


**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: August 25, 2015**

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE September 1, 2015

DATE: August 13, 2015

TO: Public Utility Commission

FROM: Celeste Hari 

THROUGH: Jason Eisdorfer, Bryan Conway, and Bruce Hellebuyck 

SUBJECT: HILAND WATER CORPORATION: (Docket No. UP 329) Request to Consolidate Northridge Water Company and Whispering Pines Estates Water into Shady Cove Waterworks LLC.

**STAFF RECOMMENDATION:**

I recommend that the Commission approve Hiland Water Corporation's (Hiland) request to consolidate the customers and infrastructure of North Ridge Water Company (North Ridge) and Whispering Pines Estates Water (Whispering Pines) into Shady Cove Waterworks LLC (Shady Cove) under OAR 860-036-715.

**DISCUSSION:**

*Issue:* Hiland proposes to consolidate two rate-regulated water systems (North Ridge and Whispering Pines) into a single, better situated, service regulated water system (Shady Cove).

*Rules* - Commission approval is required under ORS 757.480(5) and OAR 860-036-715 for any water utility seeking to sell, lease, assign, mortgage, merge, consolidate or encumber its property, or to acquire stock, bonds, or property of another public utility. The company must notify the effected customers under ORS OAR 860-036-0710(2). The Commission historically applies a "no harm" standard to property transactions of this type.

## **CONSOLIDATION:**

OAR 860-036-0715 requires that only rate-regulated companies seek Commission approval of a consolidation, in this case, the parent corporation (Hiland) is requesting the consolidation of two of its rate-regulated entities (Northridge and Whispering Pines) into its service regulated entity of Shady Cove. At the point of consolidation, the former rate-regulated companies will no longer exist. The customers and assets of both companies will become customers and assets of service regulated Shady Cove. Staff has been advised by Counsel that because there are two rate-regulated companies involved, it is appropriate to gain the Commission's approval prior to the transaction taking place.

There are no other water systems in the area to serve the customers of the two systems being consolidated into Shady Cove. The consolidation forms a single, larger, more efficient system. Former Northridge and Whispering Pines customers will enjoy a clean, stable, and increased water supply with the ability to support high use periods, while also enjoying an average decrease in their water bills.

Hiland notified affected customers of the pending actions on July 8, 2015, as required under OAR 860-036-0710(2). No customer complaints or issues were received regarding the consolidation. In fact, there was customer email received in support of the action.

## **SYSTEM HISTORY:**

### *Staff Analysis –*

**Hiland Corporation** - Hiland is a parent company that owns approximately 20 smaller water systems in Oregon. Three of Hiland's small water systems are involved in this transaction, Northridge Water Company, Whispering Pines Estates Water, and Shady Cove Waterworks. All three systems are located in the southern part of Oregon in the area of Shady Cove, which is near Medford.

**Northridge** - Northridge is a small rate-regulated system serving approximately 75 residential customers. The company does not own any water rights. The system is comprised of two groundwater wells, one 30,000 gallon reservoir, meters, and the PVC pipe infrastructure. The system is gravity fed with no pressurization to assist in delivery of water to customers.

The Northridge wells are located on private homeowner property with an easement in place for access. The wells have limited production capacity and have experienced water capacity issues in the past. The wells have a high probability of failing during high demand, particularly in the summer or drought conditions as the state currently is experiencing. If the wells fail, hauling water is the alternative. Water hauling is costly, inconvenient, and may present a health risk by exposing water to possible unknown contaminants in the delivery system. It is not the best solution for Northridge when another option is available for water service through absorption into Shady Cove.

The Northridge reservoir was also located on private homeowner property where no easement was in place. Northridge paid the homeowner rent for the use of his property; however, the homeowner increased the rent by 36 percent in 2015, and subsequently requested the removal of the reservoir from his property altogether. Hiland completed the removal of the reservoir in June 2015. The removal of the reservoir left Northridge with no storage for high demand periods and no gravity system to deliver water. To alleviate this undesirable situation, Hiland installed a booster pump station located at one of the wells in order to deliver water to Northridge customers. To meet demand during high usage periods, Hiland connected Northridge to Shady Cove through a configuration that provides water to the booster station on demand from Northridge.

**Whispering Pines** - Whispering Pines is a small rate-regulated water system providing service to approximately 21 customers. The company does not own any water rights and there is no well serving this system.

Water is provided to Whispering Pines by Shady Cove via a bulk water contract entered in April 2010. The water is supplied through a recently constructed (January, 2015) 12" pipe. However, it is a bulk water contract for surplus-only water from Shady Cove. The problem this arrangement poses is that water users at Whispering Pines could become second tier customers if there are times of shortage. This situation may leave Whispering Pines with no option other than water hauling to provide water to its customers if there are times of shortage. As stated above, water hauling is not a desirable solution when a permanent and better option is available. The arrangements for a well and pump house were only temporary in nature and on a private homeowners' property. The distribution system is the only part of Whispering Pines that was designed to function on a permanent basis.

**Shady Cove** - Shady Cove is a service regulated water system that provides water to approximately 73 customers. Hiland recently acquired Shady Cove in a private bank sale. The plant is comprised of a modern and large system that currently operates under its potential capacity. The system includes a 500,000 gallon reservoir and 16" mainlines for superior delivery and fire protection. Shady Cove has water rights to take

up to 109 acre feet (35,517,806 gallons) of water per year from the Rogue River, thus providing the necessary water production to serve many additional customers. Shady Cove filters and treats its water in accordance with the Oregon Drinking Water Program through ultrafiltration and chlorination, thus providing clean and safe water to its customers. The system is modern, permanent, reliable, has no plant located on private homeowner property, no temporary agreements, or easement issues. The system has the facilities, capacity, and production to serve its own customers, as well as the customers of Northridge and Whispering Pines.

Currently, the three companies must spread costs for each individual system over each system's individual customer base. This creates higher rates, particularly for Northridge and Whispering Pines due to the inability to take advantage of economies of scale with customers. The Northridge and Whispering Pines systems are in need of repairs and upgrades for which the customers would have a hard time bearing the cost. New water sources will need to be established for both Northridge and Whispering Pines. This will be particularly costly considering the hundreds of wells in the area that have gone dry or wells that that have been attempted but could not find water. Consolidating these two small systems and transferring their assets to Shady Cove provides more economy of scale that reduces costs for customers.

On average, Shady Cove's rates are lower than both Northridge and Whispering Pines and most customers of those companies would see a reduction in their rates. Shady Cove's customer bill is \$50.00 for customers using up to 7,000 gallons of water each month. Most customers use between 4,000 and 7,000 gallons each month. Northridge's current bill for average use customers is \$71.51 per month and Whispering Pines' current bill for average use customers is \$93.66. Upon consolidation, all customers would be billed at the rates Shady Cove currently has in place. See the chart below for a rate comparison table.

<b>Water Use</b>	<b>Northridge</b>	<b>Whispering Pines</b>	<b>Shady Cove</b>
0 Gallons	\$35.00	\$46.77	\$50.00
1,000	\$41.5	\$48.97	\$50.00
2,000	\$48.00	\$51.17	\$50.00
3,000	\$54.50	\$53.37	\$50.00
4,000	\$61.00	\$55.57	\$50.00
5,000	\$80.50	\$57.77	\$50.00
6,000	\$113.00	\$77.77	\$50.00
7,000	\$145.50	\$97.77	\$50.00
8,000	\$178.00	\$117.77	\$55.00
9,000	\$210.00	\$137.77	\$60.00
10,000	\$243.00	\$157.77	\$65.00

All current easements, agreements, and temporary arrangements for both consolidated and transferred companies will dissolve. Both companies are already connected to Shady Cove for provision of water. Because the systems involved are all a part of Hiland, customers will have a virtually seamless transition. They all currently use the same website to pay bills, the same telephone number to call in emergencies, and the same email to reach the company. This will not change. Customers will gain improved service with a secure and dependable water source, as well as average lowered water costs.

*Conclusion –*

It is in the public interest to allow Hiland to consolidate and transfer the customers and assets of Northridge and Whispering Pines water systems into Shady Cove Waterworks. The end result gives all customers safe and reliable water at reasonable rates. There is no harm to customers with the approval of the requested consolidation and transfer.

**PROPOSED COMMISSION MOTION:**

The Hiland request to consolidate the customers and transfer the assets of Northridge and Whispering Pines water systems into the single entity of Shady Cove Waterworks be granted with an effective date of September 1, 2015.