

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 19, 2006**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** January 1, 2007

DATE: December 11, 2006

TO: Public Utility Commission

FROM: Renee Sloan

THROUGH: Lee Sparling, Marc Hellman, and Michael Dougherty

SUBJECT: AVION WATER COMPANY: (Advice No. 06-28) Makes revisions to Schedule No. 4 and introduces Schedule No. 11.

STAFF RECOMMENDATION:

The Commission should approve Avion Water Company's (Avion) proposed Fire Service Rates tariff changes and request for a new Voluntary Residential and Commercial Metered Rates tariff subject to the following condition:

1. Avion will record all administrative and advertising costs concerning the Voluntary Residential and Commercial Metered Rates (Deschutes River Restoration Program) in sub-accounts of the designated utility accounts to allow Staff easy audit access to the costs.

DISCUSSION:

Background

On November 15, 2006, Avion filed Advice No. 06-28 requesting approval of revisions to Schedule No. 4, Fire Service Rates, and the establishment of Schedule No. 11, Voluntary Residential and Commercial Metered Rates (Deschutes River Restoration Program).

Fire Service Rates

Avion's current Schedule No. 4 consists of monthly base rates applicable to fire service customers with privately owned and maintained fire service lines connected to the utility mains. The current tariff is applicable to dedicated fire lines only, not fire hydrants. The rates range from \$16.45 for 4-inch and smaller lines to \$140.57 for 12-inch lines. The tariff also contains rates for 6-inch, 8-inch, and 10-inch lines.

In Advice No. 06-28, Avion proposes to add a monthly \$10 Fire Hydrant Maintenance fee to its Schedule No. 4. The purpose of the proposed fee is to cover the cost of the maintenance of fire hydrants that are on private property that were installed to serve that property's specific needs. These hydrants are not on dedicated fire lines, and Avion does not currently recover their maintenance costs. Staff has reviewed Avion's method of calculating the \$10 fee and deems it reasonable.

Deschutes River Restoration Program

Avion's Advice No. 06-28 requests the creation of Schedule No. 11, tariff charges for a voluntary program to help restore summertime flows in the middle reach of the Deschutes River. Customer participation in the program is voluntary and customers may opt out of the program at any time.

Per a contract with an anticipated executed date of January 7, 2007, Avion will run this program in partnership with the Deschutes River Conservancy (DRC).¹ The DRC is the first non-profit corporation to bring together state, federal, tribal, and local government representatives with private stakeholders to carry out basin-wide ecosystem restoration. Its mission is to restore streamflow and improve water quality in the Deschutes Basin. To accomplish this mission, the DRC is actively engaged in water banking (including groundwater mitigation), streamflow monitoring, water conservation, water leasing, water transfers, habitat restoration, and water quality monitoring.

All monies Avion collects each month under Schedule No. 11, will be passed directly on to the DRC for the express purpose of purchasing water rights to dedicate in-stream to the Deschutes River.

The table below shows amounts customers may select to pay under Schedule No. 11. The monthly mitigation charge is added to Avion's current approved base rate of \$20.82. Customers may choose to put water back in the river for just their residence or up to four times that amount.

Participation Level	Residential Equivalents	Monthly Mitigation Charge	Rate
A	1	\$1.60	\$22.42
B	2	\$3.20	\$24.02
C	3	\$4.80	\$25.62
D	4	\$6.40	\$27.22

¹ www.Deschutesrc.org

Customers can volunteer for this program at any time, and may elect to discontinue the voluntary program at any time and not receive any charges. A registration form will be included with billing statements once every year and will also be available at Avion's office. Avion and the DRC will participate in joint marketing of the program that will include a stand-alone mailing and bill inserts various times throughout the year.

Staff's review of Avion's method of calculating the Mitigation Charges finds the rates to be reasonable. However, Staff received a slightly smaller residential equivalent rate when using the Company's authorized rate of return instead of the Company inputted authorized return on equity. It is important to note that Avion's calculation was not originally intended for a voluntary program; however, the variables used to determine mitigation credits was the most relevant way to determine a rate structure. As previously mentioned, the calculations provide a method for households to donate to the DRC and essentially mitigate water usage by putting water back in the river.

Since all monies received will be passed directly to the DRC, Staff and the Company agreed to use the monthly mitigation charge calculated by Avion. Staff and Avion also agreed to monitor participation levels and if sufficient participation levels do not materialize, Staff and Avion will review using a lower mitigation charge to jump-start participation.

The Company will record the monthly mitigation charges and payment amounts to the DRC in the balance sheet liability Account 253, Other Deferred Credits. The total mitigation charges collected each month will be transferred to the DRC on the 15th of each month.

Avion will record associated administrative costs (approximately \$3,000 annually) in Accounts 601 and advertising costs (approximately \$10,000 annually, Company incurred) in Account 668.

Staff concurs with the Company's accounting; however, Staff and the Company agree that the advertising costs will be treated as conservation advertising costs pursuant to OAR 860-026-0022. As a result, these advertising costs are presumed to be just and reasonable in a rate proceeding to the extent they are .125 percent or less of Avion's gross retail revenue. Additionally, since this is a voluntary program, Avion's actual administrative costs for the program will not be included in customer rates.

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PROPOSED COMMISSION MOTION:

Avion Water Company's proposed Fire Service Rates tariff changes and new Voluntary Residential and Commercial Metered Rates tariff be approved subject to the recommended condition.