



Oregon

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Public Utility Commission

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August 12, 2005

Via Electronic Filing and U.S. Mail

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

RE: **Docket No. UW 106** - In the Matter of SHADOW WOOD WATER SERVICE
Application for Rate Increase.

Enclosed for filing in the above-captioned docket is the Public Utility Commission Staff's Direct Testimony and Stipulation. This document is being filed by electronic mail with the PUC Filing Center.

/s/ Lois Meerdink

Lois Meerdink
Regulatory Operations Division
Filing on Behalf of Public Utility Commission Staff
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cc: UW 106 Service List - parties

**PUBLIC UTILITY COMMISSION
OF
OREGON**

UW 106

STAFF TESTIMONY

OF

KATHY MILLER

**In the Matter of
SHADOW WOOD WATER SERVICE
Application for Rate Increase**

August 12, 2005

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 1

**Direct Testimony
In Support of the Stipulation**

August 12, 2005

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

2 A. My name is Kathy Miller. I am the Senior Water Utility Analyst for the Public Utility
3 Commission (PUC). My business address is 550 Capitol Street NE Suite 215,
4 Salem, Oregon 97301-2551.

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 dockets
8 involving rate filings, finance applications, property dispositions, exclusive service
9 territory, adequacy of service, water and wastewater rulemakings, formal
10 complaints, and affiliated interest matters.

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

12 A. The purpose of my testimony is to provide support for the Stipulation entered into by
13 the PUC Staff (Staff), Shadow Wood Water Service (SWWS or Company), and
14 intervenors Carl Wikman and Nicholas Krichevsky (the Signing Parties). The
15 remaining intervenors John Jeglum, Walter Gamble, and Steve Moore did not sign
16 the stipulation. Intervenor John Jeglum was the only intervenor to attend the
17 settlement conference in Docket UW 106.

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

19 A. In my testimony, I will 1) describe the water system and summarize the results from
20 the Company's two previous rate cases, UW 57 and UW 97, 2) summarize
21 SWWS's rate case application and describe the Company's proposed rates, 3)
22 explain Staff's analysis of the Company's general rate increase, 4) discuss Staff's
23 adjustments, 5) explain Staff's rate design, 6) address quality of service issues, and

1 7) summarize the Stipulation including the rates agreed to in the Stipulation by the
2 Signing Parties.

3 **Q. DID YOU PREPARE AN EXHIBIT FOR THIS DOCKET?**

4 A. Yes. I prepared Exhibit Staff/2, consisting of 3 pages.

5

6

SHADOW WOOD WATER SERVICE

7 **Q. PLEASE DESCRIBE SWWS.**

8 A. SWWS is a small water system serving approximately 64 residential customers in
9 West Linn. It was originally constructed in 1922 and started providing service in
10 1924. The current owner, Hiland Water Corporation (Hiland), purchased the system
11 on January 1, 2003. The purchase was approved by the Commission in PUC
12 Order No. 03-052, Docket UP 199. Shadow Wood has been a rate-regulated water
13 utility since 1997. This is the water system's third rate case; and SWWS's second
14 rate case under the new ownership. Hiland owns 13 different water systems and
15 allocates overhead and certain expenses to each company based on the number of
16 customers in each system. Hiland is run by a board of directors. The majority of
17 labor and management expenses are contracted out to family members.

18 **WELLS**

19 The water source is a 120-foot (ft) well. SWWS applied to the Water Resources
20 Department for water rights for each of the following four wells or well sites (priority
21 date November 9, 2004). Well No. 1 is the existing 120 ft well, Well No. 2 is the
22 Mossy Brae Water District well (which is located near the Company's service
23 territory), and Wells Nos. 3 and 4 are well sites within the SWWS's service territory.

1 According to Water Resources, SWWS will not be able to secure a water right to its
2 existing Well No. 1 unless it is drilled to a depth of 275' or a well is drilled next to the
3 existing well at the required depth. SWWS will not be able to secure a water right to
4 the Mossy Brae well unless it is drilled to a depth of 380' or a well is drilled next to
5 the existing well at the required depth. Wells Nos. 3 and 4 are well sites and must
6 be drilled to a depth of 330' and 300', respectively.

7 Water Resources issued Permit No. G15918, for use of Well No. 1, on June 16,
8 2005. The Company has until October 1, 2009, to perfect the permit.

9 RESERVOIRS

10 The water system has three reservoirs, only two are operational. Reservoir No. 1
11 was abandoned in late 2002. Reservoir No. 2, which holds 26,000 gallons, was
12 relined in June 2005 and put back into service. Reservoir No. 3 is in service and
13 holds 35,000 gallons. The water flows from the reservoirs to a nearby pump house
14 into the distribution lines to the customers.

15 TOPOGRAPHY, TRANSMISSION, AND DISTRIBUTION

16 The system serves customers on two sides of a ravine. At the bottom of the ravine
17 is a creek and classified wetlands. Well No. 1 and the well house are located on the
18 South side of the ravine. The reservoirs and pump house are located on the North
19 side of the ravine.

20 South Side

21 The majority of customers (approximately 47) are located on the South side of the
22 ravine (opposite the reservoirs). An 8" distribution line was installed from the pump
23 house next to the reservoirs down the North side of the ravine, bored under the

1 wetlands, and installed up the South side, and ends at a fire hydrant at the top of
2 Shadow Wood Drive. There the new 8" line connects to an old 1 1/4" distribution
3 line that serves the customers. Portions of the small distribution line have been
4 replaced, but the majority is small diameter old steel pipe that is deteriorated and
5 subject to leaks.

6 A 4" dedicated fill line carries water from Well No. 1, located at the lower
7 portion of the South side of the ravine, to the reservoirs. This 4" line lies on top of
8 the ground, along with a 2" electrical conduit line from the well house. The two lines
9 cross the creek and continue partially up the North side of the ravine. There the
10 lines connect to new underground lines and remain buried to the reservoir. Water
11 from the dedicated fill line also serves two customers.

12 North Side

13 The customers (approximately 17) on the North side of the ravine are served by
14 various pipes. According to the Company:

- 15 • A new 8" line was constructed from the pump house down Crescent Drive to
16 Stafford Road. The 8" line ends at a fire hydrant and connects to a 2" line that
17 crosses beneath the road to serve three customers.
- 18 • A new pressurized 2" line extends from the pump house partway down
19 Crescent Drive. This line serves three customers. The 2" line is buried in the
20 same ditch as the 8" line.
- 21 • A new 6" line serves three customers along Sunset Drive and two customers on
22 Johnson Road.
- 23 • Three customers are served on Johnson Road through an old 2" line.

1 **Q. PLEASE DESCRIBE THE RESULTS OF THE COMPANY'S FIRST RATE**
2 **CASE, UW 57, UNDER ITS PREVIOUS OWNER.**

3 A. The Company filed its first rate case on September 17, 1997, as a result of customer
4 petitions requesting PUC rate regulation. In its application, the Company sought
5 total annual revenues of \$26,040. Staff recommended total annual revenues of
6 \$22,981 with a 10 percent rate of return on \$71,338 rate base. Some expense was
7 disallowed due to lack of documentation.

8 **Q. PLEASE DESCRIBE ANY ISSUES OR CONCERNS ASSOCIATED WITH**
9 **UW 57.**

10 A. The water system was found deficient in its performance and required to do the
11 following:

- 12 • Raise well 12" above grade.
- 13 • Install piping at well for flushing.
- 14 • Develop a written coliform sampling plan, system map, and flushing plan.
- 15 • Provide new access hatches to the reservoirs.
- 16 • Plan review for reservoir installed in 1993.
- 17 • Complete copper testing to the satisfaction of the state Drinking Water Program
- 18 (DWP).
- 19 • Respond to written correspondence related to possible surface water influence.

20 The company acknowledged "ignoring repeated correspondence" sent by the
21 DWP.

22 Staff enlisted the services of the Oregon Association of Water Utilities (OAWU)
23 circuit rider to evaluate the system. After reviewing the evaluation, Staff

1 recommended the Company install a master meter for leak detection purposes,
2 clean the pump house, post chlorine hazard signs, and implement a testing schedule
3 and tracking method for all system tests.

4 The Company agreed in the UW 57 Stipulation to perform the following:

- 5 • Open communication with DWP and Clackamas County Public Health.
- 6 • Promptly respond to correspondence from DWP.
- 7 • Perform daily sampling and weekly temperature readings.
- 8 • Correct the deficiencies outlined in the Sanitary Survey Report.
- 9 • Install master meter at the well.
- 10 • Clean the pump house and post chlorine hazard signs.
- 11 • Implement a testing schedule and tracking method for water system tests.
- 12 • Enforce late payment charges.

13 **Q. PLEASE DESCRIBE THE RESULTS OF THE COMPANY'S LAST RATE CASE**
14 **UW 97.**

15 A. The Company's last rate case, UW 97, was completed in July 2004. In PUC Order
16 No. 04-392, the Commission approved an increase of \$3,953, or 16 percent,
17 resulting in total annual revenues of \$28,436, including a 9.6 percent rate of return
18 on a rate base of \$56,497. Again, some expense was disallowed due to lack of
19 documentation.

20 **Q. PLEASE DESCRIBE ANY ISSUES OR CONCERNS ASSOCIATED WITH**
21 **UW 97.**

22 A. The Company had not completed the following items as agreed to in UW 57:
23 • Develop a written coliform sampling plan.

- 1 • Develop a current distribution system map.
- 2 • Provide tight fitting, lockable access hatches to the reservoirs.
- 3 • Complete a plan review for the reservoir constructed in 1993.
- 4 • Implement a testing schedule and tracking method for all water system tests.

5 The new owner agreed to perform these items in the UW 97 Stipulation. In addition,
6 during the rate process in UW 97, the customers expressed concern with the lack of
7 fire flow protection.

8 **Q. PLEASE DESCRIBE SWWS'S CURRENT RATES APPROVED IN UW 97.**

9 A. The Company's current rates consist of a base rate of \$25.25 for the first 3,000
10 gallons of water, and a variable rate of \$5.40 per 1,000 gallons above 3,000 gallons.
11 Based on the information provided in the Company's application, the average annual
12 monthly bill was \$37.10. Based on the customers' actual 2004 average
13 consumption, Staff calculated the average monthly bill at \$40.84.

14 **Q. PLEASE DESCRIBE THE COMPANY'S RATE FILING IN THIS DOCKET**
15 **UW 106.**

16 A. On January 5, 2005, the Company filed to increase revenue by \$19,155, or 78.2
17 percent above its 2003 test period revenues of \$24,483, resulting in proposed
18 annual revenues of \$43,638. The Company requested a 10 percent return on
19 \$56,395 net plant calculated in UW 97, and seven percent return on \$99,266 of new
20 plant being added from the improvement project completed in 2004-2005, and
21 \$25,000 Construction Work in Progress. In its application, SWWS proposed
22 additional expenses of \$6,549 above UW 97 approved expenses. The Company
23 also requested interim rates.

1 **Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED INTERIM RATE**
2 **REQUEST.**

3 A. The Company requested one-half of the proposed increase, or \$9,578, in interim
4 rates. The Company stated that the interim rate was necessary:

5 ". . . in order to begin recovering the investment and provide cash to finish the
6 system upgrade . . . Interim rate relief is justified to allow the company to
7 operate in a sound business manner given that the expenditures to date have
8 depleted the company's cash reserves and funds would not be available to
9 complete the fire protection upgrade."

10 At the Commission's public meeting on January 25, 2005, Staff recommended an
11 interim rate increase of \$9.85 per month. On January 27, 2005, the Commission
12 issued Order No. 05-056, granting the interim rate and suspending the tariffs.

13 As a result of the interim rate increase, Staff calculated the new average
14 monthly bill at \$50.69 (\$40.84 plus \$9.85).

15 **Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED RATES AS ORIGINALLY**
16 **FILED IN ITS APPLICATION.**

17 A. In its application, the Company proposes to increase the current base rate from
18 \$25.25 to \$44.94. The proposed rate continues to allow a monthly allowance of
19 3,000 gallons of water in the base rate. The variable rate of \$5.40 per 1,000 gallons
20 above 3,000 gallons remains the same. Using average consumption for 2004, Staff
21 calculates the average customer monthly charge at the Company's proposed rates
22 to be \$60.43.

1 **Q. PLEASE DESCRIBE THE IMPROVEMENT PROJECT CONSTRUCTED**
2 **DURING 2004 - 2005.**

3 A. The major purpose of SWWS's Improvement Project was to increase the water
4 capacity and provide fire protection. The two usable reservoirs were reconfigured
5 and repaired. New lines from the reservoirs to the pump house were installed. Two
6 8" distribution lines were installed to provide fire flow protection to the majority of the
7 customers.

8 The Improvement Project's major components consist of two new 8" distribution
9 lines, a 2" pressurized distribution line, a 6" distribution line, reservoir rehabilitation,
10 two fire hydrants, new electrical equipment, and new lines from the reservoirs to
11 the pump house.

12 **Q. PLEASE DESCRIBE THE \$25,000 IN CONSTRUCTION WORK IN PROGRESS**
13 **REQUESTED BY THE COMPANY.**

14 A. The Company requested \$15,000 to finish the reservoir restoration and \$10,000 to
15 finish the fire protection.

16

17 **STAFF'S ANALYSIS OF SWWS'S RATE INCREASE APPLICATION**

18 **Q. WHAT ARE THE RESULTS OF STAFF'S ANALYSIS OF THE COMPANY'S**
19 **APPLICATION FOR A RATE INCREASE?**

20 A. Staff's analysis of SWWS's proposal results in a recommended annual revenue
21 requirement of \$39,372. This is a \$10,936 or 28.96 percent increase to its annual
22 revenue approved in UW 97. Staff recommends an 8.04 percent return on a rate
23 base of \$182,076.

1 • **Bookkeeping (Affiliated Interest Contract)**

2 Staff deducted bookkeeping expense. In UW 97, bookkeeping expense
3 was part of an affiliated interest contract. In UW 106, the proposed cost is
4 to be included in a new affiliated interest contract for Marilyn Olson, as an
5 Office Manager.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$0	\$800	(\$800)	\$0

6
7 • **Communications**

8 Staff increased communication expense to reflect actual communications
9 expense and allow for a new auto alarm calling system.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$0	\$332	\$127	\$459

10
11 • **Purchased Power**

12 No change to purchased power from UW 97 expense. Power expense for
13 2004 was approximately \$1600.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$1,565	\$1,640	\$0	\$1,640

14
15 • **Postage**

16 Staff increased postage expense to update cost to cover 13 mailings to
17 64 customers on an annual basis.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$0	\$271	\$37	\$308

1 • **Office Supplies (Allocated Cost)**

2 Staff increased office supplies to reflect Hiland Water Company's 2004
3 actual allocated expense to SWWS.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$315	\$315	\$77	\$392

4
5 • **O&M Materials and Supplies**

6 Staff increased O&M materials and supplies expense to reflect materials
7 and parts purchased in 2004 for repairs and maintenance.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$6,331	\$1,637	\$1,116	\$2,753

8
9 • **Repairs and Maintenance (Affiliated Interest Contract)**

10 Staff deducted UW 97 cost for repairs and maintenance expense. In UW
11 106, this proposed expense is moved to contract labor under an affiliated
12 interest contract with Olson, LLC.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$0	\$1,968	(\$1,968)	\$0

13
14 • **Engineering**

15 All engineering costs were associated with capital expenditures. Staff
16 moved the costs to utility plant after adjusting for one year's amortized
17 expense that should have been a capital expenditure. No engineering
18 expense is recommended.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$4,083	\$585	(\$585)	\$0

1 • **Accounting (Allocated Cost)**

2 Staff increased accounting expense to reflect Hiland's 2004 allocated
3 expense to SWWS for accounting services.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$45	\$45	\$79	\$124

4

5 • **Legal**

6 All legal costs were associated with capital expenditures. Staff moved all
7 costs to utility plant after adjusting for one year's amortized expense that
8 should have been a capital expenditure. No legal expense is
9 recommended.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$3,360	\$622	(\$622)	\$0

10

11 • **Management (Affiliated Interest Contract and Allocated Cost)**

12 Staff decreased management expense to reflect Hiland's proposed
13 allocated cost for Office Manager to be finalized in an affiliated interest
14 contract submitted by the Company.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$800	\$2,400	(\$1,235)	\$1,165

15

16 • **Testing**

17 Staff increased testing expense to reflect a three-year cost average. Staff
18 contracted with a professional water testing laboratory to obtain estimated

1 testing expense relative to SWWS for the years 2005, 2006, and 2007.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$757	\$1,121	\$304	\$1,425

2
3 **• Labor (Affiliated Interest Contract)**

4 The Company could not provide creditable documentation for 2004 costs.

5 Therefore, Staff estimated a year's worth of repairs, maintenance, and
6 emergency services based on the number of times in 2004 that SWWS
7 bought materials and supplies for repairs and maintenance according to
8 SWWS records. Staff used an average of \$20 per hour for labor and
9 included equipment costs.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$11,301	\$5,157	\$1,835	\$6,992

10
11 **• Rate Case Amortization**

12 Staff included the rate case expense amortization from UW 97 and
13 increase it for expenses associated with UW 106. The rate case
14 amortization expense terminates in January of 2009.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$0	\$218	\$32	\$250

15
16 **• Insurance (Allocated Cost)**

17 Staff recommends no change to insurance expense from UW 97. The
18 Company allocated insurance cost for 2004 was \$146.17.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$150	\$150	\$0	\$150

1 • **Cross Connection Program**

2 Staff removed all cross connection expenses as they should be embedded
3 in other accounts such as office manager, office supplies, and postage
4 expenses.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$35	\$35	(\$35)	\$0

5

6 • **Gross Revenue Fee**

7 Staff increased gross revenue fee expense to adjust for the additional
8 income in Staff's proposed revenue requirement.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$0	\$71	\$21	\$93

9

10 • **Equipment Rental (Affiliated Interest Contract)**

11 Staff removed all equipment rental expense. The Company stated that
12 equipment rental expense is included in contract labor under an affiliated
13 interest contract with Olson LLC.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$0	\$672	(\$672)	\$0

14

15 • **Office Rental (Affiliated Interest Contract and Allocated Cost)**

16 Staff established a property rental expense for office space. The cost is
17 based on Hiland's allocated cost to SWWS.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$0	\$0	\$401	\$401

18

1 • **Miscellaneous**

2 Staff increased miscellaneous expense to account for bad debt, fees,
3 board meeting costs, and miscellaneous allocations from Hiland to
4 SWWS.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$1,645	\$247	\$125	\$372

5

6 • **Water Right Expense**

7 Although the Company's application requested an annual \$1,700 in
8 water right expenses, UW 97 allowed no water right expense. This is
9 reasonable since all costs associated with water rights should be
10 capitalized. Staff did not make any change to UW 97's water right
11 expense.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$,1700	\$0	\$0	\$0

12

13 • **Corrosion Control Expense**

14 The Oregon Drinking Water Program terminated its lead and copper
15 corrosion control enforcement of SWWS. Therefore, no further costs will
16 be incurred. Staff made no adjustment to UW 97's expense of \$0. Staff
17 capitalized all previous costs.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$1,604	\$0	\$0	\$0

18

1 • **System Capacity Development**

2 Staff made no change to UW 97's system capacity development expense
3 of \$0. No documentation was provided by the Company supporting such
4 costs.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$200	\$0	\$0	\$0

5

6 • **Meter Reading Expense**

7 Staff established a meter reading expense at a cost of \$.75 per meter.
8 This cost is consistent with the meter reading expense charged in Hiland's
9 other rate regulated companies.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$0	\$0	\$576	\$576

10

11 Adjustments to Other Deductions

12 • **Depreciation Expense**

13 Staff calculated straight line depreciation expense using NARUC standard
14 service lives.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$4,940	\$2,613	\$2,810	\$5,423

15

16 • **Property Tax**

17 Property Tax is assessed to the property where the well is located and the
18 property where the reservoirs are located. Property tax is documented in
19 the Real Property Tax Statements (7/1/04 to 6/30/05). Staff made no
20 adjustment to the Property Tax approved in UW 97.

Company Application	Approved UW 97	Staff Adjustment	Recommended Expense
\$559	\$576	\$0	\$576

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Q. SOME OF THE SERVICES ABOVE ARE PROVIDED BY THE COMPANY'S AFFILIATED INTERESTS. DOES THE COMPANY HAVE PUC APPROVED AFFILIATED INTEREST CONTRACTS?

A. SWWS has a PUC approved affiliated interest contract from UW 97. However, per the Company, the services and affiliates have changed. Staff recommends that within 30 days of the date of the Commission's order approving rates, SWWS be required to file affiliated interest contracts for: Office Manager, Labor, Backflow Services, and Office Rent.

UTILITY PLANT

Q. WHAT IS STAFF'S ANALYSIS OF THE UTILITY PLANT?

A. Overall, Staff added \$156,965 in plant to UW 97 plant of \$101,347, resulting in total original plant of \$258,312. For calculation and adjustment purposes, Staff divided the Company's plant into two segments. They are:

1. EXISTING PLANT is the plant that was approved in UW 97.
2. IMPROVEMENT PROJECT PLANT is the reservoirs and distribution plant constructed in 2004 and 2005, along with some miscellaneous items in 2003.

Q. DID THE COMPANY ASK FOR ANY OTHER ADDITIONAL PLANT?

A. Yes, during the investigation, the Company submitted a request to add a third segment of utility plant, approximately \$35,000 in plant that was not included in the previous rate case. I refer to this as PRIOR PLANT. This plant was installed after

1 March 1995 and prior to the new owners' purchase in 2003. SWWS continued to
2 submit additional requests for Prior Plant throughout the rate case process
3 increasing the Company's total request to \$76,499.

4 **Q. WHAT ADJUSTMENTS DID STAFF MAKE TO UTILITY PLANT?**

5 A. Staff made the following adjustments to utility plant.

- 6 • EXISTING PLANT - Staff updated the existing plant to reflect accumulated
7 depreciation and depreciation expense through 2005.
- 8 • IMPROVEMENT PROJECT PLANT - Staff made labor (wage) adjustments, time
9 adjustments, and other miscellaneous adjustments.
- 10 • PRIOR PLANT - Staff removed items that should have been expensed and made
11 a general 25 percent reduction due to SWWS's poor documentation.

12 **Q. PLEASE DESCRIBE STAFF'S ADJUSTMENTS TO IMPROVEMENT PROJECT**
13 **PLANT IN MORE DETAIL.**

14 A. Utility plant should include all prudently incurred capitalized improvements and the
15 labor incurred, consistent with Commission policy, to construct the improvements.
16 The labor associated with the 2004 Construction Project was performed by Pipe
17 Doc, an affiliated interest. Therefore, the cost should be the lesser of cost or
18 market. Staff adjusted wages for labor to match the Clackamas County 2004
19 prevailing wages, loaded at 50 percent for social security tax, Medicare, benefits,
20 and overhead.

1 Staff deducted one hour from each laborer's daily hours to eliminate travel
2 time to and from the water system; time that Pipe Doc had included in its billings.
3 PUC Staff policy does not allow travel to and from the water system as a
4 consumer expense.

5 Staff made adjustments to certain material costs to match the receipts
6 provided by the Company or Staff's own research. Staff deducted for duplicate
7 costs and work already paid for by the customers or developers.

8 **Q. WHAT IS THE RESULT OF STAFF'S ADJUSTMENTS TO THE ORIGINAL**
9 **IMPROVEMENT PROJECT PLANT?**

10 A. The results of all plant adjustments are shown in the following table:

IMPROVEMENT PROJECT	Company's	Final
	Requested	Stipulated
	Plant	Plant
MATERIALS	84,360	79,581
PIPE DOC LABOR	10,291	9,318
PIPE DOC SUPERVISORY LABOR	10,075	6,215
TOTAL IMPROVEMENT PROJECT PLANT	104,726	95,113

11
12 **Q. WHAT IS THE REMAINING NET PLANT AFTER ACCUMULATED**
13 **DEPRECIATION IS REMOVED FOR ALL THREE PLANT SEGMENTS?**

14 A. The total net plant for all three plant segments is \$180,651. The resulting detail is
15 shown in the table below.

16

1

UTILITY PLANT SUMMARY

		Less		
		Fully Deprec	Existing	
		Plant	Plant	
EXISTING PLANT - UW 97 Orig Plant	115,382	23,541	91,841	
less accum deprec	65,328	23,541	41,787	
Subtotal	50,054		50,054	
PRIOR PLANT – Adjusted Orig	47,817			
less accum deprec	9,483			
Subtotal	38,334			
IMPROVEMENT PROJECT PLANT –				
Adjusted Original	95,113 (including reservoir #2 lining)			
less accum deprec	2,850			
Subtotal	92,263			
	Orig Plant	PRIOR	PROJECT	TOTAL
TOTAL GROSS PLANT	115,382	47,817	95,113	258,312
TOTAL ACCUMULATED DEPRECIATION	65,328	9,483	2,850	77,661
TOTAL NET PLANT	50,054	38,334	92,263	180,651

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3

4

STAFF’S PROPOSED RATE DESIGN

5

Q. PLEASE DESCRIBE STAFF’S PROPOSED RATE DESIGN.

6

A. Staff’s proposed rate design represents a 45/55 percent split (of Staff’s proposed

7

revenue requirement of \$39,372) to the variable rate and the base rate,

8

respectively. Staff assigned \$17,717 to the variable rate and \$21,654 to the base

9

rate. Staff calculated a base rate of \$28.20. However, Staff does not recommend

10

continuing the practice of including 3,000 gallons of water allowance in the base

1 rate. It is more fair and equitable, along with improving the efficient use of water,
2 for the customers to pay for the water they use.

3 Staff calculated the variable rate by dividing the revenue assigned to the
4 variable rate by the annual consumption (divided into its billable unit of measure).
5 Staff proposes a variable rate of \$3.94 for every 1,000 gallons of water consumed.
6 Staff confirmed with the Company that it bills customers for their exact usage and
7 does not round to the nearest 1,000 unit of measure.

8 **Q. WHAT IS THE AVERAGE MONTHLY BILL BASED ON STAFF'S PROPOSED**
9 **RATES.**

10 A. Staff calculates the average monthly bill at \$51.27. This is \$.58 higher than the
11 current average monthly bill of \$50.69. The current average monthly bill includes
12 the current average monthly bill at UW 97 rates (\$40.84) plus the interim rate
13 (\$9.85).

14 **Q. ARE THERE ANY REMAINING ISSUES OR CONCERNS BY EITHER STAFF**
15 **OR THE CUSTOMERS YOU WISH TO TESTIFY ABOUT?**

16 A. Yes, additional concerns included water quality, water pressure, fire flow, the
17 improvement project, too much chlorine, communication, service interruptions,
18 lack of Company response to calls and complaints, and surface water influence.

19 **Q. WHAT ACTIONS HAS STAFF TAKEN TO ALLEVIATE OR HELP RESOLVE**
20 **THESE CONCERNS?**

21 A. Staff has worked with the Company to address the customer concerns as
22 follows:

- 1 1. Water Quality – Staff encouraged the Company to test the water quality at
2 some residences on the Shadow Wood Drive (south) side of the ravine. The
3 Company complied and sent Staff the results of the tests. The tests indicated
4 no bacterial detections found.
- 5 2. Water Pressure – Some customers located on the Shadow Wood Drive (south)
6 side of the ravine complained of lack of water pressure. Although the
7 customers may experience some increased pressure due to the 2nd reservoir
8 coming on line and the 8" pipe, these customers will not have significant
9 pressure improvement until the small diameter distribution lines feeding water
10 to those customers are replaced with larger diameter lines. The capacity from
11 the reservoir appears to be adequate. It is the small distribution lines that do
12 not allow the increased water supply to flow to these customers.
- 13 3. Fire Flow - Staff fully investigated the fire protection/coverage issue. The
14 Company states that 22 of the customers will not be within the 1,000 foot radius
15 of a fire hydrant. Staff recommends these 22 customers receive a rate credit of
16 \$4.19 each month until they too have fire protection.

17 A written summary of the adequacy of the system fire protection has been
18 mailed to each customer. The summary states that on June 29th a fire flow was
19 conducted on a Shadow Wood hydrant. The hydrant provided 1,111 gallons
20 per minute at 20 pounds per square inch (psi). This meets the fire flow
21 requirements adopted by the Tualatin Valley Fire and Rescue and the
22 Insurance Service Office (ISO). Shadow Wood area had an ISO 8 rating and is

1 now considered an ISO 2 rating. The customers with fire protection should
2 benefit by lower home owners insurance costs.

3 4. The Improvement Project – Many customers expressed concern that the new
4 improvements were only benefiting the customers on the North side of the
5 ravine. Customers on the Shadow Wood Drive side had not seen any
6 improvement to their service.

7 The Company made a management decision to make improvements to
8 the system starting with the water capacity at the reservoirs and enlarging the
9 distribution lines from that point. Although as mentioned above, many
10 customers still experience low water pressure, the majority of the customers will
11 benefit from the fire protection provided by the reservoirs and the 8" lines.
12 Other improvements still need to be made. A major future improvement will be
13 enlarging the distribution lines serving the majority of customers on the South
14 side of the ravine.

15 5. Chlorine Complaints and Daily Chlorine Readings – Staff discovered that the
16 Company was not testing for chlorine residuals on a daily basis as required.
17 The Company resolved the problem by no longer chlorinating the water. Staff's
18 investigation confirmed that chlorination of the water system was not required.
19 This will eliminate complaints of chlorine smell or too much chlorine in the
20 water.

21 The Company is required to test for bacteria. If there is a break in the line
22 (repair), the Company will chlorinate to disinfect. If bacteria are detected in a
23 water test, SWWS will be required to chlorinate and retest the water.

1 6. Communication Between SWWS and its Customers – It was obvious at the
2 Prehearing Conference that there was a significant lack of company/customer
3 communication. Staff encouraged the Company to arrange a meeting with the
4 customers to explain the Improvement Project, future concerns and plans, and
5 answer questions. Staff also attended the meeting. The Company conducted
6 a well organized and informative presentation. Customers were able to ask
7 questions and receive answers from the Company. Staff encourages the
8 Company to communicate with its customers on a regular basis regarding the
9 status of the water system, current and projected projects.

10 7. Service Interruptions – Notification of Outages. Oregon Administrative Rule
11 (OAR) 860-036-0075 provides that a water utility shall make all reasonable
12 efforts to prevent interruptions of service. The water utility shall make all
13 reasonable efforts to notify every customer affected in advance of any
14 scheduled work that will require an interruption of service. However, such
15 notice shall not be required in case of interruptions due to emergency repairs or
16 for repairs or maintenance work that result in an interruption of less than five
17 minutes. Notice may be provided by mail, door hanger, telephone, or by a
18 personal visit. The Company is aware of the rules regarding service
19 interruptions.

20 8. Company Response to Calls, Inquiries, and Complaints – According to PUC
21 administrative rules, OAR 860-036-0015 (9) states:

22 Each water utility shall maintain a business location and a regular
23 telephone number at which it may be contacted directly by

1 customers, applicants, or the Commission during its regular
2 business hours. The water utility shall respond to nonemergency
3 customer inquiries, complaints, and service problems within a
4 reasonable time period. For purposes of this rule, a reasonable
5 time period is considered to be within 24 hours.

6 OAR 860-036-0015 (10) requires:

7 The water utility shall provide a means by which it may be
8 contacted at any hour in the event of a service failure or emergency
9 . . . The water utility shall respond to emergency calls or messages
10 within one hour . . . unless extenuating circumstances exist that
11 prevent such response. The water utility may be required to justify
12 extenuating circumstances to the Commission's satisfaction.

13 The Company has been reminded of the rules. The customers attending
14 the Prehearing Conference who complained were informed of the rules and of
15 the PUC's Consumer Services Section.

- 16 9. Surface Water Influence – There was concern that SWWS's only well (Well
17 No. 1) was under the direct influence of surface water. The Company provided
18 a letter from Kari Salis, PE, Regional Engineer, DHS Drinking Water Program,
19 dated November 13, 2003, stating that the well at Shadow Wood Water System
20 did not meet the criteria of being under the direct influence of surface water.
21 The system is classified as ground water. Therefore, it is not subject to
22 requirements for systems under the direct influence of surface water.
23

STIPULATION SUMMARY**Q. PLEASE SUMMARIZE THE REVENUE REQUIREMENT AND RATES AS AGREED TO IN THE STIPULATION BY THE SIGNING PARTIES.**

A. The Signing Parties stipulated to an annual revenue requirement of \$39,372 or a 28.96 percent increase, including an 8.04 percent return on a rate base of \$182,076. This produces a base rate of \$28.20 and a variable rate of \$3.94 for every 1,000 gallons of water consumed. This is consistent with Staff findings and recommendations discussed above.

Q. DOES STAFF BELIEVE THESE RATES TO BE FAIR AND REASONABLE?

A. Yes. To the best of Staff's knowledge, given the circumstances surrounding this case, Staff believes the stipulation agreed to by the Signing Parties is fair and reasonable.

Q. ARE THERE ANY OTHER ISSUES THAT STAFF WOULD LIKE TO TESTIFY REGARDING.

A. Yes, UW 106 was a difficult case due to the Company's inaccurate and undocumented, or poorly documented costs. SWWS expense documentation included double booking of expenses, miscalculations, and lack of valid documentation. The Company in both written and verbal statements contradicted itself.

The plant costs were not well documented. Construction costs were not tracked by projects or separated into appropriate plant categories. SWWS attempted to cooperate, but was unable to provide credible information. Without proper documentation, Staff used its best judgment.

1 The Company has apologized for its lack of knowledge of the regulatory
2 procedures and requirements, and its lack of proper documentation. However,
3 Hiland Water Corporation also owns other rate regulated water utilities and the
4 owner(s) has participated in other rate cases. Staff has discussed in depth proper
5 documentation with the owner and other family members working on the case.

6 Staff believes that SWWS (and other systems owned by Hiland Water
7 Corporation) will improve upon the documentation of its costs.

8 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

9 A. Yes.
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12

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2 itself.

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4 tracked by projects or separated into appropriate plant categories. SWWS
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14 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

15 A. Yes.
16

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21 I hereby confirm that I have reviewed this testimony.

23 *Melvin Olson*

8-2-05

24 Signature – Melvin Olson, Shadow Wood Water Service

Date

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2 itself.

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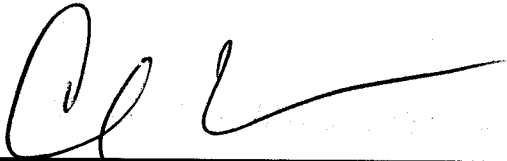
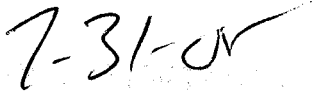
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13 Corporation) will improve upon the documentation of its costs.

14 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

15 A. Yes.

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20 I hereby confirm that I have reviewed this testimony.

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23 _____
Signature – Carl Wikman, Intervenor Date

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15 A. Yes.

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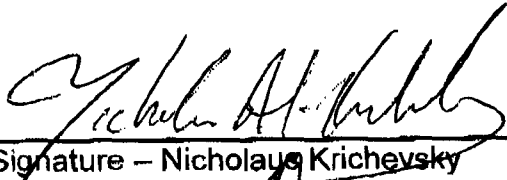

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20 I hereby confirm that I have reviewed this testimony.

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Signature – Nicholas Krichevsky  Date

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9 A. Yes.

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I hereby confirm that I have reviewed this testimony.

Signature – Walter R. Gamble, Intervenor

Date

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 I hereby confirm that I have reviewed this testimony.

Signature – John Jeglum, Intervenor Date

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 2

**Exhibits In
Support of Direct Testimony**

August 12, 2005

SHADOW WOOD WATER SERVICE UW 106 Test Year: 2003							Staff/2 Miller/1
		Staff Case		28.96%			
A	B	C	D	E	F	G	
WATER	Proposed Results Per Company Application	Approved Results UW 97	Proposed Staff Adjustments UW 97	Staff's Adjusted Results (C+D=E)	Staff Proposed Rev Changes	Staff's Proposed Results (E+F=G)	
Revenues							
1	Residential Wtr Sales Rev	43,638	28,436	2,094	30,530	8,842	39,372
2	Commer/Indust Wtr Rev			0	0	0	0
3	Irrigation Wtr Sales Rev			0	0	0	0
4	TOTAL REVENUE	43,638	28,436	2,094	30,530	8,842	39,372
5							
6	<u>Operating Expenses</u>						
7	Chemicals	0	128	(128)	0		0
8	Bookkeeping	0	800	(800)	0		0
9	Communications	0	332	127	459		459
10	Purchased Power	1,565	1,640	0	1,640		1,640
11	Postage	0	271	37	308		308
12	Office Supplies	315	315	77	392		392
13	O&M Materials & Supplies	6,331	1,637	1,116	2,753		2,753
14	Repairs & Maintenance	0	1,968	(1,968)	0		0
15	Contract Servc - Engineering	4,083	585	(585)	0		0
16	Contract Service - Accounting	45	45	79	124		124
17	Contract Service - Legal	3,360	622	(622)	0		0
18	Contract Service - Mgmt Expense	800	2,400	(1,235)	1,165		1,165
19	Contract Service - Testing	757	1,121	304	1,425		1,425
20	Contract Service - Labor	11,301	5,157	1,835	6,992		6,992
21	Rate Case Amortization	0	218	32	250		250
22	Insurance	150	150	0	150		150
23	Cross Connection Program Exp	35	35	(35)	0		0
24	Gross Rev Fee	0	71	0	71	22	93
25	Equipment Rental	0	672	(672)	0		0
26	Office Rental	0		401	401		401
27	Miscellaneous Exp	1,645	247	125	372		372
28	Water Right Expense	1,700					0
29	Corrosion Control Expense	1,604					0
30	System Capacity Development Exp	200					0
31	Meter Reading Expense			576	576		576
32	TOTAL OPERATING EXPENSES	33,891	18,414	(1,336)	17,078	22	17,100
33							
34	Depreciation Expense	4,940	2,613	2,810	5,423		5,423
35	Amortization Expense			0	0		0
36	Property/Payroll Tax	559	576	0	576		576
37	Oregon Income Tax		452	(510)	(58)	582	524
38	Federal Income Tax		958	(1,082)	(124)	1,236	1,112
39	TOTAL REVENUE DEDUCTIONS	39,390	23,013	(118)	22,895	1,840	24,735
40	NET OPERATING INCOME	4,248	5,423	2,212	7,635	7,002	14,637
41				2,212	7,635	7,002	14,637
42	Utility Plant in Service	222,044	101,347	156,965	258,312		258,312
43	Less:						
44	Depreciation Reserve	66,383	46,384	31,277	77,661		77,661
45	Contributions in Aid of Const			0	0		0
46	Unamortized Retired Plant			0	0		0
47	Amortization of CIAC			0	0		0
48	Net Utility Plant	155,661	54,963	125,688	180,651	0	180,651
49	Plus: (working capital)			125,688	180,651		
50	Materials and Supplies Inventory			0	0		0
51	Working Cash (1/12 Total Op Exp	2,391	1,534	(111)	1,423	2	1,425
52	TOTAL RATE BASE	158,052	56,497	125,577	182,074		182,076
53	requested rate of return	8.29%		136,377	151,073		

REVENUE SENSITIVE COSTS

Revenues		1.0000
O&M - Uncollectibles		0.0000
Franchise Fees		0.0000
OPUC Fee		0.0025
Short-term Interest		0.0000
State Taxable Income		0.9975
State Income Tax @	6.60%	0.0658
Federal Taxable Income		0.9317
Federal Income Tax @	15.00%	0.1397
Total Income Taxes		0.2056
Total Revenue Sensitive Costs		0.2081
Utility Operating Income		0.7919
Net-to-Gross Factor		1.2628

COST OF CAPITAL

		Remaining	Capital	Cost	Weighted	
		Balance	Structure		Cost	
DEBT*		\$95,113	65.36%	7.00%	4.5755%	
			0.00%	0.00%	0.0000%	
			0.00%	0.00%	0.0000%	WTDDEBT
EQUITY	UW 97	\$50,398	34.64%	10.00%	3.4635%	4.5755%
		\$145,511	100.00%		8.0391%	

8.04% Rate of Return

Co request 7 percent on new plant and 10 percent on old plant
Co request 8.29 percent as a blended rate of return

SHADOW WOOD WATER SERVICE
 UW 106
 RESIDENTIAL RATE DESIGN

Staff/2
 Miller/3

Proposed Revenues of:		\$39,372		
Base/Commodity Split				
Variable Rate	45.00%	Proposed Rev \$39,372	=	\$17,717
Base Rate	55.00%	Proposed Rev \$39,372	=	<u>\$21,654</u> \$39,372

Co Current Rates
\$25.25 BASE for 3000 gallons \$5.40 per 1000 gals over 3000

Co Proposed Rates
\$44.94 BASE for 3000 gallons \$5.40 per 1000 gals over 3000

Staff Proposed Rates
\$28.20 BASE \$3.94 PER 1000 GAL

BASE RATE	# of Cust	Current Mo Base Rate	Proposed Mo Base Rate	Total Annual Revenues
5/8"	64	\$25.25	\$28.20	\$21,654
1"	0	\$0.00	\$0.00	\$0
TOTALS	64		11.67% Increase	\$21,654

Calculating Current Rev
 From Base Rate
 \$19,392
 \$0

TOTAL VARIABLE REVENUE \$17,717

Cost per 1000 gallons \$3.94

$$\frac{\text{Proposed Rev } \$17,717}{\text{Consumption } 4,496} = \text{per 1000 gals } 3.94107$$

\$19,392
 11.67%

Average Monthly Bill: \$51.27

Calculation of Average Monthly Bill

Consumption 2004	4,495,540
Divided by 12 Months	12
Divided by 64 customers	64
Average Usage per Mo per Cust	5,853.57
Divided by 1000	1,000
	5.85
Times the Variable Rate	\$3.94
	\$23.07
Base Rate Per Month	\$28.20
AVERAGE MONTHLY BILL	\$51.27

Calculation of Consumption

Consumpt	# of cust
4355054	62
70,243	1 add'l cust
70,243	2nd add'l cust
4,495,540	
	Add'l Consump per cust/year
	70,243

**UW 106
Service List (Parties)**

<p>WALTER GAMBLE 1786 SW GREENWAY CIR WEST LINN OR 97068 waltgamble@agemail.com</p>	<p>JOHN & MARCIA JEGLUM 19651 SW BOLDS WAY WEST LINN OR 97068 mjeglum@netzero.net</p>
<p>NICHOLAUS KRICHEVSKY 1844 SW GREENWAY CIRCLE WEST LINN OR 97068 ali@pdx.edu</p>	<p>STEVE MOORE 1555 SW SHADOW WOOD DR WEST LINN OR 97068 philadelphias@juno.com</p>
<p>MELVIN OLSON SHADOW WOOD WATER SERVICE PO BOX 699 NEWBERG OR 97132 mccoproductions@hotmail.com</p>	<p>CARL WIKMAN 1766 SW GREENWAY CIR WEST LINN OR 97068 carlwikman@netscape.net</p>

CERTIFICATE OF SERVICE

UW 106

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 all parties or attorneys of parties.

Dated at Salem, Oregon, this 12th day of August, 2005.

/s/ Lois Meerdink

Lois Meerdink
Public Utility Commission
Regulatory Operations
PO Box 2148
Salem, Oregon 97308-2148
Telephone: (503) 378-8959