

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 5, 2002**

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

DATE: October 30, 2002

TO: John Savage through Marc Hellman and Bryan Conway

FROM: Thomas D. Morgan

SUBJECT: AVION WATER COMPANY: (Docket No. UF 4194) Application for Authority to Finance \$5,700,000.

STAFF RECOMMENDATION:

The Commission should approve Avion Water Company's (Avion or Company) application, granting authority to borrow up to \$5,700,000 for uses consistent with ORS 757.415. Approval should be granted subject to the following Condition:

The Company will provide a final Report of Capital Expenditures upon completion of construction. The report will also detail amounts received from developer advances and will reconcile with the refinanced balance.

DISCUSSION:

On October 15, 2002, Avion filed an application with the Commission to approve its financing for the development of a variety of projects, predominantly for water mains to serve the Greater Avion System. Avion provided a sufficient description of the proposed construction and indicated that the financing will be through a conventional bank loan. An outstanding balance will be refinanced at a lower rate and the new funds will provide financing for the anticipated construction, less an amount provided from Avion's capital reserves and net of developers' contributions. The loan's terms and rate appear favorable. The financing expenses associated with the loan are expected to be \$7,000, including appraisal and bank fees. This amount is 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:

Consistent with the terms and conditions of the Company's application, Avion's application for authority to finance \$5,700,000 is approved with Staff's Condition.