

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 9, 2007**

REGULAR X CONSENT _____ EFFECTIVE DATE October 16, 2007

DATE: September 28, 2007

TO: Public Utility Commission

FROM: Kathy Miller

THROUGH: Lee Sparling, Marc Hellman, and Michael Dougherty

SUBJECT: FISH MILL LODGES WATER SYSTEM: (Docket No. UW 123/Advice No. 07-20) (1) Requests to establish tariffs and increase revenues in the amount of \$3,485, resulting in total annual revenues of \$4,349; and (2) requests interim rate relief by increasing the monthly flat rate per customer from \$24 to \$72.

STAFF RECOMMENDATION:

Pursuant to ORS 757.215, Staff recommends the proposed tariff filed by Fish Mill Lodges Water System (Fish Mill or Company) requesting a general rate increase be suspended six months, effective October 16, 2007. The Company has filed a Less Than Statutory Notice Waiver on September 25, 2007.

Pursuant to 757.215, Staff recommends the proposed interim rate request filed by Fish Mill be approved as modified by Staff. The Company proposed an interim monthly flat rate of \$72. Staff recommends an interim monthly flat rate of \$48.

DISCUSSION:

Fish Mill is a small water system providing service to three residential customers and one commercial customer near Dunes City, Oregon. The water source for the majority of the population in this area is Siltcoos Lake, which is currently contaminated by toxic algae. Fish Mill's water source is a natural spring and is not affected by the algae.

On August 16, 2007, the Commission received a written petition from Fish Mill requesting utility rate regulation. Pursuant to ORS 757.061(6)(a) and Oregon Administrative Rules 860-036-0420, the Commission issued Order No. 07-391, on

September 10, 2007, asserting jurisdiction. The order required that Fish Mill file tariffs with the Commission within 60 days of the order.

On September 17, 2007, Fish Mill filed its proposed tariffs and application to increase rates, effective October 16, 2007. The effective date is less than the statutory requirement of 30 days. The Company filed a Less Than Statutory Notice Waiver on September 25, 2007.

The Company is establishing tariffs before the Commission for the first time and proposing an annual revenue increase of \$3,485 or 403.4 percent over current revenues, resulting in total annual revenues of \$4,349. The Company is requesting an 8 percent return on a rate base of \$3,478. Based on Fish Mill's calculations, it proposes increasing the customer monthly flat rate of \$24 to \$120.81.

In its application, Fish Mill is also proposing an interim monthly flat rate of \$72. The Company states that the water system has not paid for itself for a number of years. There are no reserve funds for improvements or repairs. The owner has incurred the financial burden to support the water system.

Fish Mill provided a list of approximately 10 years of expenses. Staff pulled some water utility routine 2006 expenses and approximated the following:

Income	Power Exp	Testing Exp	Repair Exp	Capital Repair
1152	268	674	1240	3022

The 2006 expenses for power, testing, and repair, plus an 8 percent return on the capital repair of \$3,022 equals \$2,424. This is more than double the estimated income. If annual expenses of \$2,424 are divided by 4 customers and then divided by 12 months, the monthly flat rate would be \$50.50 per month. Staff acknowledges that Fish Mill has other annual expenses not shown above; however, no expenses have been verified.

At the time Fish Mill filed its rate case application, it was under a boiled water notice by the Drinking Water Program (DWP). However, the last five samples, taken by the DWP, tested negative for coliform. Therefore, the boil water notice has been lifted.

Staff is concerned that there may be an ongoing health concerns at Fish Mill. Although the water is currently testing negative for coliform, it has a history of water samples testing positive for coliform since 2004. Samples testing positive for coliform require four repeat samplings and another round of five samples. At \$25 per sample, one

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positive sample can cost the Company an additional \$225. According to data provided by the DWP's database, Fish Mill's water samples tested positive for coliform six times so far in 2007 (some of those were repeat samples), once in 2006 (repeat samples were negative), nine in 2005, and six in 2004.

Positive testing results may indicate that repairs or improvements are necessary to ensure safe and adequate water service by the Company. Staff has requested results of a DWP Sanitary Survey performed in 2006, to see what system deficiencies need to be remedied. Fish Mill states that there is no reserve fund for improvements and repairs.

Based on the limited, unverified information above, it appears that Fish Mill's expenses significantly outweigh its income. Staff believes that the Company is in need of interim rate relief; however, without a thorough investigation of the cost of service, Staff is concerned with customer rate shock and cannot recommend an interim rate over twice what the customers are currently paying.

The type of review required to determine fair and reasonable rates based on the cost of service and rate of return ratemaking will be accomplished in the UW 123 rate case. Additionally, system repairs/improvements will also be issues in the rate case. Given the information above, Staff believes an interim rate of \$48, subject to refund, is reasonable.

PROPOSED COMMISSION MOTION:

Pursuant to ORS 757.215, the proposed tariffs filed by Fish Mill be suspended for six months, effective October 16, 2007, to allow Staff adequate time to investigate Fish Mill's rate proposal. Also, pursuant to ORS 757.215, Staff's recommended interim monthly rate of \$48, subject to refund, be adopted.