

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 22, 2008**

REGULAR X CONSENT EFFECTIVE DATE May 21, 2008

DATE: May 16, 2008

TO: Public Utility Commission

FROM: Renee Sloan

THROUGH: Lee Sparling, Marc Hellman, and Michael Dougherty

SUBJECT: AVION WATER COMPANY, INC.: (Advice No. 08-26) Requests special contract arrangements between Avion Water Company, Inc., and the City of Bend for water service.

STAFF RECOMMENDATION:

Pursuant to ORS 757.210 and 757.230, Staff recommends Commission approval of Avion Water Company Inc.'s (Avion or Company) special contract with the City of Bend (City) to provide water service to the City and its Municipal Airport (Airport) subject to the following condition:

1. The Company should provide to the Commission an updated study assessing the costs of providing service to the Airport as well as the benefits of the reciprocity agreement for which the pricing of the proposed contract reflects. This study should be submitted as part of Avion's next general rate case filing.

DISCUSSION:

On May 14, 2008, Avion filed Advice No. 08-26 along with a request to waive statutory notice (LSN) form, requesting approval of a special contract (Contract) to sell water to the City of Bend at 73 percent of the Company's current commodity rate of \$0.82 per 100 cubic feet. Under the Contract, the City will pay \$0.60 per 100 cubic feet, and the City will reciprocate by selling water to Avion at 73 percent of its commodity rate if the need arises at a future date.

The City's well at the Airport is failing, and the City estimates a cost of \$1.2 million to replace it. In addition, the City will need to build additional upgrades to meet future development that will cost an estimated \$1.5 million. To raise the capital to complete

these projects, the City would need to raise fees and taxes. Avion asserts it can provide enough water at that location to meet current and future needs for an estimated cost to the City of \$414,000.

Within 20 days of the date of Commission approval of the Contract, Avion will initiate construction of an extension of a water transmission main (WTM) from an existing main line to the Airport. The line will be a 12-inch PVC pipe approximately 7,000 feet long. The City will pay the entire cost of construction and installation of the WTM, making an initial payment of \$160,887 for materials within 10 days of the execution of the Contract.

Benefits to Customers

1. The line that will be installed will eventually make a loop with the 24-inch line that the resorts in Powell Butte are scheduled to install in 2012, thereby improving service to numerous customers on the north end of Avion's system.
2. Seventy-five percent of Avion's customers are City residents, and that number will increase when the urban growth boundary expands later this year. By using Avion's services, businesses and residents who pay City taxes and fees will save money without affecting the rates of Avion's current customers.
3. Avion's service to existing customers will not be affected by the City's use of the Company's water supply. The expected Airport water usage will occur during business hours which are not during Avion's highest peak demand times between 6 a.m. – 8 a.m. and 6 p.m. – 9 p.m. The Company has sufficient capacity to serve the Airport without affecting the quality of service to its current customers.
4. The reciprocity agreement with the City would benefit Avion's customers by having access to additional water during periods of peak demands, during periods of construction, and would provide increased fire flow to Avion's system if required.

In reviewing the Contract terms, absent the value gained from the reciprocity of the City to provide water at a 27 percent discount to Avion, the terms may not be reasonable. Staff's review of the cost of service for the Airport line would lead to recommending a commodity rate of approximately 77 percent of the Company's commodity rate. However, the reciprocity arrangement provides some value that tends to better justify approval of the contract.

In Avion's next general rate case, the rates charged to the Airport will again be reviewed by Staff to assess the reasonableness of the rates. As a result, Staff's recommends no

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changes to the rates, terms and conditions of the Contract and concludes the Contract results in just and reasonable rates.

The Company should also be directed to provide an updated study assessing the costs of providing service to the Airport as well as the benefits of the reciprocity agreement for which the pricing of the proposed contract reflects. This study should be submitted as part of Avion's next general rate case filing.

PROPOSED COMMISSION MOTION:

Avion Water Company Inc.'s special Contract with the City of Bend be approved with an effective date of May 21, 2008, subject to the recommended condition.