

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 11, 2008**

REGULAR CONSENT EFFECTIVE DATE _____ N/A _____

DATE: March 4, 2008

TO: Public Utility Commission

FROM: Steve Storm

THROUGH: Lee Sparling, Marc Hellman, and Bryan Conway

SUBJECT: SOUTH COAST WATER DISTRICT INC: (Docket No. UF 4247)
Application for authority to enter into a loan agreement.

STAFF RECOMMENDATION:

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

- 1) The Company shall provide a final Report of Capital Expenditures upon completion of the proposed construction indicating the actual amounts expended and providing reconciliation to the amount of loan proceeds.
- 2) The Company shall provide a report indicating the final terms of the loan. The Company shall notify the Commission in advance of any substantive changes to the loan's terms, including any material change in the loan amount or interest rate. In the event Staff finds that any such change may in fact be material, Staff will notify the Company and the Company agrees to promptly file an application requesting a supplemental order (or other appropriate format) be issued approving the new loan terms and conditions.
- 3) The Commission reserves judgment on the reasonableness for ratemaking purposes of the Company's financing costs. In its next rate proceeding, the Company will be required to show that its capital costs, including embedded expenses and capital structure, are just and reasonable.
- 4) Loan proceeds shall not be used for any ineligible activities or ineligible project costs, as determined by the Oregon Department of Human Services and/or the Oregon Economic and Community Development Department.

DISCUSSION:

South Coast is a small investor-owned water system located near Florence, Oregon. The system currently serves approximately 50 customers. The Company's current water source is Siltcoos Lake. On February 12, 2008, South Coast filed an application with the Commission, under Oregon Revised Statutes (ORS) 757.415 and Oregon Administrative Rule (OAR) 860-036-0720(3), for authority to borrow \$150,000 for improving the Company's water system in the Florence area.

The Company represents that the proceeds will be used for 1) developing a new diversion point; 2) upgrading the treatment facility; 3) upgrading the distribution system; and 4) upgrading the storage tanks. These purposes are consistent with statutory requirements and are permitted under ORS 757.415.

The Company represents the loan will be associated with the Oregon Safe Drinking Water Revolving Loan Fund (SDWRLF) program;¹ and have an interest rate of 3.5 percent per annum, a 20-year term, and expected payments of \$869.94 monthly. These loan terms will fully repay the loan's \$150,000 principal over 20 years.

The company is presumed to have no equally cost-effective course of action to pursue. Condition 2 (above) allows the Company to proceed following an authorizing Commission Order even if non-substantive changes in the loan's terms have occurred. Should substantive changes to the loan's terms occur, Condition 2 requires an updated application, which will be reviewed in light of any changes if and when received.

The Commission, in Order No. 01-173 (UW 73), authorized a rate increase that expected to produce total annual revenues of \$30,533. Currently South Coast's 66 customers normally² pay a flat rate of \$43.32 per month resulting in total monthly revenues of \$2,859.12. These revenue levels indicate some measure of financial capability to conform to the terms of the loan as specified above.

Requirements of the SDWRLF program include that a funded project must resolve an existing or potential health hazard or noncompliance under federal/state standards

¹ The Safe Drinking Water financing program provides low-cost financing for construction and/or improvements of public and private water systems. The Safe Drinking Water Fund is capitalized by annual grants from the U.S. Environmental Protection Agency (EPA) and matched with state resources. The program is managed jointly by the Department of Human Services (Drinking Water Program) and the Economic and Community Development Department (OECDD).

² See M. Dougherty's Advice No. 07-23 memorandum prepared for the December 18, 2007 Public Meeting (Agenda Item 3A) for a discussion of both a recent deviation from South Coast's normal rates and also of last year's issues involving the Company's Siltcoos Lake water source.

related to the public provision and conveyance of water for human consumption. The following are the main types of eligible activities and expenses:

- Engineering, design, upgrade, construction or installation of system improvements and equipment for water intake, filtration, treatment, storage, and transmission;
- Acquisitions of property, easements or the like, as needed to site, build, operate or protect facility or water source;
- Planning, surveys, legal/technical support, environmental review and so forth, arising from or attendant to improvement;
- Investments to enhance the physical security of drinking water and associated facilities, as well as water sources.

PROPOSED COMMISSION MOTION:

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