



# Oregon

Theodore R. Kulongoski, Governor

## Public Utility Commission

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March 2, 2009

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

RE: **Docket No. UW 131** – In the Matter of MILL MAR ESTATES WATER, INC.  
Application for a General Rate Revision.

Enclosed for electronic filing in the above-captioned docket is Staff's Direct  
Testimony in Docket UW 131

*/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 131 Service List (parties)



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**PUBLIC UTILITY COMMISSION  
OF OREGON**

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**UW 131**

**STAFF TESTIMONY  
OF**

**Michael Dougherty**

**In the Matter of  
MILL MAR ESTATES WATER, INC.  
Application for a General Rate Increase.**

**March 2, 2009**

CASE: UW 131  
WITNESS: Michael Dougherty

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 100**

**Direct Testimony  
In Support of  
The Stipulation**

**March 2, 2009**

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

2 A. My name is Michael Dougherty. I am the Program Manager of the Corporate  
3 Analysis and Water Regulation Section of the Utility Program with the Public  
4 Utility Commission of Oregon. My business address is 550 Capitol Street NE  
5 Suite 215, Salem, Oregon 97308-2148.

6 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK  
7 EXPERIENCE.**

8 A. My Witness Qualification Statement is included as Exhibit Staff/101.

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

10 A. The parties to this docket are: Mill Mar Estates Water Inc. (Mill Mar or  
11 Company); Commission Staff (Staff); Theron Gorden, Intervenor; Julie  
12 Johnson, Intervenor; and Raymond Novosad, Intervenor (inclusively referred to  
13 as Participating Parties or Parties). The following personnel were granted  
14 Intervenor status by the Administrative Law Judge (ALJ), but did not participate  
15 in the February 9, 2008, Settlement Conference: Douglas Allen, Sharon  
16 Rainey, Marjorie Neithercutt, Kathy Robinson, Joe and Floy Ruppert, and Rich  
17 Snell. Staff has not received any correspondence from these additional  
18 intervenors.

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

20 A. My testimony introduces and supports the Stipulation entered into by the  
21 Parties.

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

23 A. Yes. Exhibit Staff/102 contains the following six documents:

1	Revenue Requirement	Staff/102, page 1
2	Summary of Adjustments	Staff/102, page 2
3	Plant and Depreciation	Staff/102, page 3
4	Revenue Sensitive Costs	Staff/102, page 4
5	Residential Rate Design	Staff/102, page 5
6	Residential Rate Impact	Staff/102, page 6

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

8 A. My testimony is organized as follows:

9	Issue 1, Description and Regulatory History of Mill Mar .....	2
10	Issue 2, Summary of Mill Mar's Rate Application .....	3
11	Issue 3, Staff's Analysis of Mill Mar's Filing .....	4
12	Issue 4, Summary of the Stipulation.....	6

13 **ISSUE 1, DESCRIPTION AND REGULATORY HISTORY OF MILL MAR**

14 **Q. PLEASE DESCRIBE MILL MAR ESTATES WATER INC.**

15 A. Mill Mar is a small investor-owned water utility located in Shady Cove, Oregon.

16 The Company provides domestic residential water service to 25 customers.

17 Mill Mar does not provide irrigation water to customers as the irrigation system

18 is a separate system operated by the Mill Mar Estates Irrigation Association

19 Inc. Mill Mar and the Mill Mar Estates Irrigation Association are not affiliated

20 interests as defined by ORS 757.015.

21 **Q. PLEASE EXPLAIN HOW MILL MAR BECAME A RATE REGULATED**  
22 **PUBLIC WATER UTILITY.**

23 A. Pursuant to ORS 757.061, the Commission regulates any water utility that  
24 exceeds a maximum rate established by the Commission and 20 percent or  
25 more of the customers file a petition with the Commission requesting that the  
26 water utility be subject to financial regulation by the Commission.

1           On or around May 15, 2008, the Commission received petitions from ten  
2 customers of Mill Mar requesting utility rate regulation. Ten customers  
3 represented 40 percent of the Company's customers. In addition, the  
4 Company was charging customers an average monthly rate of \$60. The  
5 annual average monthly residential rate threshold stated in OAR 860-036-0030  
6 is currently \$33. As a result, Mill Mar was charging above the residential  
7 regulatory threshold prescribed in OAR 860-036-0030. Because the Company  
8 met the financial regulation conditions of ORS 757.061, the Commission  
9 asserted financial regulation of Mill Mar in Commission Order No. 08-354,  
10 dated July 3, 2008 (WJ 19).

11           **ISSUE 2. SUMMARY OF MILL MAR'S RATE APPLICATION**

12           **Q. PLEASE DESCRIBE MILL MAR'S RATE PROPOSAL AS FILED IN ITS**  
13           **APPLICATION.**

14           A. On October 31, 2008, Mill Mar filed a rate case application in compliance with  
15 Commission Order No. 08-354. In its application, the Company proposed to  
16 increase 2007 test year revenue from \$9,000 to \$20,179. The Company also  
17 requested an 8.42 percent return on a rate base of \$50,436. Although the  
18 Company used a 2007 test year, the Company actually increased its residential  
19 rate on January 1, 2008, to \$60. As a result, the Company's 2008 revenue  
20 was \$18,000. In addition, Mill Mar proposed to change its rate structure as  
21 shown in Table 1 below.

1 **Table 1 – Mill Mar’s Current and Proposed Rates**

	<b>Company’s Current Rates</b>	<b>Company Proposed Rate</b>
Base Rate	\$60.00 <i>(includes 5,000 gallon consumption allowance)</i>	\$47.25 <i>(no consumption allowance)</i>
Commodity Rate	\$3.00	\$5.00

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As a result of customer average consumption and lack of meter reading by the Company, no customer was actually charged over \$60 in 2008.

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**ISSUE 3, STAFF’S ANALYSIS OF MILL MAR’S FILING**

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**Q. PLEASE DESCRIBE THE RESULTS OF STAFF'S ANALYSIS OF MILL MAR’S FILING.**

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A. Staff’s review of the Application shows that Mill Mar should collect \$15,263 in revenues. Additionally, Staff’s analysis resulted in total revenue deductions of \$13,002 resulting in net income of \$2,260.

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**Q. PLEASE EXPLAIN THE DIFFERENCE BETWEEN THE COMPANY’S PROPOSED RATE BASE AND STAFF’S RATE BASE RESULTS.**

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A. A comparison of the Company’s proposed rate base and Staff’s rate base is shown in Table 2 below.

14

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**Table 2 – Rate Base Comparison**

	Utility Plant In Service	Depreciation Reserve	Net Utility Plant	Working Cash	Total Rate Base
Mill Mar's Proposed	\$88,289	\$38,289	\$49,361	\$1,076	\$50,436
Staff's Proposed	\$64,431	\$35,165	\$29,266	\$862	\$30,129

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17

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The primary difference between the Company’s proposed rate base and Staff’s proposed rate base is that Staff removed plant related to the water

1 service lines from rate base. The initial owner of Mill Mar was also the  
2 developer of Mill Mar Estates sub-development, where the Company's  
3 customers reside. During construction of the sub-development, Mill Mar  
4 Estates contracted out the construction of the sub-development to a  
5 construction contractor. The construction contractor excavated the property,  
6 installed the streets, curb and gutters, catch basins, slope inlets, storm drains,  
7 sanitary sewer lines, and the water service lines.

8 Mill Mar Estates was not reimbursed by the City of Shady Cove for the sub-  
9 development. Presumably Mill Mar Estates recovered these costs through the  
10 lot prices. Because the Company could not show that the water service lines  
11 were separated out from other sub-development infrastructure in the lot prices,  
12 the water service lines should be considered Contributions in Aid of  
13 Construction (CIAC) and not included in plant. If the water service lines were  
14 not considered CIAC, than customers would be paying twice for these lines,  
15 once in the lot prices and second through the return on and recovery of these  
16 water service lines. The Commission has previously approved this method of  
17 classifying sub-development water service lines as CIAC for Seventh Mountain  
18 Golf Village Water Company (UW 55, UW 95, UW 116, and UW 124).

19 Staff used the National Association of Regulatory Utility Commissioners  
20 (NARUC) Depreciation Service Lives to determine the \$35,165 depreciation  
21 reserve. Working cash was calculated as 1/12 of the total operating expenses.

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

3     A. Based on Staff's analysis of the Company's weighted cost of capital, Staff  
4     recommends a 7.50 percent rate of return on a rate base of \$30,129 resulting  
5     in net income of \$2,260.

6     **Q. PLEASE EXPLAIN STAFF'S ADJUSTMENTS TO THE COMPANY'S**  
7     **PROPOSAL.**

8     A. Staff's adjustments are shown in Staff/102, Dougherty/2. Staff made several  
9     adjustments to Mill Mar's test year expenses to move expenses into the  
10    appropriate accounts, remove duplicate expenses, and other appropriate  
11    adjustments based on the documentation provided by the Company.

12                    **ISSUE 4, SUMMARY OF THE STIPULATION**

13    **Q. PLEASE DESCRIBE THE REVENUE REQUIREMENT STIPULATED TO**  
14    **BY THE PARTIES.**

15    A. The Parties stipulated to a 69.6 percent increase in total revenue requirement  
16    from 2007 test year amounts. This results in a revenue requirement of \$15,263  
17    and total revenue deductions of \$13,002. The Parties also stipulated that the  
18    Company will receive a 7.50 percent rate of return on its total rate base of  
19    \$30,129. This results in net income of \$2,260.

20        Although there is a 69.6 percent increase in total revenue requirement from  
21    the 2007 test year amounts, the stipulated revenue is actually 15.21 percent  
22    lower than the 2008 actual revenues of \$18,000. The 2008 revenue resulted  
23    from a \$60 per month charge to customers.

1 **Q. DID THE PARTIES STIPULATE TO ANY CHANGES IN THE CURRENT**  
2 **RATE DESIGN?**

3 A. Yes. The Parties support revising the existing rate design by eliminating the  
4 5,000 gallons currently included in the base rate. Under the stipulated rate  
5 design, customers will pay for all the water they use.

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

7 A. The Parties support a monthly base rate of \$36.25 and a commodity rate of  
8 \$3.25 per 1,000 gallons.

9 Staff generally aims for a 60/40 split between the base rate and usage rate;  
10 however, using a 60/40 split in Mill Mar's rate design would result in a relatively  
11 high commodity rate of \$4.52 per 1,000 gallons. The Parties support assigning  
12 71.25 percent of the revenue requirement to the base rate and 28.75 percent to  
13 the commodity rate forming the basis for reasonable rates. Staff will attempt to  
14 work with the Company and other parties in subsequent rate applications to  
15 bring the base rate and commodity rate closer to the 60/40 target.

16 **Q. PLEASE COMPARE THE TEST YEAR, CURRENT, AND STIPULATED**  
17 **RATES.**

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

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2

**Table 3 - Summary of Rates**

<b>2007 Test Year Rates</b>		
Base Rate	\$30.00	Includes 5,000 gallons
Commodity Rate	\$3.00 per 1,000 gallons	Above 5,000 gallons

3

<b>Current Rates</b>		
Base Rate	\$60.00	Includes 5,000 gallons
Commodity Rate	\$3.00 per 1,000 gallons	Above 5,000 gallons

<b>Stipulated Rates</b>		
Base Rate	\$36.25	No usage included in base rate
Commodity Rate	\$3.25 per 1,000 gallons	For all usage

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

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A. Staff/102, Dougherty/6 shows the rate impacts for various consumption

6

amounts. A customer using the average of 4,500 gallons per month will pay

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\$50.88, which is \$9.12 (or 15.21 percent) less than current rate of \$60.

8

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

9

A. Yes.

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

11

12

A. Yes. The participating parties support an effective date of April 1, 2009, for the stipulated rates.

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

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A. Yes. The two owners of the system, Morley Pringle and Paige Harrison also perform certain employment services for the Company (corporate oversight, operator, bookkeeper, and meter reading). Because Mr. Pringle and

17

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1 Ms. Harrison are affiliated interests as defined by ORS 757.495, the Company  
2 is required to file affiliated interest contracts for both individuals pursuant to  
3 ORS 757.495 and OAR 860-036-0730. The Parties agree that the Company  
4 should file these applications within 90 days of the Commission order in  
5 UW 131.

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

7 A. I recommend that the Commission admit the Stipulation into the UW 131 record  
8 and adopt the Stipulation in its entirety.

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

10 A. Yes.

CASE: UW 131  
WITNESS: Michael Dougherty

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 101**

**Witness Qualification Statement**

**March 2, 2009**

## WITNESS QUALIFICATION STATEMENT

NAME: MICHAEL DOUGHERTY

EMPLOYER: PUBLIC UTILITY COMMISSION OF OREGON

TITLE: PROGRAM MANAGER, CORPORATE ANALYSIS AND WATER REGULATION

ADDRESS: 550 CAPITOL ST. NE, SALEM, OR 97308-2148

EDUCATION: Master of Science, Transportation Management, Naval Postgraduate School, Monterey CA (1987)

Bachelor of Science, Biology and Physical Anthropology, City College of New York (1980)

EXPERIENCE: Employed with the Oregon Public Utility Commission as the Program Manager, Corporate Analysis and Water Regulation. Also serve as Lead Auditor for the Commission's Audit Program.

Performed a five-month job rotation as Deputy Director, Department of Geology and Mineral Industries, March through August 2004.

Employed by the Oregon Employment Department as Manager - Budget, Communications, and Public Affairs from September 2000 to June 2002.

Employed by Sony Disc Manufacturing, Springfield, Oregon, as Manager - Manufacturing, Manager - Quality Assurance, and Supervisor - Mastering and Manufacturing from April 1995 to September 2000.

Retired as a Lieutenant Commander, United States Navy. Qualified naval engineer.

Member, National Association of Regulatory Commissioners Staff Sub-Committee on Accounting and Finance.

CASE: UW 131  
WITNESS: Michael Dougherty

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 102**

**Exhibits in Support  
Of Testimony**

**March 2, 2009**











Mill Mar Estates  
 Draft - For Settlement  
**RATE IMPACT - RESIDENTIAL (3/4 x 5/8) - 1 TIER**

Staff/102  
 Dougherty/6

Commodity Rate \$ 3.25

Monthly Consumptions Customer Usage Base Rate Current Commodity Rate Average Monthly Rate Proposed Customer Base Rate Proposed Commodity Rate Per Usage Factor Total Proposed Monthly Rate Difference Percentage Difference

Monthly Consumptions	Customer Usage	Base Rate	Current Commodity Rate	Average Monthly Rate	Proposed Customer Base Rate	Proposed Commodity Rate Per Usage	Usage Factor	Total Proposed Monthly Rate	Difference	Percentage Difference
0			\$3.00	\$60.00	\$36.25	\$3.25	0	\$36.25	(\$23.75)	-39.59%
1000			\$3.00	\$60.00	\$36.25	\$3.25	1	\$39.50	(\$20.50)	-34.17%
2000			\$3.00	\$60.00	\$36.25	\$3.25	2	\$42.75	(\$17.25)	-28.75%
3000			\$3.00	\$60.00	\$36.25	\$3.25	3	\$46.00	(\$14.00)	-23.33%
4000			\$3.00	\$60.00	\$36.25	\$3.25	4	\$49.25	(\$10.75)	-17.92%
<b>4500</b>			<b>\$3.00</b>	<b>\$60.00</b>	<b>\$36.25</b>	<b>\$3.25</b>	<b>4.5</b>	<b>\$50.88</b>	<b>(\$9.12)</b>	<b>-15.21%</b>
5000			\$3.00	\$60.00	\$36.25	\$3.25	5	\$52.50	(\$7.50)	-12.50%
6000			\$3.00	\$63.00	\$36.25	\$3.25	6	\$55.75	(\$7.25)	-11.51%
7000			\$3.00	\$66.00	\$36.25	\$3.25	7	\$59.00	(\$7.00)	-10.60%
8000			\$3.00	\$69.00	\$36.25	\$3.25	8	\$62.25	(\$6.75)	-9.78%
9000			\$3.00	\$72.00	\$36.25	\$3.25	9	\$65.50	(\$6.50)	-9.02%
10000			\$3.00	\$75.00	\$36.25	\$3.25	10	\$68.75	(\$6.25)	-8.33%
15000			\$3.00	\$90.00	\$36.25	\$3.25	15	\$85.00	(\$5.00)	-5.55%
20000			\$3.00	\$105.00	\$36.25	\$3.25	20	\$101.26	(\$3.74)	-3.57%

\$420.00

\$317.12

**CERTIFICATE OF SERVICE**

**UW 131**

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 2nd day of March, 2009.

*Kay Barnes*

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

**UW 131  
Service List (Parties)**

& SHARON RAINEY ALLEN, DOUGLAS	285 YEWOOD DR SHADY COVE OR 97539
THERON GORDEN	PO BOX 977 SHADY COVE OR 97539
JULIE JOHNSON	PO BOX 1381 SHADY COVE OR 97539
MARJORIE L NEITHERCUTT	125 BIRCH ST SHADY COVE OR 97539
RAYMOND NOVOSAD	965 PUMPKIN RIDGE EAGLE POINT OR 97524-9034
KATHY ROBINSON	452 YEWOOD DR SHADY COVE OR 97539
JOE & FLOY RUPPERT	244 YEWOOD DR SHADY COVE OR 97539
RICH SNELL	585 ALPINE ST SHADY COVE OR 97539 rwssnell@embarqmail.com
<p><b>DEPARTMENT OF JUSTICE</b></p> <p>JASON W JONES ASSISTANT ATTORNEY GENERAL</p>	<p>REGULATED UTILITY &amp; BUSINESS SECTION 1162 COURT ST NE SALEM OR 97301-4096 jason.w.jones@state.or.us</p>
<p><b>MILL MAR ESTATES</b></p> <p>PAIGE HARRISON OWNER</p>	<p>504 YEW WOOD DRIVE SHADY COVE OR 97539 paige.harrison7@gmail.com</p>