

ITEM NO. 1

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: May 6, 2008**

REGULAR  X  CONSENT       EFFECTIVE DATE  May 7, 2008

**DATE:** April 29, 2008

**TO:** Public Utility Commission

**FROM:** Kathy Miller

**THROUGH:** Lee Sparling, Marc Hellman, and Michael Dougherty

**SUBJECT:** NORTH HILL WATER CORPORATION: (Docket No. UW 128/Advice No. 08-25) Requests a general rate increase.

**STAFF RECOMMENDATION:**

Pursuant to ORS 757.215, Staff recommends that the proposed tariffs filed by North Hill Water Corporation (North Hill or Association) requesting a general rate increase of \$14,150, or a 153 percent increase from 2007 revenues of \$9,250, be suspended for six months effective May 7, 2008.

**DISCUSSION:**

North Hill is a water association with members located near Hermiston, Oregon. The Utility provides only domestic residential water service to approximately 26 members.

In January 2008, the Oregon Economic Community Development Department (OECD) requested Commission Staff to meet with North Hill to discuss rate regulation. The water system is currently exceeding its water rights and is in need of a new well, storage tank, and other improvements. To qualify for the Safe Drinking Water State Revolving Loan Fund's (SDWSRLF) one percent interest loan, the Association must be rate regulated by the Commission.

On January 17, 2008, Staff met with Sylvia Bush of North Hill to discuss the needs of the water system and the role of the Commission. On March 5, 2008, Staff held a meeting in Hermiston with the members of the association. At the meeting Staff, Tony Justice from the Water Resources Department, and Bill Goss of the Drinking Water Program explained the problems the water system was facing. Staff explained the option of the one percent loan and financial regulation.

Twenty members attended the meeting. The majority of the members voted for regulation by the Commission and to apply for the one percent loan. Nineteen members signed a petition for rate regulation at the meeting. The number of petitions exceeded the statutory threshold of 20 percent. Therefore, pursuant to ORS 757.063, North Hill became a financially regulated water utility. The Commission confirmed the Utility's change in regulatory status in Order No. 08-164, issued March 13, 2008.

On April 7, 2008, North Hill filed an application and proposed tariffs in compliance with Order No. 08-164. In its application, the Association proposes a \$14,150 increase in annual revenues, from \$9,250 to \$23,400 or a 153 percent increase, generating a monthly flat rate of \$75.

During 2007, the Association charged a monthly flat rate of \$30 to approximately 26 customers which generated annual revenue of \$9,250. This is the 2007 test year revenues. However, in January 2008, the Association raised the monthly flat rate to \$40. Given that increase, the current rates should generate revenues of \$12,480 instead of \$9,250. To achieve the Association's proposed monthly flat rate of \$75, the increase in revenues to the Association's proposed revenue requirement of \$23,400 is actually an 87.5 percent increase.

The Association is applying for a one percent interest loan from the SDWSRLF to cover the costs of necessary improvements. Staff is working with OECDD, and preliminary estimates indicate the Association needs a loan of approximately \$353,650. OECDD has also indicated that the company will most likely receive a 25 percent loan forgiveness of approximately \$88,412. Given this information, the loan will be within the customers' ability to pay.

Staff needs time to thoroughly review the Association's application and requests the Commission suspend the proposed tariffs for six months, effective May 7, 2008.

**PROPOSED COMMISSION MOTION:**

Pursuant to ORS 757.215, the proposed tariffs filed by North Hill Water Corporation be suspended for six months, effective May 7, 2008.