



Oregon

Theodore R. Kulongoski, Governor

Public Utility Commission

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July 25, 2008

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
PO BOX 2148
SALEM OR 97308-2148

RE: Docket No. UW 128 - In the Matter of NORTH HILL WATER CORP
Request for a general rate revision.

Enclosed for electronic filing in the above-captioned docket is Staff's Direct
Testimony in Docket UW 128.

/s/ Kay Barnes

Kay Barnes

Regulatory Operations Division

Filing on Behalf of Public Utility Commission Staff

(503) 378-5763

Email: Kay.Barnes@state.or.us

c: UW 128 Service List (parties)

**PUBLIC UTILITY COMMISSION
OF OREGON**

UW 128

**STAFF TESTIMONY
OF**

KATHY MILLER

**In the Matter of
North Hill Water Corporation
Request for a General Rate Increase**

July 25, 2008

CASE: UW 128
WITNESS: Kathy Miller

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 100

**Direct Testimony
In Support of
The Stipulation**

July 25, 2008

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS**
2 **ADDRESS.**

3 A. My name is Kathy Miller. My business address is 550 Capitol Street NE, Suite
4 215, Salem, Oregon 97308-2148.

5 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK**
6 **EXPERIENCE.**

7 A. I have been with the PUC since 1987 and have participated in water utility
8 dockets involving rate filings, finance applications, property dispositions,
9 exclusive service territory, adequacy of service, water and wastewater
10 rulemakings, formal complaints, and affiliated interest matters.

11 **Q. DID YOU PREPARE ANY EXHIBITS FOR THIS DOCKET?**

12 A. Yes. Staff/101 contains the following documents in support of my testimony:

13	Revenue Requirement	Staff/101, page 1
14	Summary of Staff Adjustments	Staff/101, page 2
15	Revenue Sensitive Costs	Staff/101, page 3
16	Plant and Depreciation	Staff/101, page 4, 5, 6
17	Residential Rate Design	Staff/101, page 7

18
19 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

20 A. Staff testimony is organized as follows:

21 1. A Description and Regulatory History of North Hill;
22 2. Water System Deficiencies;
23 3. North Hill's Proposed Rates;
24 4. Staff's Analysis of North Hill's Filing; and
25 5. The Stipulated Revenue Requirement and Rates.
26

27 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

28 A. My testimony introduces and supports the Stipulation agreed to by the Parties
29 in Docket UW 128.

1 **Q. WHO ARE THE PARTIES IN THIS DOCKET?**

2 A. The parties in this docket are: Sylvia Bush and Howard Taylor of North Hill
3 Water Corporation (North Hill or Association) and Commission Staff (Staff).

4 **1. A Description and Regulatory History of North Hill**

5 **Q. PLEASE DESCRIBE NORTH HILL.**

6 A. North Hill is a nonprofit, small water association with members located near
7 Hermiston, Oregon. The Association provides domestic residential water
8 service to approximately 28 members. The Association's water source is two
9 wells. North Hill is currently dealing with two major water system problems.

10 **Q. PLEASE EXPLAIN HOW NORTH HILL BECAME A RATE REGULATED**
11 **PUBLIC WATER UTILITY UNDER THE AUTHORITY AND JURISDICTION**
12 **OF THE COMMISSION?**

13 A. Upon request of the Oregon Economic Community Development Department
14 (OECDD), Staff met with Sylvia Bush of North Hill on January 17, 2008, to
15 explain the role of the Commission, discuss the needs of the water system, and
16 determine if the Association was interested in obtaining a loan from the Safe
17 Drinking Water State Revolving Loan Fund (SDWSRLF) to finance needed
18 improvements.

19 To qualify for the SDWSRLF loan's one percent interest rate, the
20 Association must be an economically disadvantaged community and rate
21 regulated by the Commission. Regulation of an association has two
22 requirements:

- 1 1. Pursuant to ORS 757.063: the Commission must receive petitions
- 2 requesting regulation from 20 percent of the Association members; and
- 3 2. Pursuant to OAR 860-036-0030: the Association's average annual
- 4 monthly residential rate must be above the threshold of \$33 established
- 5 by the Commission.

6 **Q. WAS THE ASSOCIATION INTERESTED IN OBTAINING A LOAN FROM**
7 **THE SDWSRLF?**

- 8 A. Yes. On March 5, 2008, Staff held a meeting in Hermiston with the Association
- 9 members. Twenty people attended the meeting. Nineteen members signed
- 10 petitions for rate regulation at the close of the meeting. (The nonsignatory was
- 11 a person who was there representing a member.) Nineteen members
- 12 represent 68 percent of the customer base (28 customers). Sixty-eight percent
- 13 exceeds the statutory regulatory threshold of 20 percent.

14 North Hill currently charges a flat water service rate of \$40 per month. This

15 exceeds the statutory annual average monthly residential rate of \$33 per

16 month. Therefore, pursuant to ORS 757.061 and ORS 757.063, both

17 requirements for Commission regulation of the Association's rates and service

18 were met.

19 The Commission confirmed the Association's change in regulatory status in

20 Order No. 08-164, issued March 13, 2008. The Order required North Hill to file

21 tariffs within 60 days of the Order.

2. North Hill's System Deficiencies**Q. WHAT WATER SYSTEM PROBLEMS IS NORTH HILL EXPERIENCING?**

A. North Hill is currently exceeding its water right and is in need of infrastructure improvements.

Q. PLEASE EXPLAIN HOW NORTH HILL IS EXCEEDING ITS WATER RIGHT.

A. North Hill has two wells. Well No. 1 has a water right of 0.2 cubic feet per second (cfs) or 90 gallons per minute (gpm). Well No. 2 has a water right of 0.07 cfs or 31 gpm. According to the Water Resources Department (WRD), in July of 2006, the Association was drawing too much water from Well No. 2 and nothing from Well No. 1. Pumping more water than the water right allows is a WRD violation.

After consulting with WRD, North Hill applied to remedy the situation by transferring both water rights to a new well, to be constructed. The WRD order approving the transfer of the water rights requires that the well be in use by October 2008 (in order to perfect the new well under the transfer order). In June 2008, North Hill applied to WRD for an extension of that deadline to accommodate the construction schedule detailed in North Hill's capital improvement loan application.

Q. PLEASE DESCRIBE THE SYSTEM DEFICIENCIES AND WHAT IMPROVEMENTS NEED TO BE MADE TO THE SYSTEM.

A. A 2006 engineering study by HBH Consulting Engineers noted several deficiencies. Both wells experience multiple problems including insufficient

1 supply, coliform, and lack of well head protection. The existing 10,000 gallon
2 steel reservoir does not provide enough storage and provides no fire flow. The
3 water reservoir is not an elevated tank; therefore, it is necessary to pressurize
4 the system through a booster pump station. The existing booster pump station
5 operates almost continuously to maintain the system pressure and is
6 inefficient. The distribution system currently consist of 4 inch pipe that dead
7 ends. Six inch pipe is required for fire flow, and the system should be looped.

8 The study indicates that a new well should be drilled deep enough to
9 provide a long-term, reliable supply of water. A new 25,000 gallon reservoir
10 should be constructed for storage (or 205,000 gallons if fire flows are
11 provided). There should be two pumps in the booster pump station (again, no
12 fire flow). Individual water meters should be installed.

13 The 2006 cost estimate for the improvements with no fire flow is \$463,700.

14 The cost estimate for the improvements with fire flow is \$843,200.

15 **Q. HOW DOES NORTH HILL INTEND TO FINANCE THE IMPROVEMENTS?**

16 A. The Association applied for a low-interest loan from the SDWSRLF to finance
17 the improvements.

18 **Q. CAN NORTH HILL AFFORD THESE IMPROVEMENTS?**

19 A. The Association cannot afford all the improvements, so the loan application
20 was limited to the following projects: a new well; a new 25,000 gallon reservoir;
21 improvements to the booster station; site fencing; installing source and
22 individual water meters; and connecting the new well to a chlorine disinfection
23 system and the new reservoir.

1 The table below identifies the construction costs of each improvement,
 2 overhead costs allocated to each specific improvement, and total project cost.
 3 Staff allocated overhead costs (engineering, project management,
 4 Geotechnical report, bonding, insurance, contingencies, and legal expenses)
 5 based on the proportional cost of each specific improvement.

Table No. 1 – Loan Breakdown

Item	Construction	Allocated Overhead Costs	Total
New Well	\$52,000	\$44,231	\$96,231
25,000-gallon Reservoir	\$65,000	\$55,289	\$120,289
Site Fencing (400 ft @ \$14/ft)	\$5,600	\$4,763	\$10,363
Improve Booster Pump Station	\$52,000	\$44,231	\$96,231
New Water Meters (30 @ \$550)	\$16,500	\$14,035	\$30,535
TOTALS	\$191,100	\$162,550	\$353,650

7
8 **Q WHAT IS THE STATUS OF NORTH HILL'S LOAN APPLICATION?**

9 A. North Hill has been awarded a one percent interest loan in the amount of
 10 \$353,650, to be paid back over 30 years, with 25 percent loan forgiveness.

11 **3. North Hill's Proposed Rates**

12
13 **Q. PLEASE DESCRIBE NORTH HILL'S RATE PROPOSAL AS FILED IN ITS**
 14 **APPLICATION.**

15 A. On April 7, 2008, North Hill filed an application and proposed tariffs in
 16 compliance with Order No. 08-164. In its application, the Association proposed
 17 a \$14,150 increase in annual revenues, from \$9,250 to \$23,400 or a
 18 153 percent increase. The Association proposed a 4.81 percent rate of return
 19 on a rate base of \$262,851, generating a monthly flat rate of \$75.

1 **Q. PLEASE EXPLAIN STAFF'S ADJUSTMENTS TO THE ASSOCIATION'S**
2 **TEST YEAR.**

3 A. Staff's adjustments to North Hill's test year are shown in Staff/101, Miller/2.

4 They include moving expenses into the appropriate accounts, moving capital
5 expenditures to plant, and other appropriate adjustments based on the
6 documentation provided by the Association. I will highlight some of Staff's
7 adjustments:

- 8 1. Staff adjusted North Hill's Revenues by adding \$4,190 for a total of
9 \$13,440 to represent the current rate of \$40 per month and a current
10 customer count of 28.
- 11 2. Staff adjusted Purchased Power by adding \$508 for a total of \$4,045.
12 This represents actual power costs for 2007, plus an additional 4 percent
13 for expected future electric rate increases.
- 14 3. Staff adjusted Repairs to Water Plant by deducting \$208 for a total of
15 \$365. This represents 2007 actual repairs plus a 3.5 percent inflation
16 factor.
- 17 4. Staff adjusted Testing Expense by adding \$942 for a total of \$1,510.
18 This represents a three-year average for North Hill's testing schedule.
- 19 5. Staff adjusted Depreciation Expense by adding \$7,476 for a total of
20 \$11,501. This represents actual 2009 Depreciation Expense. Staff used
21 the 2009 depreciation expense to incorporate the Construction Work In
22 Progress (CWIP) depreciation.

1 6. Staff adjusted Utility Plant by adding \$16,456 for a total of \$16,456. This
2 represents the utility plant Staff identified that is in use and paid for by
3 the Association.

4 7. Staff added \$353,650 in Construction Work in Progress. This represents
5 the total amount of the capital improvements in progress but not yet
6 used and useful.

7 8. Staff adjusted Accumulated Depreciation by adding \$14,896. This is a
8 contra account deducted from plant. This represents the 2009
9 accumulated value of the wear and tear upon the system's plant.

10 9. Staff added an account for Loan Forgiveness in the amount of \$88,413.
11 This is also a contra account and is deducted from plant to protect
12 members from paying part of the loan that was, in essence, a gift.

13 **Q. PLEASE EXPLAIN WHAT CONSTRUCTION WORK IN PROGRESS IS,**
14 **AND WHY IT IS ALLOWED IN RATES BEFORE IT IS USED AND**
15 **USEFUL.**

16 A. Construction Work in Progress (CWIP) is the term for plant under construction,
17 but not yet in service. While traditionally rates include costs of plant used and
18 useful, ORS 757.355(2) provides the Commission authority to allow only water
19 utilities to begin recovery of costs before the plant is used and useful.

1 OAR 860-036-0757 states:

2 The Commission may allow into rates the costs of a specific
3 capital improvement project in progress if:

- 4 (1) The water utility uses the additional revenues solely for the
5 purpose of completing the capital improvement project;
6 (2) The water utility demonstrates that its access to capital is
7 limited and it is in the public interest to provide funding for
8 the capitol improvement through rates; and
9 (3) Such costs are approved through tariffs filed with the
10 Commission.

11
12 North Hill's capital improvement projects are underway. It is necessary to
13 put CWIP into plant at this time in order for North Hill to collect revenues during
14 the year sufficient to make its annual payment to the SDWSRLF. The first
15 payment is schedule to be due December 2009.

16 **Q. PLEASE EXPLAIN HOW STAFF CALCULATED NORTH HILL'S UTILITY**
17 **PLANT.**

18 A. Staff calculated North Hill's utility plant as broken out below:

- 19 1. Total Original Utility Plant of \$16,456;
20 2. Plus Construction Work in Progress of \$353,650;
21 3. Less Loan Forgiveness of \$88,413;
22 4. Less Accumulated Depreciation of \$14,896;
23 5. Equals Total Net Plant of \$266,798.

24 Staff also adjusted the annual depreciation expense 25 percent to deduct
25 for the 25 percent loan forgiveness.

1 **Q. PLEASE COMPARE NORTH HILL’S PROPOSED RATE BASE**
 2 **COMPONENTS AND STAFF’S PROPOSED RATE BASE COMPONENTS.**

3 A. Staff has summarized North Hill’s proposed rate base components and Staff’s
 4 proposed rate base components in the table below:

5 **Table 2 – Rate Base Comparison**

	Utility Plant In Service + CWIP	Accumulated Depreciation	Loan Forgiveness	Net Utility Plant	Working Cash	Total Rate Base	Rate of Return
Association Proposed	\$265,238	(\$2,947)	\$0	\$262,291	\$560	\$262,851	4.81%
Staff’s Proposed	\$370,106	(\$14,896)	(\$88,413)	\$266,798	\$696	\$267,494	1.00%

6
 7 **Q. DID THE ASSOCIATION MEMBERS EXPRESS ANY CONCERNS**
 8 **REGARDING NORTH HILL?**

9 A. The major concern expressed by the members of the Association was the
 10 affordability of rates.

11 **Q. WHAT ACTIONS WERE TAKEN TO REDUCE THE COSTS TO MAKE THE**
 12 **RATES MORE AFFORDABLE FOR THE MEMBERS?**

13 A. Staff worked with the OECDD and the Department of Human Resources
 14 Drinking Water Program (DWP) to reduce costs in the following was:

- 15 1. Originally, the draft loan papers required approximately \$12,000 out of
 16 pocket administrative costs. Staff requested OECDD have those costs
 17 rolled into the loan. OECDD agreed; therefore, North Hill did not have
 18 any upfront out of pocket expense for the loan.
- 19 2. The original improvements to the system were estimated at
 20 approximately \$500,000 (without fire flow). Staff requested OECDD

1 reduce the number of projects in consideration of the loan to include only
2 the most pressing, immediate needs of the water system. By deferring
3 some improvements, the loan was reduced from approximately
4 \$500,000 to \$353,650.

5 3. Staff requested that North Hill receive the 25 percent maximum loan
6 forgiveness. OECD D agreed, reducing the loan even further by
7 awarding 25 percent loan forgiveness. This produced a savings of
8 \$88,413.

9 4. During the construction process, the old wells will require water testing.
10 Because the old wells will not be providing service once the new well is
11 complete, Staff requested and received a new testing schedule from the
12 DWP (for the next three years). This will avoid any duplicate testing and
13 provides a savings of approximately \$5,000.

14 **Q. WILL NORTH HILL HAVE ENOUGH REVENUE TO MAKE ITS LOAN**
15 **PAYMENT?**

16 A. Yes, absent any major catastrophes. Staff calculated a repayment at one
17 percent over thirty years. The yearly payment, which is due every December,
18 will be approximately \$10,277 per year. The actual amortization schedule from
19 OECD D has not yet been issued.

20 The annual payment of \$10,277 can be accomplished by using the
21 depreciation expense of \$11,501. In addition, North Hill has an opportunity to
22 earn a one percent return on its rate base or \$2,675. The combined return on
23 and recovery of plant should allow sufficient funds to service the SDWSRLF.

1
2

Table 3 - Revenue Requirement Summary and Comparison

	North Hill Test Year	North Hill Proposal	Stipulated Rev Require
Residential Water Sales			
TOTAL REVENUE	9250	23400	22566
TOTAL OPERATING EXPENSE	6719	6719	8355
OTHER REVENUE DEDUCTIONS			
Depreciation Expense	4025	4025	11501
Property Tax			
Oregon Income Tax	10	10	10
Federal Income Tax			
TOTAL REVENUE DEDUCTIONS	10754	10754	19866
NET INCOME	(1504)	12646	2675
Utility Plant in Service	0	265238	16456
Construction Work in Progress			353650
Less Depreciation Reserve	0	2947	(14896)
Less Loan Forgiveness	0	0	(88413)
Net Utility Plant	0	262,291	266798
Materials and Supplies Inventory	0	0	0
Working Cash (Total Op Exp /12)	560	560	696
TOTAL RATE BASE	560	262,851	267494

3
4

Q. ARE THE RESULTING RATES FAIR AND REASONABLE?

5

A. Yes, until such time that metered rates can be determined.

6

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE STIPULATION?

7

A. I recommend that the Commission admit the Stipulation into the UW 128 record and adopt the Stipulation in its entirety. The Association also asks that the rates be effective the first day of the month following the issuance of the order.

8

9

10

11

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

12

A. Yes.

CASE: UW 128
WITNESS: Kathy Miller

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 101

**Exhibits in Support
Of Direct Testimony**

July 25, 2008

North Hill Water Corporation
UW 128
Test Year: 2007

Company Case
153.0%

Staff
144.0%

Staff/101
Miller/1

Acct. No.		A	B	C	D	E	F	G
		Balance Per Application Test Year: 2007	Proposed Company Adjustments	Adjusted Results (A+B=C)	Proposed Staff Adjustments	Adjusted Results (A+F=G)	Staff Proposed Rev Changes	Proposed Results (G+H+I)
461.1	Residential Water Sales	9,250	14,150	23,400	4,190	13,440	9,125	22,565
471	Misc. Revenues	0	0	0	0	0	0	0
	Special Contracts	0	0	0	0	0	0	0
	TOTAL REVENUE	9,250	14,150	23,400	4,190	13,440	9,126	22,566
	OPERATING EXPENSES			23,400	4,190	13,440		22,565
601	Salaries and Wages - Employees	0		0	480	480		480
603	Salaries and Wages - Officers	0		0	0	0		0
604	Employee Pension & Benefits	0		0	0	0		0
610	Purchased Water	0		0	0	0		0
611	Telephone/Communications	0		0	0	0		0
615	Purchased Power	3,537		3,537	508	4,045		4,045
618	Chemical / Treatment Expense	445		445	48	493		493
619	Office Supplies	183		183	58	241		241
619.1	Postage	41		41	124	165		165
620	O&M Materials/Supplies	0		0	0	0		0
621	Repairs to Water Plant	573		573	(208)	365		365
631	Contract Svcs - Engineering	175		175	(175)	0		0
632	Contract Svcs - Accounting	684		684	(184)	500		500
633	Contract Svcs - Legal	0		0	0	0		0
634	Contract Svcs - Management Fees	0		0	0	0		0
635	Contract Svcs - Testing	568		568	942	1,510		1,510
636	Contract Svcs - Labor	0		0	0	0		0
637	Contract Svcs - Billing/Collection	0		0	0	0		0
638	Contract Svcs - Meter Reading	0		0	0	0		0
639	Contract Svcs - Other	0		0	0	0		0
641	Rental of Building/Real Property	0		0	0	0		0
642	Rental of Equipment	0		0	0	0		0
643	Small Tools	0		0	0	0		0
648	Computer/Electronic Expenses	0		0	0	0		0
650	Transportation	87		87	13	100		100
656	Vehicle Insurance	0		0	0	0		0
657	General Liability Insurance	0		0	0	0		0
658	Workers' Comp Insurance	0		0	0	0		0
659	Insurance - Other	0		0	0	0		0
660	Public Relations/Advertising	0		0	0	0		0
666	Amortz. of Rate Case	0		0	0	0		0
667	Gross Revenue Fee (PUC)	0		0	34	34	(2)	32
668	Water Resource Conservation	0		0	0	0		0
670	Bad Debt Expense	0		0	0	0		0
671	Cross Connection Control Program	0		0	0	0		0
672	System Program Funds	0		0	0	0		0
673	Training and Certification	0		0	0	0		0
674	Consumer Confidence Report	200		200	0	200		200
675	General Expense	226		226	0	226		226
	TOTAL OPERATING EXPENSE	6,719	0	6,719	1,639	8,358	(2)	8,355
	OTHER REVENUE DEDUCTIONS			6,719	1,639	8,358		8,355
403	Depreciation Expense	4,025		4,025	7,476	11,501		11,501
407	Amortization Expense	0		0	0	0		0
408.11	Property Tax	0		0	0	0		0
408.12	Payroll Tax	0		0	0	0		0
408.13	Other	0		0	0	0		0
409.11	Oregon Income Tax	10		10	0	10	0	10
409.10	Federal Income Tax	0		0	0	0	0	0
	TOTAL REVENUE DEDUCTIONS	10,754	0	10,754	9,114	19,868	(2)	19,866
	NET OPERATING INCOME	(1,504)	14,150	12,646	(4,924)	(6,428)	9,103	2,675
101	Utility Plant in Service	0	265,238	265,238	16,456	16,456		16,456
	Plus Construction Work in Progress	0	0	0	353,650	353,650		353,650
108.1	Less Depreciation Reserve	0	2,947	2,947	(14,896)	(14,896)		(14,896)
	Less Loan Forgiveness	0	0	0	(88,413)	(88,413)		(88,413)
272	Amortization of CIAC	0	0	0	0	0	0	0
281	Accumulated Deferred Income Tax	0	0	0	0	0	0	0
	Net Utility Plant	0	262,291	262,291	266,798	266,798	0	266,798
	Plus: (working capital)			262,291		266,798		266,798
151	Materials and Supplies Inventory	0	0	0	0	0		0
	Working Cash (Total Op Exp /12)	560	0	560	136	696	0	696
	TOTAL RATE BASE	560	262,291	262,851	266,934	267,494	0	267,494
	Rate of Return			4.81%		-2.40%		1.00%

North Hill Water Corporation								
Test Year: 2007								
SUMMARY OF ADJUSTMENTS					Staff Adjustments to		Staff/101	
				Rev Req	Column D	Results	Reason	Miller/2
		REVENUES						
1	461	Residential Water Sales	9,250		\$4,190	13,440	28 cust @ \$40 for 12 months	
2	471	Misc. Revenues	0		\$0	0		
3		Special Contracts	0		\$0	0		
4		TOTAL REVENUE	9,250		\$4,190	13,440		
		OPERATING EXPENSES						
5	601	Salaries and Wages - Employees	0		\$480	480	not included in test yr exp	
6	603	Salaries and Wages - Officers	0		\$0	0		
7	604	Employee Pension & Benefits	0		\$0	0		
8	610	Purchased Water	0		\$0	0		
9	611	Telephone/Communications	0		\$0	0		
10	615	Purchased Power	3,537		\$508	4,045	2007 cost based on invoices + 4% add'l	
11	618	Chemical / Treatment Expense	445		\$48	493	2 yr average expense + 3.5% for inflation	
12	619	Office Supplies	183		\$58	241	2007 reported expense w/3.5% inflation	
13	619	Postage	41		\$124	165	calculated 28X14X0.42	
14	620	O&M Materials/Supplies	0		\$0	0		
15	621	Repairs to Water Plant	573		(\$208)	365	2007 reported exp w/3.5% for inflation	
16	631	Contract Svcs - Engineering	175		(\$175)	0	removed expense incurred 2006	
17	632	Contract Svcs - Accounting	684		(\$184)	500	based on similar size system expense	
18	633	Contract Svcs - Legal	0		\$0	0		
19	634	Contract Svcs - Management Fees	0		\$0	0		
20	635	Contract Svcs - Testing	568		\$942	1,510	average 3 year testing schedule	
21	636	Contract Svcs - Labor	0		\$0	0		
22	637	Contract Svcs - Billing/Collection	0		\$0	0		
23	638	Contract Svcs - Meter Reading	0		\$0	0		
24	639	Contract Svcs - Other	0		\$0	0		
25	641	Rental of Building/Real Property	0		\$0	0		
26	642	Rental of Equipment	0		\$0	0		
27	643	Small Tools	0		\$0	0		
28	648	Computer/Electronic Expenses	0		\$0	0		
29	650	Transportation	87		\$13	100	test period exp + add'l for cost increase	
30	656	Vehicle Insurance	0		\$0	0		
31	657	General Liability Insurance	0		\$0	0		
32	658	Workers' Comp Insurance	0		\$0	0		
33	659	Insurance - Other	0		\$0	0		
34	660	Public Relations/Advertising	0		\$0	0		
35	666	Amortz. of Rate Case	0		\$0	0		
36	667	Gross Revenue Fee (PUC)	0		\$34	34	calculated PUC fee	
37	668	Water Resource Conservation	0		\$0	0		
38	670	Bad Debt Expense	0		\$0	0		
39	671	Cross Connection Control Program	0		\$0	0		
40	672	System Program Funds	0		\$0	0		
41	673	Training and Certification	0		\$0	0		
42	674	Consumer Confidence Report	200		\$0	200	based on Umpqua Lab estimate	
43	675	General Expense	226		\$0	226	based on 2007 reported expense	
44		TOTAL OPERATING EXPENSE	6,719		\$1,639	8,358		
0		OTHER REVENUE DEDUCTIONS						
45	403	Depreciation Expense	4,025		\$7,476	11,501	see plant schedule	
46	407	Amortization Expense	0		\$0	0		
47	408	Property Tax	0		\$0	0		
48	408	Payroll Tax	0		\$0	0		
49	408	Other	0		\$0	0		
50	409	Oregon Income Tax	10		\$0	10		
51	409	Federal Income Tax	0		\$0	0		
52		TOTAL REVENUE DEDUCTIONS	10,754		\$9,114	19,868		
53		NET OPERATING INCOME	(1,504)		(\$4,924)	(6,428)		
54	101	Utility Plant in Service	0		\$16,456	16,456	see plant schedule	
55		Plus Construction Work in Progress			353,650	353,650	see plant schedule	
56	108	Less Depreciation Reserve	0		(\$14,896)	(14,896)	see plant schedule	
57	0	Less Loan Forgiveness	0		(\$88,413)	(88,413)	see plant schedule	
58	272	Amortization of CIAC	0		\$0	0		
59	281	Accumulated Deferred Income Tax	0		\$0	0		
60		Net Utility Plant	0		\$266,798	266,798	calculation	
		Plus: (working capital)			\$0	0		
61	151	Materials and Supplies Inventory	0		\$0	0		
62		Working Cash (Total Op Exp /12)	560		\$136	696	1/12 of operating expense	
63		TOTAL RATE BASE	560		\$266,934	267,494		
64		Rate of Return	-268.57%			-2.40%		

Acct No.	Account Description	Date Acquired	Utility Plant Org Cost	Less Excess Capacity Adj to Plant	Total Adj Plant	NARUC Asset Life	Annual Deprec	Final Month of Deprec	2006	2007	2008	Accum Depr thru 2008	Remaining Plant 2008	Depr Exp 2009	2009 Dec Exp @ 75%
301	Organization								0	0	0	0	0	0	0
									0	0	0	0	0	0	0
									0	0	0	0	0	0	0
									0	0	0	0	0	0	0
									0	0	0	0	0	0	0
302	Franchises								0	0	0	0	0	0	0
									0	0	0	0	0	0	0
									0	0	0	0	0	0	0
									0	0	0	0	0	0	0
									0	0	0	0	0	0	0
303	Land and Land Rights														
	Original Cost of Land & Water Rights	Apr 1957	3,700		3,700	0	0		0	0	0	0	3,700	0	
						0	0		0	0	0	0	0	0	
						0	0		0	0	0	0	0	0	
						0	0		0	0	0	0	0	0	
						0	0		0	0	0	0	0	0	
304	Structures and Improvements														
	Well House	Jan 2006	329,51		330	35	9	Jan 2041	9	9	9	27	303	9	
	Cyclone Fencing	Oct 2008	10,363		10,363	35	296	Oct 2043	0	0	56	56	10,307	0	222
						35	0		0	0	0	0	0	0	
									0	0	0	0	0	0	
									0	0	0	0	0	0	
									0	0	0	0	0	0	
									0	0	0	0	0	0	
305	Collecting and Impounding Reservoirs														
						50	0		0	0	0	0	0	0	
						50	0		0	0	0	0	0	0	
						50	0		0	0	0	0	0	0	
						50	0		0	0	0	0	0	0	
						50	0		0	0	0	0	0	0	
306	Lake, River and Other Intakes														
						35	0		0	0	0	0	0	0	
						35	0		0	0	0	0	0	0	
						35	0		0	0	0	0	0	0	
						35	0		0	0	0	0	0	0	
						35	0		0	0	0	0	0	0	
307	Wells and Springs														
	2008 New Well	Oct 2008	96,231		96,231	25	3,849	Oct 2033	0	0	962	962	95,299	0	2887
						25	0		0	0	0	0	0	0	
						25	0		0	0	0	0	0	0	
						25	0		0	0	0	0	0	0	
						25	0		0	0	0	0	0	0	
						25	0		0	0	0	0	0	0	
308	Infiltration Galleries and Tunnels														
						25	0		0	0	0	0	0	0	
						25	0		0	0	0	0	0	0	
						25	0		0	0	0	0	0	0	
						25	0		0	0	0	0	0	0	
						25	0		0	0	0	0	0	0	
309	Supply Main														
						50	0		0	0	0	0	0	0	
						50	0		0	0	0	0	0	0	
						50	0		0	0	0	0	0	0	
						50	0		0	0	0	0	0	0	
						50	0		0	0	0	0	0	0	
310	Power Generation Equipment														
						30	0		0	0	0	0	0	0	
						30	0		0	0	0	0	0	0	
						30	0		0	0	0	0	0	0	
						30	0		0	0	0	0	0	0	

North Hill Water Corporation Test Year: 2007 RESIDENTIAL RATE DESIGN								Staff/101 Miller/7
Proposed Revenues of:		\$22,565						
FLAT RATE								
Variable Rate					\$0			
Flat Rate		Proposed Rev						
	100.00%	\$22,565	=	\$22,565				
				\$22,565	TOTAL			
BASE RATE								
Size of Line	Number of Customers	Current Monthly Base Rate	Proposed Monthly Base Rate	Total Annual Revenues				Revenue at Current Rates
Residential								
N/A	28	\$40.00	\$67.16	\$22,565				\$13,440
3/4"			\$67.16	\$0				\$0
1"			\$0.00	\$0				\$0
1.5"			\$0.00	\$0				\$0
2"			\$0.00	\$0				\$0
3"			\$0.00	\$0				\$0
TOTALS	28			\$22,565				\$13,440
Commercial								
5/8" or 3/4"	N/A		\$0.00					
1"			\$0.00	\$0				\$0
1.5"			\$0.00	\$0				\$0
2"			\$0.00	\$0				\$0
3"			\$0.00	\$0				\$0
4"			\$0.00	\$0				\$0
6"			\$0.00	\$0				\$0
	0							
	28							
			67.9%					67.9%
			PERCENT					% increase

CERTIFICATE OF SERVICE

UW 128

I certify that I have this day served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-13-0070, to the following parties or attorneys of parties.

Dated at Salem, Oregon, this 25th day of July, 2008.



Kay Barnes
Public Utility Commission
Regulatory Operations
550 Capitol St NE Ste 215
Salem, Oregon 97301-2551
Telephone: (503) 378-5763

**UW 128
Service List (Parties)**

NORTH HILL WATER CORPORATION	
SYLVIA BUSH SECRETARY-TREASURER	31066 CECIL ST HERMISTON OR 97838 slbush@eotnet.net
HOWARD TAYLOR PRESIDENT	33554 DALLAS RD HERMISTON OR 97838-6326
PUBLIC UTILITY COMMISSION	
KATHY MILLER	550 NE CAPITOL ST STE 215 SALEM OR 97301-2551 kathy.miller@state.or.us