

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6323

Tariff Filing of Riverside Water Works, Inc.)
requesting: (1) a 444% increase in its rates; (2))
proposed rate design changes; and (3) revisions)
to its Rules & Regulations; to take effect)
January 1, 2000)

Order entered: 6/14/2000

SUMMARY

The Public Service Board ("Board") opened this docket to investigate the rates proposed by Riverside Water Works, Inc., ("Riverside" or "Company") to take effect on January 1, 2000.¹ Riverside and the Vermont Department of Public Service ("Department"), the only parties to this investigation, have stipulated to a phased implementation of the rates initially proposed by the Company. The rate for unmetered service, presently \$45 per year, will increase to \$100 effective with service rendered July 1, 2000, then to \$150 for the following year, and finally to \$200 in the third year. Based on the evidence presented in this docket, I recommend that the Board approve the Stipulation and conclude that the resulting rates are just and reasonable. In support of that conclusion, I adopt the substance of the findings proposed by the Company and the Department.

PROCEDURAL HISTORY

On October 6, 1999, Riverside filed a petition with the Board pursuant to 30 V.S.A. § 225, requesting to increase its rates by 444%,² effective for services rendered on and after January 1, 2000. In the same petition, Riverside also proposed to introduce a metered rate, and to revise its Rules and Regulations, including the implementation of a 1.5% penalty charge for late payments. The Board suspended the proposed rate increase and other changes, opened this investigation pursuant to 30 V.S.A. § 227(b), and appointed me as Hearing Officer.³

1. The Board suspended the rate increase by Order entered 12/23/99.
2. The amount of the increase was incorrectly described in Riverside's petition as 444%; the increase requested was 344%, which would result in new rates at 444% of existing rates.
3. Order of 12/23/99.

I convened a prehearing conference in this matter on January 12, 2000, at the Canaan Town Office Building in Canaan, Vermont, which was summarized in a prehearing conference memorandum issued January 26, 2000.

A public hearing was held in Canaan on February 29, 2000.

STIPULATION

On April 14, 2000, the Department filed on behalf of itself and Riverside a stipulation that settles all issues in this case ("the Stipulation"), and requested its approval by the Board.⁴ Attached to the Stipulation is a cost of service that supports a 344% increase in rates, *i.e.*, an increase to the \$200 annual rate proposed initially by Riverside. Under the Stipulation, the current annual rate of \$45 for unmetered service would be increased to \$100, effective for service rendered July 1, 2000, then to \$150 on the first anniversary of the effective date, and finally to \$200 on the second anniversary of the effective date. Annual rates will continue to be billed as they are now, *i.e.*, quarterly, in arrears.

The Stipulation also provides for implementation of a late payment fee of 1.5% per month as proposed by Riverside.⁵

The Stipulation does not address Riverside's proposal to add a metered rate. Nor does the Stipulation establish a rate that would be applicable to Riverside's affiliate and sole industrial customer, the Ethan Allen plant.

By the Stipulation, the Company and Department further agreed to waive their rights under 3 V.S.A. Chapter 25 to an evidentiary hearing, and to provide written comments or request oral argument on a proposal for decision, provided the Stipulation is approved in its entirety.

FINDINGS

Based upon the evidence of record, including the Stipulation, I submit the following findings to the Board in accordance with 30 V.S.A. § 8.

4. The Stipulation is attached to this Order. The exhibit to which the Stipulation refers was omitted inadvertently from the Stipulation, and filed subsequently on June 1, 2000. The exhibit is, likewise, attached to this Order.

5. The text of the Stipulation does not address this fee, directly. However, the stipulated cost of service includes late fee revenue. It is reasonable to infer that the parties intended for the late fee to be implemented.

1. Riverside is a privately-owned water company that supplies potable water to the communities of Beecher Falls, Vermont, and the northern section of the Town of Stewartstown, New Hampshire. Petition at 1.
2. Riverside has recently applied for a franchise from the New Hampshire Public Utilities Commission. Stipulation at ¶ 2.
3. Riverside has 71 connections in Vermont (including Ethan Allen, Inc., an affiliated corporation and Riverside's largest customer ("Ethan Allen"), and 36 connections in New Hampshire. Stipulation at ¶ 2.
4. On October 6, 1999, Riverside filed proposed tariff revisions with the Board that would increase rates by 344%⁶, effective with service rendered on and after January 1, 2000, and that would introduce a metered-rate option and a 1.5% late fee. Stipulation at ¶ 1.
5. Riverside and the Department entered a Stipulation, which is described above. Stipulation.
6. As a result of the Department's investigation and negotiation between the Parties, the Parties agree that the revenue requirement and resulting rates, shown on Exhibit 1 attached to the Stipulation, with the phase-in described below, are just and reasonable. Stipulation at ¶ 3.
7. The cost of service filed in support of the Stipulation assumes that Ethan Allen's water usage is 50% of Riverside's total demand, and for purposes of computing adjusted test period revenue reflects Ethan Allen as 106 equivalent customers, thus contributing half of Riverside's revenue. For purposes of calculating revenue requirement, Riverside is assumed to have 212 customers. Petition at 5; Stipulation Exhibit 1.
8. The Company's annual revenue requirement is \$42,490. After netting out an estimated \$866 in late fees and \$60 in disconnection and reconnection fees, the revenue requirement averages \$196, or approximately \$200, per connection. Stipulation Exhibit 1.
9. The rates currently in effect were approved in December 1984. Rates have not kept pace with rising costs, including plant investment needed to maintain a reasonable quality of service. As a result, the request now under consideration is relatively large, and, if implemented in its entirety as one increase, would have a significant adverse impact on customers. Stipulation at ¶ 4.

6. See footnote 2, above.

10. The Company presently charges \$45 per connection per year, for all customers except Ethan Allen. The Stipulation provides that this annual rate would be increased to \$100 per connection, effective on service rendered July 1, 2000 (the "Effective Date"), to be billed October 1, 2000. On the first anniversary of the Effective Date, the annual rate would be increased to \$150. On the second anniversary of the Effective Date, the annual rate would be increased to \$200. Annual rates would continue to be billed quarterly, in arrears. Stipulation at ¶ 5.

11. The rates proposed in the Stipulation, with the phase-in of increases, are just and reasonable. Findings 1 through 10, *supra*.

12. Riverside will provide individual notice, mailed to each customer and in a form to be agreed upon with the Department, prior to each of the three rate increases described in Finding 10, above. Stipulation at ¶ 6.

DISCUSSION AND CONCLUSIONS

The Board opened this investigation into the rates charged by Riverside pursuant to 30 V.S.A. Sections 225, 226 and 227. The standard for review of rates, under those sections, is whether the rates are just and reasonable.

The Department examined Riverside's cost of service and its rate request, and has conducted discovery on these matters. Following that examination, the Department and Riverside entered into a Stipulation resolving the issues in this proceeding and agreeing that the requested 344% increase in the unmetered rate would be just and reasonable, if implemented in three steps over the next two years.

I have reviewed the Company's initial filing, including the cost of service information filed in its support. Based on my review, I concur with the parties' position that the cost of service presented in the Stipulation results in a reasonable determination of the Company's revenue requirement. Further, I conclude that the agreed unmetered rate, with the phase-in, is just and reasonable.

The requested annual rate of \$200 may be comparable to rates charged by other Vermont water companies for similar service, and the revenue level proposed by Riverside is justified by its costs. However, the magnitude of the proposed increase, if implemented in one step, would have a significant adverse effect on the customers of Riverside. The Stipulation has the dual benefits of allowing Riverside to achieve (albeit not immediately) the level of revenue

that is justified by its costs, while also providing reasonable relief to Riverside's customers by means of phased-in increases of known amounts.

In concluding that Riverside's agreed rates will be just and reasonable, I rely in part upon the expertise and judgment of the Department's staff, and their depth of knowledge about Riverside's obligations, operations and finances. I have also considered the responses of Riverside to questions posed by customers at the prehearing conference and public hearing.

Many of the comments of the public noted that, after many years of stable rates, the magnitude of the requested rate increase (344%) was abrupt and burdensome. These comments are understandable and well-taken. The size of the increase is, in part, the result of Riverside's choice to defer rate requests. Several customers expressed a preference for more frequent, smaller rate increases. If Riverside believes that its costs are increasing, I encourage it to consider this approach -- to frequently review the adequacy of its rates, and to file proposed rate adjustments accordingly. Riverside and its customers, alike, should benefit; Riverside will be better assured of earning an adequate return and generating capital sufficient to meet its service obligations, while customers will not be burdened by unexpected and large rate increases.

One matter that is not addressed by the Stipulation is the rate schedule for the metered rate option, which Riverside proposed in its petition. Rather than settle this matter in this investigation, I recommend that Riverside be required to file an amended tariff to introduce a metered rate option, using the cost of service approved by this Order and a phase-in schedule similar to that proposed for the unmetered rate. The amended tariff should also state whether it is the customer's or Riverside's option to transfer a customer from the unmetered rate to the metered rate.

A second matter not addressed by the Stipulation is the establishment of the rate to be assessed to Riverside's affiliate, which is also its largest customer, the industrial plant in Beechers Falls owned by Ethan Allen, Inc. The General Rate tariff filed with the petition is available to residential, commercial and industrial customers; the unmetered rate applicable to Ethan Allen would be the same as an industrial customer. Historically, Riverside and Ethan Allen may have accounted for Riverside's sale of water to Ethan Allen as an internal accounting transaction, and therefore a rate, *per se*, was not applied. While affiliated, Ethan Allen and Riverside are separate entities. As such, and to assure that all customers of Riverside share equitably the burden of covering Riverside's cost of service, I recommend that

Riverside be required to amend its general rate tariff to clarify how the rates applicable to Ethan Allen will be calculated. In the alternative, I recommend that Riverside be required to file, in compliance with the Board's Order, a separate tariff applicable to high-volume customers, including Ethan Allen.

Finally, I note that, although Riverside serves customers located in both Vermont and New Hampshire, and has, historically, charged the same rates to all customers, this Proposal for Decision applies only to rates paid for connections located in Vermont. The jurisdiction of the Vermont Public Service Board does not extend to rates charged for connections in New Hampshire. Those rates lie within the jurisdiction of the New Hampshire Public Utilities Commission.

The foregoing is hereby reported to the Public Service Board in accordance with the provisions of 30 V.S.A. § 8.

The parties to this proceeding have waived the opportunity to an evidentiary hearing, and to provide written comments or request oral argument on this Proposal for Decision in accordance with the provisions of 3 V.S.A. § 811, in the event that this Proposal or the final Board decision is consistent in all respects with the Stipulation and approves the Stipulation in its entirety. This proposal is consistent with, and adopts in its entirety, the Stipulation.

DATED at Montpelier, Vermont, this 13th day of June, 2000.

s/Lawrence Lackey

Lawrence F. Lackey,
Hearing Officer

ORDER

IT IS HEREBY ORDERED, JUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The findings and recommendations of the Hearing Officer are adopted, and his recommendations and conclusions are affirmed.
2. The Stipulation between Riverside Water Works, Inc., and the Vermont Department of Public Service, filed on April 14, 2000, including Exhibit 1 filed on June 1, 2000, is approved.
3. Riverside Water Works, Inc., is authorized to implement increases in its unmetered General Rate in three steps, in accordance with the Stipulation attached to this Order, totaling 344%. Riverside is authorized to implement the Late Payment Fee proposed in its petition.
4. Riverside Water Works, Inc., shall amend its general rate tariff to clarify how the rates applicable to Ethan Allen, Inc., will be calculated. In the alternative, Riverside should file, in compliance with this Order, a separate tariff applicable to high-volume customers, including Ethan Allen.
5. Riverside Water Works, Inc., shall file revised tariffs consistent with this Order and incorporating the rates contained in the Stipulation within 30 days from the date of this Order, for effect with bills rendered on or about October 1, 2000, for service rendered between July 1, 2000, and September 30, 2000.
6. Prior to the effective date for service rendered, Riverside Water Works, Inc., shall provide individual notice of the rate increases established by this Order to each customer in a form to be agreed upon with the Department of Public Service. The initial notice should explain amounts and dates of the subsequent rate increases authorized by this Order.
7. Riverside Water Works, Inc., shall file with the Board and the Department of Public Service, at least 45 days prior to the effective date for each step of the phased-in rate increase, a revised tariff page setting forth the increased rate consistent with the Stipulation approved herein.

DATED at Montpelier, Vermont, this 14th day of June, 2000.

s/Michael H. Dworkin)	PUBLIC SERVICE
)	
)	
s/Suzanne D. Rude)	BOARD
)	
)	OF VERMONT
s/David C. Coen)	

OFFICE OF THE CLERK

Filed: June 14, 2000

Attest: s/Susan M. Hudson

Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or mail) of any technical errors, in order that any necessary corrections may be made. (E-mail address: Clerk@psb.state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.