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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF TETON WATER &)	
SEWER COMPANY'S APPLICATION FOR)	CASE NO. TTS-W-19-01
APPROVAL OF USE OF EMERGENCY)	
RESERVE FUND MONIES)	
)	COMMENTS OF THE
)	COMMISSION STAFF
)	

COMES NOW, Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Matt Hunter, Deputy Attorney General, and in response to the Notice of Modified Procedure issued on December 26, 2019, in Order No. 34518, submits the following comments.

BACKGROUND

On November 22, 2019, Teton Water & Sewer Company ("Teton Water" or "Company") applied to the Commission for approval of \$18,045 in expenses to be reimbursed from Teton's Emergency Reserve Fund ("Fund").

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.

Teton Water spent \$18,045 to purchase a backup well pump, transformer, and associated materials during summer 2019. 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 \$16,865. The Company also ordered around this time a replacement transformer for \$1,180.

Though the water system did not fail during summer 2019, the length of time required to get replacement parts showed that the Company could not have fixed the well before its reservoir was depleted.

The Company requested that the Commission authorize the Company to use the Fund to cover these expenses.

STAFF ANALYSIS

Staff conducted a thorough examination of all the elements associated with the Company’s Application. While Staff commends the Company on its prudent management, Staff recommends that the Commission deny the Company’s Application to use the Fund to pay for the \$18,045 incurred to purchase the backup well pump, the transformer, and other materials. Staff determined that these costs are planned costs, which are part of the day-to-day operational capital expenditures of the business. Therefore, the costs do not meet the Commission’s eligibility requirements for withdrawal from the Emergency Reserve Fund as established in Commission Order No. 30718. Also, Staff notes that as of December 31, 2019, the Fund has a balance of \$15,273. This withdrawal, if allowed, will deplete the Fund and reduce the account to a negative balance. Staff’s analysis and reasons for this recommendation are detailed below.

Commission Parameters

In Order No. 30718, the Commission authorized the Company to establish the Fund and created the following parameters for the Company to access the Fund for any expenditures. The Commission required that:

- The Fund is to be used only for emergencies and major unplanned capital expenditures (plant repair, maintenance and replacement);
- The Company must establish an auditable paper trail for all expenditures paid from the Fund; and
- The Company must file an application with the Commission for permission to use the Fund. Order No. 30718 at 12-13.

The Company filed with the Commission an Application to use the Fund, and provided the necessary audit trail. Staff reviewed the invoices of the expenditures made, bank statements, and the Company's QuickBooks ledger of the Fund and found them to be adequate.

However, Staff does not believe that the expenditures fall into the category of an emergency or were major unplanned capital expenditures. Purchasing spare parts is inherently a planned activity. As such, Staff contends that this is an ordinary planned capital expenditure and the purchased parts can be placed into inventory for recovery in rates during a general rate case. Nevertheless, Staff agrees with the Company that the capital expenditures were prudently made so that the Company can respond to future equipment failures in a timely manner.

Prudency

Staff believes the purchase of the back-up pump, motor, transformer, and some associated parts for Well No. 1 were prudent, and in the best interest of the Company's ratepayers. If any of these components were to fail during the summer season, the Company would be unable to continue supplying water to its customers for more than a few hours. Given the relatively long lead times necessary to acquire these components, it is possible that the system would be unable to resume normal operation for one to two weeks. However, with back-up components available on site, it is likely that the system would be fully operational within a few hours.

In normal operation, water is pumped from two wells to a 500,000-gallon storage tank, and then fed by gravity into the Company's distribution system. Well No. 1 is the system's main water source and supplies the system's storage tank at a rate of approximately 300 gallons per minute ("gpm"). Production from Well No. 1 is marginally enough to enable the system to meet

summer peaking demand; however, the water obtained from this well is relatively warm (97- °F), and it is desirable to mix it with cooler water from Well No. 2. During summer peaking periods, Well No. 2's production rate of 70 gpm is insufficient to meet system needs.

Staff notes that since 2002, Well No. 1 has failed at least four times, and that each of the major components stockpiled by the Company (pump, motor, and transformer) has failed at least once.

If Well No. 1 were to fail during the summer season, Staff estimates that water from the storage tank, augmented by water from Well No. 2, would be able to meet system needs for about 16 hours. In its response to Staff's Production Request No. 5, the Company indicated that under ideal conditions, its well contractor would be able to effect repairs in as little as 9.5 hours using the Company's stockpiled components, so it is possible that repairs could be completed with no interruption in service to the Company's customers.

Other Considered Issues

Staff believes that Mr. Pinardi has done a commendable job managing the operations 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. The balance in the Fund account as of December 30, 2019 is \$15,273. The Company is requesting a withdrawal of \$18,045. If this Application is approved, the Fund would have a negative balance of (\$2,772). It would take five months for the account to return to a positive balance, given the monthly contribution of \$620 that is deposited into this account. Given the Company's recent history of emergency leak repairs, Staff is concerned that the Company will have no immediate emergency funds available if the trend continues. By denying this Application, the Fund will remain adequately funded, and if there is an emergency the Company will have a source of funding to adequately address it.

STAFF RECOMMENDATION

Staff recommends that the Commission deny this Application in order to preserve the financial health of the Emergency Reserve Fund.

Respectfully submitted this 26th day of February 2020.



Matt Hunter
Deputy Attorney General

Technical Staff: Johan Kalala-Kasanda
Bentley Erdwurm
Chris Hecht
Michael Morrison
Joseph Terry

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 26TH DAY OF FEBRUARY 2020, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. TTS-W-19-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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SECRETARY

CERTIFICATE OF SERVICE