	\$ 4,550	\$ 4,550
16	336 Backflow Prevention Device	2004	25	\$ 32	\$ 517	\$ -	\$ 517
17	Total Accumulated Depreciation			\$ 4,437	\$ 66,237	\$ 14,476	\$ 80,713

Operating Adjustments

Operation Results	Line No.	Account Description	Column A Application	Column B Staff Adj	Column C Staff Adj	Column D Staff Adj	Column E Staff Adj	Column F Staff Adj	Column G Total
	1	Water Sales - Revenue	16,977	(558)					16,419
	2	Connection Fees	1,000	(1,000)					-
	3	Total Revenues	17,977	(1,558)	-	-	-	-	16,419
	4	601.1 Labor O&M	-	-	-	-	-	-	-
	5	615 Power Expenses	6,336	-	-	-	-	-	6,336
	6	618 Chemicals	339	-	-	-	-	-	339
	7	620.1 M&S O&M	18,750	-	(18,750)	-	-	-	-
	8	620.7 M&S A&G	1,550	-	-	-	-	-	1,550
	9	635 Contract Water Testing	429	-	-	-	-	-	429
	10	Total Operating Expenses	27,404	-	(18,750)	-	-	-	8,654
	11	403 Depreciation Expense	-	-	-	4,437	-	-	4,437
	12	407 Amortization Expense - Tank Paintin.	-	-	-	-	4,170	-	4,170
	13	408 Other Taxes - Idaho Rural Water	230	-	-	-	-	-	230
	14	408.1 PUC Fees	50	-	-	-	-	-	50
	15	408.11 Property Taxes	404	-	-	-	-	-	404
	16	408.13 DEQ Fees	100	-	-	-	-	-	100
	17	408.13 Idaho Rural Water	1,920	-	-	-	-	-	1,920
	18	409 Income Taxes	-	-	-	-	-	388	388
	19	Net Income/Loss	(12,131)	(1,558)	18,750	(4,437)	(4,170)	(388)	(3,934)

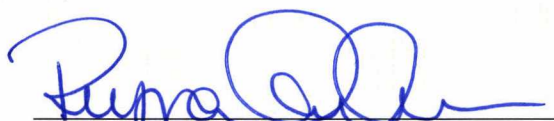
Proposed Rate Design

Customer Class - Flat Rates	Number of Cust	Months of Service	Current Rates		Company Proposed			Staff's Proposal				Staff Percent Increase Proposed
			Current Company Rates \$/Mo.	Current Proposed Rate Revenue	Company Proposed Rates \$/Mo.	Total Proposed Rate Revenue	Company Percent Increase Proposed	Staff Proposed Months of Service	Staff Proposed Rates \$/Mo.	Staff Proposed Rate Revenue	Staff Percent Increase Proposed	
Residential - Winter	35	6	\$ 22.00	\$ 4,620	\$ 33.00	\$ 6,930	50%	6	\$ 35.25	\$ 7,403	60%	
Residential - Summer	35	6	\$ 41.00	\$ 8,610	\$ 62.00	\$ 13,020	51%	6	\$ 66.00	\$ 13,860	61%	
Commercial	4	12	\$ 37.00	\$ 1,776	\$ 55.00	\$ 2,640	49%	12	\$ 59.00	\$ 2,832	59%	
Outlet - Summer	3	5	\$ 37.00	\$ 555	\$ 62.00	\$ 930	68%	5	\$ 59.50	\$ 893	61%	
Total Yearly Revenue				\$ 15,561		\$ 23,520				\$ 24,987		

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 19th DAY OF AUGUST 2021, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. PIC-W-21-01, BY E-MAILING A COPY THEREOF TO THE FOLLOWING:

NICK PURDY
PRESIDENT
PICABO WATER SYSTEM
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SECRETARY