

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 23, 2003**

REGULAR **CONSENT** X **EFFECTIVE DATE** September 24, 2003

DATE: September 15, 2003

TO: Lee Sparling through Marc Hellman and Rebecca Hathhorn

FROM: Renee Sloan

SUBJECT: AVION WATER COMPANY, INC.: (Advice No. 03-7) Requests special contract arrangements between Avion Water Company, Inc., and Eagle Crest for water service.

STAFF RECOMMENDATION:

Pursuant to ORS 757.210 and 757.230, Staff recommends Commission approval of Avion Water Company Inc.'s (Avion) special contract with Eagle Crest, Inc. (Eagle Crest). If in the future, Avion provides irrigation water to Eagle Crest, Avion has agreed to file a contract for the proposed terms of conditions of such a sale.

DISCUSSION:

On October 8, 1996, the Commission approved a special contract between Avion and future developers (developer's agreement). The general agreement states that future developers would pay Avion in advance to cover the cost of the initial construction of infrastructure required to serve any new development. Avion would then rebate the advance over a period of 10 years. The purpose of the rebate was to avoid significant growth in the company's contributed capital that would reduce Avion's rate base.

On July 10, 2001, the Commission approved an amendment to the original developer's agreement (Advice 01-6). Pursuant to the amendment, Avion is no longer required to rebate money advanced by developers for water service. Avion requested the revision because future projected capital expenditures were expected to exceed, by a large margin, the projected proceeds from the developer advances. The revision shifted developer advance fees from Account No. 252 Customer Advances for Construction (that is repayable) to Account No. 271 Contributions in Aid of Construction (that is not repayable).

On August 18, 2003, Avion filed a special contract (Advice No. 03-7) for service to the Shumway Ranch proposed development (resort) to be constructed by Eagle Crest, Inc. This contract differs from the general developer's agreement in that it waives the developer advances. The Commission previously allowed Avion to waive developer advances when it approved a special contract (UW 75/Advice 00-1) between Avion and High Desert Development Project (HDDP) on January 23, 2001.

Eagle Crest agrees to pay the estimated \$1,500,000 cost to install approximately eight miles of 14-inch main line water pipe from the High Desert Development Project, aka Pronghorn, to the proposed development. After construction is completed, Avion agrees to lease the pipeline outside of the development for a period of five years at \$1.00 per year. At the end of five years Avion will become sole owner of that pipeline, and it will be booked as Contributions in Aid of Construction (CIAC).

Eagle Crest also agrees to pay the cost to install all pipelines, service connections, and appurtenances inside the development project in accordance with Avion's standard specifications. Eagle Crest would then contribute the plant to Avion in accordance with its existing operation and maintenance policies and tariff. The contributed water infrastructure will be recorded as CIAC (Contributions in Aid of Construction) and will not add to Avion's rate base. This arrangement regarding pipelines and appurtenances inside a new development is a common business practice by Avion and other water companies. An alternative would be for the developer to advance funds for the project to Avion and have Avion construct the project.

The developer will recover its costs through the price of the lots in the development. Therefore, unlike the HDDP Special Contract, customers will not be charged a line share fee.

When the main line is extended from the Pronghorn line to the Shumway Ranch site, it will be within 15,000 feet of Avion's Powell Butte system. Powell Butte is now a standalone system, but when the main line is constructed, Avion will be able to connect the Powell Butte system to its main system through Pronghorn and Shumway Ranch for only approximately \$180,000. The connection to the Powell Butte system that this special contract allows is of great benefit to Avion and to its customers. The Powell Butte system will become a part of Avion's gravity system, saving electricity, testing, and administrative costs associated with a standalone system. In addition, the increased customer base is beneficial to Avion's customers because the fixed costs of the utility are spread over a greater number of connections.

According to the special contract, Avion proposes to provide irrigation only from March 1 to April 15 and from October 1 to November 1 of each year, and then only during such

times as full irrigation water deliveries are not available from Central Oregon Irrigation District. If in the future, Avion provides irrigation water to Eagle Crest, Avion has agreed to file a contract for the proposed terms of conditions of such a sale. Reviewing a separate special contract will allow Staff the opportunity to completely analyze the proposed rate and its effect, if any, on other customers.

Staff reviewed the special contract and concludes the contract is fair and reasonable and:

1. Will not increase customers' rates through an increase in plant since the new plant will be recorded in Account 271 – Contributions in Aid of Construction.
2. Avion's water system and water rights can reasonably serve the estimated demands of the Eagle Crest project.
3. All the customers of Avion benefit since the fixed costs of Avion will be spread over a larger number of connections.
4. Avion will have no cash outflow due to the special contract.

PROPOSED COMMISSION MOTION:

Avion Water Company Inc.'s special contract with Eagle Crest, Inc. for service to the Shumway Ranch proposed development be approved. The Commission acknowledges Avion's agreement to file a contract with the PUC should it provide irrigation service to Eagle Crest.