

OVERVIEW OF WATER REGULATION

Oregon has over 2,000 water companies. The vast majority of Oregonians are served by approximately 1,100 cities and publicly owned companies. These water companies are exempt from Commission regulation due to their type of ownership.

As of November 2006, the Commission regulates seventy-eight (78) companies because the water companies meet the statutory definition of a "public utility." The types of public utilities subject to Commission regulation include: (1) privately-owned systems; (2) homeowner associations for which 20 percent of the members have petitioned for Commission regulation; (3) homeowner associations and cooperatives under certain circumstances such as providing service outside its membership; (4) some mobile home parks; and (4) joint water and wastewater investor-owned systems providing service within city boundaries.

A water company is deemed a public utility if it is a water system with ownership or operating characteristics as noted above and any of the following apply:

- Charges rates that on average exceed \$18 per month
- Provides inadequate service as determined by the Commission
- Provides discriminatory service as determined by the Commission

In addition to the companies currently under Commission regulation, numerous other water systems potentially could be subject to Commission regulation. These typically are isolated systems serving relatively few customers.

Rate and Service Regulation

Service Regulation

As of November 1, 2006, forty-nine (49) public water utilities have limited Commission regulation focusing solely on adequacy of service. These utilities meet the definition of a public utility provided above, but do not meet the criteria for rate regulation.

Public utilities that are service regulated, but not rate regulated, must comply with Commission administrative rules relating to such matters as water quality and pressure, customer service, and plant maintenance. Attachment A provides a map that shows, by county, the number of service-regulated water utilities and the number of customers served.

Rate Regulation

As of November 1, 2006, twenty-nine (29) public water utilities are fully regulated. These water utilities serve more than 20,000 customers and the companies are subject to both service and rate regulation.

The Commission's responsibility is to ensure that these utilities offer adequate service at just and reasonable rates. The Commission scrutinizes water companies cost of service, approves

rate levels for different customer classes, investigates customer service complaints, and ensures compliance with service standards.

Water utilities subject to rate regulation must meet at least one of the following criteria:

- Serve more than 500 customers; **or**
- Charge an average rate above \$24¹ per month **and** 20 percent of the customers petition the Commission for rate regulation; **or**
- Be an association whose members petition the Commission for rate regulation of the association; **or**
- Be a water utility, serving fewer than 500 customers, that petitions the Commission for full rate regulation of the utility.

Attachment B contains a map that shows, by county, the number of rate-regulated water utilities and the number of customers served.

RECENT LEGISLATIVE CHANGES TO WATER REGULATION

The 1999 Legislature enacted two bills that expanded the Commission's authority.

SB 712 (ORS 758.305) authorized the Commission to grant exclusive service territories for public water utilities. The bill required all public water companies to file applications for exclusive service territories. HB 2227, enacted by the 2003 Legislature, removed the public water utility mandatory filing requirement.

HB 2681 (ORS 757.061 (4)) authorized the Commission to regulate the rates of wastewater services when such services are provided jointly by a public water utility to customers residing within city limits.

The 2003 Legislature enacted HB 2226, which has the potential to increase the number of rate-regulated water utilities due to the following laws:

ORS 757.061(6)(a) allows a water utility to petition the Commission for rate regulation of the water utility.

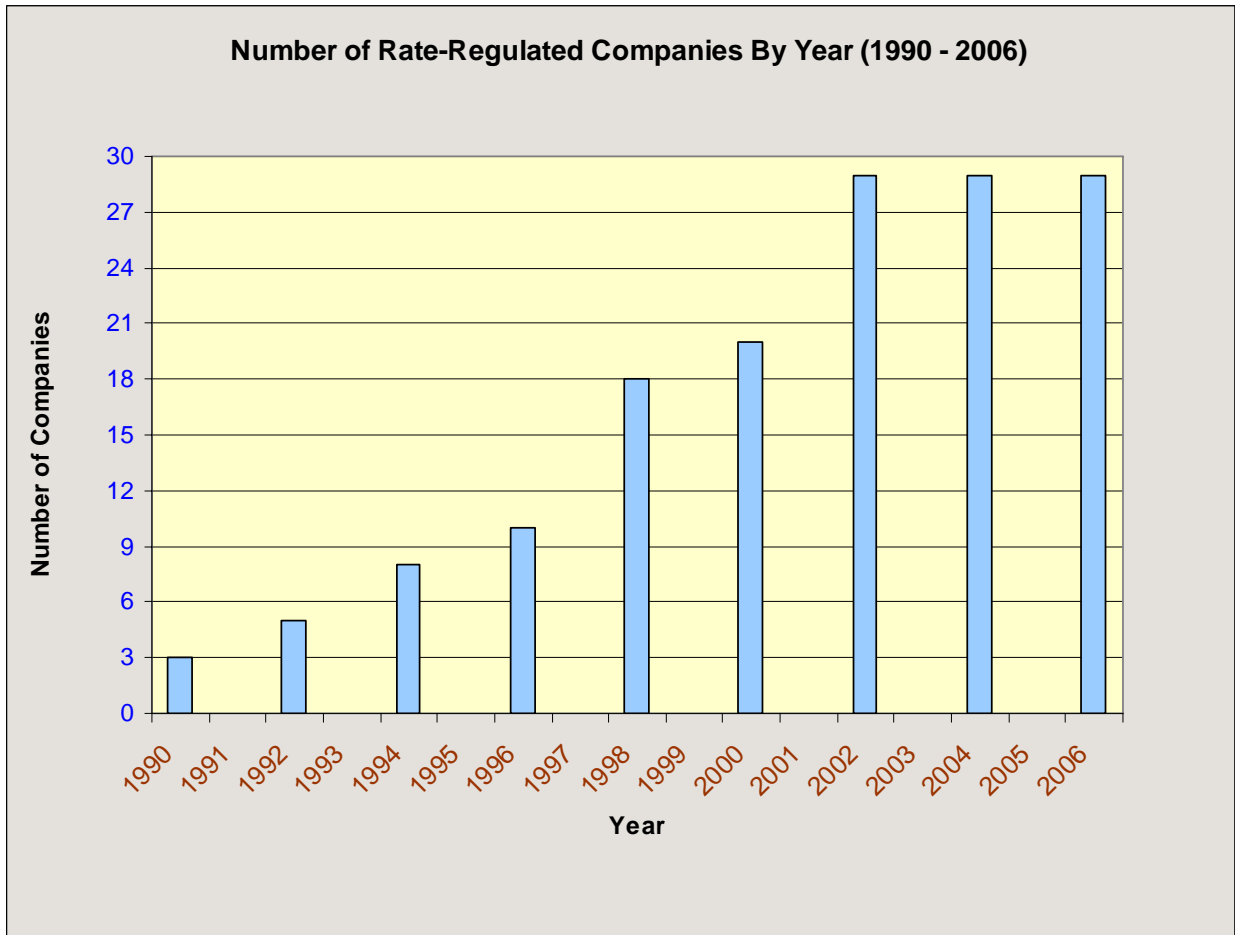
ORS 757.063 allows association members to petition the Commission for rate regulation of the association.

WORKLOAD TRENDS

During the 1990s, the Commission water regulation program experienced a significant increase in workload in recent years due to an increase in the number of rate-regulated utilities.

¹ The Commission established the \$24 per month rate threshold through a public administrative process.

The following chart shows the number of rate regulated water utilities by year over the past 16 years. From 1990 to 2001, the number of rate-regulated companies went from five to twenty-five (25). Between 2002 and 2005, the Commission removed three companies from rate regulation for various reasons, including a merger and a take over by the City of Bend. During that same period, seven companies came under rate regulation. The result is that twenty-nine (29) companies are currently under rate regulation. Twenty (20) of those utilities became rate regulated as result of customer petitions.



With the increase in the number of rate-regulated utilities, there has been a corresponding increase in Commission reviews of utility rate levels. These investigations are initiated either by the utility requesting increases in rates or customer petitions. During the early and mid 1990s, the Commission averaged about one rate case a year. In 2001 and 2002, the Commission averaged five rate cases per year. In 2005 and 2006, the Commission completed six rate cases per year.

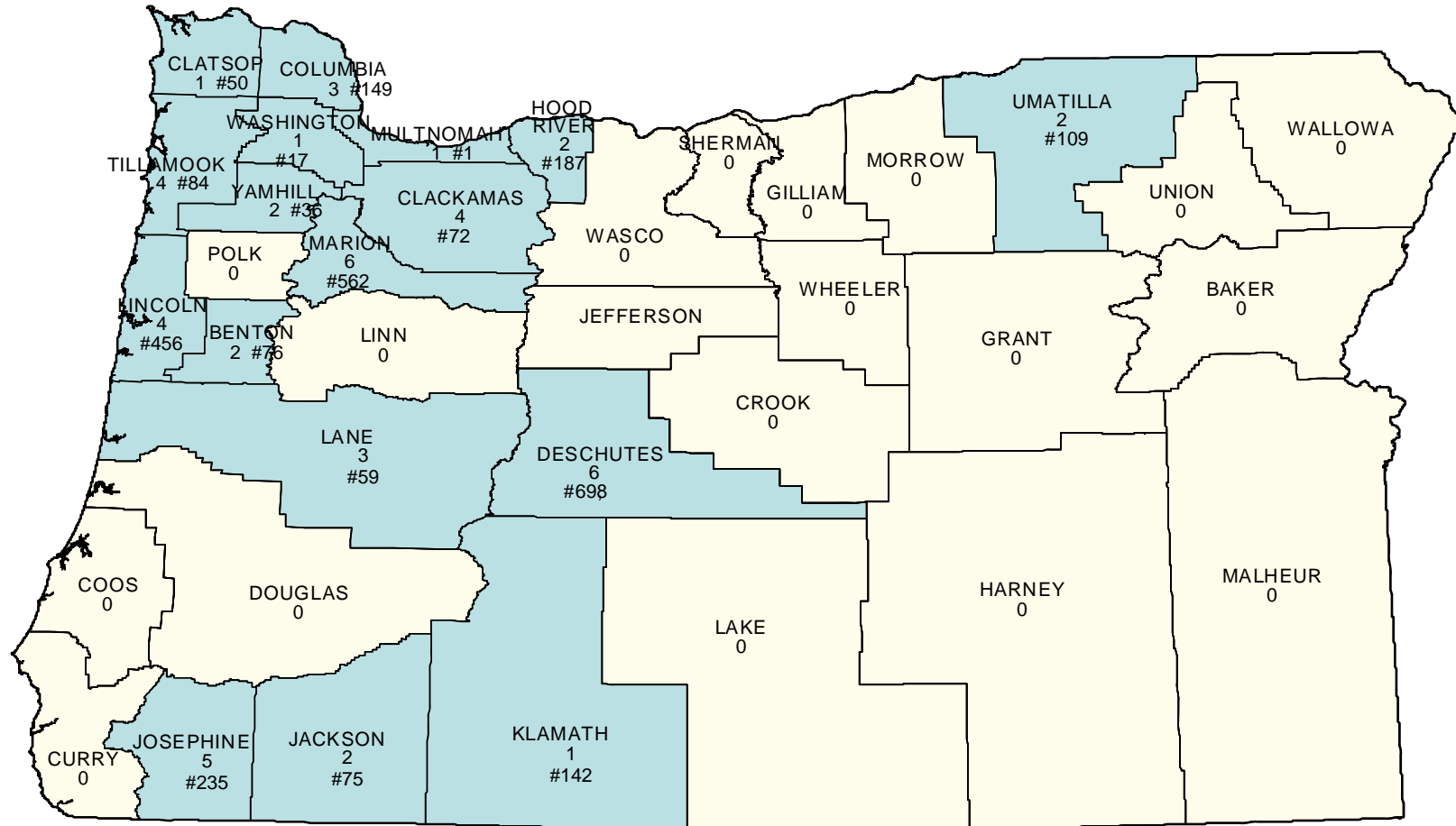
COSTS AND REVENUES

The estimated cost of the Commission's regulation of water is about \$203,000 per year. Today, 2.37 FTE on average are devoted to water regulation.

The Commission receives about \$26,000 from its fee assessment on water utilities. The fee is .25 percent (0.0025) of gross annual revenues (the maximum percent allowed under law). For 2005, the regulated companies' total gross revenues were about \$9.8 million. Avion Water Company accounts for nearly half of that amount.

Fees paid by telecommunications providers, and investor-owned electric and natural gas utilities help defray the costs of operating the Water Program. The effect on the rates of customers of these other utilities is relatively small. For example, to support the Commission's Water Program, residential customers of electric utilities pay roughly one-half of-one penny a month.

Number of Service Regulated Water Public Utilities and Number of Customers by County



Number of Rate Regulated Water Public Utilities and Number of Customers by County

