



Oregon

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Public Utility Commission

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October 12, 2009

Via Electronic Filing and U.S. Mail

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
PO BOX 2148
SALEM OR 97308-2148

RE: Docket No. UW 134 - In the Matter of SOUTH COAST WATER DISTRICT INC.
Request for a General Rate Revision.

Enclosed for electronic filing in the above-captioned docket is Staff's Testimony in Support of the Stipulation in Docket UW 134.

/s/ Kay Barnes

Kay Barnes

Regulatory Operations Division

Filing on Behalf of Public Utility Commission Staff

(503) 378-5763

Email: Kay.Barnes@state.or.us

c: UW 134 Service List (parties)

**PUBLIC UTILITY COMMISSION
OF OREGON**

UW 134

**STAFF TESTIMONY
OF**

Renee Sloan

**In the Matter of
SOUTH COAST WATER DISTRICT INC.
Request for a General Rate Revision.**

October 12, 2009

CASE: UW 134
WITNESS: Renee Sloan

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 100

**Direct Testimony
In Support of the Stipulation**

October 12, 2009

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS**
2 **ADDRESS.**

3 A. My name is Renee Sloan. I am a Utility Analyst assigned to the Corporate
4 Analysis and Water Regulation Section of the Utility Program with the Public
5 Utility Commission of Oregon (Commission). My business address is
6 550 Capitol Street NE Suite 215, Salem, Oregon 97308-2148.

7 **Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE.**

8 A. I have been employed with the Commission since 1986 and have participated
9 in numerous water utility dockets involving rate filings, rulemakings, and
10 various tariff filings.

11 **Q. WHO ARE THE PARTIES IN THIS DOCKET?**

12 A. The parties in this docket are Staff and South Coast Water District, Inc. (South
13 Coast or Company), hereafter referred to as "Parties."

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

15 A. My testimony introduces and supports the Stipulation entered into by the
16 Parties.

17 **Q. DID YOU PREPARE AN EXHIBIT FOR THIS DOCKET?**

18 A. Yes. Staff/101 contains the following seven documents:

| | | |
|----|-------------------------|--------------------|
| 19 | Revenue Requirement | Staff/101, Sloan/1 |
| 20 | Summary of Adjustments | Staff/101, Sloan/2 |
| 21 | Revenue Sensitive Costs | Staff/101, Sloan/3 |
| 22 | Loan Calculation | Staff/101, Sloan/4 |
| 23 | Plant and Depreciation | Staff/101, Sloan/5 |
| 24 | Residential Rate Design | Staff/101, Sloan/6 |
| 25 | Rate Impacts | Staff/101, Sloan/7 |

1 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

2 A. My testimony is organized as follows:

| | | |
|---|--|---|
| 3 | Issue 1: Description of South Coast..... | 2 |
| 4 | Issue 2: Summary of South Coast's Rate Application..... | 2 |
| 5 | Issue 3: Staff's Analysis of South Coast's Rate Filing..... | 4 |
| 6 | Issue 4: Staff's Adjustments to South Coast's Rate Filing..... | 5 |
| 7 | Issue 5: Summary of the Stipulation | 8 |

ISSUE 1: DESCRIPTION OF SOUTH COAST

8 **Q. PLEASE DESCRIBE SOUTH COAST WATER DISTRICT.**

9 A. South Coast is a small privately-owned water utility located south of Florence,
10 Oregon, that provides water service to about 70 residential customers. The
11 Company's source of water is Siltcoos Lake.

12 **Q. WHEN WAS THE COMPANY'S LAST RATE INCREASE?**

13 A. South Coast filed its last rate case application (UW 73) on March 7, 2000. On
14 January 4, 2001, in Order No. 01-074, the Commission approved a stipulation
15 and authorized a rate increase that would be effective after the Company met
16 the requirements of the stipulation. On February 14, 2001, the Commission
17 issued Order No. 01-173 permitting the stipulated rates to go into effect.

ISSUE 2: SUMMARY OF SOUTH COAST'S RATE APPLICATION

18 **Q. PLEASE SUMMARIZE THE COMPANY'S GENERAL RATE FILING.**

19 A. On July 20, 2009, South Coast filed an application requesting to increase
20 revenues by \$19,983, or 56.4 over 2008 revenues of \$35,415. The Company
21 requested an 8 percent return on a rate base of \$171,850. Additionally, South
22 Coast proposed to change its rate structure from a flat rate to metered rates.

1 **Q. WHAT REASONS DID THE COMPANY GIVE FOR SEEKING A RATE**
2 **INCREASE?**

3 A. In its application, the Company states the rate increase is necessary to 1) pay
4 for a new water treatment plant; 2) make repairs to distribution and collection
5 lines; 3) construct a new pump house; and 4) cover increased operation and
6 maintenance costs.

7 **Q. DID SOUTH COAST SEEK FINANCING FOR THE PROPOSED CAPITAL**
8 **CONSTRUCTION PROJECTS?**

9 A. Yes. The Company applied for and was awarded a loan from the Safe Drinking
10 Water Revolving Loan Fund (SDWRLF) program in the amount of \$170,000.
11 The loan was approved at 3.86 percent for 80 quarters (20 years) based on a
12 non-disadvantaged community status determination.

13 **Q. DID THE LOAN TERMS CHANGE AFTER SOUTH COAST FILED ITS**
14 **RATE CASE APPLICATION?**

15 A. Yes. After South Coast filed the rate case application with the Commission,
16 the Oregon Business Development Department (OBDD) reevaluated the
17 Company's financial award for disadvantaged community status eligibility.

18 Based on the reevaluation, OBDD granted South Coast disadvantaged
19 community status loan terms as follows: a 1 percent interest rate, a 30-year
20 (120 quarter) term, and a 25 percent principal forgiveness in the amount of
21 \$42,500.

1 **Q. HOW DID THE REVISED LOAN TERMS AFFECT THE AMOUNT SOUTH**
2 **COAST MUST REPAY?**

3 A. The revised loan terms had the effect of reducing the original \$170,000 loan
4 amount by \$42,500 leaving a balance of \$127,500. Under the revised terms,
5 the quarterly payment will be \$1,235.10 and the annual amount due is
6 \$4,940.38. See Staff/100, Sloan/4.

7 **Q. PLEASE DESCRIBE THE COMPANY'S CURRENT RATES.**

8 A. Under the Company's current rate design, customers pay a monthly flat rate of
9 \$43.32 for unlimited consumption.¹

10 **Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED RATES.**

11 A. In its application, South Coast proposed to modify the rate design from a flat
12 rate to a metered rate. Table 1 contains current rates and the Company's
13 proposed rates as shown in the application.

TABLE 1: South Coast's Current and Proposed Rates

| Meter Size | Current Flat Rate | Proposed Base Rate | Current Variable Rate | Proposed Variable Rate |
|-------------|-------------------|--------------------|-----------------------|------------------------|
| 3/4" & 5/8" | \$43.32 | \$38.47 | N/A | \$0.28 per 100 gal |

14 **ISSUE 3: STAFF'S ANALYSIS OF SOUTH COAST'S RATE FILING**

15 **Q. WHAT ARE THE RESULTS OF STAFF'S REVIEW OF SOUTH COAST'S**
16 **APPLICATION FOR A RATE INCREASE?**

17 A. Staff's analysis of the Company's application results in a recommended revenue
18 requirement of \$40,323, which is \$4,367, or 12.1 percent, above adjusted test

¹ July 2009 consumption ranged from 1,050 to 76,970 gallons.

1 year revenues.² This compares to the 56.4 percent increase the Company
2 requested in its filing. In addition, Staff recommends South Coast be allowed the
3 opportunity to earn a 3.1 percent rate of return on a rate base of \$168,578.

4 **Q. WHAT IS THE MAJOR REASON FOR THE INCREASE IN THE REVENUE**
5 **REQUIREMENT?**

6 A. The majority of the increase in revenue requirement is driven by the cost of
7 an improvement project that was added to rate base.³ Improvements
8 included the purchase and installation of water treatment equipment and
9 pre-filtration equipment.

10 **Q. WHAT DOES STAFF RECOMMEND AS A RATE OF RETURN ON THE**
11 **COMPANY'S RATE BASE?**

12 A. Based on Staff's analysis of the Company's weighted cost of capital, Staff
13 recommends a 3.1 percent rate of return on a rate base of \$168,578 (see
14 Staff/101, Sloan 3). Staff also recommends total revenue deductions of
15 \$35,094 and the resulting net income of \$5,229.

16 **ISSUE 4: STAFF'S ADJUSTMENTS TO SOUTH COAST'S RATE FILING**

17 **Q. DID STAFF MAKE ANY ADJUSTMENTS TO THE COMPANY'S TEST**
18 **PERIOD EXPENSES?**

19 A. Yes. Staff/101, Sloan/2 shows Staff's revenue and expense adjustments with
20 a brief description of each. Adjustments to test year expenses included

² In the application, South Coast stated test year revenues as \$35,415; however, Staff's analysis using the Company's 2008 billings resulted in an adjusted total of \$35,956. If the Company had used \$35,956, its proposed increase would have been 54.1 percent instead of 56.4 percent.

³ Original cost: \$148,000 Improvements; \$14,800 Construction Contingencies; \$7,200 Permits, Legal, Other. As stated previously in this testimony, the original \$170,000 loan was reduced to \$127,500.

1 moving expenses into the appropriate accounts, removing amounts for items
 2 no longer used or are not qualified as expenses, and making other appropriate
 3 adjustments based on documentation provided by the Company.

4 **Q. DID STAFF MAKE ANY ADJUSTMENTS TO PLANT IN SERVICE?**

5 A. Yes. After reviewing information provided with the current application and
 6 evaluating plant in service allowed in UW 73, Staff determined that total
 7 plant in service should be \$177,242 instead of \$184,986 as shown in the
 8 application. Staff/101, Sloan/5 shows Staff’s adjustments to South Coast’s
 9 plant in service.

10 **Q. HOW WAS THE COMPANY’S NET UTILITY PLANT CALCULATED?**

11 A. South Coast’s net utility plant is calculated as follows:

TABLE 2: South Coast’s Net Plant

| Plant Calculation for South Coast | Total Plant in Service | New Plant Adjusted for 25% Loan Forgiveness |
|-------------------------------------|------------------------|---|
| Utility Plant | \$177,242 | \$149,993 |
| Plus: Construction Work in Progress | \$58,884 | \$44,163 |
| Less: Loan Forgiveness | \$42,500 | |
| Less: Accumulated Depreciation | \$27,269* | \$27,799 |
| Total Net Plant* | \$166,357 | \$166,357 |

*Net plant in service is adjusted by -\$530 to account for loan forgiveness effect.

12 **Q. PLEASE EXPLAIN CONSTRUCTION WORK IN PROGRESS, AND WHY IT**
 13 **IS ALLOWED IN RATES BEFORE IT IS USED AND USEFUL.**

14 A. Construction Work in Progress (CWIP) is the term for plant under construction,
 15 but not yet in service. While traditionally rates include costs of plant used and
 16 useful, ORS 757.355(2) provides the Commission authority to allow only water

1 utilities to begin recovery of costs before the plant is used and useful.

2 OAR 860-036-0757 states:

3 The Commission may allow into rates the costs of a specific capital
4 improvement project in progress if:

- 5
- 6 (1) The water utility uses the additional revenues solely for the
7 purpose of completing the capital improvement project;
 - 8 (2) The water utility demonstrates that its access to capital is
9 limited and it is in the public interest to provide funding for
10 the capital improvement through rates; and
 - 11 (3) Such costs are approved through tariffs filed with the
12 Commission.

13 South Coast has completed most of its capital improvement projects;

14 however, several projects are still in progress. It is necessary to put CWIP

15 into plant at this time in order for South Coast to collect sufficient revenues

16 during the year to make its quarterly loan payments.

17 **Q. DOES THE COMPANY HAVE COMMISSION-APPROVED AFFILIATED**
18 **INTEREST CONTRACTS?**

19 A. Yes. The Commission approved South Coast's affiliated interest contracts in
20 UW 73; however, according to the Company the services and affiliates have
21 changed. Staff recommends that South Coast be required to file revised
22 affiliated interest contracts within 60 days from the date of the Commission's
23 order approving rates in UW 134.

24 **Q. DID THE PARTIES STIPULATE TO STAFF'S ANALYSIS OF THE**
25 **RESULTS OF OPERATIONS FOR SOUTH COAST?**

26 A. Yes.

ISSUE 5: SUMMARY OF THE STIPULATION

1
2 **Q.** Please describe THE revenue requirement STIPULATED TO BY THE
3 PARTIES.

4 A. The Stipulation supports an increase of \$4,367, or 12.1 percent above South
5 Coast's adjusted test year revenues, for a total revenue requirement of
6 \$40,323. In addition, the Parties stipulated that the Company should have
7 a reasonable opportunity to earn a 3.1 percent rate of return on rate base
8 of \$168,578. Staff/101, Sloan/1 shows the stipulated revenue requirement.

9 **Q. DID THE PARTIES STIPULATE TO ANY CHANGES IN THE CURRENT**
10 **RATE DESIGN?**

11 A. Yes. The Parties support revising the existing rate design, under which the
12 customers pay a flat rate for unlimited water use, to metered rates, under which
13 customers will pay for all the water they use.

14 **Q. PLEASE DESCRIBE THE STIPULATED RATE DESIGN.**

15 A. The Parties support a monthly base rate of \$36.00 and a commodity rate of
16 \$0.24 per 100 gallons for all water used.

17 **Q. PLEASE DISCUSS THE SPLIT BETWEEN BASE AND VARIABLE RATES**
18 **AGREED TO BY THE PARTIES.**

19 A. Staff generally aims for a 60/40 split between the base rate and usage rate;
20 however, using a 60/40 split in South Coast's rate design would result in rate
21 shock for larger water use customers. The Parties support assigning 75
22 percent of the revenue requirement to the base rate and 25 percent to the
23 commodity rate, forming the basis for reasonable rates. Staff will attempt to

1 work with the Company in subsequent rate applications to bring the base and
2 commodity rates closer to the 60/40 target.

3 **Q. PLEASE COMPARE THE TEST YEAR AND STIPULATED RATES.**

4 A. A summary of the rates is shown in Table 3 below.

5 **TABLE 3: Comparison of Rates**

| Test Year Rates(2008) | | |
|------------------------------|---------|-----------------|
| Base Rate | \$43.32 | Unlimited Usage |
| Commodity Rate | N/A | N/A |

| Stipulated Rates | | |
|-------------------------|------------------------|--------------------------------|
| Base Rate | \$36.00 | No usage included in base rate |
| Commodity Rate | \$0.24 per 100 gallons | For all usage |

7 **Q. PLEASE DESCRIBE THE RATE IMPACT OF THE STIPULATED RATES.**

8 A. Staff/101, Sloan/7 shows rate impacts for various consumption amounts. A
9 customer using the average of 5,093 gallons per month will pay \$48.00, which
10 is \$4.68 (or 10.8 percent) more than current flat rate of \$43.32.

11 **Q. ARE THE RESULTING RATES FAIR AND REASONABLE?**

12 A. Yes.

13 **Q. DID THE PARTIES STIPULATE TO AN EFFECTIVE DATE FOR THE NEW
14 RATES?**

15 A. Yes. The Parties support having the tariffs become effective for service on and
16 after December 1, 2009.

17 **Q. DID THE PARTIES AGREE TO ANY OTHER PROVISIONS THAT ARE
18 INCLUDED IN THE STIPULATION?**

19 A. Yes. The owner of the system, Randall A. Reitz, also owns Oregon Water
20 Services, Inc., and Oregon Water Services - Florence, which perform certain

1 services for the Company (corporate oversight, system operator, repairs and
2 maintenance, meter reading, and bookkeeping). Oregon Water Services, Inc.,
3 and Oregon Water Services-Florence are affiliated interests as defined by
4 ORS 757.495. As a result, the Company is required to file affiliated interest
5 contracts pursuant to ORS 757.495 and OAR 860-036-0730. The Parties
6 agree that South Coast should be required to file affiliated interest contracts
7 within 60 days from the date of the Commission's order approving rates in
8 UW 134.

9 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE STIPULATION?**

10 A. I recommend that the Commission admit the Stipulation into the UW 134 record
11 and adopt the Stipulation in its entirety.

12 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

13 A. Yes.

SOUTH COAST WATER DISTRICT
UW 134
Test Year: 2008

Company Case
56.4%

Staff
12.1%

| | | A | B | C | D | E | F | G |
|-----------|--|---|------------------------------|--------------------------|----------------------------|--------------------------|----------------------------|--------------------------|
| Acct. No. | REVENUES | Balance Per Application Test Year: 2008 | Proposed Company Adjustments | Adjusted Results (A+B=C) | Proposed Staff Adjustments | Adjusted Results (A+D=E) | Staff Proposed Rev Changes | Proposed Results (E+F=G) |
| 1 | 461.1 Residential Water Sales | 35,415 | 19,983 | 55,398 | 541 | 35,956 | 4,366 | 40,322 |
| 2 | 461.2 Commercial Water Sales | | | 0 | 0 | 0 | 0 | 0 |
| 3 | 465 Irrigation - Non GC | | | 0 | 0 | 0 | 0 | 0 |
| 4 | 462 Irrigation - GC | | | 0 | 0 | 0 | 0 | 0 |
| 5 | 471 Misc. Revenues | 1,040 | (1,040) | 0 | (1,040) | 0 | 0 | 0 |
| 6 | Special Contracts | | | 0 | 0 | 0 | 0 | 0 |
| 7 | TOTAL REVENUE | 36,455 | 18,943 | 55,398 | (499) | 35,956 | 4,367 | 40,323 |
| 8 | | | | | | | | |
| 9 | OPERATING EXPENSES | | | | | | | |
| 10 | 601 Salaries and Wages - Employees | | | 0 | 0 | 0 | | 0 |
| 11 | 603 Salaries and Wages - Officers | | | 0 | 0 | 0 | | 0 |
| 12 | 604 Employee Pension & Benefits | | | 0 | 0 | 0 | | 0 |
| 13 | 610 Purchased Water | | | 0 | 0 | 0 | | 0 |
| 14 | 611 Telephone/Communications | 1,876 | 60 | 1,936 | (261) | 1,615 | | 1,615 |
| 15 | 615 Purchased Power | 3,983 | 120 | 4,103 | 200 | 4,183 | | 4,183 |
| 16 | 618 Chemical / Treatment Expense | 950 | | 950 | 530 | 1,480 | | 1,480 |
| 17 | 619 Office Supplies | 54 | 46 | 100 | 131 | 185 | | 185 |
| 18 | 619.1 Postage | 660 | 56 | 716 | 40 | 700 | | 700 |
| 19 | 620 O&M Materials/Supplies | | 1,300 | 1,300 | 870 | 870 | | 870 |
| 20 | 621 Repairs to Water Plant | | | 0 | 0 | 0 | | 0 |
| 21 | 631 Contract Svcs - Engineering | | | 0 | 169 | 169 | | 169 |
| 22 | 632 Contract Svcs - Accounting | 1,300 | 225 | 1,525 | (83) | 1,218 | | 1,218 |
| 23 | 633 Contract Svcs - Legal | 138 | 13 | 151 | 7 | 145 | | 145 |
| 24 | 634 Contract Svcs - Management Fees | | | 0 | 0 | 0 | | 0 |
| 25 | 635 Contract Svcs - Testing | | | 0 | 1,657 | 1,657 | | 1,657 |
| 26 | 636 Contract Svcs - Labor | 7,200 | 0 | 7,200 | 4,800 | 12,000 | | 12,000 |
| 27 | 637 Contract Svcs - Billing/Collection | | | 0 | 0 | 0 | | 0 |
| 28 | 638 Contract Svcs - Meter Reading | | | 0 | 0 | 0 | | 0 |
| 29 | 639 Contract Svcs - Other | | | 0 | 0 | 0 | | 0 |
| 30 | 641 Rental of Building/Real Property | 4,800 | 0 | 4,800 | (4,800) | 0 | | 0 |
| 31 | 642 Rental of Equipment | | | 0 | 0 | 0 | | 0 |
| 32 | 643 Small Tools | | | 0 | 0 | 0 | | 0 |
| 33 | 648 Computer/Electronic Expenses | 0 | 1,500 | 1,500 | 0 | 0 | | 0 |
| 34 | 650 Transportation | | | 0 | 0 | 0 | | 0 |
| 35 | 656 Vehicle Insurance | | | 0 | 0 | 0 | | 0 |
| 36 | 657 General Liability Insurance | 180 | 0 | 180 | 888 | 1,068 | | 1,068 |
| 37 | 658 Workers' Comp Insurance | | | 0 | 0 | 0 | | 0 |
| 38 | 659 Insurance - Other | | | 0 | 0 | 0 | | 0 |
| 39 | 660 Public Relations/Advertising | | | 0 | 0 | 0 | | 0 |
| 40 | 666 Amortz. of Rate Case | | | 0 | 0 | 0 | | 0 |
| 41 | 667 Gross Revenue Fee (PUC) | 89 | 50 | 139 | (40) | 49 | 11 | 60 |
| 42 | 668 Water Resource Conservation | | | 0 | 0 | 0 | | 0 |
| 43 | 670 Bad Debt Expense | 540 | 540 | 1,080 | 75 | 615 | | 615 |
| 44 | 671 Cross Connection Control Program | | | 0 | 0 | 0 | | 0 |
| 45 | 672 System Capacity Dev Program | | | 0 | 0 | 0 | | 0 |
| 46 | SDWRLF | | 1,766 | 1,766 | 0 | 0 | | 0 |
| 47 | 673 Training and Certification | | | 0 | 0 | 0 | | 0 |
| 48 | 674 Consumer Confidence Report | 225 | 25 | 250 | (25) | 200 | | 200 |
| 49 | 675 General Expense | 440 | 120 | 560 | 60 | 500 | | 500 |
| 50 | TOTAL OPERATING EXPENSE | 22,435 | 5,821 | 28,256 | 4,218 | 26,653 | 11 | 26,664 |
| 51 | | | | | | | | |
| 52 | OTHER REVENUE DEDUCTIONS | | | | | | | |
| 53 | 403 Depreciation Expense | 3,924 | 3,501 | 7,425 | 3,229 | 7,153 | | 7,153 |
| 54 | 407 Amortization Expense | | | 0 | 0 | 0 | | 0 |
| 55 | 408.11 Property Tax | | | 0 | 250 | 250 | | 250 |
| 56 | 408.12 Payroll Tax | | | 0 | 0 | 0 | | 0 |
| 57 | 408.13 Other | | 225 | 225 | 0 | 0 | | 0 |
| 58 | 409.11 Oregon Income Tax | 10 | 1,037 | 1,047 | 31 | 41 | 288 | 329 |
| 59 | 409.10 Federal Income Tax | | 2,202 | 2,202 | 88 | 88 | 610 | 698 |
| 60 | TOTAL REVENUE DEDUCTIONS | 26,369 | 12,786 | 39,155 | 7,816 | 34,185 | 909 | 35,094 |
| 61 | NET OPERATING INCOME | 10,086 | 6,157 | 16,243 | (8,315) | 1,771 | 3,458 | 5,229 |
| 62 | | | | | | | | |
| 63 | 101 Utility Plant in Service | 184,986 | | 184,986 | (7,744) | 177,242 | | 177,242 |
| 65 | Less: | | | | | | | |
| 66 | 108.1 Depreciation Reserve | 33,735 | | 33,735 | (6,466) | 27,269 | | 27,269 |
| 64 | Plus Construction Work in Progress | | | | 58,884 | 58,884 | | 58,884 |
| 67 | 271 Less 25% Loan Forgiveness | | | 0 | 42,500 | 42,500 | | 42,500 |
| 68 | 272 Amortization of CIAC | | | 0 | 0 | 0 | | 0 |
| 69 | 281 Accumulated Deferred Income Tax | | | 0 | 0 | 0 | | 0 |
| 70 | Net Utility Plant | 151,251 | 0 | 151,251 | 15,106 | 166,357 | 0 | 166,357 |
| 71 | Plus: (working capital) | | | | | | | |
| 72 | 151 Materials and Supplies Inventory | | 0 | 0 | 0 | 0 | | 0 |
| 73 | Working Cash (Total Op Exp /12) | 1,870 | 485 | 2,355 | 351 | 2,221 | 0 | 2,221 |
| 74 | TOTAL RATE BASE | 153,121 | 485 | 153,606 | 15,457 | 168,578 | 0 | 168,578 |
| 75 | Rate of Return | 6.59% | | 10.57% | | 1.05% | | 3.10% |

| | Company | Staff |
|---------------------|----------|--|
| number of customers | 70 | 70 |
| op/exp/cust/year | \$404 | \$381 |
| Cash Flow | \$23,668 | \$12,382 |
| Free Cash Flow | | \$7,442 (Cash Flow minus Loan Payment) |
| | | Loan Payment = \$4,940 |

| SOUTH COAST WATER DISTRICT | | | | | | |
|----------------------------|--------|------------------------------------|---------|--|---------|--|
| Test Year: 2008 | | | | | | |
| SUMMARY OF ADJUSTMENTS | | | | | | |
| | | | | Staff Adjustments to Rev Req Column D | Results | Reason |
| REVENUES | | | | | | |
| 1 | 461.1 | Residential Water Sales | 35,415 | \$541 | 35,956 | Based on Company's 2008 Billings |
| 5 | 471 | Misc. Revenues | 1,040 | (\$1,040) | 0 | |
| 7 | | TOTAL REVENUE | 36,455 | (\$499) | 35,956 | |
| 8 | | | | | | |
| 9 | | OPERATING EXPENSES | | | | |
| 10 | 601 | Salaries and Wages - Employees | 0 | \$0 | 0 | |
| 11 | 603 | Salaries and Wages - Officers | 0 | \$0 | 0 | |
| 12 | 604 | Employee Pension & Benefits | 0 | \$0 | 0 | |
| 13 | 610 | Purchased Water | 0 | \$0 | 0 | |
| 14 | 611 | Telephone/Communications | 1,876 | (\$261) | 1,615 | 2009 charges to date forecast to end of year + \$43.07 amortized amount of 3/20/08 phone line installation (10 yrs per plant acct 346) |
| 15 | 615 | Purchased Power | 3,983 | \$200 | 4,183 | 2008 amount increased by 5% to account for CLPUD rate increase |
| 16 | 618 | Chemical / Treatment Expense | 950 | \$530 | 1,480 | \$1,480 is cost of chlorine (8 barrels per year at \$185 per barrel). |
| 17 | 619 | Office Supplies | 54 | \$131 | 185 | Moved \$131 cost of paper, envelopes, misc office from Acct 620. |
| 18 | 619.1 | Postage | 660 | \$40 | 700 | Test year amount due to 2009 postage increase |
| 19 | 620 | O&M Materials/Supplies | 0 | \$870 | 870 | In Response to DR 20 Company revised requested amount to \$1000. Moved \$131 to Acct 619. |
| 20 | 621 | Repairs to Water Plant | 0 | \$0 | 0 | |
| 21 | 631 | Contract Svcs - Engineering | 0 | \$169 | 169 | One-time cost related to Beneficial Use Survey and Water Right Transfer. Amortized \$507.50 over 3 years. |
| 22 | 632 | Contract Svcs - Accounting | 1,300 | (\$83) | 1,218 | Actual TY amount plus CPA's estimated increase in cost to prepare taxes and annual reports. Moved amounts for Legal and Engineering to appropriate accounts. |
| 23 | 633 | Contract Svcs - Legal | 138 | \$7 | 145 | Costs related to annual shareholder & director's meeting and filing annual report with State of Oregon |
| 24 | 634 | Contract Svcs - Management Fees | 0 | \$0 | 0 | |
| 25 | 635 | Contract Svcs - Testing | 0 | \$1,657 | 1,657 | 3-Year (2010-2012) Average from independent testing lab |
| 26 | 636 | Contract Svcs - Labor | 7,200 | \$4,800 | 12,000 | AI \$1000/month to Oregon Water Services - Florence |
| 27 | 637 | Contract Svcs - Billing/Collection | 0 | \$0 | 0 | |
| 28 | 638 | Contract Svcs - Meter Reading | 0 | \$0 | 0 | |
| 29 | 639 | Contract Svcs - Other | 0 | \$0 | 0 | |
| 30 | 641 | Rental of Building/Real Property | 4,800 | (\$4,800) | 0 | Company no longer leases office space. |
| 31 | 642 | Rental of Equipment | 0 | \$0 | 0 | |
| 32 | 643 | Small Tools | 0 | \$0 | 0 | |
| 33 | 648 | Computer/Electronic Expenses | 0 | \$0 | 0 | Company proposed \$1500 for future replacement of computers that run the treatment plant. When purchased, this will be Plant Acct. 347 |
| 34 | 650 | Transportation | 0 | \$0 | 0 | |
| 35 | 656 | Vehicle Insurance | 0 | \$0 | 0 | |
| 36 | 657 | General Liability Insurance | 180 | \$888 | 1,068 | Based on insurance policy (Company did not actually have GL in 2008) |
| 37 | 658 | Workers' Comp Insurance | 0 | \$0 | 0 | |
| 38 | 659 | Insurance - Other | 0 | \$0 | 0 | |
| 39 | 660 | Public Relations/Advertising | 0 | \$0 | 0 | |
| 40 | 666 | Amortz. of Rate Case | 0 | \$0 | 0 | |
| 41 | 667 | Gross Revenue Fee (PUC) | 89 | (\$40) | 49 | Calculated |
| 42 | 668 | Water Resource Conservation | 0 | \$0 | 0 | |
| 43 | 670 | Bad Debt Expense | 540 | \$75 | 615 | < 2% of Proposed Revenues (Based on TY amount) |
| 44 | 671 | Cross Connection Control Program | 0 | \$0 | 0 | |
| 45 | 672 | System Capacity Dev Program | 0 | \$0 | 0 | |
| 46 | | SDWRLF | 0 | \$0 | 0 | Not an Expense: Loan Principal is recovered through Depreciation Expense; Interest is recovered through Net Operating Income |
| 47 | 673 | Training and Certification | 0 | \$0 | 0 | |
| 48 | 674 | Consumer Confidence Report | 225 | (\$25) | 200 | The Company will prepare this report to reduce the expense. |
| 49 | 675 | General Expense | 440 | \$60 | 500 | Based on 2008 reported expense |
| 50 | | TOTAL OPERATING EXPENSE | 22,435 | \$4,218 | 26,653 | |
| 51 | | | | | | |
| 52 | | OTHER REVENUE DEDUCTIONS | | | | |
| 53 | 403 | Depreciation Expense | 3,924 | \$3,229 | 7,153 | See Plant Schedule |
| 54 | 407 | Amortization Expense | 0 | \$0 | 0 | |
| 55 | 408 | Property Tax | 0 | \$250 | 250 | Based on 2008 tax statement |
| 56 | 408 | Payroll Tax | 0 | \$0 | 0 | |
| 57 | 408.13 | Other | 0 | \$0 | 0 | |
| 58 | 409.11 | Oregon Income Tax | 10 | \$31 | 41 | Calculated |
| 59 | 409.1 | Federal Income Tax | 0 | \$88 | 88 | Calculated |
| 60 | | TOTAL REVENUE DEDUCTIONS | 26,369 | \$7,816 | 34,185 | |
| 61 | | NET OPERATING INCOME | 10,086 | (\$8,315) | 1,771 | |
| 62 | | | | | | |
| 63 | 101 | Utility Plant in Service | 184,986 | (\$7,744) | 177,242 | See Plant Schedule |
| 65 | | Less: | | | | |
| 66 | 108.1 | Depreciation Reserve | 33,735 | (\$6,466) | 27,269 | See Plant Schedule |
| 64 | | Plus Construction Work in Progress | 0 | \$58,884 | 58,884 | See Plant Schedule |
| 67 | 271 | Less 25% Loan Forgiveness | 0 | \$42,500 | 42,500 | See Plant Schedule |
| 68 | 272 | Amortization of CIAC | 0 | \$0 | 0 | |
| 69 | 281 | Accumulated Deferred Income Tax | 0 | \$0 | 0 | |
| 70 | | Net Utility Plant | 151,251 | \$15,106 | 166,357 | See Plant Schedule |
| 71 | | Plus: (working capital) | | \$0 | 0 | |
| 72 | 151 | Materials and Supplies Inventory | 0 | \$0 | 0 | |
| 73 | | Working Cash (Total Op Exp /12) | 1,870 | \$351 | 2,221 | 1/12 of operating expense |
| 74 | | TOTAL RATE BASE | 153,121 | \$15,457 | 168,578 | |

| SOUTH COAST WATER DISTRICT | | | | | | | | |
|-------------------------------|--------|--|--------|--|---------------------------------------|------------------|-------------|-------------|
| UW 134 | | | | | | | | |
| Test Year: 2008 | | | | | | | | |
| REVENUE SENSITIVE COSTS | | | | COST OF CAPITAL | | | | |
| | | | | | | Capital | | Weighted |
| Revenues | | | 1.0000 | DEBT | | <u>Structure</u> | <u>Cost</u> | <u>Cost</u> |
| | | | | SDWRLF | \$127,500 | 76.64% | 1.00% | 0.77% |
| O&M - Uncollectibles | | | 0.0000 | Bank | \$0 | 0.00% | 0.00% | 0.00% |
| Franchise Fees | | | 0.0000 | Other | \$0 | 0.00% | 0.00% | 0.00% |
| OPUC Fee | | | 0.0025 | | \$127,500 | | | 0.77% |
| Short-term Interest | | | 0.0000 | | | | | |
| State Taxable Income | | | 0.9975 | | | | | |
| | | | | EQUITY | \$38,855 | 23.36% | 10.00% | 2.34% |
| State Income Tax @ | 6.60% | | 0.0658 | | \$166,355 | 100.00% | | 3.10% |
| | | | | | | | | |
| Federal Taxable Income | | | 0.9317 | \$170,000 | Total Loan | | | |
| | | | | \$42,500 | 25% Loan Forgiveness | | | |
| Federal Income Tax @ | 15.00% | | 0.1397 | \$127,500 | Loan Balance to be paid over 30 years | | | |
| | | | | | | | | |
| Total Income Taxes | | | 0.2056 | Equity is the difference between Net Utility Plant and Debt. | | | | |
| | | | | | | | | |
| Total Revenue Sensitive Costs | | | 0.2081 | | | | | |
| | | | | | | | | |
| Utility Operating Income | | | 0.7919 | | | | | |
| | | | | | | | | |
| Net-to-Gross Factor | | | 1.2628 | | | | | |

SOUTH COAST WATER DISTRICT
UW 134
Final Loan Application

SDWRLF

\$170,000 Total Loan Amount

25% Percent Loan Forgiveness

\$42,500 Amount of Loan Forgiveness

\$127,500 Total Amount to be repaid

Quarterly Pmt

\$1,235.10

| | Loan Amount | (APR) Annual Interest | Principal | Annual Payment |
|--------------|--------------|-----------------------------|------------------|-------------------|
| Years | \$127,500.00 | 1.0000% | Principal | \$4,940.38 |
| 1 | 127,500.00 | 1,275.00 | 128,775.00 | 123,834.62 |
| 2 | 123,834.62 | 1,238.35 | 125,072.96 | 120,132.58 |
| 3 | 120,132.58 | 1,201.33 | 121,333.90 | 116,393.52 |
| 4 | 116,393.52 | 1,163.94 | 117,557.45 | 112,617.07 |
| 5 | 112,617.07 | 1,126.17 | 113,743.24 | 108,802.86 |
| 6 | 108,802.86 | 1,088.03 | 109,890.88 | 104,950.50 |
| 7 | 104,950.50 | 1,049.50 | 106,000.00 | 101,059.62 |
| 8 | 101,059.62 | 1,010.60 | 102,070.22 | 97,129.83 |
| 9 | 97,129.83 | 971.30 | 98,101.13 | 93,160.75 |
| 10 | 93,160.75 | 931.61 | 94,092.35 | 89,151.97 |
| 11 | 89,151.97 | 891.52 | 90,043.49 | 85,103.10 |
| 12 | 85,103.10 | 851.03 | 85,954.13 | 81,013.75 |
| 13 | 81,013.75 | 810.14 | 81,823.89 | 76,883.50 |
| 14 | 76,883.50 | 768.84 | 77,652.34 | 72,711.95 |
| 15 | 72,711.95 | 727.12 | 73,439.07 | 68,498.69 |
| 16 | 68,498.69 | 684.99 | 69,183.68 | 64,243.29 |
| 17 | 64,243.29 | 642.43 | 64,885.72 | 59,945.34 |
| 18 | 59,945.34 | 599.45 | 60,544.79 | 55,604.41 |
| 19 | 55,604.41 | 556.04 | 56,160.45 | 51,220.07 |
| 20 | 51,220.07 | 512.20 | 51,732.27 | 46,791.88 |
| 21 | 46,791.88 | 467.92 | 47,259.80 | 42,319.42 |
| 22 | 42,319.42 | 423.19 | 42,742.61 | 37,802.23 |
| 23 | 37,802.23 | 378.02 | 38,180.25 | 33,239.87 |
| 24 | 33,239.87 | 332.40 | 33,572.26 | 28,631.88 |
| 25 | 28,631.88 | 286.32 | 28,918.20 | 23,977.81 |
| 26 | 23,977.81 | 239.78 | 24,217.59 | 19,277.21 |
| 27 | 19,277.21 | 192.77 | 19,469.98 | 14,529.60 |
| 28 | 14,529.60 | 145.30 | 14,674.89 | 9,734.51 |
| 29 | 9,734.51 | 97.35 | 9,831.85 | 4,891.47 |
| 30 | 4,891.47 | 48.91 | 4,940.38 | (0.00) |
| | | 20,711.53 | | |

\$5.88 per month per customer

| | A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P |
|----|---|-----------------------------|---------------------------|----------------------------------|-----------------------|------------------------------------|--------------------------|---|-------------|-------------------------------------|---------------|-------------------------------------|---------------|--------------|---------------|------|
| 1 | SOUTH COAST WATER DISTRICT | | | | | | | | | | | | | | | |
| 2 | Test Year: 2008 | | | | | | | | | | | | | | | |
| 3 | RESIDENTIAL RATE DESIGN - 1 TIER | | | | | | | | | | | | | | | |
| 4 | | | | | | | | | | | | | | | | |
| 5 | Proposed Revenues of: | | | | | | | | | | | | | \$40,323 | | |
| 6 | | | | | | | | | | | | | | | | |
| 7 | Base/Commodity Split | | | | | | | | | | | | | | | 5093 |
| 8 | Variable Rate | Proposed Rev | | | | | | | | | \$43.32 | FLAT | \$43.32 | | | |
| 9 | 25.00% | \$40,323 | = | \$10,081 | | | | X | Average gal | 7452 | \$0.28 | Variable | \$20.87 | | \$12.00 | |
| 10 | | | | | | | | | | | | | | | | |
| 11 | Base Rate | Proposed Rev | | | | | | | | | | | | | | |
| 12 | 75.00% | \$40,323 | = | \$30,243 | | | | | | | | | | | | |
| 13 | | | | | | | | | | | | | | | | |
| 14 | | | | | | | | | | | | | | | | 7452 |
| 15 | BASE RATE | | | | | | | | | | | | | | | |
| 16 | | | | | | | | | | | | | | | | |
| 17 | | | | | | | | | | | | | | | | |
| 18 | | | | | | | | | | | | | | | | |
| 19 | Size of Line | Average Number of Customers | Current Monthly Base Rate | Staff Proposed Monthly Base Rate | Total Annual Revenues | Company Proposed Monthly Base Rate | Revenue at Current Rates | | | Meter Size | Present rates | Factors Used | Rate Required | AWWA Factors | | |
| 20 | Residential | | | | | | | | Residential | | | | | | | |
| 21 | 5/8" | 70 | \$43.32 | \$36.00 | \$30,243 | \$38.47 | \$36,389 | | 70 | 5/8" | \$43.32 | 1 | \$36.00 | 1 | | |
| 22 | 3/4" | | | \$36.00 | \$0 | | \$0 | | 0 | 3/4" | \$0.00 | 1 | \$36.00 | 1 | | |
| 23 | | | | | | | | | 0 | 1" | \$0.00 | | \$0.00 | 2.5 | | |
| 37 | TOTALS | 70 | | | \$30,243 | | \$36,389 | | | | | | | | | |
| 38 | | | | | | | | | | | | | | | | |
| 39 | | | | | | | | | | | | | | | | |
| 40 | | | | | | | | | | | | | | | | |
| 42 | | | | | | | | | | | | | | | | |
| 43 | COMMODITY RATE | | | | | | | | | | | | | | | |
| 44 | \$0.24 per 100 gal. | | | | | | | | | | | | | | | |
| 45 | | | | | | | | | | | | | | | | |
| 46 | Proposed Revenue | Consumption | | | Proposed Rate | Previous Rate | | | | | | | | | | |
| 47 | \$10,081 | divided by | 42,778 | = | \$0.236 | \$0.00 | | | | | | | | | | |
| 48 | | | | | | | | | | | | | | | | |
| 49 | | | | | | | | | | | | | | | | |
| 50 | | | | | | | | | | | | | | | | |
| 51 | | | | | | | | | | | | | | | | |
| 52 | | | | | | | | | | | | | | | | |
| 53 | | | | | | | | | | | | | | | | |
| 54 | | | | | | | | | | | | | | | | |
| 55 | | | | | | | | | | | | | | | | |
| 56 | Meter Size | Average rates | Staff Proposed Rates | Percent Increase | | | | | | Consumption Residential (Test Year) | | Consumption Residential (Projected) | | | | |
| 57 | Residential | Current | | | | | | | | ESTIMATED | Avg | BASED ON 12-MONTH USAGE | | | | |
| 58 | 5/8" x 3/4" | \$43.32 | \$48.00 | 10.81% | | | | | | 7,452 | 5/8" x 3/4" | 6,975,150 gal | 5,093 | 5/8" x 3/4" | 4,277,820 gal | |
| 63 | | | | | | | | | | | | | | | | |
| 72 | | | | | | | | | | | | | | | | |
| 73 | | | | | | | | | | | | | | | | |
| 74 | | | | | | | | | | | | | | | | |
| 75 | | | | | | | | | | | | | | | | |
| 76 | | | | | | | | | | | | | | | | |
| 77 | | | | | | | | | | | | | | | | |
| 78 | | | | | | | | | | | | | | | | |
| 79 | | | | | | | | | | | | | | | | |
| 80 | | | | | | | | | | | | | | | | |

Because usage data for the test year was incomplete, the Company based test year and projected consumption on the following formula:
 245 approximate gallons per household per day
 78 times number of customers
 365 times number of days in a year
 6,975,150

During the course of Staff's analysis, the Company provided one full year of usage data (June 2008 - July 2009). Staff's proposed rates are based on the actual usage, which is considerably lower than the estimated usage.

(Meets OBDD's requirement of at least \$49.85 for 7500 gallons)

SOUTH COAST WATER DISTRICT
UW 134
RATE IMPACT - RESIDENTIAL (3/4 x 5/8) - 1 TIER

Commodity Rate **\$0.24** per 100 gallons

| Monthly Consumptions Customer Usage | Current Base Rate | Current Commodity Rate | Current Average Monthly Bill | Proposed Customer Base Rate | Proposed Commodity Rate Per 100 gal | Usage Factor | Total Proposed Monthly Bill | Difference | Percentage Difference |
|--|-------------------------|------------------------------|---------------------------------------|-----------------------------------|--|-----------------|--------------------------------------|------------|--------------------------|
| 0 | \$43.32 | \$0.00 | \$43.32 | \$36.00 | \$0.24 | 0 | \$36.00 | (\$7.32) | -16.89% |
| 1000 | \$43.32 | \$0.00 | \$43.32 | \$36.00 | \$0.24 | 10 | \$38.36 | (\$4.96) | -11.45% |
| 2000 | \$43.32 | \$0.00 | \$43.32 | \$36.00 | \$0.24 | 20 | \$40.72 | (\$2.60) | -6.01% |
| 3000 | \$43.32 | \$0.00 | \$43.32 | \$36.00 | \$0.24 | 30 | \$43.07 | (\$0.25) | -0.57% |
| 3500 | \$43.32 | \$0.00 | \$43.32 | \$36.00 | \$0.24 | 35 | \$44.25 | \$0.93 | 2.15% |
| 4000 | \$43.32 | \$0.00 | \$43.32 | \$36.00 | \$0.24 | 40 | \$45.43 | \$2.11 | 4.87% |
| 4500 | \$43.32 | \$0.00 | \$43.32 | \$36.00 | \$0.24 | 45 | \$46.61 | \$3.29 | 7.59% |
| 5093 | \$43.32 | \$0.00 | \$43.32 | \$36.00 | \$0.24 | 50.9 | \$48.00 | \$4.68 | 10.81% |
| 5500 | \$43.32 | \$0.00 | \$43.32 | \$36.00 | \$0.24 | 55 | \$48.96 | \$5.64 | 13.03% |
| 6000 | \$43.32 | \$0.00 | \$43.32 | \$36.00 | \$0.24 | 60 | \$50.14 | \$6.82 | 15.75% |
| 7452 | \$43.32 | \$0.00 | \$43.32 | \$36.00 | \$0.24 | 74.5 | \$53.56 | \$10.24 | 23.65% |
| 8000 | \$43.32 | \$0.00 | \$43.32 | \$36.00 | \$0.24 | 80 | \$54.86 | \$11.54 | 26.63% |
| 8500 | \$43.32 | \$0.00 | \$43.32 | \$36.00 | \$0.24 | 85 | \$56.03 | \$12.71 | 29.35% |
| 9000 | \$43.32 | \$0.00 | \$43.32 | \$36.00 | \$0.24 | 90 | \$57.21 | \$13.89 | 32.07% |
| 9500 | \$43.32 | \$0.00 | \$43.32 | \$36.00 | \$0.24 | 95 | \$58.39 | \$15.07 | 34.79% |
| 10000 | \$43.32 | \$0.00 | \$43.32 | \$36.00 | \$0.24 | 100 | \$59.57 | \$16.25 | 37.51% |
| 15000 | \$43.32 | \$0.00 | \$43.32 | \$36.00 | \$0.24 | 150 | \$71.35 | \$28.03 | 64.71% |
| 20000 | \$43.32 | \$0.00 | \$43.32 | \$36.00 | \$0.24 | 200 | \$83.13 | \$39.81 | 91.91% |
| 25000 | \$43.32 | \$0.00 | \$43.32 | \$36.00 | \$0.24 | 250 | \$94.92 | \$51.60 | 119.11% |
| | | | \$823.08 | | | | \$1,030.58 | \$207.50 | 25.21% |

Avg Use
Based on Data

App Proposed
Avg Use

According to consumption data:

62% of customers used up to 5,093 gallons
29% of customers used between 5,093 and 10,000 gallons
9% of customers used above 10,000 gallons
100%

32% of customers used up to 3,000 gallons
86% of customers used up to 7,452 gallons

CERTIFICATE OF SERVICE

UW 134

I certify that I have this day served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-13-0070, to the following parties or attorneys of parties.

Dated at Salem, Oregon, this 12th day of October, 2009.

Kay Barnes

Kay Barnes
Public Utility Commission
Regulatory Operations
550 Capitol St NE Ste 215
Salem, Oregon 97301-2551
Telephone: (503) 378-5763

**UW 134
Service List (Parties)**

| | |
|---|--|
| DEPARTMENT OF JUSTICE JASON W JONES ASSISTANT ATTORNEY GENERAL | REGULATED UTILITY & BUSINESS SECTION 1162 COURT ST NE SALEM OR 97301-4096 jason.w.jones@state.or.us |
| PUBLIC UTILITY COMMISSION RENEE SLOAN PUC UTILITY WATER SEC | PO BOX 2148 SALEM OR 97308-2148 renee.sloan@state.or.us |
| SOUTH COAST WATER DISTRICT INC RANDY REITZ OWNER & PRESIDENT | 30086 FEDERAL LN EUGENE OR 97402 pumppres@aol.com |