

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 20, 2004**

REGULAR X **CONSENT** **EFFECTIVE DATE** August 1, 2004

DATE: July 14, 2004

TO: Lee Sparling through Bryan Conway

FROM: Kathy Miller

SUBJECT: SALMON RIVER WATER COMPANY: (Docket No. UW 102/Advice No. 04-14) Requests a general revenue requirement increase in the amount of \$20,457, or 158.2 percent, and interim rates, subject to refund.

STAFF RECOMMENDATION:

Staff recommends, pursuant to ORS 757.210 and ORS 757.215, the proposed tariffs filed by Salmon River Water Company (SRWC or Company) be suspended for six months effective August 1, 2004. The Company requests a 158.2 percent increase, or \$20,457, in annual revenues reflecting total annual revenues of \$33,391.

Staff also recommends that interim rates, as proposed by Staff in this memo, be approved, subject to refund, effective August 1, 2004.

DISCUSSION:

SRWC is a rate regulated water utility serving 49 customers in Otis, Oregon. The Company was brought under rate regulation by customer petition on April 1, 2002.

On July 1, 2004, SRWC filed its first rate application with the Commission to establish tariffs, requesting a revenue requirement increase of \$20,457 or 158.2 percent, and requesting interim rates at the same rates proposed in the Company's tariff. The rate increase the Company seeks would increase its average monthly residential water rate from \$21.99 to \$40.96. The Company's current monthly base rate is \$18 for 400 cubic feet of water and a variable rate of \$0.03 per cubic feet for the next 1,000 cubic feet. Any additional water usage is charged at \$0.035 per cubic feet.

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.

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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.