

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 23, 2007**

REGULAR CONSENT EFFECTIVE DATE _____ N/A _____

DATE: January 11, 2007

TO: Public Utility Commission

FROM: Thomas D. Morgan

THROUGH: Lee Sparling, Marc Hellman, and Bryan Conway

SUBJECT: AVION WATER COMPANY: (Docket No. UF 4234) Application for Authority to enter into Loan Agreement.

STAFF RECOMMENDATION:

I recommend that the Public Utility Commission of Oregon (Commission) approve Avion Water Company's (Avion or Company) request to enter into a loan agreement, subject to the following conditions and reporting requirements:

- 1) The Company shall file the usual Report of Securities Issued and Disposition of Net Proceeds statements as soon as possible after any issuance. This report shall include the total amount, total expenses and net proceeds of the issuance.
- 2) The Commission reserves judgment on the reasonableness for ratemaking purposes 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, including imbedded expenses and capital structure, are just and reasonable.
- 3) The Company should provide, in any future ratemaking process, an analysis indicating that the rate of interest it obtains is competitive. The Company could make such showing by providing two additional bids from alternative banks.

DISCUSSION:

On December 19, 2006, Avion filed an application with the Commission pursuant to Oregon Revised Statute (ORS) 757.415 and Oregon Administrative Rule (OAR) 860-036-0720 for authority to enter into a loan agreement with the Bank of the Cascades. The Company represents that it needs authority to borrow \$2.6 million dollars for system upgrades. The loan will provide financing for construction and will convert, after one year, to a 10-year amortizing, 9.25 percent fixed-rate loan. Assuming the full amount of the credit facility is issued, the impact on the company's pre-tax income would be approximately \$200,000 per year in interest expenses.

Avion provides water to 9,539 residential customers, 884 commercial customers and 806 irrigation customers. The water utility service territory includes areas from near the Deschutes-Jefferson County line, south to La Pine and east into Crook County in the Powell Butte/Alfalfa area. Avion is a not publicly traded company.

Use of Proceeds

The proceeds from the sale will be used to fund construction, extension or improvement of the Company's facilities consistent with ORS 757.415(1)(a). Avion represents that the proposed debt will provide financing to purchase a new reservoir site and construct a 2.2-million gallon reservoir, a new well, and new transmission mains. The Company indicates that the plant expansion projects are required to meet the growth in the Company's service territory.

Expenses

Other than accounting costs, Avion does not expect additional issuance expenses related to the loan agreement.

Based on Staff's review, approval of Avion's application with the proposed conditions will provide reasonable access to financing. The application appears fair and reasonable and not contrary to the public interest.

PROPOSED COMMISSION MOTION:

Avion's application for the authority to enter into a loan agreement be approved with Staff's conditions and reporting requirements.