

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION) CASE NO. SWS-W-25-01
OF CDS STONERIDGE UTILITIES, LLC)
FOR AUTHORIZATION TO BORROW) ORDER NO. 36501
FUNDS FROM RELATED ENTITIES TO)
COVER OPERATING LOSSES)
)

On January 9, 2025, CDS StoneRidge Utilities, LLC (“Company” or “StoneRidge”) filed an application (“Application”) with the Idaho Public Utilities Commission (“Commission”) requesting authority for the Company to borrow \$207,000 from Esprit Enterprises, LLC (“Esprit”). On January 21, 2025, Randolph Garrison filed a Petition to Intervene, and on February 20, 2025, the Commission granted the petition. Order No. 36474.

During the Commission’s January 28, 2025, decision meeting, the Commission considered the Application and the recommendation of Commission Staff (“Staff”). Based on its review of the record and all submitted materials, the Commission found good cause to continue the timeframe for prompt disposition of the Application under *Idaho Code* § 61-904. The Commission determined that the record contained multiple issues that required additional time for resolution including the issue of the Company’s required payment for the Application, the status of the Company’s legal representation, Mr. Garrison’s Petition to Intervene, as well as time for the Company to respond to Commission Staff’s recommendation.

On February 3, 2025, the Commission issued a Notice of Schedule extending the timeframe for prompt disposition of the Application under *Idaho Code* § 61- 904 for an additional thirty (30) days and ordering the Company to file any responsive briefing within fourteen (14) days from the date of the Order. Order No. 36456 at 1. The Company did not file any additional briefing.

STAFF COMMENTS

Staff recommended that the Commission reject the Application for Authorization to Issue Debt.

Staff reviewed the effect of the proposed debt issuance on the Company’s capital structure. Staff noted that on the balance sheet provided in Exhibit B of its Application, the Company reported a negative equity of \$98,557. Staff explained that the proposed debt issuance of \$207,000 would not impact the negative equity on the Company’s books. Staff used the costs of debt and

equity authorized by the Commission in Order No. 36407, and the proposed debt and interest rate requested in the Application, and Staff calculated that the overall rate of return would be 2.19%, which is less than the 8.21% overall rate of return approved by the Commission in the Company's most recent general rate case. Staff explained that if the Commission rejected the Application, and the Company considered the intercompany expenses as additional paid in capital, the equity percentage would be 51%, which would also change the rate of return using the same assumptions as before to 6.08%.

Staff noted that the lender in this proposed transaction is Esprit, the parent company of StoneRidge that purchased the Company in 2018, owned by J.D. Resort Inc, which is owned by Chan Karupiah and Teresa Karupiah. *See* Case No. SWS-W-18-01. Staff believed that the common ownership between the entities made the proposed debt issuance a related party transaction. Staff explained that related party transactions require additional scrutiny to be deemed prudent. *See Boise Water Corp. v. Idaho Public Utilities Commission*, 97 Idaho 832, 555 P.2d 163 (1976).

Staff represented that it generally uses either the lower of the actual cost to the related party or the market to determine if the transaction is prudent, and that the long-term debt agreement between the Company and Esprit states an interest rate of 6%. Staff believed that the interest on the unsecured loan was likely better than the Company could get on the open market considering its small size and history of operating losses; however, without access to Esprit's financial statements, Staff was not able to determine the actual cost of lending those funds.

Further, Staff explained that debt payments are prioritized over equity during bankruptcy; therefore, debt is typically at a lower cost than equity. In this case, Staff noted that should the Company declare bankruptcy and liquidate, Esprit would get the assets whether the debt was approved by the Commission or not. Staff noted that the only other debt the Company currently has is a Department of Environmental Quality ("DEQ") loan that is mostly being paid by an approved surcharge, and that classifying the proposed transaction as long-term debt provided nearly identical results in liquidation as classifying the transaction as paid in capital. *See* Order Nos. 30342 and 33249.

Staff also expressed concerns about the expenses the Company intended to use this debt for. Staff noted that the Company stated that the purpose of the issuance was to cover operating losses as well as the accrual of intercompany charges; however, in the Company's most recent rate case, Case No. SWS-W-24-01, Order No. 36407, the Commission reduced recovery or denied

recovery of many of the expenses from Esprit. Staff explained that the Commission approved adjustments to contract labor expenses, property rental, equipment leases, and ROW/water rights leases, and that those adjustments net to a \$158,433 reduction to revenue requirement, which was approximately 77% of the debt requested. Staff did not believe it was appropriate to issue debt to cover expenses that were denied recovery by the Commission.

Staff also noted that while the Company stated, “Esprit Enterprises, LLC., is not willing to invest additional equity in the Company,” in Case No SWS-W-18-01, the Company filed a personal guarantee signed by Chan Karupiah pledging to use his personal assets to support the capital needed in the operation of the water system, and the statement in the Application that Mr. Karupiah was unwilling to invest the necessary capital for adequate service was at odds with the personal guarantee of Mr. Karupiah.

Finally, Staff explained that in the Company’s proposed customer notice it stated, “Residential customers will, if the debt issuance is approved, likely see a future increase in their monthly bill (currently \$24.00) of \$.65 (2.7%) because of the approval of this Authorization to Secure Debt Recapitalization Application.” Staff noted that interest expense is not an operating expense that is included for recovery in the calculation of revenue requirement, rather interest rates are included in the capital structure and therefore rolled into the overall rate of return. Staff believed that the request for debt would likely reduce the overall rate of return for the Company and would not be in the best interest for the financial health of the Company and should be rejected.

However, Staff noted that rejecting the Company’s Application for additional debt does not prevent the Company from making payments to its parent company, and if the Company has the resources available, it can make payments to Esprit in the form of dividends.

INTERVENOR COMMENTS

In his petition, Mr. Garrison stated he is a customer of the Company and is significantly impacted by the Company’s request to secure debt. Garrison provided a list of reasons that he opposes the Company’s request.

Garrison argued that the Company previously filed a nearly identical request, in Case No. SWS-W-23-03, requesting approval to incur \$980,000 of debt, which was rejected for the same reasons he argued the Company’s Application should be rejected in this case.

Garrison argued that rejecting the Application would mitigate the potential risks associated with related party transactions and provide a better capital structure for the Company. Garrison

contended that this case is identical in the three factors considered by the Commission in the previous case (Case No. SWS-W-23-03) as (1) this Application is not an arm's length transaction; (2) the debt is at a lower cost than equity; and (3) the ideal capital structure is typically 50% equity, 50% debt, and this Application would take it further from the desirable balance.

Finally, Garrison argued that in its Application, the Company stated that the base water rates approved in Case No. SWS-W-24-01 are not likely to alter the requirement for additional funds to be invested in the Company; however, Garrison argued that the approved base rates were presumptively adequate based on the evidence in that case, and this Application is a back door attempt to increase water rates.

PUBLIC COMMENTS

The Commission received one public comment on the Application. The comment noted that the Company wanted approval to increase rates; however, in Case No. SWS-W-24-01 the Company received approval for an 18.6% increase in rates.

COMMISSION FINDINGS AND DECISION

The Commission has jurisdiction over this matter under *Idaho Code* §§ 61-501, 61-502, and 61-503. The Commission is vested with the power 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 is empowered to investigate rates, charges, rules, regulations, practices, and contracts of public utilities and to determine whether they are just, reasonable, preferential, discriminatory, or in violation of any provision of law, and to fix the same by order. *Idaho Code* §§ 61-502 and 61-503.

Having reviewed the Application and all submitted materials, the Commission denies the Application. The Commission finds that the proposed transaction is inconsistent with the public interest and does not represent an appropriate request by the Company for the proper performance as a public utility. *See Idaho Code* § 61-902. The Commission notes the similarities between this case and Case No. SWS-W-23-03. Specifically, the Commission considered that the transaction in this case is not an arm's-length transaction, the relative cost of debt and equity and the order of recovery in cases of insolvency, and the ideal capital structure of 50% debt 50% equity as a basis for a healthy Company.

The Company argues that “[w]ithout the contribution of additional funding each year it is unlikely that [the Company] can continue to operate, especially under the current and recently

approved general rate increase of less than 16.3% over 17 years—a annual rate of increase under 1% a year.” The Company’s argument mistakes the nature and outcome of its most recent general rate case. Commission approved rates represents a determination of what fair, just, and reasonable rates are appropriate when considering the balance between financial recovery from customers and the financial health of the Company.

If the Application was approved as requested, among other things, the Company’s capital structure would move farther from a desirable balanced ratio and as noted by Staff, the request for debt would likely reduce the overall rate of return for the Company. The Commission cannot find that the request is in the best interest of the financial health of the Company.

ORDER

IT IS HEREBY ORDERED that the Company’s Application is denied.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date upon this Order regarding 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 and 62-619.

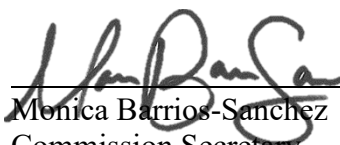
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho, this 10th day of March 2025.


EDWARD LODGE, PRESIDENT


JOHN R. HAMMOND JR., COMMISSIONER

Recused
DAYN HARDIE, COMMISSIONER

ATTEST:


Monica Barrios-Sanchez
Commission Secretary

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