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Attorney for the Commission Staff

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF FALLS WATER )**  
**COMPANY'S APPLICATION FOR AN )** **CASE NO. FLS-W-20-03**  
**ORDER AUTHORIZING INCREASES IN )**  
**THE COMPANY'S RATES AND CHARGES )**  
**FOR WATER SERVICE IN THE STATE OF )** **REDACTED COMMENTS OF**  
**IDAHO )** **THE COMMISSION STAFF**  
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The Staff of the Idaho Public Utilities Commission comments as follows on Falls Water Company's Application.

**BACKGROUND**

On June 30, 2020, Falls Water Company, Inc. ("Falls Water" or "Company") filed an Application requesting authorization to raise the rates it charges for water service.

The Company is a wholly owned subsidiary of NW Natural Water Company, LLC ("NW Natural Water"), which itself is a wholly owned subsidiary of NW Natural Holdings Company ("NW Natural Holdings"), which was created during a corporate reorganization of Northwest Natural Gas Company and its affiliates. As of December 31, 2019, the Company served 5,545 customers.

The Company states its proposed rate increase would increase Company revenues by \$344,175 (19.12%). See Application at 1. The Commission last approved an increase to the Company's basic rates and charges in October 2012. Order No. 32663.

On July 16, 2020, the Commission issued a Notice of Application and Notice of Suspension of Proposed Effective Date. Order No. 34725. The Commission suspended the Company's proposed effective date of August 15, 2020, for 30 days plus five months under Idaho Code § 61-622. *See Id.*

## **STAFF ANALYSIS**

### **Overview**

Staff recommends a total revenue requirement of \$1,967,016 for an increase of \$166,588, or 9.25%. This revenue requirement is based on a 9.9% Return on Equity ("ROE") and a hypothetical capital structure consisting of 45% debt and 55% equity for a Weighted Average Cost of Capital ("WACC") of 6.91% applied to net rate base of \$4,928,979.

### **System Description**

The Falls Water Company service area is located in Bonneville County, east of the city of Idaho Falls and north of the city of Ammon. The Company provides services to 58 subdivisions. At the end of 2019, the Company had 4,263 residential customers, 41 multi-family customers, and 104 commercial customers.

The Company's water system consists of 8 wells with 9 total pumps, and a distribution system providing domestic water to residents and commercial businesses. The Company has been expanding its customer base and making regular improvements to its system, with an additional \$1.3 million in capital investments in 2020.

### **Acquisition by Northwest Natural Water**

The Commission approved the acquisition of Falls Water by NW Natural Water in Case No. FLS-W-18-01. In its Application in that case, Falls Water said that it would continue to operate in its current form, that the transaction would not cause an increase in rates, and that NW Natural Water would work with Commission Staff regarding the details and timing of significant capital improvements.<sup>1</sup>

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<sup>1</sup> See Case No. FLS-W-18-01, Application at 4.

## **REVENUE REQUIREMENT**

### **Revenues**

Staff recommends a total revenue requirement of \$1,967,016 with a total expense allowance, including taxes and depreciation, of \$1,581,745. The Company's test year revenue included \$1,792,318 in billed metered residential, commercial, and multi-family revenue, as well as \$4,518 in late fees, \$5,080 in miscellaneous service revenue and a \$1,489 reversal in accrued revenue. Staff does not propose any adjustments to the Company's test year revenues.

### **Expense Adjustments**

#### *Labor Expenses*

The Company proposed significant salary increases to its employees spanning three years beginning in 2020. The Company's pro forma labor adjustment represents 26% of its total requested increase in revenue requirement. If approved, labor expenses would increase by 40% of the amounts currently included in the Company's rates. In response to Production Requests, the Company justified the significant increases by claiming it would bring the Company's wages in line with similar positions at the municipal water system in nearby Idaho Falls. Staff doesn't support using this single point of comparison. The Idaho Falls Water system is significantly larger and has more employees, so tying Falls Water salaries to positions in Idaho Falls is not a fair comparison. Instead, Staff proposes looking at broader salary data.

In Table No. 1 below, Staff provides a comparison of the annual wage increase granted by Falls Water from 2016 to 2020 to the annual salary increases awarded to employees of Idaho Falls Water, City of Eagle Water, and other investor-owned utilities operating in Idaho. Staff also included wage increases from the Bureau of Labor Statistics ("BLS") and the State of Idaho to provide additional data points for a more accurate comparison to the broader workforce. The Company's annual percentage increases for each historic year as well as 2020 and 2021 were equal to or larger than any other single-year percentage increase from the broader proxy group. Falls Water wages increases were equal to or greater than other Idaho investor owned utility comparisons in Table No. 1 for every year.

**Table No. 1: Annual salary increase comparisons**

| Utility                   | 2016       | 2017       | 2018       | 2019       | 2020       | 2021 (planned) |
|---------------------------|------------|------------|------------|------------|------------|----------------|
| Falls Water               | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED]     |
| Avista (Electric & Gas)   | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED]     |
| Suez                      | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED]     |
| Idaho Power               | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED]     |
| PacifiCorp                | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED]     |
| City of Idaho Falls Water | 3%         | 2%         | 3%         | 2%         | 1%         |                |
| City of Eagle Water       | 2%         | 2%         | 2%         | 2%         | 2%         |                |
| BLS - High End            | 2%         | 2%         | 2%         | 2%         | 2%         |                |
| State of Idaho            | 3%         | 3%         | 3%         | 3%         | 0%         |                |

\*Redacted information was provided as Confidential.

Staff acknowledges that the Company's salaries have historically been lower than other water systems, both investor-owned and municipal systems. However, since its last general rate case in 2012, the Company has awarded salary increases greater than those awarded by other utilities or the broader workforce in general. Prior to 2020, the enhanced increases compared to the proxy group represent a gradual approach to increasing wages, which Staff supports. However, Staff proposes eliminating the Company's proposed salary increases for 2020, 2021, and 2022, and keeping the Company's recovery at its actual labor expense for 2019. The Company's proposed increases in 2020 and beyond are excessive at a time when many of the Company's customers may be facing financial hardship due to the ongoing COVID-19 pandemic. Staff's proposal represents a 4 percent average annual increase from the Company's last rate case. This adjustment reduces employee salaries by \$79,747, employee benefits by \$3,872, and payroll taxes by \$6,143. These reductions are shown in Attachment A, Column B.

*Training*

The Company's training expenses increased significantly in its 2019 test year, more than tripling the expenses in the two previous years combined. The Company sent employees to a conference in Sun Valley and corporate training in Portland. The Company said that NW Natural Water's policy is to increase training for staff beyond the minimum certification required to continue operations. Staff appreciates the extra training provided to employees and understands the value it provides to the Company's operations, but the increase is unwarranted given the travel restrictions due to the COVID-19 pandemic and the ability to participate in virtual training

opportunities. Staff proposes to use the average of the 2018 and 2019 training expense, which reduces the expense by \$2,983, from \$6,984 to \$4,001. Staff's proposal allows the Company to recover training expenses greater than what it has historically incurred while recognizing that many utilities have decreased their training and travel budgets due to the current pandemic. This adjustment is shown in Attachment A, Column C.

#### *Meter Reading Savings*

In Case No. FLS-W-12-01, the Commission ordered special accounting treatment related to the Company installing meters with radio transmitters. The Commission ordered the Company to set aside \$8,315 annually into a special plant reserve fund for infrastructure projects. The \$8,315 was from operational savings due to installing meters with radio transmitters, which could be read remotely and save the Company labor and fuel expense. Additionally, the Commission required the Company to put the depreciation expense for the meters, almost \$27,000 per year, into the special plant reserve fund.<sup>2</sup> The Company properly funded the special plant reserve fund since the previous rate case. The Company is requesting to capture the operational savings in its operating expenses as those savings would be embedded in the Company's new revenue requirement. Because the operational savings will be embedded in the new revenue requirement, there would be no additional savings to fund the special plant reserve account. The Company proposes to increase its test year expenses by \$8,315 to continue to fund the special plant reserve account in compliance with Order No. 32663.

Staff proposes eliminating the \$8,315 operational expense as well as the contribution into the special plant reserve account. The Company has had eight years of incorporating the efficiencies from the new meters into its operations, so the operational savings identified in Case No. FLS-W-12-01 no longer reflect the Company's business practices. Staff recommends the Company continue to fund the special plant reserve account with the depreciation expense associated with advanced meters. This adjustment is shown in Attachment A, Column C.

#### *Shared Services Expense*

The Company included \$79,225 in shared services allocation in its pro forma adjustments for NW Natural Water expenses allocated to Falls Water. This amount was calculated based on a

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<sup>2</sup> See Order No. 32663, page 11.

weighted average of 2019 actual and 2020 estimated expenses from NW Natural Water that were assigned to Falls Water. It includes several corporate services shared by NW Natural Water subsidiaries and a corporate 27.5 percent administrative charge in accordance with a NW Natural Holdings cost allocation manual filed with regulators in Oregon and Washington. Staff has reviewed the allocation manual and believes that some of the services provided do not directly benefit Falls Water customers. Staff recommends removing the corporate administrative charge and the shared services charge for expense categories that don't offset other Falls Water expenses, specifically accounting, corporate communications, HR/payroll, and information services. These services were provided by Falls Water employees prior to the acquisition by NW Natural Water. Including these expenses in the revenue requirement would increase customer rates without providing any additional benefit. However, Staff recommends allowing some shared services as operating expenses that Staff believes provide a benefit to Falls Water customers, specifically executives, legal, regulatory affairs, risk and land, tax, and treasury. Table No. 2 below provides a summary of the Shared Services pro forma request from the Company and Staff's proposed adjustment.<sup>3</sup>

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<sup>3</sup> The Company's Application lists a \$79,225 expense due to an "immaterial difference" adjustment the Company made to its total shared services cost of \$18 in 2019 and \$76 in 2020. Table No. 2 shows a \$2 difference from the Company's Application.

**Table No. 2: Shared Services Adjustment**

| <u>Expense</u>                   | <u>Company</u> |                | <u>Staff</u> |               | <u>Difference<br/>Over 2 years</u> |
|----------------------------------|----------------|----------------|--------------|---------------|------------------------------------|
|                                  | <u>2019</u>    | <u>2020</u>    | <u>2019</u>  | <u>2020</u>   |                                    |
| Accounting                       | 11,018         | 24,569         | 0            | 0             | (35,587)                           |
| Executives                       | 56,086         | 55,099         | 56,086       | 55,099        | 0                                  |
| Corporate communications         | 11,141         | 10,886         | 0            | 0             | (22,027)                           |
| HR, Payroll                      | 10,443         | 9,567          | 0            | 0             | (20,010)                           |
| Legal                            | 11,227         | 33,201         | 11,227       | 33,201        | 0                                  |
| Information Services             | 0              | 25,000         | 0            | 0             | (25,000)                           |
| Rates & Regulatory Affairs       | 13,105         | 51,268         | 13,105       | 51,268        | 0                                  |
| Risk and land                    | 10,731         | 7,793          | 10,731       | 7,793         | 0                                  |
| Tax                              | 7,744          | 7,903          | 7,744        | 7,903         | 0                                  |
| Treasury                         | 9,145          | 6,217          | 9,145        | 6,217         | 0                                  |
| Corporate 27.5% admin charge     | 38,676         | 63,663         | 0            | 0             | (102,339)                          |
| Indirect Common Allocation Costs | 0              | 97,000         | 0            | 0             | (97,000)                           |
| NW Natural Water new 2020 jobs   | 0              | 355,001        | 0            | 166,875       | (188,126)                          |
| NW Natural Water rounding        | <u>-18</u>     | <u>-76</u>     | <u>0</u>     | <u>0</u>      | <u>94</u>                          |
| Total Shared Services Cost       | 179,299        | 747,091        | 108,038      | 328,356       | (489,996)                          |
| Falls Water allocation           | <u>32.5%</u>   | <u>13.4%</u>   | <u>32.5%</u> | <u>13.4%</u>  |                                    |
| Shared services expense          | 58,259         | <u>100,191</u> | 35,104       | <u>44,035</u> | <u>(79,326)</u>                    |
| Average of 2019 & 2020           |                | 79,225         |              | 39,570        | (39,655)                           |

In its Application to purchase Falls Water in Case No. FLS-W-18-01, NW Natural Water stated that the transaction would not cause an increase to rates.<sup>4</sup> This is the Company's first rate case since the acquisition and Falls Water is proposing to include expenses that either don't directly benefit customers or duplicate existing expenses. Removing the expenses listed above and shown in Table No. 2 reduces the Company's Shared Service expenses to \$39,570, a decrease of \$39,655 from the Application. This adjustment is shown in Attachment A, Column C.

*Taxes*

Several of Staff's proposed adjustments increase the Company's property tax and income tax burdens. Staff accepts the Company's methods for calculating its tax burden.

The Company proposes setting its property tax expense at 1.16% of net plant in service. Given the proposed increases to plant in service as discussed later in these comments, Staff

<sup>4</sup> See Case No. FLS-W-18-01, Application, page 3.

recommends increasing the Company's property tax expense by \$356. This adjustment is shown in Attachment A, line 47, Column D.

The Company calculated its income tax expense by starting with its net ordinary income and subtracting its depreciation expense, property and payroll taxes, regulatory fees, and interest expense. The result is then multiplied by a composite state and federal composite tax rate for a calculated income tax expense. Given that Staff is proposing several decreases to the operating expenses, an increase to depreciation expense, and a decrease to net rate base, the Company's income tax expense would increase by \$37,287. This adjustment is shown in Attachment A, line 50, Column C.

## **RATE BASE**

### **Plant in Service**

#### *Plant additions*

Since its last rate case, the Company's net plant in service, including its 2020 pro forma adjustments, has increased from \$2.4 million to approximately \$5 million. Two of the largest projects were the new well approved in Case No. FLS-W-17-01 and the multiple phases of its Lincoln Road waterline replacement and relocation project that coincided with roadwork performed by Bonneville County. Staff reviewed all expenditures associated with the new well and Lincoln Road project and found they were recorded properly in the Company's plant in service accounts.

The Company reported the expected cost of several projects added in 2020 in Exhibit No. 1 of the Application. These include several additions and replacements that were in the Company's Drinking Water Capital Facilities Plan, a new GPS mapping and inventory system, and improvements at existing wells. *See* Application at 3-4. The Company provided Staff with invoices and receipts for the actual expenditures on all 2020 plant additions, which were \$30,718 higher than expected. This difference is a 2 percent increase above the \$1.3 million in additions in 2020. Staff supports allowing the actual costs incurred, and its associated depreciation expense of \$766 to be included in plant in service. This adjustment is shown in Attachment A, Column D.

*Use of special plant reserve fund*

In Case No. FLS-W-12-01, the Commission ordered the Company to create a special plant reserve fund “to finance infrastructure projects like trunk line improvements, storage tank and booster stations, and replacing old water lines.” Order No. 32663 at 11. The fund was created after the Company installed meters with radio transmitters at an expense of \$674,024 without seeking prudence approval from the Commission. The Company funds this account with the depreciation expense from the radio meters and an annual operational savings resulting from the advanced meters. The Commission considered not allowing the new meters into rate base, but it did not want to jeopardize the Company’s financial integrity and acknowledged that the meters, while costly, would ultimately benefit customers. The Company has used this fund once, withdrawing almost \$170,000 to pay for a portion of a new well authorized by the Commission in Case No. FLS-W-17-01. The fund accrues approximately \$27,000 per year and as of July 1, 2020, the balance in the fund was \$96,149.

The Company is proposing large plant additions in this case, again without seeking a prudence determination from the Commission prior to beginning work, aside from the new well. The Company also has not proposed using the special plant reserve fund. Since the fund was intended for infrastructure projects, Staff believes the Company should deplete the fund once more. Staff also recommends that a \$100,000 contribution from the special plant reserve fund should be treated as a contribution in aid of construction (“CIAC”), which would be a reduction to plant in service. This treatment is consistent with Commission Order No. 33863 in Case No. FLS-W-17-01, in which the Commission ruled another contribution from the fund should be treated as a CIAC. In that order, the Commission wrote “if the annual savings are not removed from the rate base calculation, the Company would earn a return on investments not funded by the Company, but by customers.” Order No. 33863 at 4. This treatment would provide some relief to customers and be a more productive use of the assets in the special plant reserve fund. This adjustment is shown in Attachment A, Column E.

*Working capital*

Staff supports the Company’s use of the 45-day or one-eighth method for working capital, using one-eighth of the Company’s operating expenses to determine adequate working capital. Given Staff’s proposed adjustments to operating expenses, working capital should be reduced by \$16,822, as shown in line 8 of Attachment B.

### *Rate of return and capital structure*

The Company requested to maintain its approved ROE of 10.5% from its last general rate case, Case No. FLS-W-12-01. However, Falls Water is now a subsidiary of NW Natural Holdings, which should improve the Company's access to capital. This improved access should lower the necessary ROE in this rate case. Capital costs have also declined since the 10.5% ROE was authorized. Other NW Natural Holdings utilities have ROE's lower than Falls Water. For example, NW Natural Holding's approved ROE for its natural gas utility is 10% in Washington and 9.4% in Oregon. As another comparison, the Commission has recently awarded ROEs of 9.5% to other Idaho investor-owned utilities (Avista Utilities in 2019 and Intermountain Gas Company in 2017). Staff recommends lowering the Company's ROE to 9.9%, which results in a WACC of 6.91%. Staff's proposed WACC of 6.91% is comparable to NW Natural Holding's weighted cost of capital for its Oregon natural gas utility, which is 6.97%.

In its Application, the Company requested adjusting its actual capital structure of 10% debt and 90% equity to a hypothetical capital structure of 45% debt and 55% equity. Staff supports the Company's proposed capital structure because it fairly represents an appropriate capital structure of investor-owned utilities.

### *Calculation of Revenue Requirement*

Staff recommends a revenue requirement of \$1,967,016, which is a 9.25% increase in billed revenue. The calculations for the revenue requirement are shown in Attachment D—Revenue Requirement. Staff also recommends a total rate base of \$4,928,979, as shown in Attachment B—Rate Base Calculation. Staff's recommended rate base includes Net Plant in Service of \$4,780,529 and working capital of \$148,450.

Staff recommends one change to the Company's proposed gross up factor, which is used to increase the revenue requirement to account for revenue dependent charges, such as taxes and regulatory fees. The Company included bank service charges in its calculation of the gross up factor. Staff recommends removing the Company's bank service charge fee, which is based on transaction fees from the Company's vendor, Xpress Bill Pay. Staff reviewed the Company's contract and fee schedule with Xpress Bill Pay. The Company's fees to Xpress Bill Pay are assessed per transaction, such as each time a customer pays a bill with a credit card or ACH transfer, rather than on the amount of the transaction. Because the fees are not dependent on the Company's revenue, and an increase in the Company's revenue requirement does not necessarily

increase the fees due to its vendor, it is not appropriate to include the fees in the gross up factor. This removal of bank service fees reduces the gross up factor by 2.8 percent, as shown in Attachment D, line 20.

**RATE DESIGN**

To achieve recovery of Staff’s proposed \$1,967,016 revenue requirement, Staff proposes the rates presented below in Table No. 3:

**Table No. 3: Staff Rate Design Proposal**

| Meter Size (Inches)           | Current Rate                     | Company Proposed                 | Percent Change from Current | Staff Proposed                   | Percent Change from Current |
|-------------------------------|----------------------------------|----------------------------------|-----------------------------|----------------------------------|-----------------------------|
| 5/8 or 3/4 in.                | \$17.75 for up to 12,000 gal/mo. | \$18.75 for up to 12,000 gal/mo. | 5.6%                        | \$17.75 for up to 12,000 gal/mo. | 0.0%                        |
| 1 in.                         | \$25.00 for up to 17,000 gal/mo. | \$26.41 for up to 17,000 gal/mo. | 5.6%                        | \$25.00 for up to 17,000 gal/mo. | 0.0%                        |
| 1.5 in.                       | \$32.25 for up to 22,000 gal/mo. | \$34.07 for up to 22,000 gal/mo. | 5.6%                        | \$32.25 for up to 22,000 gal/mo. | 0.0%                        |
| 2 in.                         | \$41.00 for up to 28,000 gal/mo. | 43.31 for up to 28,000 gal/mo.   | 5.6%                        | \$41.00 for up to 28,000 gal/mo. | 0.0%                        |
| 4 in.                         | \$73.25 for up to 49,000 gal/mo. | \$77.38 for up to 49,000 gal/mo. | 5.6%                        | \$73.25 for up to 49,000 gal/mo. | 0.0%                        |
| Commodity Rate per 1,000 gal. | \$0.689                          | \$0.957                          | 38.9%                       | \$0.827                          | 20.0%                       |

Staff proposes that the rate increase be recovered entirely through the commodity (usage) component, without changing the meter size-based monthly charges and their associated water allotments. Staff’s proposal, which increases the commodity rate by 20.0%, significantly increases the proportion of revenues recovered volumetrically, from around 29.6% of revenues to 33.6%. Increasing volumetric-based recovery helps discourage water waste by sending a price signal that each additional gallon of water used imposes an additional cost on the system. For example, pumps help move water through the system and more gallons of water pumped means

more electricity use and higher costs. Taking a longer-term view, more water use can challenge a capacity-constrained system's ability to meet water demand at certain times. Increased water use may eventually necessitate capital expenditure to replace and expand the water system.

Both the Company's rate proposal and Staff's proposal significantly increase the proportion of revenues recovered volumetrically. As shown above in Table No. 3, the Company proposed a much larger percentage increase to commodity rates than to the minimum monthly rates (38.9% to commodity rates vs 5.6% to the minimum monthly rates). The Company's proposed rates would result in 35.6% of the revenue requirement recovered volumetrically through the commodity rate. The Company's proposal results in a higher volumetric recovery percentage than Staff's proposal (35.6% vs 33.6%). While Staff commends the Company's efforts to increase the level of volumetric recovery in this case, Staff favors its proposed rate changes that limits the volumetric recovery percentage to 33.6%.

If Staff used the Company's volumetric proportion of 35.6% along with Staff's recommended revenue requirement, the monthly meter charges would actually decrease. Staff believes that a rate design with lower monthly meter charges (and consequently a higher commodity charge) significantly reduces the likelihood that the Company could recover the revenue requirement approved in this case. Also, lower monthly meter charges could result in more cash flow variance throughout the year. Revenue in the lowest water-use months may decline, which could expand the disparity between costs and revenue in these months. Finally, lower monthly meter charges and a higher commodity charge would increase the variance in bill impacts among customers, with lower-use customers seeing bill decreases, while larger-use customers seeing relatively larger bill increases. Staff's rate design tempers the level of volumetric recovery in this case.

Bill comparisons for customers with  $\frac{5}{8}$  and  $\frac{3}{4}$  -inch meters are shown in Table No. 4. Customers with  $\frac{5}{8}$  and  $\frac{3}{4}$  -inch meters represent around 78% of the Company's customers.

**Table No. 4: Bill Comparison - 5/8 and 3/4-inch meter**

| Monthly Usage (1,000 gal.) | Current Rate | Company Proposed | Percent Change from Current | Staff Proposed | Percent Change from Current |
|----------------------------|--------------|------------------|-----------------------------|----------------|-----------------------------|
| 0                          | \$17.75      | \$18.75          | 5.6%                        | \$17.75        | 0.0%                        |
| 15                         | \$19.82      | \$21.62          | 9.1%                        | \$20.23        | 2.1%                        |
| 25                         | \$26.71      | \$31.19          | 16.8%                       | \$28.50        | 6.7%                        |
| 50                         | \$43.93      | \$55.12          | 25.5%                       | \$49.18        | 11.9%                       |
| 75                         | \$61.16      | \$79.04          | 29.2%                       | \$69.85        | 14.2%                       |
| 100                        | \$78.38      | \$102.97         | 31.4%                       | \$90.53        | 15.5%                       |

Bill comparisons for customers with 1-inch meters are shown in Table No. 5. Customers with 1-inch meters represent almost 21% of system customers.

**Table No. 5: Bill Comparison - 1-inch meter**

| Monthly Usage (1,000 gal.) | Current Rate | Company Proposed | Percent Change from Current | Staff Proposed | Percent Change from Current |
|----------------------------|--------------|------------------|-----------------------------|----------------|-----------------------------|
| 0                          | \$25.00      | \$26.41          | 5.6%                        | \$25.00        | 0.0%                        |
| 15                         | \$25.00      | \$26.41          | 5.6%                        | \$25.00        | 0.0%                        |
| 25                         | \$30.51      | \$34.06          | 11.6%                       | \$31.62        | 3.6%                        |
| 50                         | \$47.74      | \$57.99          | 21.5%                       | \$52.29        | 9.5%                        |
| 75                         | \$64.96      | \$81.91          | 26.1%                       | \$72.97        | 12.3%                       |
| 100                        | \$82.19      | \$105.84         | 28.8%                       | \$93.64        | 13.9%                       |

## CUSTOMER RELATIONS

### April 20, 2020, Boil Water Advisory

In April 2020, the Company's water system was affected by low pressure caused by the failure of a check valve at a well site. The Company contacted the Commission and corrected the problem, restoring full service in about 30 minutes. The Company followed Idaho Department of Environmental Quality ("IDEQ") requirements by notifying customers and filed the appropriate notices with IDEQ.

The Company issued a Boil Water Advisory, disinfected the system, and tested for coliform contamination. A Boil Water Advisory is a precautionary measure issued when there is a loss of pressure but no known contamination whereas a Boil Water Notice is issued when there is known contamination. Either notice must be issued within 24 hours of the event pursuant to IDEQ rules. As a result of customer complaints regarding the notification process, the Company purchased a mass notification program that would allow the Company to notify customers quickly

should problems such as low-pressure or outages occur in the future. The same system will be implemented for all water systems operated by Falls Water and Gem State Water Company, which is also owned by NW Natural Water. The Company did not include the cost of its system in this rate case.

### **Customer notice and press release**

The Company's Application included a copy of the notice it mailed to customers at the end of June 2020 as a separate mailing and a copy of the news release that was sent to the Post Register in Idaho Falls on June 30, 2020. The customer notice and news release detailed the percentage increase for various sizes of connection, which the Company calculated using customers' actual usage to determine percentage increases. The additional detail showing the effects for each meter size are helpful, allowing customers to see the effect on their bill. The detailed increase is the average increase for each meter size. Staff recognizes the Company efforts in calculating the effect of the proposed rate increase on customers, which more than satisfies the Commission's Rules of Procedure, (IDAPA 31.01.01). Rule 125 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 Commission provided public notification for a customer workshop through a December 18, 2020 news release. The virtual workshop was held on January 5, 2021.

### **Customer Relations**

The Commission received three public comments regarding this case, as of January 8, 2021. All were concerned with the size of the rate increase the Company requested.

Since January 1, 2018, the Commission has received 28 complaints and inquiries about the Company, 22 of which were about the April 20, 2020 Boil Water Advisory.

### **STAFF RECOMMENDATIONS**

Based on Staff's audit and analysis of the Company's Application and system, Staff recommends an annual revenue requirement of \$1,967,016, consisting of a rate base of \$4,928,979, a ROE of 9.9%, and a WACC of 6.91%. Staff recommends the Company collect its revenue with the metered rate design proposed by Staff in Table No. 3.

Additionally, Staff recommends the Company discontinue its \$8,315 contribution from operational savings to the special plant reserve fund, as those savings would now be embedded in the Company's new revenue requirement.

Respectfully submitted this 11<sup>TH</sup> day of January 2021.



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i:umisc/comments/flsw20.3ejblmmtncdebecwh comments

Falls Water Co.  
Adjustments Summary  
FLS-W-20-03

| Acct #             |                                | Company      |            |               | Staff                  |                                    | Recommendation |
|--------------------|--------------------------------|--------------|------------|---------------|------------------------|------------------------------------|----------------|
|                    |                                | 2019 CY<br>A | Labor<br>B | Expenses<br>C | 2020<br>Additions<br>D | Special Plant<br>Reserve Fund<br>E |                |
| Revenues           |                                |              |            |               |                        |                                    |                |
| 1 461.1            | Residential                    | 1,680,913    |            |               |                        |                                    | 1,680,913      |
| 2 461.2            | Commercial                     | 72,000       |            |               |                        |                                    | 72,000         |
| 3 461.5            | Multiple Family                | 39,405       |            |               |                        |                                    | 39,405         |
| 4 461.6            | Accrued Revenue                | (1,489)      |            |               |                        |                                    | (1,489)        |
| 5 470              | Late Payment Fee               | 4,518        |            |               |                        |                                    | 4,518          |
| 6 471              | Misc Service Revenues          | 5,080        |            |               |                        |                                    | 5,080          |
| 7 400              | Total Operating Revenue        | 1,800,427    |            |               |                        |                                    | 1,800,427      |
| Operating Expenses |                                |              |            |               |                        |                                    |                |
| 8 601.5            | Labor Field                    | 366,265      | (50,954)   |               |                        |                                    | 315,311        |
| 9 601.8            | Labor Office                   | 77,266       | (16,495)   |               |                        |                                    | 60,771         |
| 10 601.9           | Admin - Labor                  | 127,635      | (12,298)   |               |                        |                                    | 115,336        |
| 11 604             | Employee Benefits              | 87,679       | (3,872)    |               |                        |                                    | 83,807         |
| 12 610             | Purchased Water                | 3,300        |            |               |                        |                                    | 3,300          |
| 13 615             | Electrical Power               | 198,717      |            |               |                        |                                    | 198,717        |
| 14 618             | Chemicals                      | 5,921        |            |               |                        |                                    | 5,921          |
| 15 620.2           | Source M&S                     | 16,793       |            |               |                        |                                    | 16,793         |
| 16 620.6           | Distribution M&S               | 33,876       |            |               |                        |                                    | 33,876         |
| 17 620.7           | Postage                        | 27,688       |            |               |                        |                                    | 27,688         |
| 18 620.8           | Office                         | 41,910       |            |               |                        |                                    | 41,910         |
| 19 620.81          | Telephone Expense              | 14,413       |            |               |                        |                                    | 14,413         |
| 20 620.82          | Bank service charges           | 35,349       |            |               |                        |                                    | 35,349         |
| 21 620.83          | Office Utilites Expense        | 4,720        |            |               |                        |                                    | 4,720          |
| 22 631.1           | Engineering                    | 11,234       |            |               |                        |                                    | 11,234         |
| 23 631.4           | Payroll Services               | 836          |            |               |                        |                                    | 836            |
| 24 635             | Testing                        | 5,877        |            |               |                        |                                    | 5,877          |
| 25 636.3           | Trash                          | 964          |            |               |                        |                                    | 964            |
| 26 636.4           | Outsourced Bad Debt Collection | 124          |            |               |                        |                                    | 124            |
| 27 636.6           | Distribution Contract Repairs  | 600          |            |               |                        |                                    | 600            |
| 28 636.7           | Data Processing                | 11,983       |            |               |                        |                                    | 11,983         |
| 29 641             | Rental of Property             | 2,200        |            |               |                        |                                    | 2,200          |
| 30 642             | Rental of Equipment            | 292          |            |               |                        |                                    | 292            |
| 31 645             | Lease Rent Exp - Interest      | 1,845        |            |               |                        |                                    | 1,845          |
| 32 646             | Lease Rent Exp - Depreciation  | 40,107       |            |               |                        |                                    | 40,107         |
| 33 650             | Transportation Expense         | 35,390       |            |               |                        |                                    | 35,390         |
| 34 656             | Insurance Expense              | 51,217       |            |               |                        |                                    | 51,217         |
| 35 656.1           | Workers Compensation Ins       | -            |            |               |                        |                                    | -              |
| 36 660             | Advertising Expense            | 159          |            |               |                        |                                    | 159            |
| 37 666             | Rate Case Amortization         | -            |            |               |                        |                                    | -              |
| 38 670             | Bad Debt Expense               | 5,796        |            |               |                        |                                    | 5,796          |
| 39 675.1           | Training Expenses              | 6,984        |            | (2,983)       |                        |                                    | 4,001          |
| 40 675.2           | Dues & Publications            | 860          |            |               |                        |                                    | 860            |
| 41 675.4           | IDHW Fee Expense               | 16,635       |            |               |                        |                                    | 16,635         |
| 42 675.9           | 2012 MXU Proj Mtr Reader Lbr   | 8,315        |            | (8,315)       |                        |                                    | -              |
| 43                 | Shared Services Allocation     | 79,225       |            | (39,655)      |                        |                                    | 39,570         |
| 44                 | Total Operating Expense        | 1,322,175    | (83,619)   | (50,953)      | -                      | -                                  | 1,187,603      |
| 45                 | Net Ordinary Income            | 478,252      | 83,619     | 50,953        | -                      | -                                  | 612,825        |
| Other Expense      |                                |              |            |               |                        |                                    |                |
| 46 403             | 403 - Depreciation Expense     | 215,696      |            |               | 766                    |                                    | 216,462        |
| 47 408.1           | 408.11 - Property Taxes        | 79,427       |            |               | 356                    |                                    | 79,783         |
| 48 408.1           | 408.12 - Payroll Taxes         | 46,779       | (6,143)    |               |                        |                                    | 40,636         |
| 49 408             | Total Taxes                    | 126,206      | (6,143)    |               | 356                    |                                    | 120,419        |
| 50                 | Income Taxes                   | 15,501       |            | 37,287        |                        |                                    | 52,788         |
| 51 408.1           | Regulatory Fee                 | 4,474        |            |               |                        |                                    | 4,474          |
| 52 426             | Misc. Non-Utility Expenses     | -            |            |               |                        |                                    | -              |
| 53 426.1           | Donations - Tax Deductible     | -            |            |               |                        |                                    | -              |
| 54 427.3           | Interest Expense               | -            |            |               |                        |                                    | -              |
| 55                 | Total Other Expense            | 361,876      | (6,143)    | 37,287        | 1,122                  | -                                  | 394,142        |
| 56                 | Net Income                     | 116,376      | 89,762     | 13,666        | (1,122)                | -                                  | 218,682        |
| 57                 | Plant in Service               | 7,247,752    |            |               | 30,718                 |                                    | 7,278,470      |
| 58                 | Accumulated Depreciation       | (485,385)    |            |               | (766)                  |                                    | (486,151)      |
| 59                 | CIAC Gross Contributions       | (2,165,446)  |            |               |                        | (100,000)                          | (2,265,446)    |
| 60                 | CIAC Accum. Amortization       | 253,656      |            |               |                        |                                    | 253,656        |
| 61                 | Net Plant in Service           | 4,850,577    |            |               |                        |                                    | 4,780,529      |

Falls Water Co.  
Rate Base Calculation  
FLS-W-20-03

|  | Company<br>Request | Staff<br>Recommendation | Difference |
|--|--------------------|-------------------------|------------|
| 1 Plant In Service                     | 7,247,752          | 7,278,470               | 30,718     |
| 2 Accumulated Depreciation             | (485,385)          | (486,151)               | (766)      |
| 3 Contributions in Aid of Construction | <u>(1,911,790)</u> | <u>(2,011,790)</u>      | (100,000)  |
| 4 Net Plant in Service                 | 4,850,577          | 4,780,529               | (70,048)   |
| 5 Working Capital                      | <u>165,272</u>     | <u>148,450</u>          | (16,822)   |
| 6 Total Rate Base                      | 5,015,849          | 4,928,979               | (86,870)   |
|  |                    |                         |            |
| Working Capital Calculation            |                    |                         | -          |
| 7 Total Operating Expense              | <u>1,322,175</u>   | <u>1,187,603</u>        | (134,572)  |
| 8 Working Capital (Line 7 ÷ 8)         | 165,272            | 148,450                 | (16,822)   |

Falls Water Co.  
Rate of Return Calculation  
FLS-W-20-03

|  | Company Actual               |  |                              |   | Company Request              |  |                              |   | Staff Recommendation         |  |                              |   |
|--|------------------------------|--|------------------------------|---|------------------------------|--|------------------------------|---|------------------------------|--|------------------------------|---|
|  | (A)<br>Amount<br>Outstanding | (B)<br>% of Total<br>Outstanding<br>(Column A ÷<br>Total Line 6) | (C)<br>Cost<br>of<br>Capital | (D)<br>Weighted<br>Cost<br>(Column B x<br>Column C) | (A)<br>Amount<br>Outstanding | (B)<br>% of Total<br>Outstanding<br>(Column A ÷<br>Total Line 6) | (C)<br>Cost<br>of<br>Capital | (D)<br>Weighted<br>Cost<br>(Column B x<br>Column C) | (A)<br>Amount<br>Outstanding | (B)<br>% of Total<br>Outstanding<br>(Column A ÷<br>Total Line 6) | (C)<br>Cost<br>of<br>Capital | (D)<br>Weighted<br>Cost<br>(Column B x<br>Column C) |
| 1 Common Equity                                      | \$2,090,709                  |  |                              |   | \$2,090,709                  |  |                              |   | \$2,090,709                  |  |                              |   |
| 2 Paid in Capital                                    | \$ 3,857,209                 |  |                              |   | \$ 1,543,157                 |  |                              |   | \$1,543,157                  |  |                              |   |
| 3 Total Common Equity (Line 1 + Line 2)              | \$ 5,947,918                 | 90.02%   | 10.50%                       | 9.45%   | \$ 3,633,866                 | 55.00%   | 10.50%                       | 5.78%   | \$3,633,866                  | 55.00%   | 9.90%                        | 5.45%   |
| 4 Long-Term Debt                                     | \$ 659,109                   | 9.98%  | 3.25%                        | 0.32%   | \$ 2,973,161                 | 45.00%   | 3.25%                        | 1.46%   | \$2,973,161                  | 45.00%   | 3.25%                        | 1.46%   |
| 6 Total Capital                                      | \$ 6,607,027                 |  |                              |   | \$ 6,607,027                 |  |                              |   | \$6,607,027                  |  |                              |   |
| 7 Weighted Cost of Capital (Rate of Return Required) |                              |  |                              | 9.78%   |                              |  |                              | 7.24%   |                              |  |                              | 6.91%   |

(Column D,  
Lines 3 + 4)

(Column D,  
Lines 3 + 4)

(Column D,  
Lines 3 + 4)

Falls Water Co.  
Revenue Requirement  
FLS-W-20-03

|   | Company<br>Request | Staff<br>Recommendation |
|---|--------------------|-------------------------|
| 1 Rate Base                               | \$ 5,015,849       | \$ 4,928,979            |
| 2 Required Rate of Return                 | 7.24%              | 6.91%                   |
| 3 Net Operating Income Requirement        | \$ 363,022         | \$ 340,469              |
| 4 Net Operating Income Realized           | \$ 116,376         | \$ 218,682              |
| 5 Net Operating Income Deficiency         | \$ 246,646         | \$ 121,787              |
| 6 Gross up Factor (line 20)               | 1.3954             | 1.3679                  |
| 7 Total Incremental Revenue Requirement   | \$ 344,175         | \$ 166,588              |
| 8 Revenues at existing rates              | \$ 1,800,427       | \$ 1,800,427            |
| 9 Total Revenue Requirement               | \$ 2,144,602       | \$ 1,967,016            |
| 10 Percent Increase Required              | 19.12%             | 9.25%                   |
| <b>Net to Gross Multiplier</b>            |                    |                         |
| 11 Total Gross Revenues                   | 1.000000           | 1.000000                |
| 12 Less Uncollectibles                    | 0.003219           | 0.003219                |
| 13 Less 2019 Regulatory Fees              | 0.002529           | 0.002529                |
| 14 Less Bank Service Charge Fees          | 0.019634           | -                       |
| 15 Net Revenue                            | 0.974618           | 0.994252                |
| 16 State Income Tax Rate (6.925%)         | 0.067492           | 0.068852                |
| 17 Federal Income Tax Base                | 0.907126           | 0.925400                |
| 18 Federal Income Tax Rate (21%)          | 0.190496           | 0.194334                |
| 19 Net Operating Revenue                  | 0.716630           | 0.731066                |
| 20 Net Income to Gross Revenue Multiplier | <u>1.3954</u>      | <u>1.3679</u>           |

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 11<sup>TH</sup> DAY OF JANUARY 2021, SERVED THE FOREGOING **REDACTED COMMENTS OF THE COMMISSION STAFF** IN CASE NO. FLS-W-20-03, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

K SCOTT BRUCE  
FALLS WATER CO INC  
2180 N DEBORAH DR  
IDAHO FALLS ID 83401  
E-MAIL: [scott1@fallswater.com](mailto:scott1@fallswater.com)  
(Redacted Comments)

ERIC W NELSEN  
SR REGULATORY ATTORNEY  
NW NATURAL  
220 NW 2<sup>ND</sup> AVE  
PORTLAND OR 97209  
E-MAIL: [eric.nelsen@nwnatural.com](mailto:eric.nelsen@nwnatural.com)  
(Confidential Comments)

  
\_\_\_\_\_  
SECRETARY

CERTIFICATE OF SERVICE