



# Oregon

Kate Brown, Governor

**Public Utility Commission**

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January 4, 2019

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OREGON PUBLIC UTILITY COMMISSION  
ATTENTION: FILING CENTER  
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**RE: Docket No. UW 175 – In the Matter of SOUTH HILLS WATER SYSTEMS, INC, Request for a General Rate Revision.**

Attached for filings are Staff Exhibits 100-103.

*/s/ Kay Barnes*

Kay Barnes

PUC- Utility Program

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CASE: UW 175  
WITNESS: RUSSELL (RUSS) BEITZEL

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 100**

**Testimony in Support of the Stipulation**

**January 4, 2019**

1 **Q. Please state your name, occupation, and business address.**

2 A. My name is Russ Beitzel. I am a Senior Utility Analyst employed in the  
3 Telecommunications and Water Division of the Public Utility Commission of  
4 Oregon (OPUC). My business address is 201 High Street SE. Suite 100,  
5 Salem, Oregon 97301.

6 **Q. Please describe your educational background and work experience.**

7 A. My witness qualification statement is found in Exhibit Staff/101.

8 **Q. What is the purpose of your testimony?**

9 A. The purpose of Staff's testimony is to introduce and support the stipulation  
10 agreed to by the parties in Docket No. UW 175, South Hills Water System,  
11 Inc.'s request for a general rate revision.

12 **Q. Who is testifying in this docket?**

13 A. I am testifying as the Staff witness in Docket No. UW 175.

14 **Q. Did you prepare any exhibits for this docket?**

15 A. Yes. I prepared Exhibit Staff/101, consisting of one page, Exhibit Staff/102  
16 consisting of four pages, and Exhibit Staff/103 consisting of seven pages.

17 **Q. Who are the parties to Docket No. UW 175?**

18 A. The parties are South Hills Water System, Inc. (South Hills or Company);  
19 Commission Staff (Staff); and four South Hills' customers: Thomas Borland,  
20 Rosemarie Klas, Rex Myer, and Mary Perlmutter.

21 **Q. Did the parties reach a settlement in Docket No. UW 175?**

22 A. Yes. The Stipulation entered into by South Hills, Staff, Thomas Borland,  
23 Rosemarie Klas, Rex Myer and Mary Perlmutter (the Stipulating Parties) settles

1 all issues in this docket.

2 **Q. How is your testimony organized?**

3 A. My testimony is organized as follows:

4	Issue 1, Summary Recommendation .....	3
5	Issue 2, South Hills' Description and Regulatory History .....	4
6	Issue 3, Application for a Rate Increase .....	5
7	Issue 4, Staff's Analysis of South Hills's Application and Stipulated	
8	Phase 1 Adjustments .....	7
9	Issue 5, Stipulated Phase 2 Adjustments.....	15
10	Issue 6, Resolved Rate Issues.....	22
11		
	Table 1, Depreciation Expense adjustments.....	11
	Table 2, Utility Plant in Service calculation.....	12
12		
13	Exhibit 101, Witness Qualification.....	Beitzel/1
14	Exhibit 102, Revenue Requirement Phase 1.....	Beitzel/1
15	Exhibit 102, Revenue Requirement Adjustments Phase 1.....	Beitzel/2
16	Exhibit 102, Revenue Requirement Phase 2.....	Beitzel/3
17	Exhibit 102, Revenue Requirement Adjustments Phase 2.....	Beitzel/4
18	Exhibit 102, Invested Plant .....	Beitzel/5
19	Exhibit 103, Email response to verbal Settlement information.....	Beitzel/1
20	Exhibit 103, South Hills Data Response 7 response.....	Beitzel/2
21	Exhibit 103, HPS Gate Valve Bid.....	Beitzel/3
22	Exhibit 103, Hiland Gate Valve Bid.....	Beitzel/4
23	Exhibit 103, South Hills Customer Notice.....	Beitzel/5
24	Exhibit 103, HPS Black Poly Pipe Bid.....	Beitzel/6
25	Exhibit 103, Hiland Black Poly Pipe Bid.....	Beitzel/7

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**ISSUE 1, SUMMARY RECOMMENDATION**

**Q. Briefly summarize the Stipulating Parties recommendation in this case.**

A. The Stipulating Parties recommend that the Commission adopt the Stipulation agreed to by the Stipulating Parties in Docket No. UW 175. The Stipulation contains a two phase approach to a general rate increase:

- The first phase rate adjustment (Phase 1) covers the current operating revenue requirement of the company. For Phase 1, the Parties agreed to a revenue requirement of \$57,576. This revenue requirement figure includes water sales revenue of \$51,576 and \$6,000 of income from services received in exchange for property rental. The Phase 1 revenue requirement results in a 42.78 percent increase over the 2016 test period revenues (a 50.26 percent increase over 2016 test year water sales revenue), and reflects an opportunity to earn a 9.5 percent rate of return on a rate base of \$87,426.
- The second phase rate adjustment (Phase 2) will only happen if South Hills secures a loan for the replacement of its black polypropylene pipes (the Black Poly Pipe project), which is discussed in more detail below. For Phase 2, the Parties agreed to a maximum possible revenue requirement of \$66,000. This revenue requirement figure includes water sales revenue of \$60,000 and \$6,000 of income from services received in exchange for property rental. The actual amount of the Phase 2 revenue requirement will be calculated based on the process I describe later in my testimony. The maximum Phase 2 increase would result in an increase of 63.67 percent over the 2016 test period revenues (a

1 74.80 percent increase over the 2016 test year water sales revenue), and reflects  
2 an opportunity to earn a 9.5 percent rate of return on a rate base of \$88,121.

3 **Q. Please explain the necessity for the size of the rate increase the**  
4 **Stipulating Parties agreed to in this Stipulation.**

5 A. The Stipulating Parties agreed upon these increases after an in-depth review of  
6 the company's expenses and major capital investment priorities. Several key  
7 factors figured in the general size of the agreed Phase 1 increase, including  
8 adjustments to better reflect the time and work required to operate the  
9 company, the rate case cost, and tax costs. Some costs and three significant  
10 assets had also been omitted from South Hills' original filing, which are  
11 included here. A high-priority construction work in progress (CWIP) asset was  
12 also added in Phase 1 for reasons explained later in my testimony.

13 Additionally, the primary factor that figured into the maximum size of the Phase  
14 2 increase is a high-priority plant replacement project, which will reflect a major  
15 expense for this small water system with a corresponding small number of  
16 customers.

17 **ISSUE 2, SOUTH HILLS'**

18 **DESCRIPTION AND REGULATORY HISTORY**

19 **Q. Please describe South Hills.**

20 A. South Hills is located near Hillsboro, Oregon and is a privately owned, for-  
21 profit, water utility. South Hills provides water service to approximately 103  
22 customers living primarily in one developed mobile home park. The utility was

1 formed in 1971 and the Commission approved the purchase of the utility by the  
2 current owner in 2003.<sup>1</sup>

3 **Q. Please describe South Hills' regulatory history.**

4 A. South Hills is a rate-regulated water utility under the jurisdiction of the  
5 Commission. South Hills came under regulation by member petition on  
6 May 18, 1992. The Company filed its first general rate increase on  
7 August 17, 1992, and rates were approved in resulting docket UW 40 on  
8 September 16, 1992, by Commission Order No. 93-559. Subsequent rate  
9 increases were approved in 1994,<sup>2</sup> 1998,<sup>3</sup> 2004,<sup>4</sup> and 2014.<sup>5</sup>

10 **ISSUE 3, APPLICATION FOR A RATE INCREASE**

11 **Q. Please describe South Hills' current application for a general rate**  
12 **increase.**

13 A. South Hills' owner, Wayne Rodgers, filed an application for a general rate  
14 increase on July 29, 2018, using a January 1, 2016 through December 31,  
15 2016 test year. South Hills proposed an overall increase of 63.67 percent or  
16 \$25,675 increase over test period revenues of \$40,325, resulting in an annual  
17 revenue requirement of \$66,000, of which \$60,000 would be collected from  
18 water sales.<sup>6</sup> The information and proposals in the Company's application  
19 would have translated to a proposed a rate base of \$1,032 with a -3,650

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<sup>1</sup> Docket No. UP 207, Order No. 03-643 (Nov. 3, 2003).

<sup>2</sup> Docket No. UW 46, Order No. 94-1948 (Dec. 20, 1994).

<sup>3</sup> Docket No. UW 60, Order No. 98-208 (May 21, 1998).

<sup>4</sup> Docket No. UW 99, Order No. 04-533 (Sept. 15, 2004).

<sup>5</sup> Docket No. UW 156, Order No. 14-066 (Feb. 26, 2014).

<sup>6</sup> The revenue requirement increase requested includes \$6,000 of Miscellaneous Services income derived from services rendered to the Company in exchange for rental property the Company owns.

1           percent rate of return. The Company's proposal would have funded numerous  
2           plant additions through an increase to the water plant repairs Account 621.

3           **Q. What reason did the company give for seeking a rate increase?**

4           A. The company stated in its application: "The utility is seeking this change in  
5           rates because \* \* \* the existing tanks, water mains, and canal have been in  
6           service since 1971. Structural integrity is compromised and useful life has  
7           almost expired. The investment needed to replace or repair will cost  
8           approximately \$80,000. The 12-year-old water pump needs to be replaced at a  
9           cost of \$20,000, which has exceeded its useful life of 10 years. The requested  
10          rate increase will provide funding for current debt service for immediate and  
11          future improvements and repairs."<sup>7</sup>

12          During the Public Comment Hearing and during a Staff site visit, the Company  
13          also described the need to replace the gate valves of the system and the black  
14          polypropylene pipe currently used to connect the Company's mains to  
15          customer meters, both projects that I will describe in more detail below.

16          **Q. What are South Hills' current rates?**

17          A. The Company currently provides service to residential customers only.  
18          South Hills currently charges all customers a base rate of \$16.98 and a  
19          commodity rate of \$0.25 per each 100 gallons of water use. According to the  
20          Company, the current average monthly bill is \$29.00.

21          **Q. What rates did South Hills propose in its general rate filing?**

22          A. The Company proposed tariffs include a residential base rate of \$20.00 and a

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<sup>7</sup> South Hills Water System, Inc Rate Case Application at 4.



1 commodity rate of \$0.68 per each 100 gallons of water use. According to the  
2 Company, the proposed average monthly bill would be \$50.00.

3 **Q. What procedural actions in this docket have taken place since South**  
4 **Hills filed its application for a rate increase?**

5 A. Since the filing of the application in July 2018, the following procedural actions  
6 have taken place:

7 1. An open house and prehearing conference were held on October 12, 2018,  
8 in Hillsboro, OR;

9 2. Staff conducted a site visit at the water system on October 12, 2018;

10 3. A settlement workshop conference was held in Hillsboro, OR on  
11 November 6, 2018; and

12 4. A settlement conference was held in Hillsboro, OR on November 13, 2018.

13 **ISSUE 4, STAFF'S ANALYSIS OF SOUTH HILLS'**

14 **APPLICATION AND STIPULATED PHASE 1 ADJUSTMENTS**

15 **Q. Please summarize the Stipulating Parties' recommendation for the**  
16 **revenue requirement associated with a Phase 1 rate increase in this case.**

17 A. The Stipulating Parties have agreed that for Phase 1, an overall revenue  
18 requirement of \$57,576 is warranted. This revenue requirement figure includes  
19 water sales revenue of \$51,576 and an additional \$6,000 of revenue in the form  
20 of contract services received in exchange for the rental of property. The Phase  
21 1 overall revenue requirement results in a 42.78 percent or \$17,251 increase  
22 over the test period revenues; it reflects a 50.26 percent or \$17,251 increase  
23 over the test year revenue received from water sales. The Phase 1 revenue

1 requirement reflects an opportunity to earn a 9.5 percent rate of return on a rate  
2 base of \$87,426.

3 **Q. Please describe what issues Staff investigated.**

4 A. Staff's investigation and analysis of South Hills' general rate filing included a  
5 comprehensive examination of the Company's revenues, expenses, proposed  
6 adjustments, rate spread and rate design, rate base, capital improvements,  
7 relative priorities for new capital improvements, and cost of capital.

8 **Q. Please describe Staff's adjustments to South Hills' test period.**

9 A. All of the agreed-upon adjustments are listed in Exhibit 102 and explained  
10 below.

11 1. Salaries and Wages – Officers (A/C 603): The Company's application  
12 contained no expense for this account. In response to DR 26,<sup>8</sup> concerning  
13 the owner's salary, the Company informed the Parties that the owner's  
14 salary is \$850 per month and that he works 10-15 hours per week. The  
15 Stipulating Parties agreed that \$15,600 annually is a reasonable expense  
16 for this account, which reflects a \$30 per hour rate for ten hours of work per  
17 week or a \$20 per hour rate for fifteen hours of work per week. This rate, if  
18 annualized for full-time work, equates to between \$41,600 and \$62,400,  
19 which is within the low- to mid-range of 'small systems Manager/Operator'  
20 salaries as analyzed by the American Water Works Association.<sup>9</sup> As a  
21 condition related to this adjustment, South Hills also agrees to submit with

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<sup>8</sup> See Exhibit 102, page 1.

<sup>9</sup> 2018 AWWA Compensation Survey: Small Water and Wastewater Utilities. American Water Works Association, 2018, Page 105.

1 the Commission an affiliated interest application for this officer salary before  
2 January 15, 2019. Staff will take that forthcoming filing to the Commission  
3 for consideration at its regular public meeting on February 14, 2019.

4 2. Telephone/Communications (A/C 611): In response to DR 21,<sup>10</sup> concerning  
5 the details of the telephone expense account, the Company informed Staff  
6 that there were four cellular phone lines on the account and that three of the  
7 four were for personal use by family members. In addition, the owner  
8 maintains a land line at his personal residence for emergency calls related  
9 to the Company, but did not include information about that expense in the  
10 initial rate case application. The Stipulating Parties agreed to remove the  
11 amount related to three of the cellular lines (\$2,574) and added \$1,200 for  
12 the land line, resulting in a net decrease to this account of (\$1,374).

13 3. Repairs to Water Plant (A/C 621): The Company proposed to adjust this  
14 account over test year amounts by adding \$80,000 for all estimated plant  
15 upgrades. Staff removed (\$80,000) because capital projects should instead  
16 be added to Utility Plant in Service (A/C 101) as they are completed.

17 4. Contract Svcs – Meter Reading (A/C 638): In the Company's response to  
18 Q24<sup>11</sup> in its rate case application, Steve Kraemer was identified as a  
19 contractor; however, the Company's application contained no expense  
20 associated with this account. Staff added \$6,000 to reflect the value of the  
21 services as contained in the answer to Q24 in the rate case application.

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<sup>10</sup> See Exhibit 103, page 1.

<sup>11</sup> South Hills Water System, Inc Rate Case Application at 6.

1 This amount offsets the \$6,000 staff added in the Miscellaneous Services  
2 Revenue account, which is imputed revenue from the exchange of contract  
3 services from Mr. Kramer for Mr. Kraemer's use of the Mobile Home, as  
4 noted in the answer to Q27 in the rate case application.

5 5. Transportation (A/C 650): The Company's application reflected an expense  
6 of \$4,200 for this account. In response to DR 17,<sup>12</sup> concerning the  
7 ownership and use of vehicles for business purposes, the Company  
8 informed Staff that the owner's personal vehicle was used and provided  
9 business use mileage of \$4,790 for 2016. The Stipulating Parties agreed to  
10 use the federal tax rate of \$0.54 per mile to develop an annual expense of  
11 \$2,586, and adjusted the account down by (\$1,614).

12 6. Amortization of Rate Case (A/C 666): The Company's application reflected  
13 an expense of \$150 for this account. In response to DR 18,<sup>13</sup> concerning  
14 the amount spent to prepare and participate in the rate case, the Company  
15 provided an amount of \$4,000, primarily to pay for contract accountant  
16 services. The Stipulating Parties agreed to amortize this amount over three  
17 years, resulting in an annual expense of \$1,333, an increase of \$1,183.

18 7. Depreciation Expense (A/C 403): in its application, the Company increased  
19 its Test Year expense of \$291 by \$2,200 for estimated depreciation related  
20 to new assets. The Stipulating Parties agreed to remove the (\$2,200)  
21 because it was an undocumented estimate. The Stipulating Parties agreed

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<sup>12</sup> See Exhibit 103, page 1.

<sup>13</sup> See Exhibit 103, page 1.

1 to add \$831 for the new Water Pump that was added in April 2018, \$486 for  
 2 the CWIP project involving replacement or repair of three Gate Valves  
 3 (discussed further below) and \$3,355 to reflect corrected straight line  
 4 depreciation of all assets. Staff recalculated the depreciation to reflect  
 5 standard lives used by Staff for the assets listed by the Company. The  
 6 Stipulating Parties agreed to the Depreciation Expense of \$4,963 shown  
 7 below in Table 1.

Table 1

Company Proposed	\$ 2,491
Stipulated Adjustments:	
Remove undocumented Depreciation expense	\$ (2,200)
New Water Pump	\$ 831
Gate Valves (3)	\$ 486
Additional Depreciation for appropriate asset life	\$ 3,355
Total Stipulated Adjustment	\$ 2,472
Stipulated Total Expense	\$ 4,963

- 8
- 9
- 10 8. Property Tax (A/C 408.11): In response to DR 7,<sup>14</sup> concerning the amount  
 11 listed in account Taxes Other than Income (A/C 408.13), the Company  
 12 informed Staff that this figure reflected property tax. The Stipulating Parties  
 13 agreed to move the amount to this account and to add \$363 for property  
 14 taxes related to the Mobile Home asset, which was noted for 2016 in the  
 15 Recent Expenditures for January 2013 through December 2017, listed in the  
 16 rate case application. The total adjustment to this account is \$1,821.
- 17 9. Other (A/C 408.13): In response to DR 7, concerning the amount listed in  
 18 this account, the Company informed Staff that it was related to property tax.

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<sup>14</sup> See Exhibit 103, page 2.

1 The Stipulating Parties agreed to move \$1,458 to Property Tax (A/C  
2 408.11), as explained immediately above.

3 10. Utility Plant in Service (A/C 101): The Stipulating Parties agreed to add  
4 \$16,617 for a new Water Pump that was installed in April 2018. The  
5 Stipulating Parties agreed to add the following assets, which were included  
6 in the Company's 2016 Federal Summary Depreciation Schedule submitted  
7 to Staff before the rate case was filed, but omitted from the rate case filing:  
8 Mobile Home (\$54,680) and Roof (\$11,463). These assets are used by the  
9 Company in providing water service to customers. The Stipulating Parties  
10 agreed to the Utility Plant in Service shown below in Table 2.

Table 2

Company Proposed	\$ 67,140
Stipulated Adjustments:	
New Water Pump	\$ 16,617
Mobile Home	\$ 54,680
Roof	\$ 11,463
Total Stipulated Adjustment	\$ 82,760
Stipulated Total Utility Plant	\$ 149,900

11  
12  
13 11. Construction Work in Progress (CWIP) (A/C 105): The Stipulating Parties  
14 agreed to add \$7,288 to this account to enable the company to complete a  
15 specific high priority project (the Gate Valves Project). The Company  
16 demonstrated to Staff during the October 12, 2018, site visit at the water  
17 system the need for three gate valves to better manage repairs of the water  
18 lines. The Company explained to Staff that the gate valves are currently  
19 frozen open as a result the valves not having been regularly exercised (i.e.,  
20 opened and closed). As a result, the current repair process requires the

1 shut off of water to all customers, which is a major interruption for customers  
2 and also costs the Company in lost usage. With the gate valves repaired, it  
3 will be possible to isolate water shut offs to a limited number of customers  
4 surrounding the necessary repair. The Company provided estimates by  
5 HPS Pipe and Supply, Inc. [\$7,288] and Hiland Water Corporation [\$7,291]  
6 for the Gate Valves Project.<sup>15</sup> I discuss why the Commission should  
7 approve this project as CWIP below.

8 12. Accumulated Depreciation of Plant (A/C 108): Staff added \$6,949 to match  
9 the appropriate depreciated value of the plant assets. Staff recalculated the  
10 accumulated depreciation to reflect standard life used by Staff for the assets  
11 listed by the Company.

12 **Q. What are the requirements for including CWIP in rate base?**

13  
14 A. Ordinarily, an investment must be presently used and useful in providing  
15 regulated service in order for a company to include it in rate base, and  
16 therefore, in customer rates. But, a statutory exception enables the  
17 Commission to allow rates for a water utility to “include the costs of a specific  
18 capital improvement if the water utility is required to use the additional revenues  
19 solely for the purpose of completing the capital improvement.”<sup>16</sup>

20 OAR 860-036-2390 sets forth the Commission’s rules for accounting for capital  
21 improvement projects under construction, but not yet placed in service. Under

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<sup>15</sup> See Exhibit 103, pages 5-6.

<sup>16</sup> ORS 757.355(2).

1 that rule, the Commission may approve the cost of a specific capital  
2 improvement project into rates if:

- 3 (a) The capital improvement project is under construction;  
4 (b) The water utility uses the additional revenues solely for the purpose of  
5 completing the capital improvement project;  
6 (c) The water utility demonstrates that it is in the public interest to provide  
7 further funding for the capital improvement through rates; and  
8 (d) The costs are approved by the Commission.  
9

10 **Q. Please explain how the Gate Valves Project meets the requirements for**  
11 **inclusion of CWIP in rate base.**

12 A. Under the terms of the Stipulation, the Gate Valve Project will either meet the  
13 requirements or will fulfill stipulated conditions that provide analogous  
14 protections as the requirements. Specifically:

- 15 • The Commission should waive OAR 860-036-2390(a), which requires  
16 construction to have started, in favor of the conditions agreed to by the  
17 Stipulating Parties. While the project is not yet under construction, the  
18 Stipulating Parties believe that the following conditions in Paragraph 8 of  
19 the Stipulation provide good cause to waive this requirement under  
20 OAR 860-036-1000(3): **CWIP Condition A: April 1 Status Update** and  
21 **CWIP Condition B: August 1, 2019 Status Update.**<sup>17</sup> These conditions  
22 require the Company to provide a confirmed contract for the project by  
23 April 1, 2019, an estimated start date for the project which is no later than  
24 July 1, 2019, and a report by August 1, showing the actual start date and  
25 an explanation for the delay if the project begins after July 31, 2019.

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<sup>17</sup> Stipulation ¶ 8.



1 Together, these status updates will enable Staff to timely recommend  
2 investigation if progress is not made.

- 3 • South Hills has agreed to meet the requirement of OAR 860-036-2390(b).

4 The Stipulating Parties agreed to several conditions that will ensure that  
5 accurate accounting and that requirement of OAR 860-036-2390(b) is met.

- 6 • The Gate Valves Project meets the requirement of OAR 860-036-2390(c)  
7 because this project is needed to enable efficient repair and updates to  
8 core plant. It is in the public interest to fund the capital improvement  
9 through rates because, as the Company expressed at the public comment  
10 hearing, the Company finds it exceedingly challenging to begin large  
11 construction projects without funding. Staff notes that the net operating  
12 income of this small company is small enough to make the accumulation of  
13 the amount needed for this project a longer term prospect than for larger  
14 companies.

- 15 • The Stipulating Parties agree that the Commission should approve the  
16 costs under OAR 860-036-2390(d). The stipulated costs reflect the lower  
17 of two quotes South Hills received for this project, which were nearly  
18 identical.

#### 19 **ISSUE 5, STIPULATED PHASE 2 ADJUSTMENTS**

20 **Q. Please summarize the Stipulating Parties' recommendation for the**  
21 **revenue requirement associated with a Phase 2 rate increase.**

1 A. The Stipulating Parties have agreed that for Phase 2, a second rate increase  
2 should be adopted if South Hills meets certain requirements, including  
3 obtaining a loan. The Phase 2 rate increase would be designed to enable  
4 South Hills to service a loan that would fund a major capital project (the Black  
5 Poly Pipe Project) that the Stipulating Parties agree is a high priority. The exact  
6 revenue requirement for Phase 2 would be determined once South Hills has  
7 obtained a loan, consistent with the conditions that are described further below.  
8 The Stipulating Parties have agreed to a maximum possible amount for the  
9 Phase 2 increase and also to several conditions designed to protect ratepayers  
10 in connection with the Phase 2 increase.

11 **Q. What is the maximum possible revenue requirement that would be**  
12 **associated with a Phase 2 rate increase?**

13 A. The Stipulating Parties agree that the Phase 2 overall revenue requirement  
14 may not exceed \$66,000. This amount reflects the maximum amount  
15 requested by the Company in its July 31 customer notice regarding this general  
16 rate filing, in which the Company provided notice that its annual water revenues  
17 might increase from \$34,325 to \$60,000.<sup>18</sup> This maximum permissible figure  
18 includes water sales revenue of \$60,000 and, like Phase 1, an additional  
19 \$6,000 of revenue in the form of contract services received in exchange for the  
20 rental of property. The Phase 2 maximum permissible overall revenue  
21 requirement figure results in a 63.67 percent or \$25,675 increase over the test

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<sup>18</sup> See Exhibit 103, page 7. See also OAR 860-036-2010. Note that this figure did not accurately account for the services provided to the company in exchange for rent.

1 period revenues; it reflects a 74.80 percent or \$25,675 increase over the test  
2 year revenues received from water sales. The Phase 2 maximum revenue  
3 requirement figure results in a 14.63 percent or \$8,424 increase over Phase 1  
4 revenue requirements; it reflects a 16.33 percent or \$8,424 increase over  
5 Phase 1 revenues received from water sales. The Phase 2 revenue  
6 requirement also reflects an opportunity to earn a 9.5 percent rate of return on  
7 a rate base of \$88,121.

8 **Q. Please describe the stipulated adjustments to the test period for Phase 2.**

9 A. Other Expense 4 (A/C OE 4): If South Hills obtains a loan for the Black Poly  
10 Pipe project, the Stipulating Parties agree to add up to \$8,310 to this account  
11 for the repayment of the loan. As can be seen on page three of my Exhibit 102,  
12 a loan repayment of \$8,310 results in water revenues of \$60,000 and a total  
13 revenue requirement of \$66,000.

14 Depending on the actual terms of loan to fund the Black Poly Pipe Project,  
15 including any potential partial loan forgiveness if the loan is provided through  
16 the Safe Drinking Water Revolving Loan Fund (SDWRLF) or another source,  
17 this amount may not necessarily be required for the loan repayment. The  
18 Stipulating Parties have agreed to a process by which Staff will assess the  
19 actual terms of the loan once it is obtained in order to recommend to the  
20 Commission an actual amount for this account in Phase 2. Staff may  
21 recommend a lower amount than \$8,310 if justified by the loan terms. I discuss  
22 this process later in my testimony.

23

1 **Q. Please provide a brief explanation of the need for Phase 2 and the**  
2 **Black Poly Pipe Project.**

3 A. The current pipe system was put into place over 45 years ago using materials  
4 that have started to fail on a regular basis. For each recent necessary repair,  
5 there have been no available replacement parts, requiring that a different type  
6 of pipe be forced to fit. During the Public Comment Hearing, several customers  
7 expressed concerns about the current and future integrity of the current system  
8 given the high rate of repairs over recent years. The Stipulating Parties agree  
9 that replacement of this pipe should be a relatively high priority. Because the  
10 expense associated with this project is likely to be very large relative to the  
11 Company's net operating income, the Stipulating Parties also agreed to several  
12 conditions that must be met before Phase 2 would be implemented.

13 **Q. Please provide a brief explanation for why the Black Poly Pipe Project**  
14 **is not included in Phase 1.**

15 A. The Stipulating Parties agreed to put the costs associated with the Black Poly  
16 Project into Phase 2, rather than Phase 1 for two reasons: 1) to avoid the rate  
17 shock that would result from inclusion of the project in the Phase 1 rate  
18 increase; and 2) to give South Hills the opportunity and responsibility to do the  
19 underlying work needed to make the project more certain in terms of funding  
20 and timing. As described below, the costs of the Black Poly Project are likely to  
21 be significant. Inclusion of those costs in Phase 1 would further add to the  
22 already significant Phase 1 increase that customers will experience. The  
23 Stipulating Parties agreed that delaying the Black Poly Project to Phase 2 and

1 requiring the Company to wait at least one year 2 after the Phase 1 increase  
2 has been in effect to seek a Phase 2 increase, as described in paragraph 9 of  
3 the stipulation, provide an effective method for mitigating the rate shock that  
4 might result from this case. Delaying the project to Phase 2 also provides the  
5 opportunity for South Hills to obtain certainty about debt financing.

6 **Q. Has the Company provided the estimated cost or completion date for the**  
7 **Black Poly Project?**

8 A. The company provided two estimates for the cost of the project. One estimate  
9 is from HPS Pipe & Supply, Inc. [\$220,589] and another is from Hiland Water  
10 Corporation [\$207,981].<sup>19</sup> The Company did not provide an estimated  
11 completion date given the uncertainty over when and how it will obtain funding  
12 for the project.

13 **Q. Please provide a brief explanation of the conditions associated with**  
14 **Phase 2.**

15 A. The conditions relating to the Phase 2 rate change are outlined in paragraphs 8  
16 and 9 of the Stipulation. The conditions and procedures described in those  
17 paragraphs provide a strict framework for when and how a Phase 2 rate  
18 increase may be implemented in this case. To briefly summarize:

- 19 • Paragraph 8 - The Stipulating Parties agree that the implementation of a  
20 Phase 2 rate increase is contingent on South Hills securing a loan from  
21 the Oregon Safe Drinking Water Revolving Loan Fund (SDWRLF) or  
22 another source of debt to fund the Black Poly Pipes project.

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<sup>19</sup> See Exhibit 103, pages 8-9.

- 1           • Paragraph 9 - The Phase 2 rate increase may only be implemented after  
2           the Phase 1 rate increase has been in effect for one full year. South  
3           Hills must file loan and project status updates in Docket No. UW 175  
4           within one week of documentation described in the Stipulation becoming  
5           available. Upon completion of the Black Poly Pipe Project, South Hills  
6           must file a final project report with cost and completion date information.  
7           South Hills must retain and provide Staff access to all records pertaining  
8           to the Black Poly Pipe Project, including all loan records, all records of  
9           costs, all records of the assets added to plant in connection with the  
10          project, and each such asset's in-service date. Consistent with the  
11          maximum permissible Phase 2 revenue requirement discussed above,  
12          the Phase 2 base rate will not exceed \$29.13 and the Phase 2  
13          commodity rate will not exceed \$0.45 per 100 gallons; the rates may be  
14          lower.

15          **Q. Please describe why the Stipulating Parties believe the conditions**  
16          **contained in paragraphs 8 and 9 of the Stipulation are appropriate here?**

17          A. These conditions generally provide assurances regarding 1) project completion  
18          and cost, 2) the level and timing of the related rate impacts, and 3) the ability of  
19          the Commission to accurately include and review the costs of the project in  
20          subsequent rate or other proceedings.

21          **Q. How does the financing requirement for Phase 2 protect ratepayers?**

22          A. The requirement for South Hills to obtain financing prior to implementing the  
23          Phase 2 rate change provides assurance that the project will be completed (i.e.,

1 that customers won't be paying a Phase 2 rate even though the project was  
2 never actually undertaken). The immediate cost of the project to ratepayers will  
3 also be lower as a result of this requirement, as the cost of funding projects  
4 through debt financing is generally lower than the cost of funding projects  
5 through equity financing.

6 **Q. How do the terms and conditions for Phase 2 protect ratepayers with**  
7 **respect to the level and timing of the Phase 2 rate increase?**

8 A. The conditions limit the level of the increase in two ways. First, the amount of  
9 the revenue to be recovered from customers in Phase 2 is limited to \$60,000,  
10 as described above. Second, should the Company receive additional loan  
11 forgiveness, the amount of the additional forgiveness must be reported to the  
12 Commission and will ultimately be reflected in rates as described below.

13 **Q. Will the terms and conditions for Phase 2 enable the proper reflection of**  
14 **costs associated with the Black Poly Project in future rates?**

15 A. Yes. The conditions require the Company to both report final project costs and  
16 retain related records, including the in-service date of related assets.

17 **Q. Please provide a brief explanation of the process that will be used for**  
18 **implementing a Phase 2 rate increase.**

19 A. If the conditions set forth in paragraphs 8 and 9 (listed above) of the  
20 Stipulation are satisfied, Staff will calculate and recommend to the  
21 Commission Phase 2 base and commodity rates based on the loan terms  
22 and documentation. The rates will not exceed those listed above in  
23 paragraph 9 of the Stipulation and discussed above. Once the

1 Commission approves the Phase 2 rates, the Company will make a  
2 compliance filing in Docket No. UW 175 updating its tariffs. If the  
3 Company is provided additional loan forgiveness, it must file information  
4 related to that loan forgiveness within one week of it becoming available,  
5 which may prompt Staff to recalculate and recommend that the  
6 Commission adopt revised rates.

7 **ISSUE 6, RESOLVED RATE ISSUES**

8 **Q. Please provide a brief explanation of the rate spread and rate design**  
9 **agreed to by the stipulating parties.**

10 A. There is only one class of customers, Residential 5/8" or 3/4". The only  
11 adjustment to the rate spread is the exclusion of \$6,000 of revenue in  
12 Miscellaneous Services (A/C 471), which is not related to water sales revenue.  
13 The rate design remains at a 60/40 split between base and commodity rates  
14 respectively. This split is consistent with the current rate design of the  
15 Company and Staff's standard approach.

16 **Q. What are the effects of the rates agreed to by the stipulating parties on**  
17 **the average customer bill?**

18 A. The effects of the rates agreed to by the Stipulating Parties on the average  
19 customer's monthly bills for Phase 1 will be an increase of the base rate from  
20 \$16.98 to \$25.04 and an increase of the commodity rate (per 100 gallons) from  
21 \$0.25 to \$0.38. With these two adjustments, the average monthly bill would  
22 increase from \$29.00 (provided by the Company) to \$41.73, assuming that the  
23 water usage remains the same as the test year.



1 For Phase 2, the effects of the rates agreed to by the Stipulating Parties on the  
2 average customer's monthly bills will vary depending on the exact revenue  
3 requirement adopted once financing has been obtained. The maximum  
4 possible increase of the base rate would be from \$16.98 to \$29.13 and the  
5 maximum possible increase of the commodity rate (per 100 gallons) would be  
6 from \$0.25 to \$0.45. With these two adjustments, the average bill would  
7 increase from \$29.00 (provided by the Company) to \$48.54, assuming that the  
8 water usage remains the same as the test year.

9 **Q. Did all parties agree to and support the rates resulting from the**  
10 **stipulation?**

11 A. Yes.

12 **Q. Did the parties agree to and support an effective date for the new**  
13 **rates?**

14 A. Yes. The Stipulating Parties agree to rates being effective for service rendered  
15 on and after March 1, 2019, if the Commission enters an order adopting this  
16 Stipulation before March 1, 2019.

17 **Q. Did the Stipulating Parties stipulate to any other conditions?**

18 A. Yes. The Stipulating Parties agreed that South Hills will file a rate case with the  
19 Commission on or before January 1, 2028, or will file a request in Docket  
20 No. UW 175 seeking a modification of the Commission's order resolving this  
21 case if South Hills determines that a general rate revision is not necessary by  
22 that date. This date corresponds with the shortest loan term of which Staff is  
23 aware that might be obtained with respect to the Black Poly Pipe Project.

1 **Q. Are the resulting rates fair and reasonable?**

2 A. Yes.

3 **Q. Does this conclude your testimony?**

4 A. Yes.

CASE: UW 175  
WITNESS: RUSSELL (RUSS) BEITZEL

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 101**

**Witness Qualifications Statement**

**January 4, 2019**

WITNESS QUALIFICATIONS STATEMENT

NAME: Russell (Russ) Beitzel

EMPLOYER: Public Utility Commission of Oregon

TITLE: Senior Utility Analyst  
Telecommunications and Water Division

ADDRESS: 201 High Street SE. Suite 100  
Salem, OR. 97301

EDUCATION: Bachelor of Science in Accounting, Otterbein University

EXPERIENCE: I am currently a Senior Utility Analyst for the PUC, focused primarily on regulated water companies. I worked at Ashland, Inc for twenty years as a manufacturing and corporate accountant and business analyst for a business unit with approximately one billion dollars in global annual sales. My accountant duties included product cost analysis, general ledger account analysis, SOX compliance, and internal and external audit compliance. My analyst duties included budgeting, forecasting, financial statement analysis, acquisition tracking, and division financial support for a global business unit.

CASE: UW 175  
WITNESS: RUSSELL (RUSS) BEITZEL

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 102**

**Exhibits in Support  
Of Testimony**

**January 4, 2019**

South Hills Water						Exhibit 102
Docket No. UW 175						Beitzel/1
Test Year: 2016						
				Company Proposed Increase		Stipulated Proposed Increase
<b>Revenue Requirement</b>				63.67%		42.78%
					<b>Stipulated Adjustments to Company Totals</b>	<b>Stipulated Proposed Totals</b>
	<b>REVENUES</b>	<b>Test Year</b>	<b>Company Adjustments</b>	<b>Company Proposed Totals</b>		
461.1	Residential	34,325	25,675	\$ 60,000	(8,424)	\$ 51,576
471	Miscellaneous Services	6,000		\$ 6,000	-	\$ 6,000
	<b>Total Revenue</b>	<b>\$ 40,325</b>	<b>\$ 25,675</b>	<b>\$ 66,000</b>	<b>\$ (8,424)</b>	<b>\$ 57,576</b>
Acct .	<b>OPERATING EXPENSES</b>					
601	Salaries and Wages - Employees			\$ -	\$ -	\$ -
603	Salaries and Wages - Officers			\$ -	\$ 15,600	\$ 15,600
604	Employee Pension & Benefits			\$ -	\$ -	\$ -
610	Purchased Water			\$ -	\$ -	\$ -
611	Telephone/Communications	3,432		\$ 3,432	(1,374)	\$ 2,058
615	Purchased Power	2,601		\$ 2,601	\$ -	\$ 2,601
616	Fuel for Power Production			\$ -	\$ -	\$ -
617	Other Utilities			\$ -	\$ -	\$ -
618	Chemical / Treatment Expense	2,252		\$ 2,252	\$ -	\$ 2,252
619	Office Supplies	129		\$ 129	\$ -	\$ 129
619.1	Postage	102		\$ 102	\$ -	\$ 102
620	O&M Materials/Supplies			\$ -	\$ -	\$ -
621	Repairs to Water Plant	2,586	80,000	\$ 82,586	(80,000)	\$ 2,586
631	Contract Svcs - Engineering			\$ -	\$ -	\$ -
632	Contract Svcs - Accounting	2,650		\$ 2,650	\$ -	\$ 2,650
633	Contract Svcs - Legal			\$ -	\$ -	\$ -
634	Contract Svcs - Management Fees			\$ -	\$ -	\$ -
635	Contract Svcs - Testing			\$ -	\$ -	\$ -
636	Contract Svcs - Labor			\$ -	\$ -	\$ -
637	Contract Svcs - Billing/Collection			\$ -	\$ -	\$ -
638	Contract Svcs - Meter Reading			\$ -	\$ 6,000	\$ 6,000
639	Contract Svcs - Other			\$ -	\$ -	\$ -
641	Rental of Building/Real Property			\$ -	\$ -	\$ -
642	Rental of Equipment			\$ -	\$ -	\$ -
643	Small Tools			\$ -	\$ -	\$ -
648	Computer/Electronic Expenses			\$ -	\$ -	\$ -
650	Transportation	4,200		\$ 4,200	(1,614)	\$ 2,586
656	Vehicle Insurance			\$ -	\$ -	\$ -
657	General Liability Insurance	1,047		\$ 1,047	\$ -	\$ 1,047
658	Workers' Comp Insurance			\$ -	\$ -	\$ -
659	Insurance - Other			\$ -	\$ -	\$ -
666	Amortz. of Rate Case	150		\$ 150	1,183	\$ 1,333
667	Gross Revenue Fee (PUC)			\$ -	\$ 173	\$ 173
670	Bad Debt Expense			\$ -	\$ -	\$ -
671	Cross Connection Control Program			\$ -	\$ -	\$ -
673	Training and Certification			\$ -	\$ -	\$ -
674	Consumer Confidence Report			\$ -	\$ -	\$ -
675	Miscellaneous Expense			\$ -	\$ -	\$ -
OE1	Other Expense 1 - Dues	187		\$ 187	\$ -	\$ 187
OE2	Other Expense 2 - Bank Charges	231		\$ 231	\$ -	\$ 231
OE4	Other Expense 4			\$ -	\$ -	\$ -
OE5	Other Expense 5			\$ -	\$ -	\$ -
	<b>TOTAL OPERATING EXPENSE</b>	<b>\$ 19,567</b>	<b>\$ 80,000</b>	<b>\$ 99,567</b>	<b>\$ (60,032)</b>	<b>\$ 39,535</b>
	<b>OTHER REVENUE DEDUCTIONS</b>					
403	Depreciation Expense	291	2,200	\$ 2,491	\$ 2,472	\$ 4,963
406	Amort of Plant Acquisition Adjustment			\$ -	\$ -	\$ -
407	Amortization Expense			\$ -	\$ -	\$ -
408.11	Property Tax			\$ -	\$ 1,821	\$ 1,821
408.12	Payroll Tax			\$ -	\$ -	\$ -
408.13	Other	1,358	100	\$ 1,458	(1,458)	\$ -
409.10	Federal Income Tax			\$ -	\$ 2,208	\$ 2,208
409.11	Oregon Income Tax	150		\$ 150	\$ 593	\$ 743
409.13	Extraordinary Items Income Tax			\$ -	\$ -	\$ -
	<b>TOTAL REVENUE DEDUCTIONS</b>	<b>\$ 21,366</b>	<b>\$ 82,300</b>	<b>\$ 103,666</b>	<b>\$ (54,396)</b>	<b>\$ 49,270</b>
	<b>Net Operating Income</b>	<b>\$ 18,959</b>	<b>\$ (56,625)</b>	<b>\$ (37,666)</b>	<b>\$ 45,971</b>	<b>\$ 8,305</b>
	<b>UTILITY RATE BASE</b>					
101	Utility Plant in Service	67,140		\$ 67,140	\$ 82,760	\$ 149,900
105	Construction Work in Progress			\$ -	\$ 7,288	\$ 7,288
108	- Accumulated Depreciation of Plant	66,108		\$ 66,108	\$ 6,949	\$ 73,057
271	- Contributions in Aid of Construction			\$ -	\$ -	\$ -
272	+ Accumulated Amortization of CIAC			\$ -	\$ -	\$ -
281	- Accumulated Deferred Income Tax			\$ -	\$ -	\$ -
	- Excess Capacity			\$ -	\$ -	\$ -
	<b>= NET RATE BASE INVESTMENT</b>	<b>\$ 1,032</b>	<b>\$ -</b>	<b>\$ 1,032</b>	<b>\$ 83,099</b>	<b>\$ 84,131</b>
	Plus: (working capital)					
151	Materials and Supplies Inventory			\$ -	\$ -	\$ -
	Working Cash (Total Op Exp /12)			\$ -	\$ 3,295	\$ 3,295
	<b>TOTAL RATE BASE</b>	<b>\$ 1,032</b>	<b>\$ -</b>	<b>\$ 1,032</b>	<b>\$ 86,394</b>	<b>\$ 87,426</b>
	<b>Rate of Return</b>	<b>1837.11%</b>		<b>-3649.81%</b>		<b>9.50%</b>

**Adjustment Summary**

	Company Proposed Totals	Stipulated Adjustments to Company Totals	Stipulated Proposed Totals	Explanation of Adjustment
<b>REVENUES</b>				
Unmetered	\$ -	\$ -	\$ -	
Residential	\$ 60,000	\$ (8,424)	\$ 51,576	
Commercial	\$ -	\$ -	\$ -	
Fire Protection Sales	\$ -	\$ -	\$ -	
Irrigation Water Sales	\$ -	\$ -	\$ -	
Water Sales for Resale	\$ -	\$ -	\$ -	
Miscellaneous Services	\$ 6,000	\$ -	\$ 6,000	Non Cash revenue to offset Steve Kraemer's contract services
Cross Connection Control	\$ -	\$ -	\$ -	
Other	\$ -	\$ -	\$ -	
	\$ -	\$ -	\$ -	
<b>Total Revenue</b>	<b>\$ 66,000</b>	<b>\$ (8,424)</b>	<b>\$ 57,576</b>	
<b>OPERATING EXPENSES</b>				
601 Salaries and Wages - Employees	\$ -	\$ -	\$ -	
603 Salaries and Wages - Officers	\$ -	\$ 15,600	\$ 15,600	Officer Salary
604 Employee Pension & Benefits	\$ -	\$ -	\$ -	
610 Purchased Water	\$ -	\$ -	\$ -	
611 Telephone/Communications	\$ 3,432	\$ (1,374)	\$ 2,058	Removed 3 personal lines, added home line
615 Purchased Power	\$ 2,601	\$ -	\$ 2,601	
616 Fuel for Power Production	\$ -	\$ -	\$ -	
617 Other Utilities	\$ -	\$ -	\$ -	
618 Chemical / Treatment Expense	\$ 2,252	\$ -	\$ 2,252	
619 Office Supplies	\$ 129	\$ -	\$ 129	
619.1 Postage	\$ 102	\$ -	\$ 102	
620 O&M Materials/Supplies	\$ -	\$ -	\$ -	
621 Repairs to Water Plant	\$ 82,586	\$ (80,000)	\$ 2,586	Assets belong in CWIP or Plant
631 Contract Svcs - Engineering	\$ -	\$ -	\$ -	
632 Contract Svcs - Accounting	\$ 2,650	\$ -	\$ 2,650	
633 Contract Svcs - Legal	\$ -	\$ -	\$ -	
634 Contract Svcs - Management Fees	\$ -	\$ -	\$ -	
635 Contract Svcs - Testing	\$ -	\$ -	\$ -	
636 Contract Svcs - Labor	\$ -	\$ -	\$ -	
637 Contract Svcs - Billing/Collection	\$ -	\$ -	\$ -	
638 Contract Svcs - Meter Reading	\$ -	\$ 6,000	\$ 6,000	Steve Kraemer meter reading, water testing, repairs
639 Contract Svcs - Other	\$ -	\$ -	\$ -	
641 Rental of Building/Real Property	\$ -	\$ -	\$ -	
642 Rental of Equipment	\$ -	\$ -	\$ -	
643 Small Tools	\$ -	\$ -	\$ -	
648 Computer/Electronic Expenses	\$ -	\$ -	\$ -	
650 Transportation	\$ 4,200	\$ (1,614)	\$ 2,586	Changed calculation method to actual mileage at fed tax rate
656 Vehicle Insurance	\$ -	\$ -	\$ -	
657 General Liability Insurance	\$ 1,047	\$ -	\$ 1,047	
658 Workers' Comp Insurance	\$ -	\$ -	\$ -	
659 Insurance - Other	\$ -	\$ -	\$ -	
666 Amort. of Rate Case	\$ 150	\$ 1,183	\$ 1,333	Amort 4K over three years
667 Gross Revenue Fee (PUC)	\$ -	\$ 173	\$ 173	
670 Bad Debt Expense	\$ -	\$ -	\$ -	
671 Cross Connection Control Program	\$ -	\$ -	\$ -	
673 Training and Certification	\$ -	\$ -	\$ -	
674 Consumer Confidence Report	\$ -	\$ -	\$ -	
675 Miscellaneous Expense	\$ -	\$ -	\$ -	
OE1 Other Expense 1 - Dues	\$ 187	\$ -	\$ 187	
OE2 Other Expense 2 - Bank Charges	\$ 231	\$ -	\$ 231	
OE4 Other Expense 4	\$ -	\$ -	\$ -	
OE5 Other Expense 5	\$ -	\$ -	\$ -	
<b>TOTAL OPERATING EXPENSE</b>	<b>\$ 99,567</b>	<b>\$ (60,032)</b>	<b>\$ 39,535</b>	
<b>OTHER REVENUE DEDUCTIONS</b>				
403 Depreciation Expense	\$ 2,491	\$ 2,472	\$ 4,963	Adjusted for new assets and standard life of depreciable assets
406 Amort of Plant Acquisition Adjustment	\$ -	\$ -	\$ -	
407 Amortization Expense	\$ -	\$ -	\$ -	
408.11 Property Tax	\$ -	\$ 1,821	\$ 1,821	Moved from Other Taxes + additional Mobile Home taxes
408.12 Payroll Tax	\$ -	\$ -	\$ -	
408.13 Other	\$ 1,458	\$ (1,458)	\$ -	Moved to Property Tax
409.10 Federal Income Tax	\$ -	\$ 2,208	\$ 2,208	
409.11 Oregon Income Tax	\$ 150	\$ 593	\$ 743	
409.13 Extraordinary Items Income Tax	\$ -	\$ -	\$ -	
<b>TOTAL REVENUE DEDUCTIONS</b>	<b>\$ 103,666</b>	<b>\$ (54,396)</b>	<b>\$ 49,270</b>	
<b>Net Operating Income</b>	<b>\$ (37,666)</b>	<b>\$ 45,971</b>	<b>\$ 8,305</b>	
<b>UTILITY RATE BASE</b>				
101 Utility Plant in Service	\$ 67,140	\$ 82,760	\$ 149,900	New Water Pump installed 2018 (16K) + Mobile Home + Roof
105 Construction Work in Progress	\$ -	\$ 7,288	\$ 7,288	Gate Valves (3)
108 - Accumulated Depreciation of Plant	\$ 66,108	\$ 6,949	\$ 73,057	Adjusted to match standard life of depreciable assets
271 - Contributions in Aid of Construction	\$ -	\$ -	\$ -	
272 + Accumulated Amortization of CIAC	\$ -	\$ -	\$ -	
281 - Accumulated Deferred Income Tax	\$ -	\$ -	\$ -	
- Excess Capacity	\$ -	\$ -	\$ -	
<b>= NET RATE BASE INVESTMENT</b>	<b>\$ 1,032</b>	<b>\$ 83,099</b>	<b>\$ 84,131</b>	
Plus: (working capital)				
151 Materials and Supplies Inventory	\$ -	\$ -	\$ -	
Working Cash (Total Op Exp /12)	\$ -	\$ 3,295	\$ 3,295	
<b>TOTAL RATE BASE</b>	<b>\$ 1,032</b>	<b>\$ 86,394</b>	<b>\$ 87,426</b>	
<b>Rate of Return</b>	<b>-3649.81%</b>	<b>0.00%</b>	<b>9.50%</b>	





**Adjustment Summary - Phase Two**

	Company Proposed Totals	Stipulated Adjustments to Company Totals	Stipulated Proposed Totals	Explanation of Adjustment
<b>REVENUES</b>				
Unmetered	\$ -	\$ -	\$ -	
Residential	\$ 60,000	\$ 0	\$ 60,000	
Commercial	\$ -	\$ -	\$ -	
Fire Protection Sales	\$ -	\$ -	\$ -	
Irrigation Water Sales	\$ -	\$ -	\$ -	
Water Sales for Resale	\$ -	\$ -	\$ -	
Miscellaneous Services	\$ 6,000	\$ -	\$ 6,000	Non Cash revenue to offset Steve Kraemer's contract services
Cross Connection Control	\$ -	\$ -	\$ -	
Other	\$ -	\$ -	\$ -	
	\$ -	\$ -	\$ -	
<b>Total Revenue</b>	<b>\$ 66,000</b>	<b>\$ 0</b>	<b>\$ 66,000</b>	
<b>OPERATING EXPENSES</b>				
601 Salaries and Wages - Employees	\$ -	\$ -	\$ -	
603 Salaries and Wages - Officers	\$ -	\$ 15,600	\$ 15,600	Officer Salary
604 Employee Pension & Benefits	\$ -	\$ -	\$ -	
610 Purchased Water	\$ -	\$ -	\$ -	
611 Telephone/Communications	\$ 3,432	\$ (1,374)	\$ 2,058	Removed 3 personal lines, added home line
615 Purchased Power	\$ 2,601	\$ -	\$ 2,601	
616 Fuel for Power Production	\$ -	\$ -	\$ -	
617 Other Utilities	\$ -	\$ -	\$ -	
618 Chemical / Treatment Expense	\$ 2,252	\$ -	\$ 2,252	
619 Office Supplies	\$ 129	\$ -	\$ 129	
619.1 Postage	\$ 102	\$ -	\$ 102	
620 O&M Materials/Supplies	\$ -	\$ -	\$ -	
621 Repairs to Water Plant	\$ 82,586	\$ (80,000)	\$ 2,586	Assets belong in CWIP or Plant
631 Contract Svcs - Engineering	\$ -	\$ -	\$ -	
632 Contract Svcs - Accounting	\$ 2,650	\$ -	\$ 2,650	
633 Contract Svcs - Legal	\$ -	\$ -	\$ -	
634 Contract Svcs - Management Fees	\$ -	\$ -	\$ -	
635 Contract Svcs - Testing	\$ -	\$ -	\$ -	
636 Contract Svcs - Labor	\$ -	\$ -	\$ -	
637 Contract Svcs - Billing/Collection	\$ -	\$ -	\$ -	
638 Contract Svcs - Meter Reading	\$ -	\$ 6,000	\$ 6,000	Steve Kraemer meter reading, water testing, repairs
639 Contract Svcs - Other	\$ -	\$ -	\$ -	
641 Rental of Building/Real Property	\$ -	\$ -	\$ -	
642 Rental of Equipment	\$ -	\$ -	\$ -	
643 Small Tools	\$ -	\$ -	\$ -	
648 Computer/Electronic Expenses	\$ -	\$ -	\$ -	
650 Transportation	\$ 4,200	\$ (1,614)	\$ 2,586	Changed calculation method to actual mileage at fed tax rate
656 Vehicle Insurance	\$ -	\$ -	\$ -	
657 General Liability Insurance	\$ 1,047	\$ -	\$ 1,047	
658 Workers' Comp Insurance	\$ -	\$ -	\$ -	
659 Insurance - Other	\$ -	\$ -	\$ -	
666 Amortz. of Rate Case	\$ 150	\$ 1,183	\$ 1,333	Amort 4K over three years
667 Gross Revenue Fee (PUC)	\$ -	\$ 198	\$ 198	
670 Bad Debt Expense	\$ -	\$ -	\$ -	
671 Cross Connection Control Program	\$ -	\$ -	\$ -	
673 Training and Certification	\$ -	\$ -	\$ -	
674 Consumer Confidence Report	\$ -	\$ -	\$ -	
675 Miscellaneous Expense	\$ -	\$ -	\$ -	
OE1 Other Expense 1 - Dues	\$ 187	\$ -	\$ 187	
OE2 Other Expense 2 - Bank Charges	\$ 231	\$ -	\$ 231	
OE4 Other Expense 4 - Loan Payment	\$ -	\$ 8,310	\$ 8,310	Black Poly lines replacement loan
OE5 Other Expense 5	\$ -	\$ -	\$ -	
<b>TOTAL OPERATING EXPENSE</b>	<b>\$ 99,567</b>	<b>\$ (51,697)</b>	<b>\$ 47,870</b>	
<b>OTHER REVENUE DEDUCTIONS</b>				
403 Depreciation Expense	\$ 2,491	\$ 2,472	\$ 4,963	Adjusted for new assets and standard life of depreciable assets
406 Amort of Plant Acquisition Adjustment	\$ -	\$ -	\$ -	
407 Amortization Expense	\$ -	\$ -	\$ -	
408.11 Property Tax	\$ -	\$ 1,821	\$ 1,821	Moved from Other Taxes + additional Mobile Home taxes
408.12 Payroll Tax	\$ -	\$ -	\$ -	
408.13 Other	\$ 1,458	\$ (1,458)	\$ -	Moved to Property Tax
409.10 Federal Income Tax	\$ -	\$ 2,225	\$ 2,225	
409.11 Oregon Income Tax	\$ 150	\$ 599	\$ 749	
409.13 Extraordinary Items Income Tax	\$ -	\$ -	\$ -	
<b>TOTAL REVENUE DEDUCTIONS</b>	<b>\$ 103,666</b>	<b>\$ (46,037)</b>	<b>\$ 57,629</b>	
<b>Net Operating Income</b>	<b>\$ (37,666)</b>	<b>\$ 46,037</b>	<b>\$ 8,371</b>	
<b>UTILITY RATE BASE</b>				
101 Utility Plant in Service	\$ 67,140	\$ 82,760	\$ 149,900	New Water Pump installed 2018 (16K) + Mobile Home + Roof
105 Construction Work in Progress	\$ -	\$ 7,288	\$ 7,288	Gate Valves (3)
108 - Accumulated Depreciation of Plant	\$ 66,108	\$ 6,949	\$ 73,057	Adjusted to match standard life of depreciable assets
271 - Contributions in Aid of Construction	\$ -	\$ -	\$ -	
272 + Accumulated Amortization of CIAC	\$ -	\$ -	\$ -	
281 - Accumulated Deferred Income Tax	\$ -	\$ -	\$ -	
- Excess Capacity	\$ -	\$ -	\$ -	
<b>= NET RATE BASE INVESTMENT</b>	<b>\$ 1,032</b>	<b>\$ 83,099</b>	<b>\$ 84,131</b>	
Plus: (working capital)				
151 Materials and Supplies Inventory	\$ -	\$ -	\$ -	
Working Cash (Total Op Exp /12)	\$ -	\$ 3,989	\$ 3,989	
<b>TOTAL RATE BASE</b>	<b>\$ 1,032</b>	<b>\$ 87,089</b>	<b>\$ 88,121</b>	
<b>Rate of Return</b>	<b>-3649.81%</b>	<b>0.00%</b>	<b>9.50%</b>	

South Hills Water  
Docket No. UW 175  
Test Year: 2016

**Invested Plant**

Acct No.	Account Description	Date Acquired	Utility Plant Orig Cost	Less Excess Capacity Adj to Plant	Total Adj Plant	NARUC Asset Life	Annual Deprec	Final Month of Deprec	2016	Accum. Deprec. Ending 2016	Remaining Plant
301	Organization	Various	-	-	-	-	-	Various	-	-	-
302	Franchises	Various	-	-	-	-	-	Various	-	-	-
303	Land and Land Rights	Various	250	-	250	-	-	Various	-	-	250
304	Structures and Improvements	Various	80,653	-	80,653	35	2,304	Various	2,035	32,055	48,598
305	Collecting and Impounding Reservoirs	Various	27,286	-	27,286	50	546	Various	546	24,876	2,410
306	Lake, River and Other Intakes	Various	-	-	-	35	-	Various	-	-	-
307	Wells and Springs	Various	-	-	-	25	-	Various	-	-	-
308	Infiltration Galleries and Tunnels	Various	-	-	-	25	-	Various	-	-	-
309	Supply Main	Various	-	-	-	50	-	Various	-	-	-
310	Power Generation Equipment	Various	-	-	-	30	-	Various	-	-	-
311	Pumping Equipment	Various	33,310	-	33,310	20	1,666	Various	835	9,689	23,621
320	Water Treatment Equipment	Various	700	-	700	20	47	Various	41	597	103
330	Distribution Reservoir and Standpipes	Various	-	-	-	50	-	Various	-	-	-
331	Transmission and Distribution Mains	Various	-	-	-	50	-	Various	-	-	-
333	Services	Various	-	-	-	30	-	Various	-	-	-
334	Meters and Meter Installations	Various	2,223	-	2,223	20	148	Various	-	2,223	-
335	Hydrants	Various	-	-	-	40	-	Various	-	-	-
336	Cross Connection Control	Various	7,288	-	7,288	15	486	Various	-	-	7,288
339	Other Plant	Various	3,428	-	3,428	30	427	Various	53	3,241	187
340	Office Furniture and Equipment	Various	-	-	-	20	-	Various	-	-	-
341	Transportation Equipment	Various	-	-	-	7	-	Various	-	-	-
343	Tools, Shop, and Garage Equipment	Various	2,050	-	2,050	15	137	Various	137	376	1,674
344	Laboratory Equipment	Various	-	-	-	15	-	Various	-	-	-
345	Power Operated Equipment	Various	-	-	-	10	-	Various	-	-	-
346	Communication Equipment	Various	-	-	-	10	-	Various	-	-	-
347	Electronic/Computer Equipment	Various	-	-	-	5	-	Various	-	-	-
348	Miscellaneous Equipment	Various	-	-	-	10	-	Various	-	-	-
<b>TOTALS</b>		Various	157,188	-	157,188	Various	5,760	Various	3,646	73,057	84,131

Original Plant In Service Cost	157,188
Less: Excess Capacity	-
"Used & Useful" Plant	157,188
Less Accum Depreciation	73,057
<b>NET PLANT</b>	<b>84,131</b>

<b>Depreciation Expense</b>	<b>3,646</b>
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CASE: UW 175  
WITNESS: RUSSELL (RUSS) BEITZEL

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 103**

**Exhibits in Support  
Of Testimony**

**January 4, 2019**

## BEITZEL Russell

---

**From:** waynerodgers@comcast.net  
**Sent:** Wednesday, December 5, 2018 12:02 PM  
**To:** BEITZEL Russell  
**Subject:** Re: Confirmation of information

Yes

Sent from my iPhone

On Dec 5, 2018, at 9:35 AM, BEITZEL Russell <[russell.beitzel@state.or.us](mailto:russell.beitzel@state.or.us)> wrote:

Wayne,

As we are finishing the Settlement documentation, please confirm with a 'yes' or 'no' in your reply that the following are true as stated during our Settlement conference:

- 1) Response to DR 26 – The owner's salary is \$850/month
- 2) Response to DR 21 – The Telephone expense account (A/C 611) contained 3 lines for personal use and there is a phone line at your personal residence dedicated to South Hills as an emergency line
- 3) Response to DR 17 – The owner's personal vehicle was used for 4,790 miles of business use
- 4) Response to DR 18 – The amount spent for the rate case to date is \$4,000

We need confirmation because these answers were provided verbally.

Thank you,

Russ Beitzel  
Senior Utility Analyst  
Telecommunications and Water Division  
(503) 378-6628  
[Russell.Beitzel@state.or.us](mailto:Russell.Beitzel@state.or.us)

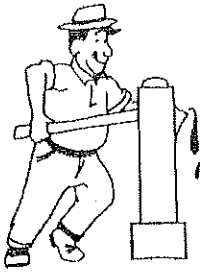
**\*\*\*Please use caution when opening links, attachments or responding to this email as it originated outside of PUC.\*\*\***

SOUTH HILLS WATER SYSTEMS, INC  
31485 SW UNGER RD  
CORNELIUS, OREGON 97113

DOCKET NO – UW 175  
STAFF REQ NOS – DR 01-16

**Item 7 (A/C 408)**

The \$1358 is for annual property taxes and the \$100 is an estimated annual increase in those taxes.



# HPS Pipe & Supply, Inc

*Call the Rest and then get the Best*

P.O. Box 890  
598 Baseline  
Cornelius, OR 97113

Office: (503)357-4217  
Fax: (503)357-3903  
[www.hpspipe.com](http://www.hpspipe.com)

CCB#120254

Quote #:	21849
Quote Date:	10/8/2018
Page:	1
Customer #:	1016

Quoted To:  
SOUTH HILLS WATER SYSTEM  
THEY DO NOT WANT CREDIT

Valid Through: 11/7/2018

Phone: 503-640-2556		Cust PO: VALVE REPLACE		Terms: NET 10TH	
Reference: WAYNE RODGERS		Ship Via: Will Call		Salesperson: NICKP	
Stock Code	Description	Quantity	Price	Extended	
854-040	FLANGE PVC 4 LOOSE RING	8.00	57.65850	461.26800	
B-0400-SNO	BUTTERFLY VALVE 4 SQUARE NU	4.00	219.11470	876.45880	
MINI	MINI EXCAVATOR 4 HOUR MINIMUM/ \$90 PER HOUR AFTER MINIMUM	1.00	450.00000	450.00000	
MISC	MISCELLANEOUS FITTINGS BOLT KIT FOR FLANGE	4.00	25.00000	100.00000	
MISC	MISCELLANEOUS FITTINGS	1.00	1,000.00000	1,000.00000	
NS	ROCK FOR BACK FILL	2.00	450.00000	900.00000	
SERV	LABOR TO INSTALL	1.00	2,700.00000	2,700.00000	
VAC	VAC TRAILER - MINIMUM \$400- FIRST 4 HOURS - \$90 EACH HOUR AFTER	2.00	400.00000	800.00000	
ZZ	ANY ADDITIONAL PARTS OR LABOR NEEDED TO COMPLETE THIS JOB NOT INCLUDED IN THIS ESTIMATE WILL BE BILLED TO CUSTOMER.	1.00	0.00000	0.00000	
ZZZ	PAYMENT REQUESTED UPON COMPLETION OF SERVICES THANK YOU	1.00	0.00000	0.00000	

THIS IS TO REPLACE THE BROKEN VALVES . VALVE SIZE IS UNKNOWN SO THIS IS A JUST A ESTIMATE

SubTotal:	7,287.73
Shipping:	0.00
Total:	7,287.73

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

\*\*\*Due to changing pricing on pvc pipe we are unable to quote prices. Price will be determined at the time of delivery.  
All invoices payable 10th of the month following purchase and become past due 25th of the month.  
A late charge of 1.5% per month (18% annual rate) will be assessed thereafter.

# Estimate

Hiland Water Corporation

PO Box 699  
Newberg, OR 97132

Date	Estimate #
11/2/18	

Name / Address
South Hills Water System Attn. Wayne Rodgers 11650 Hillsboro Highway Hillsboro, OR 97123

Description	Qty	Rate	Total
This is an estimate to replace three inoperable valves at South Hills Water System. Actual cost will be billed based on time and materials required. Although the valve size is known, the configuration and fittings will be unknown until the time of excavation.			
4" Gate Valve	3	430.81667	1,292.45
4" Grip Ring Set	6	49.19167	295.15
4" ROMAC ALPHA/MACRO Wide Range	3	297.72333	893.17
910 Valve box with lid - 18"	3	53.26333	159.79
Misc. parts, fittings, and materials	1	600.00	600.00
Vac Trailer and Service Truck	18	75.00	1,350.00
Labor hours	36	75.00	2,700.00
<b>Total</b>			<b>\$7,290.56</b>

## CUSTOMER NOTICE OF PUC FILING

This notice is to inform customers that South Hills Water System, Inc filed a general rate revision with the Public Utility Commission. This notice provides general information regarding the utility's proposed changes and the effect it will have on customers' bills if approved by the Commission. Customers may request to receive notice of the time and place of any hearing on the matter by contacting the OPUC, Administrative Hearings Division at 503 378-6678. The calculation and statements contained in the water utility's filing and this notice are not binding on the Commission."

The amount of the change in annual revenue:

An increase of \$25,675 to \$60,000

Current average monthly bill - \$29

Proposed average monthly bill - \$50

The proposed change is requested to cover maintenance and debt repayment for capital structures of 50 year old water system. Tank, pumps and pipes are in need of replacement.

A copy of the application, testimony and exhibits are available at the water utility's main office.

### Contact information

Wayne Rodgers or Steve Kramer

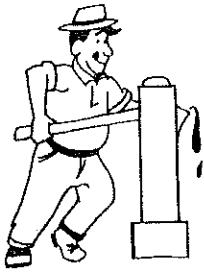
31485 SW Unger Rd

Cornelius OR 97113

[waynerodgers@comcast.net](mailto:waynerodgers@comcast.net)

7.31.2018





# HPS Pipe & Supply, Inc

**Call the Rest and then get the Best**

P.O. Box 890  
598 Baseline  
Cornelius, OR 97113

Office: (503)357-4217  
Fax: (503)357-3903  
[www.hpspipe.com](http://www.hpspipe.com)

CCB#120254

Quote #:	21915
Quote Date:	10/16/2018
Page:	1
Customer #:	1016

Quoted To:  
SOUTH HILLS WATER SYSTEM  
THEY DO NOT WANT CREDIT

Valid Through: 11/15/2018

Phone: 503-640-2556      Cust PO: **WAYNE RODGERS**      Terms: NET 10TH

Reference: **POLY REMOVAL**      Ship Via: Will Call      Salesperson: NICKP

Stock Code	Description	Quantity	Price	Extended
018842	WIRE BLUE TRACER PER ROLL 18 GAUGE	130.00	74.53000	9,688.90000
1-WPIPE	1" WIRSBO PIPE X 20'	6,500.00	2.56125	16,648.12500
1-WRING	1" WIRSBO RING	1,200.00	1.23000	1,476.00000
606-010P	1" PLASTIC WIRSBO ELL	600.00	6.59250	3,955.50000
636-010B	1" BRASS WIRSBO MALE ADP.	600.00	20.70000	12,420.00000
MISC	MISCELLANEOUS FITTINGS	1.00	5,000.00000	5,000.00000
NS	GRAVEL FOR BACKFILL 425 PER LOAD	8.00	425.00000	3,400.00000
SERV	LABOR TO INSTALL WITH TRENCER AND MINI EXCAVATOR VAC TRAILER	1.00	3,000.00000	168,000.00000
ZZ	ANY ADDITIONAL PARTS OR LABOR NEEDED TO COMPLETE THIS JOB NOT INCLUDED IN THIS ESTIMATE WILL BE BILLED TO CUSTOMER.	1.00	0.00000	0.00000
ZZZ	PAYMENT REQUESTED UPON COMPLETION OF SERVICES THANK YOU	1.00	0.00000	0.00000

THIS IS TO REPLACE THE POLY PIE FROM THE MAIN LINE TO THE HOUSE RE-USING THE EXSTING METERS. THIS DOES NOT INCLUDE PATCHING ANY CONCRETE OR ASPHALT THAT WOULD NEED TO BE CUT. THIS IS ALSO A FAIR WEATHER QUOTE IF THIS IS DONE DURING THE RAINY SEASON IT WOULD INCREASE THE LABOR COST.

SubTotal:	220,588.53
Shipping:	0.00
<b>Total:</b>	<b>220,588.53</b>

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

\*\*\*Due to changing pricing on pvc pipe we are unable to quote prices. Price will be determined at the time of delivery. All invoices payable 10th of the month following purchase and become past due 25th of the month. A late charge of 1.5% per month (18% annual rate) will be assessed thereafter.

Hiland Water Corporation

PO Box 699  
Newberg, OR 97132

# Estimate

Date	Estimate #
11/8/18	

<b>Name / Address</b>
South Hills Water System Attn. Wayne Rodgers 11650 Hillsboro Highway Hillsboro, OR 97123

<b>License</b>
CCB #201532

Description	Qty	Rate	Total
<p>This is an estimate to replace all poly service lines at South Hills Water System up to, but not including, the water meters. New service lines will be Wirsbo pex or equivalent material. Actual cost will be billed based on time and materials required. Rates assume no prevailing wage requirements or regulatory reporting requirements and are subject to change.</p> <p>This estimate also assumes that main lines are not under paved roads at the points where excavation will be required. Each service is priced with a 6" saddle replacement. In instances where the mainline is 4", pricing will be similar. Pricing is based on averages and the assumption of efficiencies gained through mass replacement of all service lines.</p>			
Service line replacements (road crossings)			
Bore Fee	52	750.00	39,000.00
2" Sleeve for pipe	52	62.50	3,250.00
6" x 1" Saddle (6.63-7.6)	52	133.385	6,936.02
1" Angle Stop	52	90.24135	4,692.55
1" 110 CTS X MIP Corp Stop	52	65.6125	3,411.85
1" Wirsbo Pex	4,160	1.82658	7,598.57
Blue tracer wire	4,160	0.2897	1,205.15
Excavator	52	250.00	13,000.00
Misc. parts, fittings, and materials	52	100.00	5,200.00
Vac Trailer and Service Truck	262	75.00	19,650.00
Labor hours	624	75.00	46,800.00
Labor, Equipment, and Parts Subtotal (52 services with road crossings)			150,744.14
Service line replacements (no road crossings)			
6" x 1" Saddle (6.63-7.6)	52	52.5225	2,731.17
1" Angle Stop	52	90.24135	4,692.55
1" 110 CTS X MIP Corp Stop	52	65.6125	3,411.85
1" Wirsbo Pex	1,040	1.82658	1,899.64
Blue tracer wire	1,040	0.2897	301.29
Excavator	52	150.00	7,800.00
Misc. parts, fittings, and materials	52	100.00	5,200.00
Vac Trailer and Service Truck	104	75.00	7,800.00
Labor hours	312	75.00	23,400.00
Labor, Equipment, and Parts Subtotal (52 services near mainline, no crossings)			57,236.50
<b>Total</b>			<b>\$207,980.64</b>