

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF TETON WATER & SEWER COMPANY’S APPLICATION FOR APPROVAL OF USE OF EMERGENCY RESERVE FUND MONIES** ) **CASE NO. TTS-W-19-01**  
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) **ORDER NO. 34601**  
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On November 22, 2019, Teton Water & Sewer Company (“Teton Water” or “Company”) applied to the Commission for approval of \$18,044.80 in expenses to be reimbursed from Teton Water’s emergency reserve fund (“Fund”).

On December 26, 2019, the Commission issued a Notice of Application and a Notice of Modified Procedure, setting a February 26, 2020 comment deadline and a March 4, 2020 reply comment deadline. Commission Staff filed the only comments. The Company did not file reply comments.

Having reviewed the record, we deny the Application as described below.

**BACKGROUND**

The Commission authorized Teton Water to establish the Fund in Order No. 30718. The Fund is only to be used “for emergencies and major unplanned capital expenditures,” such as plant maintenance, repair, or replacement. Order No. 30718 at 12. While Teton Water may immediately access the Fund, it must “establish an auditable paper trail and provide the Commission with contemporaneous written notice of the Company’s use of the [Fund] for an allegedly permitted purpose with emergency details and related invoices.” *Id.* at 13. After the emergency use of Fund monies, the Company must file an application requesting the Commission determine whether the Fund withdrawal(s) meet the Commission’s eligibility requirements.

**THE APPLICATION**

In its Application, Teton Water stated it spent \$18,044.80 to purchase a backup well pump, transformer, and associated materials during summer 2019. The Company stated Well No. 1 and Well No. 2 were running almost continuously in mid-June but failing to maintain minimum reservoir levels during peak demand periods. The Company estimated that if Well No. 1 failed the Company would have only 8 to 12 hours to repair the well before its reservoir would be emptied. The Company determined it would be wise to have a replacement pump, motor, and transformer on hand in case of failure.

The Company began consulting with Buchanan Well Drilling, Inc. (“Buchanan”) and Rendezvous Engineering on June 18, 2019 about pump replacement parts. On June 27, 2019, the Company requested Buchanan order a Goulds pump, a Franklin motor, 310 feet of pump cable, two check valves, and 42 feet of galvanized steel pipe. The total cost of this purchase was \$16,864.80. The Company also ordered around this time a replacement transformer for \$1,180.00.

The Company stated that even though the water system did not fail during summer 2019, the time required to get replacement parts shows the Company could not have fixed a well before its reservoir was depleted. The Company requested the Commission authorize the Company to use the Fund to cover these expenses.

### **STAFF COMMENTS**

In its comments, Staff recommended the Commission deny the Company’s Application because the \$18,045 incurred to purchase backup parts were planned costs and not for “emergencies and major unplanned capital expenditures.” *See* Order No. 30718. Also, Staff noted the Fund would have a negative balance if it was used to pay for the backup parts. However, Staff commended the Company’s prudent management and recommended that the costs incurred to purchase the backup parts be recognized by the Commission as prudent.

Staff noted that Order No. 30718 set out clear parameters for the Company to access the Fund: 1) the Fund must be used only for emergencies and major unplanned capital expenditures (plant repair, maintenance, and replacement), 2) the Company must establish an auditable paper trail for all expenditures paid from the Fund, and 3) the Company must apply to the Commission for permission to use the Fund. *See* Order No. 30718 at 12-13. While the Company filed an application with the Commission to use the Fund and provided the audit trail, Staff believes the expenditures were not for an emergency or a major unplanned expense. Staff noted that “[p]urchasing spare parts is inherently a planned activity,” and that planned expenditures for parts can be placed into inventory for recovery in rates during a utility’s general rate case. Staff Comments at 3. Therefore, Staff does not believe the Fund should be used to reimburse the Company for its expenditures for the backup parts.

Additionally, Staff pointed out that the Fund’s balance was \$15,273 as of December 30, 2019. If the Company were allowed by the Commission to withdraw \$18,045 from the Fund, the Fund would be left with a negative balance. Staff noted the Company has recently needed to utilize the Fund for emergency leak repairs. *See* Case Nos. TTS-W-17-02 and TTS-W-18-01. If

the Commission allows the Fund to be depleted, Staff noted the Company would have no immediate emergency funds available. By denying the Application, Staff believes the Commission would be ensuring the Fund remains adequately funded.

However, Staff agreed with the Company that the expenditures were prudently made and in the best interest of the Company's ratepayers. Well No. 1 has failed at least four times since 2002. Given the summer peak demand, Staff noted the Company could only meet customer needs for 16 hours if Well No. 1 failed. By having spare parts to repair the pump on hand, Staff noted the Company could likely repair the system without service interruption to customers.

Staff praised the Company's owner, Mr. Pinardi, for his commendable management of the Company. "The recommendation for denial of this Application is not intended to punish good behavior, but rather to follow the parameters necessary to access the Fund set forth in Commission Order No. 30718." Staff Comments at 4.

### **COMMISSION FINDINGS AND DECISION**

The Company is a water corporation under Idaho Code § 61-125. The Commission has jurisdiction over it and the issues in this case under Title 61 of the Idaho Code, including Idaho Code §§ 61-129, -501 through -503, and -524. Having reviewed the record, including the Application and Staff's comments, the Commission finds the \$18,044.80 spent for backup parts cannot be reimbursed from the Fund. Nevertheless, the Commission finds these expenses to be prudent and appreciates Mr. Pinardi's proactive management of Teton's water system.

When we authorized the creation of the Fund, we stated it "is to be used only for emergencies and major unplanned capital expenditures (plant repair, maintenance and repair)." Order No. 30718. In 2018, we followed this standard when we disapproved a \$3,430 expenditure from the Fund for a backflow device because the Company installed the device to comply with long-standing Idaho Department of Environmental Quality rules. *See* Order No. 34278 at 3. While recognizing the need for the backflow device, we noted "the cost of the backflow device should be capitalized and recovered through depreciation expense in the Company's next rate case." *Id.* at 4.

Similarly, the \$18,044.80 in expenditures for the backup parts for Well No. 1 are planned capital expenditures. The Company was preparing for a possible emergency, but none had yet occurred when the Company purchased the backup parts. Given the facts presented by the Company, we find the Company prudently expended \$18,044.80 for backup well parts that should

be capitalized for recovery in the Company's next rate case. With such a short window to make repairs before a service interruption, having backup parts makes sense. But this expenditure is not the kind for which the Fund may be used. Therefore, we deny Teton Water's request that it be reimbursed from the Fund for the backup parts expenditure. Our denial today ensures the Fund will be available to the Company if it has an emergency or major unplanned capital expenditure.

We commend Teton Water for proactively managing its water system and for its responsiveness to Staff's requests in this and prior cases. We deny the Company's Application only because it is more appropriate for the Company to capitalize these expenditures for recovery in the Company's next rate case.

### **ORDER**

IT IS HEREBY ORDERED that the Company's Application—that the Commission approve reimbursement from the Fund of \$18,044.80 for backup well parts—is denied.

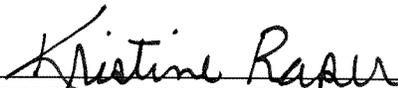
IT IS FURTHER ORDERED that the Company may capitalize the \$18,044.80 it spent for backup well parts as prudently incurred expenses to be recovered in the Company's next rate case.

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 17<sup>th</sup> day of March 2020.

  
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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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Diane M. Hanian  
Commission Secretary

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