

ORDER NO. 12 185

ENTERED MAY 23 2012

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UW 150

In the Matter of

NORTHRIDGE WATER COMPANY, INC.

Request for a General Rate Revision.

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its Public Meeting on May 22, 2012, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter, attached as Appendix A.

BY THE COMMISSION:



Becky L. Beier

Becky L. Beier
Commission Secretary

A party may request rehearing or reconsideration of this order under 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 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 22, 2012**

REGULAR _____ CONSENT X EFFECTIVE DATE June 1, 2012

DATE: May 14, 2012

TO: Public Utility Commission

FROM: Brian Bahr ^{ML} ^{BB}

THROUGH: Bryan Conway and Marc Hellman ^{AK} ^A

SUBJECT: NORTHRIDGE WATER COMPANY: (Docket No. UW 150/Advice No.12-3) Proposes rate decrease and purchased water adjustment clause.

STAFF RECOMMENDATION:

The Commission should allow Northridge Water Company's (Northridge or Company) tariffs in Advice No. 12-3 to go into effect on June 1, 2012, with less than statutory notice. The Commission should also permanently suspend the tariffs filed in Advice No. 12-2, docketed in UW 150.

DISCUSSION:

Northridge provides water to approximately 75 customers in Shady Cove, Oregon. Northridge provides water to its customers from two wells through an exempt permit. This permit allows Northridge to draw a combined 15,000 gallons per day for domestic use, as well as water to irrigate a combined one-half acre per day. Before August 2009, the Company also had use of a third backup well that became contaminated with arsenic and was disconnected.

Shady Cove is served by small water systems and individual wells, and many of the wells in the area, including Northridge's, have experienced well water shortages. Irregular fractures in the area's aquifer mean that some wells may produce reliably, while wells nearby may produce poorly. In 2009, Northridge's water system could not meet customer demand, and the system experienced outages in August and September. A loss of water pressure created a health hazard, requiring Northridge to issue boiled water notices and conduct additional testing before the water could be

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safely used. To meet demand, Northridge purchased 50,000 gallons of water from other sources in September and October in that year to serve its customers.

A large water system called Shady Cove Waterworks was recently built in Shady Cove near the Northridge system. Shady Cove Waterworks ran into financial difficulty before it was completed and fell into foreclosure, but the foreclosing bank wishes to sell the system to the city of Shady Cove or to private investors. The assets of the troubled system include 16-inch water mains, a large water treatment system, and the rights to an abundant supply of water from the Rogue River.

In response to petitions from customers, the Commission asserted full jurisdiction over Northridge in March 2010.¹ Following a rate proceeding, the Commission approved new rates for Northridge in September 2010.²

On September 30, 2010, Northridge filed with the Commission an application requesting allocation of its current service territory under ORS 758.302. The application was approved with conditions on December 20, 2011. One condition of the approved stipulation was that the Company agreed to submit a general rate application no later than 60 days from the date of the order.³

On February 21, 2012, the Company filed an application (Advice No. 12-2) seeking a 14.5 percent decrease in revenues and a 10.5 percent rate of return on a rate base of \$79,079. This decrease, if granted, would result in total annual revenues of \$66,997. This rate case was docketed as UW 150.

A public comment meeting and prehearing conference were held on March 19, 2012. Commission Staff, representatives of Northridge, and seven customers were in attendance. On May 7, 2012, a settlement conference was held in Shady Cove. No customers attended the settlement conference. At the settlement conference, the parties agreed to a 17.4 percent decrease of the Company's existing rates, which would allow Northridge a total revenue requirement of \$64,751. The rates, to be effective June 1, 2012, are based on a 10 percent rate of return on a rate base of \$79,460, which would result in net income of \$7,946.

Because Northridge's requested effective date in the rates filed in Advice No 12-2 (UW 150) is June 1, 2012, Staff recommended to the Company that the most efficient process would be to file new tariffs to be effective June 1, 2012. Given that the effective date is still June 1, 2012, a less than statutory notice would have to be filed as well.

¹ See Commission Order No. 10-105 (Docket No. WJ 26).

² See Commission Order No. 10-375 (Docket No. UW 141).

³ See Commission Order No. 11-513 (Docket No. WA 80).

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This would allow the tariffs filed under UW 150 to become moot and provide a greater benefit to customers by having lower rates go into effect on June 1, 2012.

On May 14, 2012, the Company filed Advice No. 12-3 as agreed to in UW 150 settlement conference. Additionally, Northridge filed a less than statutory notice, as the effective date of the proposed tariffs is June 1, 2012, which is less than 30 days from the filing date. The tariffs proposed by Northridge result in a 17.4 percent decrease in revenue requirement and include an adjustment clause for purchased water.

ANALYSIS:

A. Summary

As part of the settlement agreement in UW 150, all parties to the rate case agreed to the following rates.

| | Rate | Per Unit | Limit |
|---------------|---------|-------------|-----------|
| Base | \$35.00 | n/a | n/a |
| Tier 1 | \$0.65 | 100 gallons | ≤4500 gal |
| Tier 2 | \$3.25 | 100 gallons | >4500 gal |

These rates represent a reduction to the monthly base rate from \$39.53 to \$35.00, a decrease in the tier 1 rate from \$0.73 to \$0.65, and an increase in the tier threshold from 3324 gallons to 4500 gallons. The second tier rate of 3.25 per 100 gallons remains unchanged to continue encouraging customers to conserve the scarce water resource.

B. Revenue Requirement

The settlement agreement includes a number of adjustments to Northridge's proposed test year expenses, rate base, and rate of return.

1. Expenses

Water Expense. Staff reduced Northridge's proposed purchased water expense from \$3,000 to \$1,500. In doing so, Staff recognizes the difficulty in predicting future well production and customer consumption. Allowing this amount in rates approximates the average amount that would be spent on purchased water in a typical year given the increased tier threshold.

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Management Expense. Since September 1, 2010, Northridge has employed a professional management company, Public Works Management, Inc., to operate and manage the water system at a contracted rate of \$2,000 per month. Staff believes this expense is prudent and reasonable.

Salaries and Officers. Staff noted that the owners of Northridge typically spend a significant amount of time involved in the management and operation of the Company. Consistent with other water utilities, Staff proposed a modest annual salary of \$3,000 for officers of the Company. Staff believes this expense is reasonable and appropriate.

2. Rate Base and Rate of Return

Northridge has no debt and \$75,418 in equity. In its filing, Northridge proposed a 10.5 percent rate of return. The parties agreed to decrease this proposed rate of return to 10.0 percent. Given the current economic climate and rates of return for similar utilities, Staff believes this rate of return for this Company is appropriate.

C. Rate Design

Of Staff's proposed revenue requirement of \$64,751, Staff assigned 48 percent to the base rate and 52 percent to the variable rates. Staff typically assigns a 60/40 split between base and variable rates, but in this case, Staff believes that adjusting the split to allow for higher variable rates has the effect of encouraging conservation as well as allowing the benefit of the proposed rate decrease to be better shared among customers.

Consistent with the rate design in the previous rate case, Staff assigned the variable rate revenues to two separate tiers. Taking into account historical well production, changes in precipitation, customer conservation measures, Oregon Water Resources Department's restrictions on water usage, and historical water purchases, Staff calculated total annual domestic customer use at 3,323,255 gallons. Staff designed the rates so that water consumption at or below 4500 gallons each month would be charged at the Tier 1 rate of \$0.65 per 100 gallons. Usage above 4500 gallons each month will be billed at the Tier 2 rate of \$3.25 per 100 gallons.

Staff asserts that this rate design comports with Staff's best estimates of customer water usage based on a number of complex variables. It also sends appropriate conservation signals, particularly in light of the water use limitations imposed by Northridge's permit.

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To further encourage customers to conserve water and streamline regulation, the tariffs include a purchased water automatic adjustment clause. This provides the Company the opportunity to recover expected purchased water costs through a rate surcharge when the Company has to purchase water to serve its customers. The rate adjustment would apply to all prospective water sales, independent of whether the customer is using water in the first or second block.

PROPOSED COMMISSION MOTION:

The Commission allow Northridge's proposed rate tariffs in Advice No. 12-3 to go into effect June 1, 2012, with Less-than-Statutory Notice, and the proposed tariffs in Advice No. 12-3 be permanently suspended.

Advice 12-3