

This is an electronic copy. Format and font may vary from the official version. Attachments may not appear.

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UW 102

In the Matter of)	
)	ORDER
SALMON RIVER WATER COMPANY)	
)	
Request for a general rate increase.)	

**DISPOSITION: INTERIM RATE RELIEF GRANTED;
TARIFF SUSPENDED**

On July 1, 2004, Salmon River Water Company (SRWC) filed a request for a general revenue requirement increase of \$20,457 in annual revenues or 158.2 percent. *See* Advice No. 04-14. SRWC, located in Otis, Oregon, has approximately 50 customers. SRWC has used a well since 1972, but the well has a high mineral content that has reached a corrosive level. Because the well is no longer a suitable water source, SRWC constructed an emergency water connection to Panther Creek Water Company. The requested increase would recover an increase in costs related to its contract with the Panther Creek Water Company. SRWC also requested approval of an immediate interim increase of \$20,547 in annual revenues or 158.2 percent to recover the increased cost.

Under ORS 757.215(1), the Commission orders suspension of the rate increase to evaluate the proposed rates. While the hearing is pending, we allow an interim increase to reflect the higher cost of water due to the connection with the Panther Creek Water Company. *See* ORS 757.215(5). After reviewing the request by SRWC, we find that its interim request is excessive. Based on Staff's recommendation, we find that an interim increase of 56 percent, or a \$12.25 monthly surcharge, is appropriate. *See* Appendix A. If, after hearing, we find the interim rates were not justified, we may order a refund.

In the past, we have been wary of allowing interim rate increases for utilities. We recognize, however, the unique circumstances of small water companies that face large increases in costs. These companies often are unable to absorb large cost increases and do not have extensive experience in making regulatory filings with the Commission. As a result, we find it appropriate, under limited circumstances, to allow these companies to recover increases in the cost of water through interim rates, pending the outcome of the final rate case.

ORDER

IT IS ORDERED that:

1. Advice 04-14 is suspended for six months from August 1, 2004, pending investigation into the propriety and reasonableness of the rates.
2. Salmon River Water Company may file interim rate schedules effective for service on and after August 1, 2004, that would allow it to collect a surcharge \$12.25 per customer per month, or an additional 56 percent in rates.

Made, entered, and effective _____.

Lee Beyer
Chairman

John Savage
Commissioner

Ray Baum
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.

In its filing, the Company proposes a monthly base rate of \$28 with no water usage allowance and a variable rate of \$0.021 per cubic feet for the first 1,000 cubic feet. Water usage above 1,000 cubic feet would be charged at \$0.026 per cubic feet. SRWC represents that the system's 1972 well has a high mineral content, and due to dropping water levels, the mineral content has reached a corrosive level. The well is no longer a suitable water source. As a result, the Company constructed an emergency water connection to Panther Creek Water (Panther Creek).

SRWC claims it was operating at a loss prior to the additional cost of purchasing water and other increased operating expenses. The Company's application requests interim rates in the same amount as its proposed rate tariffs.

ORS 757.215(5) states that the Commission may, in a suspension order, authorize an interim rate under which the utility's revenues will be increased by an amount deemed reasonable by the Commission, but not more than the amount requested by the utility. The interim rates remain in effect until terminated by the Commission. If the interim rate, or any portion thereof, is found to be unjustified upon completion of the rate case, it will be refunded to the customers.

The Water Program policy regarding recommending interim rates has held that the Company must be in dire need and unable to continue adequate service to its customers without the additional funds. Staff believes the Company's situation merits an interim rate, however not the amount requested by the Company due to concerns about rate shock.

In its testimony, SRWC claims new, additional operating expense of \$17,546. Staff believes, of the new operating expenses claimed by the Company, only the following annual expenses clearly meet the criteria for interim rates:

- a. \$8,085 for the purchase of water from Panther Creek. This new expense calculates to a monthly payment of \$673.75. Without the purchase of water, customers will not adequately be served.
- b. \$600 in engineering costs necessary to finalize the permanent connection to Panther Creek.
- c. \$3,000 in wages for the operation of the system. Operation of the system is necessary to provide safe and adequate water service to customers. Staff recommends half of the annual expense of \$6,000 because the appropriate amount for wages will be determined in the rate case, which should be completed within six months.

These three expenses total \$11,685, spread over 49 customers for 12 months produces a monthly surcharge of \$19.87 above the current rates. Implementing a \$19.87 monthly surcharge, as an interim rate, would increase the average customer monthly bill from 21.99 to \$41.86, or a 90 percent increase over current rates. Staff is concerned about the effect of such a dramatic increase to customers.

In order to mitigate rate shock, Staff and the Company agreed to a \$12.25 monthly surcharge as an interim rate. While the negotiated surcharge is a 56 percent increase over current rates and still might cause a negative impact on customers, Staff believes \$12.25 is just and reasonable considering the emergency conditions surrounding the Company. The surcharge would be effective August 1, 2004, and be listed as a separate item on the customer bills. It would remain in effect until the rate case is completed and is subject to refund if unjustified.

Alternatively, the Commission could authorize interim rates reflecting the total \$11,685, as previously discussed. This would represent a 90 percent rate increase for the average customer over current rates.

PROPOSED COMMISSION MOTION:

Pursuant to ORS 757.210 and ORS 757.215, proposed tariffs filed by Salmon River Water Company be suspended for six months, effective August 1, 2004, to allow Staff adequate time to investigate the Company's rate proposal.

Pursuant to ORS 757.215(5), Staff proposed monthly surcharge of \$12.25, as an interim rate, be approved, subject to refund, effective August 1, 2004, until terminated by the Commission.

UW 102 pmm