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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UW 78

In the Matter of the Application of)	
ILLAHE ESTATES WATER SYSTEM,)	ORDER
INC., for Approval of the Existing Rate)	
System.)	

DISPOSITION: STIPULATION APPROVED; RATES AUTHORIZED

On February 28, 2002, the Commission issued Order No. 02-124 in this docket. That order approved a Stipulation between the Commission Staff and Illahe Estates Water System, Inc. (Illahe), setting Illahe's rates. After the order issued, several customers of Illahe contacted the Commission, stating that they had not received proper notice of the proceeding. On May 20, 2002, Illahe filed a Motion to Reopen Hearing. The Commission granted the company's motion and reopened the docket by order No. 02-394.

The Commission held a prehearing conference in the reopened matter on August 22, 2002. Commission Staff and the Administrative Law Judge (ALJ) informed the customers in attendance how a rate case is structured and how customers can participate in a case. Mr. Donald J. Hopkins, a customer of Illahe, filed a petition to intervene as a party on September 3, 2002. The ALJ granted Mr. Hopkin's petition by memorandum dated September 11, 2002. The same memorandum set out the schedule that had been agreed on at the prehearing conference. The schedule provided for discovery, a settlement conference in December 2002, and Staff and intervenor testimony due on January 7, 2003, with a hearing on January 23, 2003.

Staff and the company reached a Stipulation on all disputed issues, which Staff submitted with its prefiled testimony on January 7, 2003. Mr. Hopkins telephoned the ALJ on January 15, 2003, to say that he had a personal obligation on January 23 and would not be able to attend the hearing. Mr. Hopkins also asked if he could submit documents into the record. The ALJ responded with a memorandum dated January 15, 2003, informing Mr. Hopkins that he could request a postponement of the hearing if he did so by close of business on January 17. The ALJ further stated that while Mr. Hopkins had missed the deadline for submitting testimony, he could cross examine Staff and company witnesses on their prefiled testimony. The ALJ also told Mr. Hopkins how to certify a question to the Commission in case he disagreed with the ruling barring him from submitting testimony late.

On January 16, 2003, Mr. Hopkins wrote a letter to the ALJ stating that he would not attend the hearing, opposed the Stipulation, and would not ask for a postponement. At that point the ALJ cancelled the hearing.

The Issues. Commission Staff reexamined the company's information in support of its requested rate increase and conducted discovery to determine whether there were any new issues since Order No. 02-124 had issued. Staff discovered additional information regarding the reservoir that was put into service in October 2001. Staff's information indicated that the reservoir might not be entirely used and useful by current customers.

Originally, the rates to which the company and Staff had stipulated included the entirety of the reservoir in rate base. According to Staff's new information, some part of the reservoir capacity may be of use only for future customers. Staff's testimony indicates that the reservoir will serve as a backup for the fire protection needs of Illahe customers as well as a necessary source of water during peak usage. The fire protection before the new reservoir is based on 1,000 gallons per minute (gpm) flow. The new reservoir brings the water system's fire protection up to 2,000 gpm, the current requirement for the City of Salem.

The Stipulation. Illahe and Staff agreed to include 50 percent of the reservoir in rate base. The rates authorized in Order No. 01-124 included 100 percent of the costs of the reservoir. Including only 50 percent of the cost results in a \$5,535 reduction in the company's revenues and a 5.7 percent decrease based on current approved rates. Order No. 02-124 authorized rates that were 40 percent above the rates in effect before the company filed for an increase. With this rate reduction, customers will experience a 32 percent rate increase over those original rates.

Under the Stipulation, the proposed rates for residential customers decrease from a \$39.88 base rate to \$37.74 and the variable rate decreases from \$1.04 per 100 cubic feet to \$0.99 per 100 cubic feet. The commercial rate for a 1 inch meter decreases from a \$47.26 base rate to \$42.21. The 1½ inch to 2 inch meter rate decreases from a \$151.43 base rate to \$135.27. The variable for commercial customers decreases from \$0.96 per 100 cubic feet to \$0.86 per 100 cubic feet.

Staff argues that the Stipulation benefits customers because it allows a rate reduction to occur sooner than if the case were fully litigated. Without the Stipulation, the company would also be able to reopen other issues related to expenses it believes were understated. Staff argues that reopening these issues would delay the proceeding by several months. For settlement purposes, however, the company has agreed to the revenue requirement of \$91,235.

Staff also argues that although customers may have been adequately served if the company had built a reservoir of less than a 250,000 gallon capacity, discussions with industry experts lead Staff to conclude that the cost of a 125,000 gallon reservoir is more than half the cost of a 250,000 gallon reservoir. Illahe has current plans to expand its customer base. Thus Staff believes it is likely less costly to build one 250,000 gallon reservoir than one 125,000 gallon reservoir now and add another 125,000 gallon reservoir later. Even if Illahe had added

only 30 percent more capacity, according to Staff, it does not necessarily imply that costs would have been 70 percent less.

Staff contends that the rate spread and rate design proposed in the Stipulation are reasonable because they reflect the same approach that the Commission used in Order No. 02-124.

Commission Review. We have reviewed the parties' testimony, exhibits, tariff sheets, and the Stipulation. We note that the Stipulation recites that the intervenor enters into this agreement. Mr. Hopkins is on record as opposing the Stipulation, although he has chosen not to participate in the proceeding by submitting testimony or cross examining witnesses. Therefore, the Stipulation should be modified to reflect the fact that the only parties entering into the Stipulation are Staff and the company. This modification entails striking any reference to "the intervenor" or "Donald Hopkins." The Stipulation is otherwise reasonable and should be approved. The Stipulation is attached to this order as Appendix A and incorporated herein by reference.

ORDER

IT IS ORDERED that the Stipulation between Illahe and Commission Staff is approved as modified and the rates established therein are authorized.

Made, entered, and effective _____.

Roy Hemmingway
Chairman

Lee Beyer
Commissioner

Joan H. Smith
Commissioner

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.