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**BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

UW 67

In the Matter of the Tariffs for Water                    )  
Service in the State of Oregon, Filed by                )  
Alsea Properties, Inc.    )                    ORDER

DISPOSITION: STIPULATION APPROVED

**Procedural History**

Alsea Properties, Inc., (Alsea or Company) filed revised tariffs with the Public Utility Commission of Oregon (Commission) on April 14, 1999, designed to implement a general rate increase, to become effective on May 15, 1999. The Staff of the Commission (Staff) filed a Staff Report on April 27, 1999, recommending suspension of the tariffs. On May 6, 1999, the Commission issued Order No. 99-326, which suspended the tariffs for a period of six months from May 15, 1999, the effective date of the tariffs. Based upon that action, the tariffs filed on April 14, 1999, have been suspended until November 15, 1999, to allow for an investigation pursuant to ORS 757.210 and 757.215.

On June 2, 1999, the Commission held a Public Comment Meeting in Waldport, Oregon. A number of Alsea's customers spoke at the public meeting, and expressed concern about a variety of issues, including whether the installed pipes were approved for the distribution of drinking water and whether the Company's treatment method for the high levels of copper in the water was appropriate. A prehearing conference immediately followed the Public Comment Meeting. The parties identified the potential issues in the case and developed a proposed procedural schedule, which was adopted and memorialized in the Prehearing Conference Report issued on June 7, 1999. Allan Rolf requested and was granted intervention in this proceeding, on both his own behalf and on behalf of Westwood Village Water Cooperative Association, Inc.

On September 8, 1999, Staff filed a proposed stipulation and testimony in support of the proposed stipulation. The Commission scheduled a second Public Comment Meeting and a hearing on September 30, 1999, before Administrative Law Judge Elaine E. Bensavage. Kimberly Cobrain, Assistant Attorney General, appeared for Staff. Erling Grimstad, Secretary, appeared for Alsea. Staff explained the results of its investigation and the terms of the stipulation to the attendees at the public meeting, and the attendees made comments and asked questions. The hearing commenced immediately thereafter, and Staff formally presented the stipulation to the Commission for its consideration. The stipulation was signed by Alsea, Staff, and intervenor Allan Rolf.

## FINDINGS OF FACT

At the hearing the following exhibits were admitted into evidence: Staff Exhibit #1, the proposed stipulation (unsigned), with a chart summarizing Staff's proposed revenue requirement (Attachment A) and proposed tariff sheets (Attachment B); Staff Exhibit #2, the direct testimony of Kathy Miller in support of the stipulation; Staff Exhibit #3, exhibits (charts and spreadsheets, including a memorandum discussing pipe quality and corrosion control) to Staff's testimony in support of the stipulation; and Staff Exhibit #4, the signed stipulation. Staff witness Kathy Miller also testified in response to questions from the Administrative Law Judge. The exhibits and the testimony of Ms. Miller comprise the record in this proceeding. Staff Exhibits #2, #3, and #4 are attached to this order as Appendix A and incorporated herein by reference.

Alsea is a water company serving approximately 73 customers in Westwood Village, a division of Alsea, located eight miles east of Waldport at Tidewater, Oregon. The tariffs filed by Alsea would increase revenues by \$7,004, or approximately 45 percent, resulting in total annual revenues of \$22,416. This would result in a monthly residential rate of approximately \$25.00 for 3000 gallons of water usage.<sup>1</sup>

The stipulation provides that Alsea will be allowed to increase annual revenues over test period revenues by \$3,928, or 25.49 percent, resulting in total revenues of \$19,340. This is less than the amount originally requested by the Company. The increased revenues are to be collected through rates according to the rate schedules set forth in the proposed tariff sheets attached to the stipulation as Attachment B.

Staff testified that its review of the Company's results of operations indicates that a revenue increase of \$3,928 above test year revenues, or 25.49 percent, is warranted. Staff recommends an overall rate of return of 10 percent on a rate base of \$47,752. Staff further recommends that 30 percent of the proposed revenues be assigned to the variable rate and 70 percent assigned to the base rate, based upon its careful evaluation of the relationship between fixed and variable costs in Alsea's system. The proposed increase would result in a monthly residential rate of approximately \$21.55 for 3000 gallons of water usage.<sup>2</sup> Staff testified that the rates agreed to are reasonable for a water system with the characteristics of Alsea. In addition, Staff noted that the proposed tariffs are standard for water utilities of this size.

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<sup>1</sup> The \$25.00 figure is calculated based upon the Company's proposed rate design of a \$20.00 base rate for the first 1000 gallons of water used, and \$2.50 for each additional 1000 gallons. However, this formula would not add up to the Company's proposed revenues of \$22,416. Instead the average rate to achieve this revenue amount would be \$25.24.

<sup>2</sup> In Staff's testimony on page 3, lines 19-21, Staff states that a typical residential customer uses approximately 2,777 gallons of water per month, which, based on Staff's proposed rates, would result in an average monthly residential rate of \$21.81. This statement contains a typographical error. The average water consumption is 3,127, not 2,777. For ease of comparison, the Commission has used a 3000 gallon figure to compare the Company's proposed rates with Staff's proposed rates.

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With regard to the adequacy of service, Staff indicated that a number of concerns have been addressed outside the context of the stipulation. Staff discussed six issues in its testimony: (1) the high level of copper in the water distribution system; (2) the quality of the installed pipes; (3) storage tank leaks; (4) billing practices; (5) maintenance of trees and grass on utility easements; and (6) general system maintenance.

(1) *Copper Level* – Staff indicated that the Company chose a copper treatment method called a Calcite Contactor to remedy the high copper content of the water. Customers were concerned that this method was not as cost efficient as a Soda Ash Injection System. Based upon its research, Staff concluded that the Company had implemented a reasonable method of copper treatment and that the capital costs should be included in the Company's rate base. This issue is discussed in more detail in the memorandum that is included in Staff Exhibit #3. At the hearing Staff's witness testified that while the Calcite Contactor was more expensive initially, it requires less maintenance and less media replacement than the Soda Ash Injection System. Staff added that it was not possible to determine with any degree of certainty which system would prove less costly to operate over the long run.

(2) *Installed Pipes* – Staff explained that some customers were concerned whether the original water pipes installed in the ground were approved for use as domestic water lines. Based upon its research, Staff concluded that the quality of the installed pipes is adequate for providing domestic water service. This issue is discussed in more detail in the memorandum that is included in Staff Exhibit #3. At the hearing Staff's witness testified that PVC Schedule 40 pipe is not required for drinking water lines, as some customers had contended.

(3) *Storage Tank* – In response to customer concerns regarding storage tank leaks, Alsea scheduled leak repairs on the storage tank for September 1999.

(4) *Billing Practices* – In response to customer complaints regarding billing practices, Staff provided Alsea with a sample bill to use as a billing template, and the Company agreed to set up a computer system to calculate its billings. Future customer bills will include all the information necessary to compute the charges, as required by OAR 860-036-0120. The computer system will replace the hand-written bills and billing ledgers currently used.

(5) *Maintenance of trees and grass* – In response to customer concerns regarding the maintenance of trees and grass on the utility easements, Alsea has committed to regular maintenance of the easements. This work had previously been done on a volunteer basis. Funds for this maintenance have been built into Staff's calculation of the Company's revenue requirement.

(6) *General System Maintenance* – In response to customer concerns about general system maintenance such as system flushing, hydrant maintenance, and valve exercising and maintenance, Alsea has committed to perform this work every spring, and more often if necessary.

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The Commission has reviewed all of the evidence and finds that the stipulation represents a reasonable resolution of the issues in this case. The rates and rate design appear just and reasonable for a water system with the characteristics of Alsea. The Commission finds that the Calcite Contactor is a reasonable method of addressing the Company's copper problem and that the installed pipes are adequate. In addition, the commitments made by Alsea should adequately address the remaining issues.

**CONCLUSIONS OF LAW**

The Commission has jurisdiction over Alsea Properties, Inc., by virtue of ORS 757.005(1)(a)(A), OAR 860-036-0030, and OAR 860-036-0410.<sup>3</sup> Pursuant to ORS 757.020, Alsea Properties, Inc. is required to furnish safe and adequate service at just and reasonable rates. Based upon its finding that the stipulation provides for a reasonable resolution of the issues in this case, the Commission concludes that the stipulation executed between Alsea Properties, Inc., the Staff of the Commission, and intervenor Allan Rolf, should be approved.

**ORDER**

IT IS ORDERED that:

1. The revised tariffs filed by Alsea Properties, Inc. on April 14, 1999, are rejected.
2. The stipulation signed by Alsea Properties, Inc., the Staff of the Commission, and intervenor Allan Rolf, on September 30, 1999, is approved.
3. Alsea Water, Inc., is authorized to increase revenues by \$3,928, or 25.49 percent, in conformity with the proposed tariff sheets attached to the stipulation as Attachment B.
4. The proposed tariff sheets attached to the stipulation as Attachment B are approved to be effective as of the next billing cycle subsequent to the date of this order.

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<sup>3</sup> Alsea was notified on January 5, 1999, that its current water rates exceeded the Commission's monthly threshold established in OAR 860-036-0030. Subsequently, on February 12, 1999, Alsea was notified that the Commission had received a petition from 20 percent or more of the Company's customers, requesting rate regulation. As a result, rate regulation was initiated.

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5. Alsea Properties, Inc., shall comply with the commitments it has made concerning storage tank repairs, billing practices, maintenance of trees and grass on utility easements, and general system maintenance.

Made, entered, and effective \_\_\_\_\_.

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**Ron Eachus**  
Chairman

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**Roger Hamilton**  
Commissioner

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**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 of 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. A party may appeal this order to a court pursuant to ORS 756.580.