

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 9, 2002**

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** _____

DATE: July 3, 2002

TO: John Savage through Marc Hellman and Bryan Conway

FROM: Thomas D. Morgan

SUBJECT: AVION WATER COMPANY: (Docket No. UF 4189) Application for authority to borrow \$1,000,000.

STAFF RECOMMENDATION:

The Commission should approve Avion Water Company's (Avion or Company) application, granting authority to borrow \$1,000,000 to add to its water utility plant, consistent with ORS 757.415. Approval should be granted subject to the reporting requirement discussed below:

1. The Company will provide a final Report of Capital Expenditures upon completion of the proposed construction that indicates the actual amounts expended and will provide reconciliation with the loan.

DISCUSSION:

On June 5, 2002, Avion filed an application with the Commission to approve its \$1,000,000 financing of the development of a new water well and transmission line. The system, located on Powell Butte near the unincorporated town of Powell Butte, currently serves 150 homes.

Mr. Jan Wick, president of Avion, presented Commission Staff with detailed explanation of the proposed development and the reasons supporting the decision. Staff is convinced that Avion's plan is needed to secure a long-term, reliable water source for its customers.

The company has represented that the financing terms will be based on those of an existing, bank loan from the Bank of the Cascades, located in Bend, Oregon. The balance will be increased and the current payoff will be extended by 67 months. The company has stated that it negotiated a seven percent interest rate, significantly lower than the 9.5 percent on the existing Note.

I have reviewed the interest rate with outstanding, investment-grade utility bonds and with a competing commercial bank in Oregon and believe that the interest rate is at the lower end of the range that might be expected for similar financing. The Company's interest rate of 7.0 percent appears reasonable. The financing expenses associated with the loan are expected to be \$1,000, which appears reasonable.

For ratemaking purposes, the Commission reserves judgment on the reasonableness of the Company's capital costs, capital structure and the commissions and expenses incurred for security issuances. In its next rate proceeding, the Company will be required to show that its capital costs and structure are just and reasonable.

PROPOSED COMMISSION MOTION:

Avion's application for authority to finance \$1,000,000 improvements to its existing water utility system is approved with Staff's Conditions.