

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 21, 2006**

REGULAR X **CONSENT** **EFFECTIVE DATE** December 1, 2006

DATE: November 13, 2006

TO: Public Utility Commission

FROM: Kathy Miller

THROUGH: Lee Sparling, Marc Hellman, and Michael Dougherty

SUBJECT: AGATE WATER: (Docket No. UW 119/Advice No. 06-27) Requests a general rate increase in the amount of \$202,800, resulting in annual revenues of \$646,732.

STAFF RECOMMENDATION:

Pursuant to ORS 757.215, Staff recommends the proposed tariffs filed by Agate Water (Agate or Company) requesting a general rate increase be suspended for six months effective December 1, 2006.

DISCUSSION:

Agate provides water service and fire protection to approximately 1,100 residential customers on the outskirts of Bend, Oregon.

On October 31, 2006, the Company filed a general rate case and proposed tariffs with an effective date of December 1, 2006. The application requests an increase of \$202,800, bringing the Company's annual revenues from \$443,932 to \$646,732.

The increase is necessary to 1) add the remaining plant (not included in the previous rate case) from a \$3,000,000+ capital improvement project to utility plant and 2) keep up with the increased cost of running the system.

Agate has two classes of customers: 1) customers who paid a system development charge (SDC) prior to regulation; and 2) customers who hooked up to the system after regulation that did not pay the SDC (Non-SDC). The customers who paid the SDC are currently charged a smaller base rate for water service.

Agate's current rates and its proposed rates for both classes of customers are shown in the table below.

| CURRENT RATES | | | | |
|-----------------------------|-----------|-------------------------------------|-----------------------------|---------------------------|
| CUSTOMER CLASS | BASE RATE | USAGE RATES PER 100 CUBIC FEET (cf) | | |
| | | 1ST TIER 0 to 2000 cf | 2ND TIER 2001 to 4000 cf | 3RD TIER above 4000 cf |
| Paid SDC | 23.55 | 0.68 | 1.75 | 2.04 |
| Did Not Pay SDC | 31.19 | 0.68 | 1.75 | 2.04 |
| AGATE PROPOSED RATES | | | | |
| CLASS | BASE RATE | USAGE RATES PER 100 CUBIC FEET (cf) | | |
| | | 1ST TIER 0 to 2000 cf | 2ND TIER 2000 cf & above | |
| Paid SDC | 27.04 | 1.04 | 2.75 | |
| Did Not Pay SDC | 34.68 | 1.04 | 2.75 | |

Staff calculates the base rate will increase 15 percent for the SDC Paying customers and 11 percent for the Non-SDC customers. Although the percent increase is different between the two classes of customers, Agate has maintained the \$7.64 differential between the two base rates approved in Agate's last rate case, UW 108. This differential allows the SDC Paying customers to recover the SDC over 30 years, which corresponds to the average utility plant life. Once the SDC Paying customers recoup their SDCs, the two customer classes will come under one rate.

The Company proposes to eliminate the third tier of the usage rate. The proposed rate for the first tier is a 53 percent increase. The proposed rate for the second tier is a 57 percent increase. Under Agate's proposed rate design, the current average monthly rate for SDC Paying customers is \$32.85 and the proposed average monthly rate is \$41.20, or an approximate 25 percent increase. The current average monthly rate for Non-SDC customers is \$40.49 and the proposed average monthly rate is \$48.84 or an approximate 21 percent increase.

Agate's last rate case concluded on October 13, 2005, with the issuance of Commission Order No. 05-1087. The order adopted a stipulated 30.9 percent increase in rates.

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Staff requests the Commission suspend Agate's tariffs (effective December 1, 2006) for six months to give Staff time to review the Company's application.

PROPOSED COMMISSION MOTION:

Pursuant to ORS 757.215, proposed tariffs filed by Agate Water be suspended for six months, effective December 1, 2006, to allow Staff adequate time to investigate Agate Water's rate proposal.