

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 11, 2006**

REGULAR CONSENT EFFECTIVE DATE _____ N/A _____

DATE: July 3, 2006

TO: Public Utility Commission

FROM: Thomas D. Morgan

THROUGH: Lee Sparling, Marc Hellman, and Bryan Conway

SUBJECT: AVION WATER COMPANY: (Docket No. UF 4229) Application for authority to increase loan capacity on established revolving credit line.

STAFF RECOMMENDATION:

The Commission should approve Avion Water Company's (Avion or Company) application to increase its loan capacity on its line of credit, subject to the following conditions and reporting requirements:

- 1) The Company shall file a final copy of any loan agreements with the Commission within 60 days upon signing.
- 2) For ratemaking purposes, the Commission will reserve judgment on the reasonableness of the Company's capitalization structure and all expenses incurred for security issuances. In its next rate proceeding, the Company will be required to show that its capitalization structure and capital costs, including imbedded expenses, are just and reasonable.

DISCUSSION:

On June 12, 2006, Avion filed an application for authority to increase the loan capacity on its long-term line of credit (LOC) from \$300,000 to \$600,000. Staff has reviewed the application pursuant to Oregon Revised Statute (ORS) 757.415, and Oregon Administrative Rule (OAR) 860-036-0720.

Expenses:

No issuance costs are expected to be recorded for the transaction.

Interest Rate:

The variable interest rate is based on a 175 basis point premium over the Prime Rate.

Use of Proceeds:

The Company indicates that the authority will allow it to fund anticipated capital improvements during the winter months. The Company shall use the proceeds of any issuance under this authority for the following purposes: the construction, facility improvement and maintenance program; the discharge, retirement or exchange of existing obligations which were incurred for utility purposes permitted under ORS 757.415; or the reimbursement of the Company treasury for funds used for the foregoing purposes, except the maintenance of service and replacements; or other purposes allowed by law. To the extent proceeds are used to reimburse the treasury for funds used to discharge or lawfully refund obligations, such obligations were incurred for purposes described in ORS 757.415 (1).

Prior to finalizing the Staff memo, the proposed Conditions were shared with the Company and the Company is agreeable to them.

PROPOSED COMMISSION MOTION:

Avion's application, UF 4229, be approved subject to Staff's conditions and reporting requirements.