BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UW 117

In the Matter of PETE'S MOUNTAIN WATER CO., INC. Request for an increase in total annual revenues from $111,079 to $212,300	STAFF'S POST-HEARING BRIEF

INTRODUCTION

The Public Utility Commission of Oregon Staff (Staff) recommends that the Public Utility Commission of Oregon (Commission) adopt Staff's revenue requirement and rate recommendations as set forth in its supplemental direct testimony. *See* Staff/202, Sloan/1 – 7. Alternatively, the Commission should consider adopting Staff's alternative revenue requirement and rate recommendations. *See* Staff/304, Dougherty/1 -7. This alternative recommendation incorporates a lower level of wages and benefits, which reduces revenue requirement and the resulting rates. The following table from Staff/300, Dougherty/22 highlights the different revenue requirement and rates based on 1,500 cubic feet (cf) of usage:

Rate Scenario	**Rate – 1500 cf**	**Revenue Requirement**
Current – UW 34	$59.25	
UW 117 Stipulation	$66.59	$152,880
Staff Sloan Exhibit/202	$65.80	$149,411
Staff Dougherty Exhibit/304	$65.11	$142,022

In written testimony and during the hearing conducted on April 30, 2007, Staff demonstrated that it:

1. Thoroughly investigated Pete's Mountain Water Company's (Company) proposed revenue requirement and additional costs and savings that occurred subsequent to the Stipulation;
2. Made correct and accurate adjustments to expenses, revenue, and plant;
3. Verified that allowed expenses were prudent and necessary for continuation of safe and reliable service to customers; and

4. Verified that the use of modified American Water Works Association (AWWA) factors results in a rate design that is fair and reasonable for all classes of customers.

The proposed revenue requirement in Staff/202 and the alternative lower revenue requirement in Staff/304 result in just and reasonable rates. Therefore, Staff supports each proposal.

While Intervenor, Ken Roberts, did not offer any direct testimony or specific recommendations, he did question the amount of three expense categories - wages and benefits, transportation, and legal expenses. The evidence, however, establishes that the level of these expenses are just and reasonable.

COST OF SERVICE

Every water utility has unique costs including plant, operating expenses and other cost considerations, service territories, demographics, and organizational structure. Because of the distinctive nature of a particular company, a one-size-fits-all approach to rate setting does not work for establishing the rates of a specific company. Rates should be established based upon a utility's specific cost of service and not be determined based on established or average rates of differing companies. Staff examines each company's cost of service, while also ensuring all costs are prudent, reasonable, and used and useful for utility operations.

The Company's revenue requirement, which is the amount of money needed for the Company to operate and maintain facilities, cover capital expenses, and provide an opportunity to earn a profit, was effectively evaluated by Staff throughout this proceeding. Staff's rigorous review of the Company's expenses did not end at the October hearing. In its post-Stipulation review, Staff identified adjustments reducing the stipulated revenue requirement of $152,880 to $149,411, a 31.5 percent increase over test year revenue.[1] If the Commission chooses to accept the alternate recommendation, revenue requirement will be further reduced to a 25 percent increase over test year revenue for a total revenue requirement of $142,022.

[1] As part of the UW 117 Stipulation, Staff reduced the Company's requested revenue from 91.1 percent to 34.6 percent ($212,300 to $152,880).

Even though Staff performed a thorough, rigorous review of the Company's expenses, there are four major issues that continue to be contested. These four issues are:

1. Wages and Benefits;
2. Transportation Expenses;
3. Legal Expenses; and
4. Rate Design concerning the Homeowner's Association.

These four issues are discussed below.

AFFILIATED INTERESTS – WAGES AND BENEFITS

The Webbers pay themselves as officers and employees of the Company at the rate of $25 per hour for Mr. Webber and $20.32 per hour for Mrs. Webber. During the initial proceedings, Staff did not require affiliated interest applications for the Webbers. However, in Commission Order No. 06-627 (UW 117), dated December 4, 2006, the Commission clarified the requirements relating to situations where owners of water utilities were also employed by the utility. Staff had historically not requested an affiliated interest filing in such circumstances and instead rigorously reviewed the compensation expense during general rate reviews. In Order No. 06-627, the Commission found that the plain, natural, and ordinary meaning of the affiliated interest statute mandates that payment of wages and benefits to an owner of a utility requires an affiliated interest filing, pursuant to ORS 757.495(1).

In performing its analyses of wages, Staff used two independent sources of information to determine a proxy market rate: the Oregon Employment Department's Oregon Labor and Market Information System (OLMIS) and the American Water Works Association (AWWA) Water Utility Compensation Survey. As a result of the additional analyses in UI 261 and UI 262, Staff continued to support the stipulated wage rates of $25 per hour for Mr. Webber and $20.32 per hour for Mrs. Webber.[2]

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[2] Orders No. 07-106, (UI 261) dated March 15, 2007, and No. 07-107 (UI 262), dated March 15, 2007 were provided in Staff Exhibit/301.

Furthermore, Mrs. Webber provided a summary of monthly hours worked in a response to a Staff data request. Therefore, Staff in Staff/300, Dougherty/6 – 7 continued to support the requested wages because:

1. They and are fair, reasonable, and not contrary to the public interest in comparison to market information; and
2. The Webbers provided sufficient documentation demonstrating that they have worked the total amount of hours for which they are seeking compensation.

In Staff/300, Dougherty/7 – 13, Staff also used an income example to demonstrate that the wages paid to the Webbers were not excessive and that the level of funds that were reinvested in plant over a five-year timeframe (2001 through 2005), were approximately 90 percent of the level of funds that the owners have been able to collect through both wages and income. To clarify, Staff did not use the amount of investments to determine the level of wages, but rather as an additional check of the reasonableness of the wages expense. As mentioned above, the wage levels were determined based on a review of wage rates pursuant to the Commission's Transfer Pricing Policy (OAR 860-036-0739, Allocation of Costs by a Water Utility) and by documentation of hours provided by Mrs. Webber.

In addition to the wages recommended in UW 117, Staff continues to support benefit payments to the owners. *See* Staff/300, Dougherty/15 - 17. The Commission has previously allowed a Class "C" water company to recover pension and benefit expenses. *See* Commission Order No. 06-027 (UW 110); Staff/300, Dougherty/16.

In Staff/300, Dougherty/14 - 15 and 17 - 18, Staff presents an alternative recommendation concerning wages and benefits. This alternate recommendation reduces wage payments from $44,192 to $38,668 and benefit payments from $12,144 to $10,358. The basis of the reductions is explained in Staff's testimony. These decreases result in a reduction of $7,310 in operating expenses and lower rates to customers. Staff/300, Dougherty/14, line 18 through Dougherty/18, line 4.

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TRANSPORTATION

In March 2006, the Company leased a Ford F250 for $680.74 per month. The Company testified that it used the vehicle to travel to the water system almost daily,[3] plus twice per day during summer months to check on the well and pumps. The Company also used the vehicle when purchasing supplies, delivering water test samples to the lab, picking up mail, dealing with system repairs, handling builder requests, and following up on locate requests. Based on a review of the Company's payment history, the Stipulation supported the annual lease cost of $8,168.88.

In the Order, the Commission expressed concern over the reasonableness of the stipulated amount for Transportation Expense, comprised primarily by the lease of a new Ford F250. Responding to the Commission's concern, the Company reduced the lease expense by leasing a smaller, less expensive and more efficient pickup truck when the Ford F250 lease expired in March 2007. In testimony filed April 2, 2007, Suzanne Webber indicated that the new pickup meets the Company's needs. The new lease payment of $498.15 per month reduces the vehicle lease cost by $182.59 per month or $2,191.08 annually.[4]

In addition, Staff, in Staff/200, Sloan/7 – 8, reduced the fuel cost by $1,606 from the UW 117 stipulated amount of $4,072 to a recommended amount of $2,466.

LEGAL EXPENSES

Since the Stipulation, the Company has incurred further legal costs relating to water rights, Measure 37 claims, an easement agreement, and the Company's annual meeting. In total, the Company provided invoices totaling $6,090 in legal costs from 2005 through March 2007. Furthermore, the Company's attorney estimates that he will bill the Company at least an additional $3,000 through remainder of 2007 for water Company issues. Because it was not clear that the additional $3,000 would be related to water service, Staff recommended excluding

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[3] 27.4 miles round trip.

[4] The annual cost of $5,977.80 compared to the previous annual cost of $8,168.88.

the estimated amount from the Revenue Requirement. Additionally, Staff recommended amortizing total legal costs of $6,090 over four years for an annual expense of $1,523. *See* Staff/200, Sloan/5 – 6. The four-year amortization greatly reduces the rate effect for customers.

Following Commission Order No. 06-657 issued December 4, 2006, the Company provided invoices showing further legal costs of $8,655 associated with UW 117. These invoices increase the total Rate Case Expense to $12,444; however, the stipulated amount included an estimate for legal charges for the settlement conference and hearing, and the invoices for those meetings are included in the $8,655 mentioned above. After removal of the estimated amount, and including the actual amount, the result is a total Rate Case Expense of $10,981. The Company's attorney estimates Pete's Mountain will incur approximately $2,700 more in Rate Case Expense before the conclusion of UW 117. Adding the $2,700 to the revised amount of $10,981 brings proposed the total to $13,681. Because of the extraordinary amount of this nonrecurring expense, Staff recommends amortization over four years, for an annual expense of $3,420. *See* Staff/200, Sloan/8. Although the $13,681 is a $1,237 increase to the stipulated amount of $12,144, the four-year amortization greatly reduces the rate effect for customers.

RATE DESIGN

Staff used modified factors for customers having 1" or greater size meters. The following table compares the AWWA factors to those used by Staff:

Meter Size	AWWA Factor	Staff Modified Factor
5/8" and 3/4"	1	1
1"	2.5	1.2
1.5"	5	1.25
2"	8	2

As illustrated in the above table, increases for the larger size meters were significantly reduced by the modified factors Staff proposed as compared to a strict application of the AWWA factors. Staff believes that using the modified factors is reasonable because:

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1. AWWA factors were not previously used by the Company;
2. The rate increase for larger user meters would not be acceptable especially when considering the increased expense recovery the Company requested;
3. The use of modified AWWA factors would still take into account that larger meters do place a greater potential demand on the water system and customers with larger meters should pay higher base rates because of this potential demand; and
4. If Staff ignored the factors completely, customers with smaller meters (5/8" and 3/4") would pay more in base rates than the potential demand they place on the system.

Although the Company backed away from using the factors in its supplemental testimony, as not to get in a position of favoring one group of customers over another, consumption data indicates that on average larger meter customers use more water than small meter customers. As such, the modified AWWA factors are appropriate.

In addition to using the modified AWWA factors, Staff worked in earnest to create a rate design that would have the least impact on a typical user. The recommended rate design includes a continuation of a 600 cubic feet (cf) consumption allowance and a two-tier rate structure. As a result of the rate design in Staff/202, Sloan/4, a 3/4" meter customer of 1,500 cf would only experience an 11 percent increase in their monthly bill. In Staff/304, Dougherty/4, a 3/4" meter customer of 1,500 cf would only experience a 9.9 percent increase in their monthly bill. The effect of the two-tier commodity rate structure is that customers who use low or average amounts of water will pay less; customers using excessive volumes will pay relatively more when they exceed average use. If a customer desires to reduce their average monthly bill, the customer has the option to decrease consumption. In addition, the Homeowners Association can work with the Company to reduce their meter size.

Another method used by Staff to soften the overall rate increase to customers in UW 117, was the recommendation of an 8 percent rate of return. This "plugged" amount is actually 228 basis points lower that the weighted rate of return of 10.28 percent based on a 10 percent return on equity. Because of using a lower rate of return, revenue requirement is approximately $6,425 less than it would have been if the calculated rate of return of 10.28 percent was used.

CONCLUSION

Staff recommends that the Commission adopt Staff's revenue requirement and rate recommendations as set forth in UW 117 Staff/202, Sloan/1 – 7. As an alternative, the Commission should consider adopting the revenue requirement and rate recommendations in Staff/304, Dougherty/1 -7. Staff/304 incorporates a lower level of wages and benefits, which reduces revenue requirement and the resulting rates.

For the foregoing reasons, Staff respectfully urges the Commission to adopt its proposed revenue requirement and rate design. Alternatively, and if the Commission remains concerned with the level of wages, Staff respectfully requests that the Commission adopt Staff's alternative proposed revenue requirement, which includes a lower wage amount.

DATED this 14th day of May 2007.

Respectfully submitted,

HARDY MYERS
Attorney General

Jason W. Jones, #00059
Assistant Attorney General
Of Attorneys for Public Utility Commission of Oregon Staff

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4. Verified that the use of modified American Water Works Association (AWWA) factors results in a rate design that is fair and reasonable for all classes of customers.

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CONCLUSION

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DATED this _____ day of May 2007.

Respectfully submitted,

HARDY MYERS
Attorney General

____
Jason W. Jones, #00059
Assistant Attorney General
Of Attorneys for Public Utility Commission of Oregon Staff

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CERTIFICATE OF SERVICE

I certify that on May 14, 2007, I served the foregoing upon all parties of record in this proceeding by delivering a copy by electronic mail and by mailing a copy by postage prepaid first class mail or by hand delivery/shuttle mail to the parties accepting paper service.

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