

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of Eagle Lake ) Application No. W-007  
Water/Waste Water System, )  
Eagle, Nebraska, seeking to ) GRANTED IN PART  
increase water rates )  
effective August 1, 2001. ) Entered November 20, 2001

For the Commission:

Laura Davenport  
300 The Atrium  
1200 N Street  
Lincoln, NE 68509

BY THE COMMISSION:

By application filed May 24, 2001, Eagle Lake Water/Waste Water System (Eagle Lake) seeks to increase its water rates effective August 1, 2001. Notice of the application was published in The Daily Record, Omaha, Nebraska, on June 11, 2001. On June 29, 2001, the Commission received a signed petition from Eagle Lake customers, and on July 5, 2001, the Commission verified that more than 25 percent of the affected customers had signed a petition requesting the Commission to review the proposed rates and charges. Notice of the hearing was published in the Lincoln Journal Star on August 31, 2001, and September 7, 2001.

E V I D E N C E

The applicant produced one witness. Mr. Robert Todd is the owner/operator of Eagle Lake and has been providing service since January of 2000. Mr. Todd provided a brief history of the waste water treatment plant and the drinking water plant. He testified that when he took ownership of Eagle lake, both the waste water treatment plant and the drinking water plant were under administrative order of the state of Nebraska. He testified that Eagle Lake faced significant fines and was restricted from hooking up additional properties. The drinking water system failed to meet copper and lead standards under the Safe Drinking Water Act. Ultimately, the Department of Health determined that the copper and lead readings were not accurate and that the water itself is corrosive. Mr. Todd testified that both the sewer and drinking water plants are now in full compliance.

Mr. Todd also testified that he anticipates additional expenses as a result of a new discharge permit that will be issued by the Department of Environmental Quality (DEQ). Mr. Todd testified that based upon a proposed permit issued by DEQ, additional monitoring will be required, which will be an additional \$1,700 per year. Requirements of the new permit will also necessitate a new flow measuring system and a different composite sampler, which will cost approximately \$4,000.

Mr. Todd further testified that Eagle Lake faces cash flow difficulties. He acknowledged that some expenses, such as well pumps, are generally amortized over time, but he stated that with a small system, it is difficult to pay the bills for major costs.

Upon questioning by Commissioner Rod Johnson, Mr. Todd testified that the rate increase he seeks would cover recurring costs, and that he added 10 percent for both systems. Mr. Todd testified that improvements have been made since he assumed ownership. He fenced the sewage treatment plant and restarted the system, which has significantly reduced the odor from the plant.

The Commission produced one witness, Mr. Steven Stovall, staff accountant, who participated in a review of the financial records of Eagle Lake.

Mr. Stovall testified that he examined the books and records of Eagle Lake. He used the records and supporting documentation available from the company, reviewed the assumptions and the financial information and tested the invoices supporting plant, property, equipment and expenses. He testified that no accounting system for assets is in place to determine the appropriate balances for property, plant and equipment. Mr. Stovall testified that using information from a previous rate case for Eagle Lake in 1998, accounting staff updated balances in property, plant, equipment and accumulated depreciation through the test year 2000 in a manner consistent with GAAP (Generally Accepted Accounting Principles). He testified that the staff's review of the company records indicated adjusted net operating income of \$1,422 and net plant in service of \$38,122 for an overall earned rate of return on investment of 3.73 percent before the proposed rate increase. He further testified that staff adjusted operating expenses and rate base by reclassifying several items in a manner consistent with GAAP.

Mr. Stovall testified that he calculated the depreciation charges and corresponding accumulated depreciation accounts on a straight-line basis, utilizing suggested lives and salvage values consistent with those endorsed by the National Association of Regulatory Utility Commissioners (NARUC).

Mr. Stovall testified with regard to three previous Commission orders relating to water rates: Application W-002, Application W-004 and Application W-006. In Application W-002, the Commission deemed a 10.23 percent rate of return fair and reasonable. In Application W-004, the Commission deemed a 7.46 percent rate of return fair and reasonable. In Application W-006, the Commission deemed a 10.00 percent rate of return fair and reasonable.

Mr. Stovall testified that if a 10 percent rate of return was deemed to be a fair and reasonable rate of return, the rate for water customers would increase \$1.96 to \$19.21 and the rate for sewer customers would increase \$2.61 to \$25.61.

Several customers of Eagle Lake also presented testimony with respect to the proposed rate increase and the quality of water service delivered by Eagle Lake.

#### O P I N I O N   A N D   F I N D I N G S

From the evidence adduced and being fully informed, the Commission finds:

Eagle Lake's application is governed by Neb. Rev. Stat. §§ 75-1002 to 75-1012 and Chapter 6 of Title 291 of the Neb. Admin. Code. Pursuant to Rule 002.05, a private water company which proposes to change any of its existing rates or charges must provide notice to its customers and to the Commission of the proposed rates or charges. When a petition containing more than 25 percent of the private water company customer signatures is filed with the Commission, the Commission must set the matter for a public hearing to consider the proposed rate increase.

Neb. Rev. Stat. § 75-1009 (Reissue 1996) states that "No rate or charge determined by the commission pursuant to the Water Service Regulation Act may yield more than a fair return on the fair value of property used and useful in rendering service to the public."

Both the applicant and Commission staff used the same test year (the actual results for the calendar year ending on December 31, 2000). Eagle Lake's proposed rate base for the test year ending December 31, 2000, consists of the following, as determined by balances on books maintained by Eagle Lake:

Plant in Service	\$ 96,436
Accumulated Depreciation	<u>(65,012)</u>
Net Plant in Service	<u>\$ 31,424</u>

The staff exhibits reflect an adjusted rate base before consideration of applicant's plant adjustments, as of December 31, 2000, to be \$38,122. Staff's adjusted rate base as of December 31, 2000, consists of:

Plant in Service	\$100,690
Accumulated Depreciation	<u>(62,568)</u>
Net Plant in Service	<u>\$ 38,122</u>

The applicant took exception to some of the adjustments that staff made. However, the applicant had classified several items

which are actually assets as expenses. The result is that these items must be amortized over time, rather than accounted as expenses in a single year. Commission staff used GAAP and NARUC values in calculating depreciation. We find staff calculations with respect to depreciation to be fair and reasonable.

Therefore, we find that the appropriate adjusted rate base should be as follows:

Plant in Service	\$100,690
Accumulated Depreciation	<u>(62,568)</u>
Net Plant in Service	<u>\$ 38,122</u>

In light of the fact that Eagle Lake faces cash flow problems when making major improvements, the Commission finds that a 12.00 percent rate of return is fair and reasonable. A 12.00 percent rate of return makes the rate for water customers \$19.83 and the rate for sewer customers \$26.45, which is an increase of \$2.58 or 15% for water customers, and an increase of \$3.45 or 15% for sewer customers. We recognize that additional revenue is necessary for the applicant to make improvements.

Eagle Lake's customers raise legitimate concerns with respect to water pressure. The evidence clearly reflects that customers desire improvements to the water system. It is also clear that improvements require additional expenditures. To the extent that customers' needs can be met, we urge the applicant to take all reasonable steps to improve service. Improvements include, but are not limited to, addition of pressure tanks and/or booster pumps, and upgrading to a loop system.

We note that Mr. Todd does not draw any compensation for the time he spends maintaining the plant and performing other services for the water company. Although the Commission is of the opinion that the applicant deserves compensation for his efforts, there is no basis or records upon which Commission staff can calculate a salary for Mr. Todd. The Commission urges Mr. Todd to begin drawing and accounting for a fair salary so that his efforts can appropriately be accounted in future rate making proceedings before this Commission. Furthermore, the applicant should apply for rate increases as frequently as his expenses dictate to avoid substantial increases in the future.

O R D E R

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that Application No. W-007 is hereby granted and that Eagle Lake Water/Waste Water System is hereby authorized to charge and collect the schedule of allowed rates set forth in the Opinion and Findings.

MADE AND ENTERED at Lincoln, Nebraska, this 20th day of November, 2001.

NEBRASKA PUBLIC SERVICE COMMISSION

COMMISSIONERS CONCURRING:

Chairman

ATTEST:

Executive Director