

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 25, 2009**

REGULAR ____ **CONSENT** ____ **EFFECTIVE DATE** September 1, 2009

DATE: August 18, 2009

TO: Public Utility Commission

FROM: Kathy Miller

THROUGH: Lee Sparling, Marc Hellman, and Michael Dougherty

SUBJECT: CHARBONNEAU WATER COMPANY LLC: (Docket No. UW 135/ Advice No. 09-18) Requests interim rate relief.

CHARBONNEAU WATER COMPANY LLC: (Docket No. UW 136/ Advice No. 09-19) Requests a general rate revision.

STAFF RECOMMENDATION:

Pursuant to ORS 757.215, Staff recommends that the proposed tariffs filed by Charbonneau Water Company LLC (CWC or Company) requesting a general rate increase of \$140,897 or 91 percent, be suspended for six months effective September 1, 2009.

Pursuant to 757.215, Staff recommends that CWC's request for an interim rate increase be denied.

Pursuant to 757.215, Staff recommends that the Commission approve an accelerated billing/collection schedule (October 2009 through March 2010) for the customers' 2009 usage to bring the billings and collections current in April 2010.

DISCUSSION:

History

CWC was formed May 29, 2008, as a subsidiary of Charbonneau Golf Course, Inc. (Golf). CWC's purpose is to provide nonpotable, irrigation water to 14 customers. The customers include 12 Homeowner Associations (HOAs) with a total residential count of 873, the golf course, and the country club.

Golf is owned by certain, but not all, residents. It purchased the water system in 1990 and provided irrigation water to the customers prior to the formation of CWC.

Regulation

On April 24, 2009, the Commission received CWC's petition requesting rate regulation, followed by a copy of CWC's customer notice on May 4, 2009. In Order No. 09-171, dated May 13, 2009, the Commission asserted jurisdiction pursuant to ORS 757.005 and ORS 757.061. CWC was ordered to file tariffs with the Commission within 60 days of the order. The Commission granted CWC an extended filing date of August 3, 2009, in Order 09-264, dated July 10, 2009. CWC filed a request for interim rates (UW 135) on July 20, 2009, and filed its rate application and tariffs (UW 136) on July 28, 2009. Both filings have an effective date of September 1, 2009.

In its rate case application, interim rate request, and correspondence with Staff, CWC paints a desperate picture of a "liquidity problem for the parent company as well as its subsidiary." Golf claims that over the years it provided water service, it accumulated losses leaving no funds available for plant improvements and repairs. CWC claims a loss during its first year of operation (2008). CWC states that:

. . . (*Golf*) has poured money into the irrigation system. In the last decade alone, it contributed to the accumulation of over \$1 million in losses. Our customers presently take as long as 20 months following the watering (*irrigation*) season to pay their bills in full. This billing cycle is rapidly driving the company towards insolvency.

Previous well intended volunteer Boards failed to bill CGC (*Golf*) customers for water services. Last year's effort to create a water delivery company, while equally well intended, was rushed and clumsy. Consequently, we lost even more money in the form of start-up costs and then added to the parent's cash problem by losing money from operations.

CWC states that the system had seven major repairs during the test period and it needs to increase rates to manage ongoing repairs, maintenance, and preventative measures to ensure continued delivery of water.

ISSUE NO. 1: RATE APPLICATION

In its application, CWC is requesting a 91 percent increase in annual revenues or \$140,897, resulting in total annual revenues of \$295,697, with an 8.9 percent return on a rate base of somewhere between \$903,718 to \$941,905. The Company's rate base is not consistent in its application, which will require a thorough review by Staff. To achieve its proposed revenue requirement, CWC proposes a \$0.10 increase to the

usage rate, from \$1.35 per unit (748 gallons) to \$1.45 per unit billed during the irrigation season (approximately April to September, depending on weather). Based on CWC's consumption projections, the \$0.10 increase would produce additional annual revenues of approximately \$11,467.

In addition, CWC proposes adding base rates billed 12 months per year. CWC does not currently charge base rates. The proposed base rates shown below are increased according to the capacity of the meter size using the American Water Works Association's capacity factors.

PROPOSED BASE RATES	
METER SIZE	BASE RATE
1 inch	\$32.34
1 ½ inch	\$64.68
2 inches	\$103.49
3 inches	\$194.03
6 inches	\$646.76

The total monthly revenue increase for the proposed base rates will be approximately \$11,092. Below shows the total additional annual increase calculated on the proposed base rates and the total additional annual increase calculated on the proposed \$0.10 increase in usage rates. Based on the CWC's proposed tariffs, the total annual increase requested is \$144,575.

TOTAL ANNUAL BASE REV	133,108.70
TOTAL ANNUAL USAGE REV	11,466.67
	<hr/>
	144,575.40

The table below shows the effect of the proposed base rates (pursuant to the tariffs filed with the Commission attached to the application). In particular, it shows the total monthly bill per customer, the number of residents in each HOA, and the additional monthly cost per resident (HOA specific).

In its rate proposal, CWC has recommended additional adjustments to the AWWA's capacity factors in three HOA base rates due to unusual circumstances. Staff has not had time to investigate the adjustments to determine the reasonability of the adjustments; and therefore, the adjustments are not reflected in the table below.

UW 135 & UW 136 Rate and Interim Rate Requests
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		# of Meters	Meter Size in Inches	Proposed Base Rate Per CWC	Total Monthly Charge Per Meter	Total Monthly Base Rate	# of Residences	Mo. Base Rate Cost Per Residence
1	Fairway Village HOA	3	1 1/2	\$64.68	\$194.04	\$194.04	20	\$9.70
2	Edgewater HOA	1	1	\$32.34	\$32.34	\$200.51	44	\$4.56
		1	1 1/2	\$64.68	\$64.68			
		1	2	\$103.49	\$103.49			
3	Village Greens II HOA	2	2	\$103.49	\$206.98	\$206.98	21	\$9.86
4	Charbonneau Greens HOA	2	1 1/2	\$64.68	\$129.36	\$129.36	48	\$2.70
5	Lakeside HOA	2	2	\$103.49	\$206.98	\$206.98	41	\$5.05
6	Village Greens I HOA	2	2	\$103.49	\$206.98	\$206.98	19	\$10.89
7	Village Center	1	1 1/2	\$64.68	\$64.68	\$375.15	60	\$6.25
		3	2	\$103.49	\$310.47			
8	Mariners	2	1 1/2	\$64.68	\$129.36	\$336.34	40	\$8.41
		2	2	\$103.49	\$206.98			
9	Fairway Estates HOA	1	3	\$194.03	\$194.03	\$194.03	35	\$5.54
10	Charbonneau Country Club	6	1	\$32.34	\$194.04	\$1,138.34	0	
		4	1 1/2	\$64.68	\$258.72			
		1	2	\$103.49	\$103.49			
		3	3	\$194.03	\$582.09			
11	Charbonneau HOA	16	1 1/2	\$64.68	\$1,034.88	\$1,655.82	228	\$7.26
		6	2	\$103.49	\$620.94			
12	Fountain Lakes HOA	2	2	\$103.49	\$206.98	\$401.01	59	\$6.80
		1	3	\$194.03	\$194.03			
13	Arbor Lakes HOA	16	1 1/2	\$64.68	\$1,034.88	\$1,966.29	258	\$7.62
		9	2	\$103.49	\$931.41			
14	Charbonneau Golf Club	6	6	\$646.76	\$3,880.56	\$3,880.56	0	

ISSUE NO. 2: INTERIM RATE REQUEST

CWC’s interim rate request consists of a change in its billing cycle and interim base rates. As previously mentioned, CWC does not currently charge base rates. I will address the interim base rates first.

Interim Base Rates

CWC justifies its request for an interim rate because it lost \$63,508 during its test year due to: (1) an unrealistic income forecast, (2) overestimated consumption, (3) reduction in the frequencies and amount of irrigation on the part of some HOAs, (4) and the failure to recognize the value of a balanced rate structure, including base and usage rates.

Test Year Revenues	\$154,800.00
Minus	
Test Year Total Revenue Deductions	<u>\$218,308.00</u>
	(\$63,508.00)

The Company’s interim request proposes base rates as shown below, which are approximately 50 percent of the base rates requested in its rate case application.

PROPOSED INTERIM RATE REQUEST	
METER SIZE	BASE RATE
1 inch	\$16.17
1 ½ inch	\$32.33
2 inches	\$51.74
3 inches	\$97.01
6 inches	\$323.37

The effects of the interim base rates upon the customers are shown in the table below, in particular the HOAs and their residents. It includes each HOA’s total interim base rate monthly bill, the number of residents, and the additional cost per residents per month.

In its interim rate proposal, CWC has again recommended three HOA base rate adjustments to the AWWA’s capacity factors due to unusual circumstances. These adjustments are not reflected in the table below.

UW 135 & UW 136 Rate and Interim Rate Requests
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		# of Meters	Meter Size in Inches	Interim Base Rates Per CWC	Total Monthly Charge Per Meter	Interim Base Rate Mo. Bill	# of Residences	Monthly Cost Per Residence
1	Fairway Village HOA	3	1 1/2	\$32.33	\$96.99	\$96.99	20	\$4.85
2	Edgewater HOA	1	1	\$16.17	\$16.17	\$100.24	44	\$2.28
		1	1 1/2	\$32.33	\$32.33			
		1	2	\$51.74	\$51.74			
3	Village Greens II HOA	2	2	\$51.74	\$103.48	\$103.48	21	\$4.93
4	Charbonneau Greens HOA	2	1 1/2	\$32.33	\$64.66	\$64.66	48	\$1.35
5	Lakeside HOA	2	2	\$51.74	\$103.48	\$103.48	41	\$2.52
6	Village Greens I HOA	2	2	\$51.74	\$103.48	\$103.48	19	\$5.45
7	Village Center	1	1 1/2	\$32.33	\$32.33	\$187.55	60	\$3.13
		3	2	\$51.74	\$155.22			
8	Mariners	2	1 1/2	\$32.33	\$64.66	\$168.14	40	\$4.20
		2	2	\$51.74	\$103.48			
9	Fairway Estates HOA	1	3	\$97.01	\$97.01	\$97.01	35	\$2.77
10	Charbonneau Country Club	6	1	\$16.17	\$97.02	\$569.11	0	
		4	1 1/2	\$32.33	\$129.32			
		1	2	\$51.74	\$51.74			
		3	3	\$97.01	\$291.03			
11	Charbonneau HOA	16	1 1/2	\$32.33	\$517.28	\$827.72	228	\$3.63
		6	2	\$51.74	\$310.44			
12	Fountain Lakes HOA	2	2	\$51.74	\$103.48	\$200.49	59	\$3.40
		1	3	\$97.01	\$97.01			
13	Arbor Lakes HOA	16	1 1/2	\$32.33	\$517.28	\$982.94	258	\$3.81
		9	2	\$51.74	\$465.66			
14	Charbonneau Golf Club	6	6	\$323.37	\$1,940.22	\$1,940.22	0	

The monthly effect of the interim base rates on each resident, as illustrated above, ranges from \$1.35 to \$5.45 per month.

In Staff's review of CWC's interim rate request, it first appears that the Company's expenses greatly exceed revenues. However, upon further review, if the noncash Depreciation Expense is added back into the formula, the loss is reduced from (\$63,508) to (\$15,225) as shown in the table below:

Test Year Revenues	\$154,800.00
Minus	
Test Year Total Revenue Deductions	<u>\$218,308.00</u>
	(\$63,508.00)
Add in	
Test Year Depreciation Expense	<u>\$48,283.00</u>
Loss	(\$15,225.00)

In addition, in its application, CWC is reducing its total Operating Expenses by (\$8,739). When this reduction is factored in, the Company loss is significantly reduced. There are also factors in the application which may reduce the loss even further. It has been Commission policy in the past to approve interim rates only when the company is in dire financial circumstances. Comparing the Company's situation with the requirements to justify an interim rate increase, Staff believes the interim rate is not appropriate. See below:

Test Year Revenues	\$154,800.00
minus	
Test Year Total Revenue Deductions	<u>\$218,308.00</u>
	(\$63,508.00)
Add in	
Test Year Depreciation Expense	<u>\$48,283.00</u>
Loss	(\$15,225.00)
Add In Reduction in Expenses	<u>\$8,739.00</u>
	(\$6,486.00)

The Billing/Collection Schedule

CWC currently bills its customers in January for the previous year's water usage. For example, the customers were billed in January 2009 for water usage during the 2008 irrigation season. The customers then make 12 monthly payments. This billing schedule has an innate flaw because it bills in the current year for the past year's charges. Using this method, CWC is financing the previous year's water usage charges interest free. The result is a cash flow problem for CWC. The Company desires to resolve the issue by bringing the billings and collections current.

The 2009 irrigation season began in April and will end (depending on the weather) in September 2009. CWC proposes to bill the customers for their 2009 irrigation usage in October 2009, and give the customers six months to pay ending March 2010. This differs from CWC's established billing schedule of billing in January and giving the customers 12 months to pay.

The advantage to the Company's proposed accelerated billing/collection schedule is that the customers will be "caught up" with their payments by April 2010 when the new irrigation season begins. CWC would then bill the customers for their current 2010 monthly usage each month, collecting payments in the following month.

The drawback to this plan is that the customers are still in the process of making 12 monthly payments for their 2008 usage. If CWC's new billing/payment schedule is approved, starting in October 2009, the customers will be paying (1) the last of 2008 usage charges, (2) the 2009 usage charges (at the current usage rate of \$1.35 per unit) at an accelerated schedule of six months, and (3) the interim base rates if approved by the Commission.

Each year, the HOAs develop their budgets. Some of the HOAs do not have funds budgeted to pay 2009 usage charges in 2009. In addition, when budgeting for 2010, some HOAs are limited in the percent to which the HOA's fees may be raised without a vote of the membership. A hypothetical calendar of CWC's proposed billing/collection schedule effective October 2009 is shown below, including the proposed interim base rates.

Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10
Interim Base Rates	Interim Base Rates	Interim Base Rates	Interim Base Rates	Interim Base Rates	Interim Base Rates	Interim Base Rates	Approved Base Rates
2008 Usage Charge	2008 Usage Charge	2008 Usage Charge	2008 Usage Charge				
	2009 Usage Charge	2009 Usage Charge	2009 Usage Charge	2009 Usage Charge	2009 Usage Charge	2009 Usage Charge	Approved Usage Charge

OAR 860-036-0120 requires regulated water utilities to read meters and bill customers on monthly intervals, unless otherwise approved by the Commission. Staff believes that CWC's desire to bring the billing and collection schedule current is advantageous and necessary for appropriate cash flow.

CWC states that the:

. . . changed billing cycle and base rate (*interim*) would not be sufficient to fully correct our cash shortfall. But, those two steps coupled hopefully with the Commission's eventual approval of our second Water Rate Case request (*UW 136*) would begin to reverse the situation.

CWC's Alternate Option

On August 11, 2009, CWC emailed Staff an alternative interim rate option for the Commission's consideration. CWC proposes that the Commission postpone the 2009 payments until January 2010. This would allow the customers to finish paying the 2008 usage charges. CWC would bill customers for 2009 in January 2010; thus avoiding any overlapping payment requirements. The payment cycle for 2009 usage would be accelerated from 12 months to six months.

In addition to the above billing cycle change, CWC requests increasing the interim base rate total revenues per month from \$5,416 to \$10,833, the actual revenue "needed for the water company to survive."

STAFF RECOMMENDATIONS

Rate Application

Staff needs time to thoroughly review CWC's rate application and requests the Commission suspend the proposed tariffs for six months, effective September 1, 2009.

Interim Rates

Although the Company claims a loss during the test year, based upon the noncash Depreciation Expense and the proposed reduction of expenses in CWC's rate application (previously discussed), Staff recommends the Commission deny CWC's interim rate request.

Billing Schedule

Staff believes it is important to weigh the needs of both the Company and its customers. After considering alternative billing designs to bring CWC's billing/collection to current, Staff agrees with the Company's accelerated six-month billing schedule for 2009 usage. If approved by the Commission, CWC would begin charging for 2009 usage in October 2009, giving the HOAs six months to pay the balance. Staff believes this is the best solution even with the above-mentioned financial restrictions confronted by the HOAs.

However, if the Commission approves the interim rate above, Staff would not recommend the six-month accelerated payments for 2009 usage charges. Billing 2009 usage in October 2009, on top of the interim base rate increase, and the 2008 usage charges may cause undue hardship on the HOAs.

CWC's Alternative Interim Rate Option

Staff does not recommend CWC's alternative interim rate option.

PROPOSED COMMISSION MOTION:

Pursuant to ORS 757.215, the proposed tariffs filed by Charbonneau Water Company LLC be suspended for six months, effective September 1, 2009.

Pursuant to ORS 757.215, the interim rate tariff filed by Charbonneau Water Company LLC be denied.

Pursuant to ORS 757.215, the accelerated billing design proposed by Charbonneau Water Company LLC be approved effective October 1, 2009.

Pursuant to ORS 757.215, the alternative interim rate option proposed by Charbonneau Water Company LLC be denied.