

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: February 24, 2009**

**REGULAR** \_\_\_\_\_ **CONSENT**  X  **EFFECTIVE DATE** \_\_\_\_\_ **NA** \_\_\_\_\_

**DATE:** February 12, 2009

**TO:** Public Utility Commission

**FROM:** Marion Anderson

**THROUGH:** Lee Sparling, Marc Hellman, and Michael Dougherty

**SUBJECT:** AVION WATER COMPANY, INC.: (Docket No. UF 4256) Application for authorization to enter into a loan agreement.

**STAFF RECOMMENDATION:**

Staff recommends the Commission approve Avion Water Company, Inc.'s request to enter into a loan agreement, subject to the following condition:

1. The Commission reserves judgment on the reasonableness for ratemaking purposes of the Company's financing costs. As a result of refinancing the lower interest rate Oregon Department of Energy loan, Avion Water Company, Inc., in any rate proceeding that uses a test year up to December 31, 2014, will impute that lower cost loan in its capital structure.

**DISCUSSION:**

This application was filed on January 22, 2009, pursuant to ORS 757.405 and OAR 860-036-0720. Avion Water Company, Inc. (Avion or the Company) is refinancing three loans (principal and interest payments are ongoing):

1. \$1,320,000 at 4.62 percent with a \$157,000 reserve from the Oregon Department of Energy (ODOE);
2. \$2,460,000 at 8.12 percent from the Bank of Cascades; and
3. \$3,610,000 at 7.79 percent from the Bank of the Cascades.

At a January 14, 2009, special meeting of the Avion Board of Directors, authorization for the \$7,500,000 loan was granted. The proposed amount to be borrowed from the Bank of the Cascades is \$7,420,000. The term will be 15 years at 6.75 percent. Repayment

is anticipated to commence on March 10, 2009 or April 10, 2009, with principal and interest totaling approximately \$65,660 monthly. Jan M. and Christine M. Wick, the principal shareholders, will personally guarantee the loan.

Avion is a closely-held water utility servicing approximately 9,642 residential, 962 commercial, and 796 irrigation customers. The 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.

The refinancing will not have a material impact on the debt/equity ratio. As part of the review, Staff performed a net present value analysis comparing Avion's current financial structure with the proposed financial structure. The analysis demonstrated that Avion's proposed weighted cost of capital, although lower for the life of the two existing Bank of Cascades loans, would actually be higher than if the ODOE loan was still present in Avion's capital structure during the term of the ODOE loan. In order to hold customers harmless during the term of the ODOE loan, ordering condition #1 requires Avion to impute the cost of the ODOE loan in its capital structure in any rate proceeding that uses a test year up to December 31, 2014.

An additional ratepayer benefit is based in the company's cash flow change. This refinancing increases cash flow by about \$33,000 per month. The increased cash flow is a benefit to both Avion and customers as water consumption has declined over time and disconnections are rising. The increased cash flow allows additional funds to offset a portion of lost revenues.

Staff requested and secured a February 4, 2009, letter from the Company for an extension of the 30 day statutory limitation to this public meeting date for Commission action.

Based on Staff's review, the application appears fair and reasonable, and not contrary to the public interest. The Company is aware of Staff's recommended condition and does not disagree with that condition.

**PROPOSED COMMISSION MOTION:**

Avion Water Company, Inc.'s request to enter into a loan agreement be approved with Staff's condition and reporting requirements.