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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UW 102

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

DISPOSITION: STIPULATION ADOPTED

On July 1, 2004, Salmon River Water Company, (Company) filed its first rate case application to establish tariffs with the Commission. As part of its application, the Company requested an interim rate increase to compensate for the costs of switching from a corrosive well that produced unsuitable water, to the Panther Creek Water Company system that produced more satisfactory water. On July 30, 2004, after hearing testimony from customers, the Commission suspended the proposed tariff, and imposed a \$12.25 interim rate increase subject to refund, pending an investigation by the Public Utility Commission Staff (Staff). *See* Order No. 04-407.

A Public Comment Hearing/Open House Meeting and Prehearing Conference was held on August 30, 2004, in Otis, Oregon, and was attended by Staff, Ralph Carter of the Company, and approximately two dozen customers. Petitions to intervene were filed by John and Susan Belden, Bill Bess, William Datz, Harold Graves, and Marv May. There were no objections to the petitions, and they were granted at the prehearing conference.

In the course of settlement discussions, parties agreed to and signed the attached stipulation, which is attached as Appendix A. The stipulation establishes Commission regulation according to the tariff sheets, as described below. *See* Appendix A, 13-31 (Exhibit C). The stipulation was signed by the Company, Staff, Bill Bess, Harold Graves, and Marv May. The other intervenors did not object to the proposed stipulation.

The Company is subject to Commission regulation because it sent notice to its customers of its intent to charge more than \$24 average monthly residential rate and more than 20 percent of the customers petitioned for Commission regulation. *See* ORS 757.061(6), OAR 860-036-0030. For this reason, the Company filed its first rate case application to establish its tariffs with the Commission.

The Company is a small water system serving 49 customers in Otis, Oregon. The system is made up of a 100,000-gallon redwood reservoir, pump house, chlorination system, and a distribution system. The Company's water source was a 420 foot well. Over the years, the water in the well became increasingly corrosive. In the summer of 2004, Mr. Carter, owner of the Company, arranged to purchase water from Panther Creek Water

Company and disconnected the water system from the well. Panther Creek Water Company's source is treated surface water.

In its application, the Company requested a 158.2 percent increase in overall revenues, or \$20,457, above test period revenues of \$12,934, resulting in total annual revenues of \$33,391. The Company proposed increasing its monthly base rate from \$18 for 400 cubic feet (cf) to \$28 with no consumption allowance. In addition, the Company proposed decreasing its two-tiered variable rates as follows: (1) tier one rates would be reduced from \$0.03 to \$0.021 per cf for 401-1000 cf of water use; and (2) tier two rates would be reduced from \$0.035 to \$0.026 per cf for water use over 1000 cf. The Company requested a 10 percent return on a rate base of \$16,007 in its application, but the Company miscalculated and inadvertently proposed a revenue requirement that would result in a 30.2 percent rate of return. The Company also reported consumption of 360,294 cf of water each year.

Staff disagreed with the Company's estimate of annual water consumption. It was difficult to determine an appropriate annual consumption amount because the reported 2003 amount was questionable and customers' water usage pattern appears to change depending on the quality of the water available. Based on several analyses using the limited data available, Staff determined an average consumption of 341,532 cf per year. Under the proposed rate increase, Panther Creek Water Company would charge the Company \$7,815 per year for annual consumption. Staff also estimated a lower amount of annual purchased power expense and other adjustments. The parties stipulated that the Company would provide twelve months of 2005 data for purchased water and power for Staff review no later than February 28, 2006.

Using a standard rate design, Staff recommended a monthly residential base rate of \$26.68, with a first tier rate of \$0.03 per cf for the first 400 cf of water use, and \$0.032 per cf for all water use above 400 cf. A customer's average monthly rate would be \$44.47, based on an estimated usage of 581 cf per month. Staff also found that the interim surcharge of \$12.25 was justified and should not be refunded.

Service quality issues were also a vital concern to customers in this docket. Customers were generally concerned about the safety and purity of the water and asserted that the quality had deteriorated over time. At the beginning of the case, the owner was in the process of shutting down the well and purchasing water from Panther Creek Water Company. Improvement in the water quality began while the case was being reviewed. At the prehearing conference, customers expressed concern that there had been debris and residue in the reservoir affecting the water quality. Some customers suggested that the reservoir be lined. John Haver, Certified Operator, stated that in June 2004, he emptied, cleaned, and scrubbed the reservoir with a power washer. All water, debris, and residue had been removed. Staff researched the possibility of lining the reservoir, but the State Drinking Water Program Staff stated that lining a wood reservoir is not recommended. From these statements we conclude that the Company should continue to monitor and maintain the quality of the reservoir as needed.

CONCLUSIONS

The Commission has examined the stipulation and the entire record in this case. The Commission concludes that the stipulation is an appropriate resolution of all issues and that the rates established therein are just and reasonable. The stipulation is attached as Appendix A. The revenue requirement worksheet is part of the stipulation as Exhibit A, *see* Appendix A, 10-11; the residential rate design is designated as Exhibit B, *see* Appendix A, 12; and the relevant tariff sheets are marked as Exhibit C, *see* Appendix A, 13-31. The Commission adopts the stipulation, including its exhibits.

ORDER

IT IS ORDERED that:

1. The rate schedules proposed by Salmon River Water Company, in Advice No. 04-14 are permanently suspended.
2. The stipulation, Appendix A to this order, is adopted.
3. The terms and rates set out in the tariff sheets, Exhibit C of the stipulation, are effective as of the date of this order.

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.