

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 25, 2005**

REGULAR X **CONSENT** _____ **EFFECTIVE DATE** February 1, 2005

DATE: January 13, 2005

TO: Commissioners Lee Beyer, Ray Baum, and John Savage

FROM: Rebecca Trujillo

THROUGH: Lee Sparling and Marc Hellman

SUBJECT: SHADOW WOOD WATER CORP: (Docket No. UW 106/Advice No. 05-1)
Requests a general rate increase in the Company's revenues in the amount of \$19,155, or 78.2 percent, and requests interim rate relief.

STAFF RECOMMENDATION:

Staff recommends that, pursuant to ORS 757.215, the proposed tariffs filed by Shadow Wood Water Corp. (Shadow Wood or Company) requesting a general rate increase be suspended for six months effective February 1, 2005.

Staff recommends that, pursuant to ORS 757.215(5), the proposed request for interim rate relief be granted, subject to refund.

DISCUSSION:

Shadow Wood filed proposed tariffs on January 5, 2005, seeking to increase its revenues by \$19,155, or 78.2 percent above its 2003 test period revenues of \$24,483 for total annual revenues of \$43,638.

Shadow Wood is a small water system serving 63 residential customers in West Linn, Oregon. Shadow Wood was originally constructed in 1922, and started providing service in 1924. The water source is a 120-foot well. The current owners purchased the system on January 1, 2003. The purchase was approved by the PUC (UP 199, PUC Order No. 03-052). Shadow Wood has been a rate-regulated water utility since 1997. This will be its third rate case. The last rate case was recently completed in July 2004 (UW97, PUC Order No. 04-392).

Since the last rate case, the Company has completed a significant amount of construction to improve the system. Due to the age of the infrastructure and neglect by

the previous owner, the system has required a high level of maintenance, repair, and improvements. The water system has three reservoirs. One was abandoned in late 2002. One currently serves the existing residential customer base. The third reservoir will be repaired soon in order to provide fire protection for the residential customers. The Company states it has invested \$81,463 since the last rate case, UW 97. It also proposes an additional \$20,700 in capital improvement to be in service by July 2005.

In UW 97, the lack of fire flow was an issue in the rate case. The customers were concerned with the lack of fire flow. The Company vowed to address the issue. After discussions with Staff, the Company has committed to have fire flow improvements complete and operational by July 2005. Given the other improvements to the water system and the depletion of its cash flow, the company is not able to timely finish the fire flow project without immediate rate relief. To complete the fire flow improvements, the Company would have to reline one of its reservoirs and replace 4 inch piping with 10 inch piping for adequate water flow. This is estimated at approximately \$15,000.

The Company's current rate consists of a base rate of \$25.25 for the first 3000 gallons of water, and a variable rate of \$5.40 per 1000 gallons above 3000 gallons. Based on average consumption, the current average annual monthly rate is \$37.10.

The Company proposes to increase the base rate only. The monthly allowance of 3000 gallons of water remains the same, as does the variable rate of \$5.40 per 1000 gallons above 3000 gallons. The Company estimates its proposal would raise the customers' monthly base rate by \$19.69.

<u>Current Mo Base Rate</u>	<u>Proposed Mo Base Rate</u>
\$25.25	\$44.94

In its application, Shadow Wood is also requesting interim rate relief in the amount of half of its proposed rate increase, or \$9,578. This results in an increase in the base rate of \$9.85 per month per customer. The reason for the interim rates as stated by the Company is:

“ . . . in order to begin recovering the investment and provide cash to finish the system upgrade. . . Interim rate relief is justified to allow the company to operate in a sound business manner given that the expenditures to date have depleted the company's cash reserves and funds would not be available to complete the fire protection upgrade.”

ORS 757.215(5) states, in part:

The commission may in a suspension order authorize an interim rate or rate schedule under which the utility's revenue will be increased by an amount deemed reasonable by the commission, not exceeding the amount requested by the utility.

In addition, ORS 757.215(5) states that any interim rate is subject to refund if it is found by the Commission, after a hearing, that the interim rate was not justified.

It has been the policy of the Commission, with regards to public utilities other than water utilities, to grant interim rates only when the financial condition of a utility is such that the continuing operation of the utility is in jeopardy. Commission interim rate policy with regards to water utilities differs from that for other types of rate-regulated utilities. As opposed to larger utilities such as PGE or NW Natural, a water utility can easily become strapped for cash. Water utilities do not have access to capital markets as larger utilities do. Shadow Wood has stated its cash flow is essentially depleted due to capital expenditures and certain increases in operating expenses.

In UW 102, Salmon River Water Company's (Salmon River) request for rates, the Commission granted interim rates because Salmon River faced an immediate increase in purchased water expense due to water quality issues. Salmon River had to change its water supply source due to a corrosive well.

In UW 91, A & G Water and Sewer request for rates, the Commission granted interim rates because A & G faced an shut-off by the City of Redmond for nonpayment of its purchased water bill.

In UW 81, Willamette Water Company's (Willamette) request for an increase in rates, the Commission granted an interim rate to Willamette also because of an increase in purchased water expense due to a rate increase by the Eugene Water and Electric Board.

Shadow Wood has provided estimates of increases in operating expenses and capital investment. In its application, the company has proposed additional expenses in the amount of \$6,549 since the last rate case. In addition, as discussed previously, the Company has completed significant capital improvements estimated at \$81,463. The Company has committed to invest additional funds needed to complete capital projects, which will provide fire flow protection for customers.

Staff supports the request for interim rate relief given the recent general rate order for Shadow Wood, the additional investments undertaken by the Company, and the need for additional cash to complete the fire-protection project.

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PROPOSED COMMISSION MOTION:

Pursuant to ORS 757.215, the proposed tariffs filed by Shadow Wood Water Corp. be suspended for six months, effective February 1, 2005, to allow Staff adequate time to investigate the Company's rate proposal.

Pursuant to ORS 757.215(5), the request for interim rates filed by Shadow Wood Water Corp. be granted, subject to refund.