

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UW 152, UI 324

In the Matters of

AIR ACRES WATER SYSTEM

Request for a General Rate Revision (UW 152)

and

Application for Approval of Affiliated Interest
Agreement with Dan Roach (UI 324)

ORDER

DISPOSITION: STIPULATION ADOPTED

I. INTRODUCTION

This order addresses the requests of Air Acres Water System (Air Acres) for a general rate revision and approval of an affiliated interest agreement with Dan Roach. We adopt the parties' uncontested stipulation that results in a revenue requirement of \$19,534—an increase of 32.6 percent over adjusted test-year revenues.¹ We also approve the application for approval of the affiliated interest agreement.

II. BACKGROUND AND PROCEDURAL HISTORY

Air Acres is a small water system owned by Roth Development, Inc. It is located in Cornelius, Oregon, and serves approximately 14 customers. The customers are primarily residential. The water source is an exempt-use well, which allows for the withdrawal of 15,000 gallons of water per day for domestic use and water to irrigate one-half acre per day.

The Commission asserted jurisdiction over Air Acres in 2011 following a request by 20 percent of its customers seeking regulation under ORS 757.061. On April 17, 2012, Air Acres filed tariffs proposing regulated rates. We docketed the filing as UW 152, and suspended the proposed tariffs revisions for nine months pursuant to ORS 757.215.²

¹ We also grant Staff's motion to admit the exhibits and affidavit of Brittany Andrus, also filed on November 20, 2012.

² Order No. 12-147.

An Administrative Law Judge held a public comment meeting and prehearing conference in North Plains, Oregon, on June 12, 2012. Commission Staff, Dan Roach (a shareholder of Roth Development), and numerous customers attended. Air Acres customers Dennis Wittenberg, Dianne Fogg, Jim Weitman, and Tanya Wylder (Intervenors) intervened as parties.

On July 20, 2012, Roth Development filed a request for approval of an affiliated interest agreement (AI Agreement) under ORS 757.495. The AI Agreement is between Roth Development and Dan Roach, and requires Roth Development to pay Dan Roach \$30.00 per billable hour for management of Air Acres, including billing and collection, maintenance and repair, regulatory compliance activities, and to reimburse Roach for expenses. We docketed this application as UI 324.

On September 10, 2012, Air Acres' application for a general rate revision was consolidated with its application for approval of the AI Agreement. This order addresses both applications.

On November 20, 2012, Staff, Air Acres, and intervenors Fogg, Weitman, and Wylder (collectively, the Stipulating Parties) filed a stipulation with supporting testimony that, if adopted, would resolve all issues in this docket.³ The stipulation is attached to this order as Appendix A and incorporated in this order by reference.

III. STIPULATION

With respect to Air Acres' rates, the Stipulating Parties ask the Commission to approve the following:

- a. An annual revenue requirement of \$19,534.00 that is based in part on an authorized return on equity of 10 percent on a total rate base of \$11,949;
- b. A rate structure that includes a base charge of \$78.00 per month per customer, a Tier 1 rate (for the first 15,000 gallons per month) of \$0.0025 per gallon, and a Tier 2 rate (for all gallons consumed in a month above 15,000 gallons) of \$0.0095 per gallon;
- c. An effective date for the new rates of January 21, 2013, which is the first day of the first full rate period in 2013;
- d. A temporary monthly surcharge of \$19.35 for projected capital improvements to be included on customers' bills for the first full rate period in 2013, and the next twenty-three monthly bills issued to customers; and

³ The remaining intervenor, Dennis Wittenberg, did not join the stipulation, but filed no objections to it. We note that the stipulation incorrectly spelled Mr. Weitman's name as "Weltman."

- e. Separate accounting for revenues collected under the temporary monthly surcharge and a prohibition on the Company from using the revenues for anything other than capital improvements, including but not limited to, replacement of the 7.5 HP pump and raising the wellhead above grade.

With respect to the AI Agreement between Roth Development and Dan Roach, the Stipulating Parties ask that we find the agreement fair and reasonable and not contrary to the public interest.

IV. DISCUSSION

A. Rates.

Staff explains that Air Acres' application presented some special challenges. First, determining the company's existing rates was difficult, as the company has historically charged base and variable rates for some expenses of the water system while billing the customers for other expenses and capital improvements as ad hoc surcharges. Second, it was difficult to value the company's utility plant because original cost documentation was unavailable.

1. *Revenue Requirement*

In determining test-year revenues, Staff found it insufficient to use only test-year metered billings at the existing rates, because it failed to account for the ad hoc surcharges imposed throughout the year. Staff constructed a "proxy" year revenue of \$14,731, which included \$10,153 in revenue from customer test-year billings at the existing rates, plus recurring surcharges for water testing, property taxes, insurance, and the State of Oregon's Drinking Water Program annual fee, plus an assumed amortization of capital costs. The proxy revenue requirement also included an adjustment to the test-year revenues to account for customers who have recently drilled their own private wells and are no longer on the system. The company requested in its application a revenue requirement of \$29,541, or a 100.5 percent increase over Staff's proxy revenue requirement.

To determine appropriate expenses, Staff reviewed Air Acres' test-year expenses, conducted research into required costs and fees for various programs, researched expenses for comparable water utilities, and took into account the recent loss of customers from the Air Acres system. After doing so, Staff proposed adjustments to the following categories of expenses: Telephone/Communications, Purchased Power, Chemical/Treatment Expense, Office Supplies and Postage, Repairs, Contract Services (Engineering, Accounting, Legal, Management, Testing, Labor, Billing and Collection), Rental of Building/Real Property, General Liability Insurance, Amortization of Rate Case Expense, Gross Revenue Fee, Federal and State Income Taxes, and Depreciation Expense.

2. *Rate Base*

To determine the company's rate base, Staff reviewed information on Air Acres' rate application, researched property deeds, and consulted with the company and its operator to develop an accurate estimate of total utility plant. Staff also determined which portion of the utility plant should be considered Contributions in Aid of Construction (CIAC).⁴

Staff notes that original cost records were unavailable for most of the utility plant because of its age, so Staff constructed an estimate using a combination of known capital expenditures in recent years, as well as the current replacement costs of the remaining components. The replacement cost estimates were adjusted back to the years they were installed and then depreciated using the standard asset lives adopted by the National Association of Regulatory Attorneys to the current year. According to Staff, most of the original plant has been fully depreciated. Staff also explains that the recent year capital improvements are all considered CIAC, as they were directly paid for by customer surcharges. The resulting plant valuation is as follows:

Original Plant in Service (excluding CIAC)	\$36,898
Accumulated Depreciation	<u>(\$26,383)</u>
Net Plant	<u>\$10,515</u>
CIAC	\$28,583

In accordance with Commission rules, CIAC was excluded from rate base.⁵

The Stipulating Parties recommend that Air Acres be allowed an opportunity to earn a 10 percent rate of return on a rate base of \$11,949 (the net plant plus working cash).

3. *Rate Design*

The stipulation includes a rate design with a relatively high base charge and a two-tier variable rate.

Staff explains that the Commission generally strives for an allocation of a water company's revenue generated from rates in which 60 percent of revenue is generated by the base rate, and 40 percent by the variable rate. Under the stipulated base rate of \$78 per month, 67 percent of Air Acres' revenue generated from rates will come from the base charge. According to Staff, this relatively high base charge is appropriate because the water system is so small that only a small portion of the costs varies with usage. Moreover, the intervenors expressed interest in having a significant portion of the fixed costs captured in the base charge.

Staff developed a two-tier variable rate by subtracting base charge revenues from the total revenue requirement. It then made an assumption about future reductions in usage

⁴ Staff notes that CIAC is plant paid for by a person or entity other than the utility. Because CIAC is not paid for by the utility, the Commission does not allow the utility to recover the cost of CIAC.

⁵ OAR 860-036-0756(3).

due to higher rates, as well as known, pending restrictions on irrigation usage from the well by the Water Resources Department. Using the reduced consumption numbers, the stipulation proposes setting the Tier 1 rate at \$0.0025 per gallon (compared to a current variable rate of \$0.0019), a rate that would apply to the first 15,000 gallons per month. Tier 2 would be set at \$0.0095 per gallon above 15,000 gallons.

4. *Impact*

Staff observes that, with the assumed reduction in usage, the current number of customers, and a comparison to the proxy test year (including non-capital surcharges), the proposed rate results in an average increase of 51.6 percent.

B. *Affiliated Interest Application*

As noted previously, Air Acres also seeks approval of an affiliated interest application for a contract between Roth Development and Dan Roach for management services.

The management contract between Roth Development and Dan Roach specifies an hourly rate of \$30 per hour, not to exceed 200 hours per year (for a total management fee of \$6,000 per year). The Stipulating Parties agree that it benefits customers to have Mr. Roach perform management activities, because he is familiar with the system. Staff, however, conducted an analysis of the management fees in recently approved revenue requirements for similarly sized water systems, and determined that an appropriate level of effort should be 5 hours per month, or 60 hours per year. The Stipulating Parties agree the total management fee under the affiliated interest contract should be \$1,800 per year.

C. *Other Customer Concerns*

Staff observes that customers identified several concerns about the water company during the settlement conferences regarding the basis for covering expenses in the revenue requirement that they had not previously paid. These expenses include the water company's management fee, rent for the land the water system is on, and the return on total rate base.

Another significant concern that is shared by the customers as well as Air Acres is the shrinking customer base. The Stipulating Parties support the agreement and, as such, these issues are resolved for purposes of this docket. After the settlement conferences, one customer conveyed a concern about water quality, which Staff passed on to the water company.

V. *CONCLUSION*

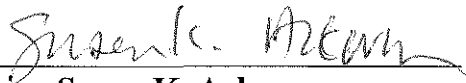
Based on our review of the supporting testimony, we find the stipulation reasonable and adopt it. We find that the proposed rates were appropriately derived using the Commission's established principles. We conclude that the revenue requirement and rate design proposals set forth in the stipulation are fair, just, and reasonable, and should be adopted.

VI. ORDER

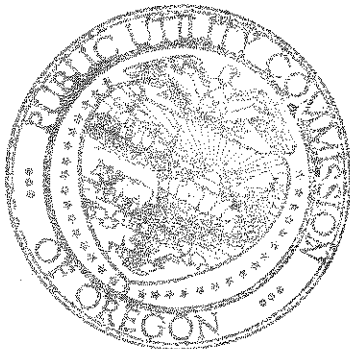
IT IS ORDERED that:

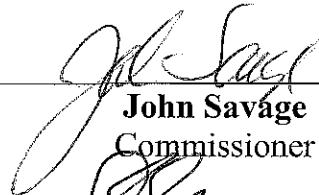
1. The uncontested stipulation submitted by Air Acres, Commission Staff, Dianne Fogg, Jim Weitman, and Tanya Wylder attached as Appendix A, is adopted.
2. The tariffs filed by Air Acres Water System on April 17, 2012, are permanently suspended.
3. Effective January 21, 2013, Air Acres Water System shall charge rates in accordance with the schedules attached to Appendix A.

Made, entered, and effective JAN 16 2013

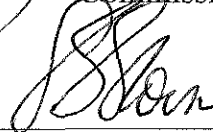


Susan K. Ackerman
Chair





John Savage
Commissioner



Stephen M. Bloom
Commissioner

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

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STIPULATION

BACKGROUND

I. The parties to this Stipulation are Staff of the Public Utility Commission of Oregon ("Staff"), Roth Development, Inc./Air Acres Water System ("Air Acres"), and three customers of Air Acres that intervened in this docket, Diane Fogg, Jim Weltman, and Tanya Wylder ("Joint Customers") (collectively, "the Stipulating Parties"). This Stipulation resolves all issues between the Stipulating Parties related to Air Acres Water System's Request for a General Rate Revision (Docket No. UW 152) and all issues between Staff and Air Acres Water System's related to Application for Approval of Affiliated Interest Agreement with Dan Roach (Docket No. UI 324). The Stipulating Parties support Attachment A, Revenue Requirement, and Attachment B, final tariffs. Dennis Wittenberg, another customer of Air Acres, also intervened in this docket. Mr. Wittenberg does not join in the Stipulation.

II. Air Acres is a small water system owned by Roth Development, Inc. It is located in Cornelius, Oregon and serves approximately 14 customers. The customers are primarily residential. The water source is an exempt-use well, which allows for the withdrawal of 15,000 gallons of water per day for domestic use and one-half acre per day for irrigation.

III. The Commission asserted jurisdiction over Air Acres on September 7, 2011, after 20 percent of its customers petitioned the Commission to regulate Air Acres under ORS 757.061. On April 17, 2012, Air Acres filed tariffs with the Commission proposing rates.

IV. On July 16, 2012, Roth Development, Inc. ("Roth Development") filed a request for approval of an affiliated interest agreement ("AI Agreement") under ORS 757.495 and OAR 860-038-6730. The AI Agreement is between Roth Development, Inc. and Dan Roach and requires Roth Development to pay Dan Roach \$30.00 per billable hour for management of Air Acres, including billing and collection, maintenance and repair, and regulatory compliance activities and to reimburse Roach for expenses. Dan Roach is a shareholder in Roth Development. Roth Development owns Air Acres.

AGREEMENT

V. With respect to Air Acres' rates, the Stipulating Parties agree to, and recommend that the Commission approve, the following:

- a. An annual revenue requirement of \$19,534.00 that is based in part on an authorized return on equity of 10 percent on a total rate base of \$11,949;
- b. A rate structure that includes a base charge of \$78.00 per month per customer, a Tier 1 rate (for first 15,000 gallons per month) of \$0.0025 per gallon, and a Tier 2 rate (all gallons consumed in month above first 15,000) of \$0.0095 per gallon;
- c. An effective date for the new rates of January 21, 2013, which is the first day of the first full rate period in 2013;
- d. A temporary monthly surcharge of \$19.35 for projected capital improvements to be included on customers' bills for the first full rate period in 2013, and the next twenty-three monthly bills issued to customers; and
- e. Separate accounting for revenues collected under the temporary monthly surcharge and a prohibition on the Company from using the revenues for anything other than capital improvements, including but not limited to, replacement of the 7.5 HP pump and raising the wellhead above grade;

VI. With respect the Affiliated Interest Agreement between Roth Development and Dan Roach described in paragraph IV above, the Stipulating Parties agree, and recommend that the Commission find, that the agreement is fair and reasonable and not contrary to the public interest.

VII. The Stipulating Parties agree to submit this Stipulation to the Commission and request that the Commission approve the Stipulation as presented. The Stipulating Parties agree that the rates resulting from the Stipulation are fair, just and reasonable.

VIII. By entering into this Stipulation, no Stipulating Party is deemed to approve, accept, or consent to the facts, principles, methods, or theories employed by any other Stipulating Party in arriving at this Stipulation.

IX. The Stipulating Parties have negotiated this Stipulation in good faith and recommend that the Commission adopt this Stipulation in its entirety. The Stipulating Parties have negotiated this Stipulation as a negotiated document. Accordingly, if the Commission rejects all or any material portion of this Stipulation, each Stipulating Party reserves the right, upon written notice to the Commission and all Parties to this proceeding within 15 days of the date of the Commission's order, to withdraw from the Stipulation and request the opportunity for the presentation of additional evidence and argument.

X. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

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This Stipulation is entered into by each Stipulating Party on the date entered below such
Stipulating Party's signature:

STAFF

By: [Signature]

Date: Nov. 20, 2012

ROTH DEVELOPMENT, INC.

By: _____

Date: _____

DIANE FOGG

By: _____

Date: _____

JIM WELTMAN

By: _____

Date: _____

TANYA WYLDER

By: _____

Date: _____

This Stipulation is entered into by each Stipulating Party on the date entered below such
Stipulating Party's signature:

STAFF

By: _____

Date: _____

ROTH DEVELOPMENT, INC

By: *Paul B. Keach*

Date: *11/20/12*

DIANE FOGG

By: _____

Date: _____

JIM WELTMAN

By: _____

Date: _____

TANYA WYLDER

By: _____

Date: _____

This Stipulation is entered into by each Stipulating Party on the date entered below such
Stipulating Party's signature:

STAFF

By: _____

Date: _____

ROTH DEVELOPMENT, INC.

By: _____

Date: _____

DIANE FOGG

By: Diane Fogg

Date: 1-9-2013

JIM WELTMAN

By: _____

Date: _____

TANYA WYLDER

By: _____

Date: _____

This Stipulation is entered into by each Stipulating Party on the date entered below such
Stipulating Party's signature:

STAFF

By: _____

Date: _____

ROTH DEVELOPMENT, INC.

By: _____

Date: _____

DIANE FOGG

By: _____

Date: _____

JIM WELTMAN

By: [Signature] / for Jim Weltsman

Date: Jan 17, 2013

TANYA WYLDER

By: [Signature] / for Tanya Wilcox

Date: Jan 17, 2013