



Oregon

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February 4, 2015

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OREGON PUBLIC UTILITY COMMISSION
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**RE: Docket No. UW 162 – In the Matter of CROOKED RIVER RANCH
WATER COMPANY, Request for a General Rate Revision**

Enclosed for electronic filing in the above-captioned docket is the Public
Utility Commission Staff's Direct Testimony.

/s/ Mark Brown

Mark Brown

Filing on Behalf of Public Utility Commission Staff

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c: UW 162 Service List (parties)

**PUBLIC UTILITY COMMISSION
OF OREGON**

UW 162

**STAFF TESTIMONY
OF
CELESTE HARI**

**In the Matter of
CROOKED RIVER RANCH WATER COMPANY,
Request for a General Rate Revision.**

February 4, 2015

CASE: UW 162
WITNESS: CELESTE HARI

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 100

**Direct Testimony
In Support of
The Stipulation**

February 4, 2015

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS**
2 **ADDRESS.**

3 A. My name is Celeste Hari. I am a Utility Analyst in the Telecommunications and
4 Water Division of the Utility Program for the Public Utility Commission
5 (Commission). My business address is 3930 Fairview Industrial Drive SE,
6 Salem, Oregon, 97302.

7 **Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE AT THE OREGON**
8 **PUBLIC UTILITY COMMISSION.**

9 A. Please see my Witness Qualification Statement in Staff Exhibit 102.

10 **Q. WHAT IS THE PURPOSE OF STAFF'S TESTIMONY?**

11 A. The purpose of Staff's testimony is to introduce and support the stipulation
12 agreed to by the parties in Docket UW 162 (the Stipulation).

13 **Q. WHO ARE THE PARTIES IN DOCKET UW 162?**

14 A. The parties are Crooked River Ranch Water Company (CRRWC or the
15 Company), Commission Staff (Staff), and Interveners Barbara Oakley, Calvin
16 Walter (Interveners), collectively referred to as the "Parties."

17 **Q. DID YOU PREPARE AN EXHIBIT FOR THIS DOCKET?**

18 A. Yes. I prepared Exhibit Staff/101 and Staff/102, organized as follows:

19	Revenue Requirement	Staff/101, Hari/1
20	Staff Adjustment Summary	Staff/101, Hari/2
21	Capital Structure	Staff/101, Hari/3
22	Stipulated Rates and Impacts	Staff/101, Hari/4-6
23	USDA Requirement Letter	Staff/101, Hari/7-23
24	Plant and Depreciation	Staff/101, Hari/24-28
25	Witness Qualification Statement	Staff/102, Hari/1

1 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

2 A. My testimony is organized as follows:

3 Issue 1, Staff Summary Recommendation..... 2
 4 Issue 2, CRRWC Description and Regulatory History 2
 5 Issue 3, CRRWC's Application for a General Rate Increase..... 3
 6 Issue 4, Staff Analysis of CRRWC's Infrastructure Project 7
 7 Issue 5, Staff Analysis of CRRWC's Project Funding 10
 8 Issue 6, Staff Review of CRRWC's Filing 15
 9 Issue 7, Staff Analysis of CRRWC's Utility Plant..... 26
 10 Issue 8, Rate Spread and Rate Design..... 28
 11 Issue 9, The Stipulation 33

12 **ISSUE 1, STAFF SUMMARY RECOMMENDATION**

13 **Q. BRIEFLY SUMMARIZE STAFF’S RECOMMENDATION.**

14 A. Staff recommends that the Commission adopt the stipulation agreed to by the
 15 Parties in UW 162. The Parties stipulated to a revenue requirement of \$858,976,
 16 rates as outlined in Attachment A to the Stipulation, and CRRWC's tariffs as
 17 shown in Attachment B to the Stipulation. Table 1 shows the revenue
 18 requirement details.

19 **Table 1 – Revenue Requirement Details**

	CRRWC Test Year As Filed	CRRWC Proposed	Stipulated Amounts
Revenues	666,290	928,382	858,976
Operating Expenses	654,335	857,669	715,746
Total Deductions	747,449	925,225	856,164
Net Income	(82,159)	3,153	2,811

20 **ISSUE 2, CRRWC DESCRIPTION AND REGULATORY HISTORY**

21 **Q. PLEASE DESCRIBE CRRWC.**

22 A. CRRWC is a nonprofit, mutual benefit corporation with members. CRRWC
 23 provides water service to approximately 1,505 members at Crooked River

1 Ranch (CRR), Oregon. CRR is an unincorporated private resort community in
2 southern Jefferson County with a small portion of the ranch in north Deschutes
3 County. The 12,000-acre ranch has a population of approximately 5,000 and is
4 located between the Deschutes River and the Crooked River near the south
5 end of Lake Billy Chinook. It is west of U.S. Route 97 between Culver and
6 Terrebonne.

7 **Q. PLEASE DESCRIBE CRRWC'S REGULATORY HISTORY.**

8 A. CRRWC is a rate and service regulated Company. CRRWC became regulated
9 by the Public Utility Commission (Commission) pursuant to Commission
10 Order No. 11-060 entered in Dockets WJ8, UW 120, UI 281, UI 282, and
11 UCR 100 on February 18, 2011. CRRWC's last general rate case was
12 approved by the Commission in Order No. 12-428 in Docket UW 149.

13 **ISSUE 3, CRRWC'S APPLICATION FOR A GENERAL RATE INCREASE**

14 **Q. PLEASE DESCRIBE CRRWC'S CURRENT APPLICATION FOR A**
15 **GENERAL RATE INCREASE.**

16 A. CRRWC filed an application for a rate increase on October 17, 2014, using a
17 January 1, 2013, to December 31, 2013, test year. CRRWC proposed an overall
18 increase of 39.55 percent or a \$263,092 increase over test period revenues of
19 \$665,290, resulting in an annual revenue requirement of \$928,382. The
20 Company proposed a total rate base of \$636,895 with a zero percent rate of
21 return.

1 **Q. WHAT REASONS DID THE COMPANY GIVE FOR SEEKING A RATE**
2 **INCREASE?**

3 A. CRRWC stated in its application:

4 *The utility is seeking this change in rates because of general*
5 *rising cost of operation. The remainder of the rate increase is*
6 *to support a loan granted by the USDA for an infrastructure*
7 *improvement project.*

8 **Q. PLEASE DESCRIBE CRRWC'S PROPOSED COST OF CAPITAL AS STATED**
9 **IN ITS APPLICATION.**

10 A. According to CRRWC's application, its current capital structure consists of total
11 debt of \$462,494 and total equity of \$27,316. CRRWC proposed to recover
12 interest expense as an operating expense rather than through a return on rate
13 base. As a nonprofit corporation, CRRWC requested a zero percent return on
14 equity. As a result of these factors, CRRWC requested a zero percent return on
15 rate base in its application.¹

16 **Q. WHAT ARE CRRWC'S CURRENT RATES?**

17 A. CRRWC currently provides water to its members for the following member
18 classifications: water haulers, temporary community events, residential, and
19 commercial members (including multi-unit dwelling members and the Crooked
20 River Ranch Homeowners Association (HOA)). Although the community has a

¹ The application states: "After deducting operating expenses, the projected revenues will produce a 0 percent return on rate base of \$636,895."

1 golf course, CRRWC does not provide irrigation water to the golf course. The
 2 current customer classes and rates are shown in Table 2:

3 **Table 2 – CRRWC's Current Rates Per Month**

CURRENT	BASE RATE	COMMODITY RATE
Residential/Commercial	\$23.00 per meter	\$0.83 per 100 cf /first 6,000 \$0.93 per 100 cf /6,001 +
Temporary Community Event	No Base Rate	\$0.93per 100 cf
Water Haulers	No Base Rate	\$0.93 per 100 cf

4 CRRWC currently charges residential and commercial members for water
 5 service at a monthly base rate of \$23.00, with no water usage allowance
 6 included. The commodity rate is a two-tiered rate design with Tier 1 at \$0.83
 7 per 100 cubic feet (cf) of usage up to 6,000 cf, and Tier 2 at \$0.93 per 100 cf
 8 used above 6,000 cf. According to CRRWC, the current average annual
 9 monthly bill is \$34.62, based on an average monthly usage of 1,400 cf.
 10 Temporary community events and water haulers are charged only the
 11 commodity rate.

12 **Q. WHAT RATES DOES CRRWC'S PROPOSED IN ITS APPLICATION?**

13 A. CRRWC proposed the following rates and tariffs:

14 **Table 3 – CRRWC's PROPOSED MONTHLY RATES**

	PROPOSED RATES	BASE RATES	COMMODITY RATES
1	Residential/Commercial	\$34.50 per meter	\$0.97 per 100 cf/first 6,000 \$1.24 per 100 cf/6,001 +
2	Temporary Community Events	No Base Rate	\$1.24 per 100 cf
3	Water Haulers	No Base Rate	\$1.24 per 100 cf

1 CRRWC's proposed tariffs include:

- 2 • A residential/commercial base rate of \$34.50 and commodity rates: Tier 1
3 at \$0.97 per 100 cf of water use up to 6,000 cf, and Tier 2 at \$1.24 per
4 100 cf for use above 6,000 cf.
- 5 • A temporary community events water service rate of \$1.24 per 100 cf of
6 water use, with no base rate.
- 7 • A water haulers service rate of \$1.24 per 100 cf of water use, with no base
8 rate.
- 9 • A cross connection control program and backflow prevention device
10 service tariff, no changes.
- 11 • An updated miscellaneous service fee tariff.
- 12 • CRRWC's updated rules and regulations.

13 **Q. WHAT PROCEDURAL ACTIONS HAVE TAKEN PLACE SINCE CRRWC**
14 **FILED ITS APPLICATION FOR A RATE INCREASE?**

15 A. The following procedural actions have taken place since CRRWC filed its current
16 general rate case:

- 17 1. An open house and prehearing conference were held on November 17, 2014,
18 in Crooked River Ranch, Oregon; and
- 19 2. A settlement conference was held in Crooked River Ranch, Oregon, on
20 January 15, 2015.

1 **Q. WHAT WAS THE RESULT OF THE SETTLEMENT CONFERENCE?**

2 A. The Parties reached a settlement of all issues in the case. Two of the Parties –
3 CRRWC and Staff, agreed to support the Stipulation. The other two Parties –
4 Barbara Oakley and Calvin Walter, agreed not to oppose the Stipulation.

5 **ISSUE 4, STAFF'S ANALYSIS OF CRRWC'S CAPITAL PROJECT**

6 **Q. HAS STAFF REVIEWED THE PROJECT?**

7 A. Yes. Staff has reviewed the details of the Project as provided in the
8 engineering report compiled by WH Pacific, the engineering consulting firm
9 hired to provide a detailed engineering analysis.

10 **Q. BRIEFLY DESCRIBE CRRWC'S CURRENT WATER SYSTEM.**

11 A. CRRWC's current water system includes two groundwater supply wells, two
12 above ground reservoirs for storage, and 43 miles of underground distribution
13 lines ranging in size from 2-inches through 12-inches in diameter.

14 **Q. WHY IS THE PROJECT NECESSARY TO THE CROOKED RIVER WATER**
15 **SYSTEM?**

16 A. The Project will upgrade the water system's infrastructure, which is necessary
17 to address significant system deficiencies in CRRWC's system. These
18 deficiencies are identified in the WH Pacific Engineering Report submitted to
19 the USDA in January 2014.

20 **Q. PLEASE IDENTIFY AND DISCUSS THE WATER SYSTEM DEFICIENCIES.**

21 A. CRRWC's current water system deficiencies include:

22 **Pressure** – Currently, the system produces pressure levels varying from 20
23 pounds per square inch (psi) to 60 psi. The current reservoirs do not hold

1 enough water to produce the necessary pressure in the water system when the
2 water levels drop due to use and hydraulic losses within the distribution system.
3 The water pressure to members becomes critical during peak demand. At peak
4 hour on peak day demands, the 70 foot reservoir water level has dropped to 45
5 feet, which is inadequate pressure to all members. Inadequate pressure
6 represents a potential health hazard to the members. Low pressure can
7 introduce bacteria into the water system that may make members sick. This
8 type of back pressure can also contaminate an existing well.

9 **Storage and Capacity**— Much of the existing main reservoir's 700,000 gallon
10 tank is below the 20 psi level. This is considered dead storage. The current
11 configuration requires the standpipe storage to be kept at near full condition at
12 all times, which requires constant and expensive pumping. Based on the
13 recommended capacity calculations for the current service area, the existing
14 system is deficient in storage and does not provide sufficient water storage for
15 fire suppression

16 **Removal of Well No. 2**—Well No. 2 originally produced 800 gallons per minute
17 (gpm) but has dropped production to 500 gpm. This well was constructed in
18 the 1970's and is of unknown construction. The integrity of the well is
19 questionable. Repeated testing results for Well No. 2 have exceeded the
20 Maximum Contaminate Level (MCL) for coliform bacteria. CRRWC has
21 removed the well from service except for emergency use, such as fire
22 suppression.

1 CRRWC has requested and received approval to transfer Well No. 2's water
2 right to another location. This will allow CRRWC to drill a new well (Well No. 3)
3 near Crater Loop Road.

4 **Q. HAS CROOKED RIVER EXPLORED OTHER OPTIONS TO CORRECT THE**
5 **DEFICIENCIES IN THE CURRENT WATER SYSTEM?**

6 A. Yes. CCR and WH Pacific went through a public process that spanned 20
7 months and included multiple public meetings, as well as solicitation of public
8 input. Other options included installing pumping booster stations; however,
9 booster stations are considered to be more expensive overall due to pump and
10 maintenance costs.

11 CRRWC has repeatedly attempted to correct the water quality issues in Well
12 No. 2 by treating the water. However, these attempts have proven
13 unsuccessful. Every time the well's test results violated the MCL, CRRWC fell
14 into a test-retest-treat-retest cycle until the contamination was resolved.

15 Subsequent to filing this application, CRRWC has been unable to bring the
16 water quality into compliance with EPA's drinking water standards; thus, Well
17 No. 2 has been removed from domestic service, making a new well a priority.

18 **Q WHAT OPTION IS PROPOSED TO RESOLVE CRRWC'S WATER SYSTEM**
19 **DEFICIENCIES?**

20 A. CRRWC proposes the Project, an estimated \$5.8 million improvement project
21 that will incorporate much of the existing system; replace the 700,000 gallon
22 reservoir with a 1 million gallon elevated reservoir (tower) at a higher hydraulic
23 grade line (HGL) that will be 45 feet taller than the current reservoir.

1 The elevation and design of the reservoir is estimated to provide members with
2 safe and adequate psi levels without expensive pumping. The new tower
3 provides additional storage for fire suppression and increases water gravity flow
4 to resolve the current pressure problems in the distribution system.

5 The additional 300,000 gallons of water storage, coupled with the ability to draw
6 down the water storage levels further in the new tower due to higher HGL,
7 increases fire suppression capacity.

8 **Q ARE THERE OTHER IMPROVEMENTS RELATED TO THE PROJECT?**

9 A. Yes. The Project also includes construction of a detention/infiltration basin for
10 the tower overflow/discharge, a new gravel access roadway, secure fencing,
11 and demolition of the 700,000 gallon water storage reservoir. The Project
12 includes a drilling a new 1,200 gpm potable water well (Well No. 3) with
13 installation of 8-inch underground water mains connecting the new well and the
14 remaining existing well to the new storage reservoir tower.

15 **ISSUE 5, STAFF ANALYSIS OF CRRWC'S PROJECT FUNDING**

16 **Q. HAS CRRWC RECEIVED APPROVAL FROM THE COMMISSION**
17 **TO FUND THIS PROJECT?**

18 A. Yes. CRRWC filed a financing application with the Commission on
19 May 6, 2014, Docket No. UF 4287.

1 **Q. HAS CRRWC ARRANGED FOR THE INTERIM FUNDING FOR THE**
2 **PROJECT SINCE THE COMMISSION ISSUED ITS ORDER APPROVING**
3 **CRRWC'S FINANCING APPLICATION?**

4 A. Yes. CRRWC has secured a \$400,000 bank line of credit for engineering
5 design and preconstruction costs.

6 **Q. DID THE COMPANY CONSIDER ANY OTHER FORM OF FUNDING FOR**
7 **THIS PROJECT PRIOR TO SELECTING THE USDA?**

8 A. Yes. CRRWC considered the Oregon Health Authority's Safe Drinking
9 Water State Revolving Loan Fund (SDWSRLF). CRRWC found that the
10 terms of a loan from the SDWSRLF would not be as favorable as the terms
11 of the USDA loan. For example, the loan term for the SDWSRLF would
12 have been for 25 years compared to the USDA term of 40 years.

13 CRRWC's goal was to keep water rates as low as possible. CRRWC
14 desired to spread the large loan over a longer term resulting in lower loan
15 payments. The USDA funding also includes \$1.5 million in grant funds,
16 which the SDWSRLF would not have included. The benefit of the grant
17 funds is lower project costs resulting in lower rates. A loan from the
18 SDWSRLF would have resulted in higher rates for members for the same
19 project.

20 **Q. PLEASE EXPLAIN THE TERMS OF THE USDA LOAN.**

21 A. The actual loan from the USDA is for \$4.3 million amortized over 40 years.
22 The USDA will provide an additional grant in the amount of \$1.5 million after

1 the \$4.3 million project loan has been depleted. The total for the entire
2 project is estimated at \$5.8 million.

3 **Q. ARE THERE SPECIFIC REQUIREMENTS CRRWC MUST MEET TO**
4 **RECEIVE THE USDA LOAN AND GRANT?**

5 A. Yes, there are several conditions that CRRWC must meet before the USDA
6 will fund the loan. The complete list of conditions is spelled out in the letter
7 from the USDA found in Exhibit Staff/101, Hari/7. Briefly, the financial
8 conditions pertinent to this rate case include:

9 1. The establishment of an annual short term asset replacement account in
10 the amount of \$23,042 that must be deposited annually for the life of the
11 loan;

12 2. A principle and interest loan payment of \$193,629 to be amortized over
13 40 years at an interest rate of 3.25 percent;

14 3. The establishment of a reserve account in the amount of one annual
15 payment, or \$193,629;

16 4. Proof of adequate customer rates to produce revenues to cover all
17 expenses. The USDA has agreed that a Commission final order
18 approving this stipulation will provide acceptable proof; and

19 5. CRRWC must provide progressive financing on its own up to the time the
20 loan is funded; thus CRRWC's line of credit and interim construction loan.
21 There are other conditions required by the USDA that are not elements of
22 this rate case.

1 **Q. CRRWC HAS ASKED FOR THAT THIS RATE CASE BE EXPIDITED. ARE**
2 **THERE CRITICAL TIMING ISSUES ASSOCIATED WITH THE USDA LOAN**
3 **OR THE PROJECT?**

4 A. Yes, the Company's ability to complete the Project by the desired date of
5 October 2016, is entirely dependent upon receipt of a Commission order
6 approving the stipulation in the first week of March 2015.

7 CRRWC must provide the USDA with proof that rates are sufficient to
8 support the loan and CRRWC's expenses before CRRWC can send out
9 Request for Proposals (RFPs) for construction bids.

10 Although CRRWC requests that the rates are not effective on the issue date
11 of the final order, the final order must be issued as early in March 2015, as
12 possible. This is important because CRRWC's engineer cannot submit the
13 RFPs to the USDA for approval until the rates have been approved. If
14 CRRWC can send out its RFPs to contractors in March 2015, construction
15 can begin on or before June 2015. If the RFPs do not go out in in early
16 March 2015, actual construction will most likely be postponed another year
17 since construction is not possible during the winter months.

18 Construction during the 2015 construction season is in the public interest.

19 The new well is a priority since Well No. 2 is now out of service. A delay in
20 construction can put the members' water supply at risk due to the pressure
21 problems, potential contamination, and lack of fire suppression.

1 **Q. WHAT ARE THE PROGRESSIVE FINANCING STEPS THE COMPANY**
2 **WILL TAKE UNTIL THE USDA FUNDS THE LOAN?**

3 A. The Company has taken out a line of credit and will continue to fund the pre-
4 construction and construction phase of the Project by short-term loans until
5 construction is completed and the USDA releases funds.

6 The USDA funds will pay in full the total principle of the pre-construction line
7 of credit and both the principle and interest on the interim construction loan.

8 The USDA loan will pay off any outstanding balances on these earlier loans
9 so they are no longer individual debts to CRRWC.

10 **Q. PLEASE DESCRIBE STAFF'S TREATMENT OF THE USDA LOAN AND**
11 **GRANT TO FUND THE PROJECT.**

12 A. Staff has included only the loan payment costs associated with the \$4.3
13 million loan amount in rates. Staff has agreed to include the annual cost of
14 servicing that loan in the Company's operating expenses in this case to
15 satisfy the USDA regarding the Company's ability to recover the costs of
16 servicing the loan through rates. The \$1.5 million grant will represent a cost-
17 free source of funds to CRRWC and will not impose any additional costs on
18 customers.

19 Normally, Staff allows construction work in progress (CWIP) in plant that will
20 not be put into service for six to 12 months prior to it being used and useful;
21 however, due to USDA loan requirements, Staff is recommending CWIP be
22 allowed in plant 16 months prior to it being used and useful in these unique
23 circumstances.

1 The grant money for the Project will be accounted for as Contributions in Aid
2 of Construction (CIAC).

3 **ISSUE 6, STAFF REVIEW OF CRRWC'S FILING**

4 **Q. PLEASE SUMMARIZE STAFF'S ANALYSIS OF CRRWC'S APPLICATION.**

5 A. As a result of performing the analysis described below, it is reasonable to grant
6 CRRWC an annual revenue increase of \$193,686 resulting in total annual
7 revenues of \$858,976. This represents an increase of 29.11 percent above the
8 Company's test year revenues, with a 0.06 percent rate of return on rate base
9 of \$4,972,098.

10 **Q. WHAT ISSUES DID STAFF INVESTIGATE?**

11 A. Staff's investigation and analysis of CCRRW's general rate filing included a
12 comprehensive examination of the Company's revenues, expenses, proposed
13 adjustments, rate spread and rate design, rate base, capital improvements,
14 cost of capital, quality of service, capacity, and customer concerns. Specific
15 issues included a thorough review of both the need for and financing of the
16 Project as described in Issues 4 and 5. As discussed earlier, the main driver of
17 CRRWC's proposed increase is the \$5.8 million infrastructure project.
18 Staff investigated the Company's cost of capital and reviewed the Company's
19 continuing need for a contingency fund as a nonprofit association.
20 Staff also made recommendations regarding the significant level of funds which
21 would flow to CWRRC prior to the Project's completion as a result of the time
22 between the rate change resulting from this proceeding in May 2015, and both

1 the completion of the Project in October 2016, and the first payment to the
2 USDA in December 2017.

3 I will first address the specific issues described above and conclude this section
4 of my testimony with a discussion of the major adjustments to both revenues
5 and expenses I'm recommending be made to the Company's filing.

6 **Q. PLEASE EXPLAIN STAFF'S ANALYSIS OF CRRWC'S COST OF CAPITAL.**

7 A. Staff recommends a zero percent return on the cost of equity and a .06 percent
8 cost on rate base to allow CRRWC to recover its cost of debt. Staff updated
9 CRRWC's debt, which includes two vehicle loans and a small equipment loan.

10 The cost of capital excludes the USDA loan as that cost is being reflected in the
11 Company's operating expenses to send a clear signal to the USDA regarding
12 the Company's ability to recover the cost of servicing the loan through rates.

13 The calculation of the recommended cost of capital is shown Staff/101, Hari/3.

14 **Q. PLEASE EXPLAIN WHY A ZERO PERCENT RETURN ON EQUITY IS**
15 **APPROPRIATE FOR CRRWC.**

16 A. CRRWC requested and Staff recommended a 0 percent return on equity.

17 CRRWC is a nonprofit utility. All members of CRRWC are members, and
18 CRRWC is owned by the membership. Nonprofit corporations are restricted from
19 making a profit. The members benefit from CRRWC's nonprofit status.

20 In CRRWC's UW 149 rate case, the Commission approved a zero percent
21 return on rate base because; 1) CRRWC is nonprofit, and 2) CRRWC's small
22 debt was included as operating expenses; thus, no return on equity or debt was

1 necessary. See Order No. 12-428. Nothing about the Company or its status as
2 a nonprofit has changed since that time to require a return on equity.

3 **Q. PLEASE DESCRIBE THE BASIS FOR CRRWC'S NEED FOR A**
4 **CONTINGENCY FUND.**

5 A. In CRRWC's previous rate case, UW 149, the Commission approved an annual
6 \$20,000 operating expense to provide CRRWC with a means to build a capital
7 improvement fund called the Contingency Fund. For clarification in this
8 proceeding, Staff will refer to this fund as the "Regular Contingency Fund." This
9 fund is important as a reserve account whereby CRRWC may accumulate
10 revenue for future capital outlay. Capital expenditures from this account are
11 considered as Contributions In Aid of Construction (CIAC) because the revenues
12 collected were paid by the members. CIAC is further discussed under Issue 6,
13 Utility Plant.

14 **Q. PLEASE EXPLAIN STAFF'S CONCERN REGARDING THE TREATMENT OF**
15 **FUNDS COLLECTED BY CRRWC BY APPROVING RATES IN ADVANCE OF**
16 **THE PROJECT BEING PLACED INTO SERVICE.**

17 A. Staff is concerned with the treatment of funds related to both depreciation
18 expense and loan payments that the Company will be collecting prior to the
19 Project actually being placed in service and payments to the USDA
20 commencing.

21 If the Stipulation is adopted, rates would become effective in late May 2015.
22 The Project will be placed in service in October 2016. As a result, the
23 Company will be collecting funds for the payment of depreciation expense

1 16 months in advance of actually incurring an ongoing level of depreciation
2 expense. Interest payments to the USDA will not begin until December 2016.

3 As a result, the Company will be collecting funds for those payments 18 months
4 prior to actual commencement of payments to the USDA.

5 **Q. HAS STAFF PROPOSED AN ADJUSTMENT RELATED TO THE**
6 **TREATMENT OF THE FUNDS COLLECTED THROUGH DEPRECIATION**
7 **EXPENSE AS A RESULT OF THIS TIMING ISSUE?**

8 A. Yes. Staff calculated the funds made available to the Company due to this
9 timing issue to be \$98,573. That amount is calculated by multiplying the annual
10 depreciation expense of \$73,930 by 16/12 to reflect the fact that collection will
11 begin 16 months in advance of the actual incurrence of the ongoing expense.
12 As can be seen in adjustment 20 on page 25 of my testimony, Staff
13 recommends this \$98,573 be earmarked and deposited into CRRWC's Regular
14 Contingency Fund.

15 **Q. HAS STAFF PROPOSED AN ADJUSTMENT RELATED TO THE**
16 **TREATMENT OF THE FUNDS COLLECTED FOR PAYMENT OF THE USDA**
17 **LOAN AS A RESULT OF THIS TIMING ISSUE?**

18 A. Yes. Staff calculates the funds made available to the Company due to this
19 timing issue to be \$209,444. That amount is calculated by multiplying the
20 annual loan payment expense of \$193,629 by 18/12 to reflect the fact that
21 collection will begin 18 months in advance of the actual commencement of
22 payments to the USDA.

23 Staff proposes that the \$209,444 be distributed in the following manner:

- 1 1. \$193,629 will be deposited as required by the USDA into a separate one-time
2 Annual Payment Reserve Account. This reserve is required to meet the USDA
3 requirements for the loan.
- 4 2. \$13,935 will be used to completely discharge the Line of Credit Interest Only
5 Expense.
- 6 3. \$75,000 will be deposited in the Regular Contingency Account to take the place
7 of the \$15,000 annual expense to that account for the following five years².
8 Staff is recommending the \$15,000 expense be suspended for at least five
9 years at which time CRRWC may file a rate case at that time and request
10 reinstatement of the expense.
- 11 4. The remaining balance of \$7,880 will be deposited to the Regular Contingency
12 Account.

13 The capital expenditures purchased from the Contingency Fund will be
14 considered as CIAC in future rate cases and will be disallowed in rate base as
15 the costs have already been paid by the members.

16 **Q. PLEASE DESCRIBE STAFF'S ADJUSTMENTS TO CRRWC'S TEST**
17 **PERIOD REVENUES.**

- 18 A. Staff's proposed adjustments to CRRWC's test period revenues include removing
19 \$72,809 in cross connection and backflow pass through costs that should not be
20 included in revenues. The effect of Staff's adjustments to test period revenues
21 and expenses reduced CRRWC's proposed revenue requirement of \$928,382 to
22 a revenue requirement of \$858,976.

² Use of the Regular Contingency Account as a collection account for these revenues will increase the balance bringing it closer to meeting the optimal reserve recommended in UW 149.

1 **Q. PLEASE DESCRIBE STAFF'S MAJOR ADJUSTMENTS TO CRRWC'S TEST**
2 **PERIOD EXPENSES.**

3 A. A full summary of Staff's adjustments is shown in Staff/101, Hari/2. Below are
4 Staff's more significant adjustments.

5 1. Wages: CRRWC requested an annual expense of \$208,853 with a \$179,607
6 test year expense. After filing its general rate case, the CRRWC Board
7 revised its wage and benefits for all employees which resulted in changes in
8 both expenses. The wage portion increased all wages by \$.50 per hour and
9 allowed cost-of-living adjustments for three years.

10 Staff considered this new action approved by the new Board in its analysis.

11 The changes in wages are known and measurable changes. Staff updated

12 the employees' wages and averaged the cost-of-living adjustments. The

13 result of Staff's adjustment was an increase in the total wage expense of

14 \$12,667 over the Company's proposed expense. Staff recommended a total
15 annual wage expense of \$221,520.

16 2. Benefits: CRRWC requested \$10,600 in employee benefits. As discussed in
17 the Wage explanation above, the Board approved changes to benefits as well
18 as wages. The new benefits increased wages and included a deposit of two
19 percent of employees' wages into an IRA account. This resulted in a
20 decrease in the benefit expenses. Staff recommended a total annual
21 employee benefits expense of \$4,323.

22 3. Telecommunications: CRRWC requested an annual expense of \$11,000 with
23 a test year expense of \$10,630. Staff recommended a total annual

1 telecommunication expense of \$10,726, which reflects the actual amount
2 reported in support data provided by CRRWC.

3 4. Purchased Power: CRRWC requested an annual expense of \$80,200. Staff
4 recommended a Purchased Power expense of \$74,292. Staff's
5 recommendation is based on actual invoices plus a two percent adjustment
6 for an anticipated rate increase.

7 5. Other Utilities: CRRWC requested an annual expense of \$913. Staff
8 recommended an annual expense of \$677 based on actual test year invoices.
9 The supporting data did not support an increase.

10 6. Office Supplies and Postage: Staff's adjustments were to move line items in
11 or out of these accounts to more properly account for the verified items and
12 disallow inappropriate items. CRRWC had requested \$5,134 in Office
13 Supplies expense and \$8,374 in Postage expense. The end result is that
14 Staff recommended \$4,872 in Office Supplies expense and \$8,817 in Postage
15 expense.

16 7. O&M: CRRWC requested \$2,323 in O&M expense. Staff moved several
17 verified items from other accounts into O&M to more properly account for
18 them. Staff recommended \$7,290, which is higher than CRRWC requested
19 O&M expense.

20 8. Repairs: CRRWC requested \$28,070 in annual Repair expense with a test
21 year of \$24,616. Staff removed \$16,099 of Repair expenses, including
22 moving expenses to more appropriate accounts, disallowing inappropriate line
23 items, and removing all repairs stated for Well No. 2 because it is no longer in

1 use. Staff also removed a going-forward portion of expenses due to the fact
2 that new materials and equipment installed with the Project will require fewer
3 repairs. Staff recommended a total annual Repairs expense of \$11,971.

4 9. Contract Engineering: CRRWC requested \$0 in annual Contract Engineering
5 expense with a test year of \$23,968. Staff agrees with the Company's
6 request. The engineering expenses in the test year are all related to the
7 Project described in this rate case and, as such, the USDA loan will ultimately
8 be paying this expense as well as the expenses related to the Project in the
9 future.

10 10. Contract Accounting: CRRWC requested \$6,800 in annual Accounting
11 expense with a test year of \$3,200. Staff did not find sufficient support to
12 increase the accounting expense. Staff recommended an annual accounting
13 expense of \$3,200.

14 11. Legal Expense: CRRWC requested \$8,604 in annual Legal expense with a
15 test year expense of \$8,805. Staff adjusted out \$871 of expenses related to
16 the Project since those will be reimbursed by the USDA loan. Staff
17 recommended a total annual Legal expense of \$7,733.

18 12. Testing Expense: CRRWC requested \$4,914 in annual Testing expense.
19 Staff used a three-year average of CRRWC's future testing expenses due to
20 the three-year cyclical testing requirements. Staff recommended an annual
21 testing expense of \$3,737

22 13. Labor Expense: CRRWC requested \$42,000 in annual Labor expense with a
23 test year of \$42,316. Staff agreed with the Company. CRRWC has a

1 contract with Avion Water to supply all of its labor and equipment. Avion
2 water also holds the certification for CRRWC because its employees are not
3 certified operators at this time. As the employees become certified and with
4 the new equipment being installed, Staff expects this contract amount to
5 decrease by the time another rate application is filed.

6 14. Contract Meter Reading Expense: CRRWC requested \$22,877 in annual
7 meter reading expense with a test year expense of \$22,744. CRRWC
8 contracts for meter reading service. CRRWC states there are not enough
9 CRRWC employees to read meters. It is not an unusual circumstance for
10 water utilities to contract meter reading services for a variety of reasons. This
11 rate is in-line with what other water utilities pay for this service for this size of
12 the Company. Staff found no support to increase this expense. Staff
13 recommended an annual contract meter reading expense of \$22,744.

14 15. Contract-Other Expense: CRRWC requested \$12,170 in annual Contract-
15 Other expense with a test year expense of \$11,745. CRRWC's contracts for
16 office cleaning, security monitoring, locate services, and election monitoring
17 service. Staff adjusted for invoices that were not in the test year. The
18 Company provided supporting invoices for these expenses. The unusual
19 expense in this account is the election monitoring for Board elections. This
20 was put in place because of past problems with Board elections. It is Staff's
21 belief that the monitoring service keeps the election free from abuse and
22 brings members peace of mind. Staff recommended an annual Contract-
23 Other expense of \$11,668.

1 16. Rental of Equipment and Small Tools Expenses: CCRWC requested annual
2 Equipment Rental and Small Tools expenses in these accounts of \$125 and
3 \$3,112, respectively. Test year expenses were the same as those requested.
4 Staff adjusted the small tools to remove duplicate items, removed
5 inappropriate items, and items not in the test year. Staff recommended an
6 annual Rental of Equipment expense of \$125 and an annual Small Tools
7 expense of \$2,672.

8 17. Computer and Electronics Expense: CRRWC requested an annual
9 Computers and Electronics expense of \$25,263 with a test year of \$27,638.
10 Staff made several adjustments to this expense account. Multi-year
11 subscription services were divided into annual amounts and one-time
12 expenses were eliminated. Computer and Electronic expense include
13 SCADA management, web hosting service, computer support, copier rental,
14 internet, and leasing of electronic mailing equipment. Staff recommended an
15 annual Computer and Electronic expense of \$24,872.

16 18. Transportation Expense: CRRWC requested an annual Transportation
17 expense of \$13,965 with a test year expense of \$6,593. CRRWC provided
18 supporting data for replacing tires on Company vehicles. Staff annualized
19 this expense to \$702. CRRWC provided supporting documentation for
20 gasoline for only eight of out of twelve months in the test year. Staff averaged
21 those eight months and allowed an additional expense of \$4,727 for gas to
22 complete a year's worth of operation expense. Staff recommended \$12,022
23 in annual Transportation expense.

1 19. Vehicle, General Liability, and Other Insurance Expense: CRRWC had
2 individual policies for each of these insurances. Upon renewal, the Company
3 rolled all of the separate insurances into a single policy under general liability
4 for less than the total of the test year individual coverages. The new policy is
5 \$12,521. The totals of the test year individual policies equaled \$15,587. The
6 new policy provides the same or better coverage. This change is reasonable
7 and prudent. Staff recommended an annual general liability insurance
8 expense of \$12,521.

9 20. Depreciation Expense: CRRWC requested a \$23,042 annual payment
10 expense for the life of the loan as replacement of short-term assets that are
11 associated with the Project, included in operating expenses. This is a
12 requirement of the USDA. The expense is for asset replacement and is
13 similar to Staff's Depreciation expense for wear and tear and future
14 replacement of plant. Staff removed \$23,042 from Depreciation expense to
15 eliminate double recovery.

16 Staff recommends that the revenue from Depreciation expense associated
17 with the Project from June 2015, through October 2016, when the Project is
18 estimated to be complete, or \$98,573, be earmarked and deposited into
19 CRRWC's Regular Contingency Fund. The alternative would be to disallow
20 the Depreciation expense associated with the Project at this time, which
21 would require CRRWC to file a second rate case to be effective in October
22 2016. Staff believed that earmarking to a capital improvement account and

1 monitoring this revenue collected for the period of time that the associated
2 plant is not used and useful, is the more reasonable option.

3 21. Cross Connection Control Program: CRRWC requested a \$77,784 annual
4 expense with a \$90,674 test year expense for a ten year cross connection
5 control device installation plan. Staff disallowed \$77,504 annual expense for
6 the program because this program is a pass-through expense to the
7 members. Staff recommended a \$280 annual expense to this account to
8 allow for the annual recertification fee charged by the Drinking Water
9 Program.

10 **ISSUE 7, STAFF ANALYSIS OF CRRWC'S UTILITY PLANT**

11 **Q. DID STAFF ANALYZE AND ADJUST CRRWC'S PLANT?**

12 A. Yes. Staff investigated CRRWC's utility plant accounts. Of particular note is
13 Staff's CWIP adjustment explained, below.

14 **Q. PLEASE EXPLAIN WHAT CWIP IS, AND WHY IT IS ALLOWED IN PLANT 15 PRIOR TO IT BEING USED AND USEFUL.**

16 A. CWIP is a ratemaking treatment that is unique to water utility ratemaking that
17 provides funding for capital improvements through rates. It allows the
18 Commission to allow future plant to be constructed to be recorded in utility plant
19 and for investor-owned water utility to begin recovery prior to the plant being in
20 service.

21 ORS 757.355(1) restricts public utilities from including plant in rates if it is not
22 actually serving the members. However, ORS 757.355(2) exempts water utilities

1 from this restriction, allowing the Commission to include the cost of a specific
2 capital improvement in rates as CWIP. CWIP must be in the public interest and
3 the additional water revenue it generates can only be used for the purpose of
4 completing the capital improvement.

5 **Q. PLEASE EXPLAIN STAFF'S CWIP ADJUSTMENT TO CRRWC'S PLANT.**

6 A. Staff included \$4.3 million dollars in plant as CWIP related to the Project funded
7 by the USDA. Although the period of time until this plant is in actual service is
8 longer than Staff typically allows for CWIP, it is in the public interest to include
9 the related CWIP in plant under these circumstances. As described in Issue 4,
10 Staff believes that the Project provides a necessary improvement to CRRWC's
11 infrastructure system. As is also previously discussed, the USDA requires
12 sufficient rates be secured before CRRWC can send out for construction RFPs.
13 Inclusion of the plant in CWIP is critical to getting the Project completed in a
14 timely manner.

15 **Q. WHAT OTHER ADJUSTMENTS DID STAFF MAKE TO CRRWC'S PLANT**

16 A. Staff's other adjustments to plant are discussed below:

17 1. Updating CRRWC's Plant

18 Staff recorded CRRWC's capital expenditures that have come into service
19 since its last rate case; thus, bringing the Company's plant and depreciation
20 schedules up to date.

21 2. Capital Expenditure from Expenses to Plant

22 Staff moved two vehicle payments that were included in expenses to the
23 Plant Account, allowing a small recovery of the cost of debt on rate base.

3. Removal of CIAC

1 CIAC is any item or amount of money, services, or property received by a
2 utility that is provided at no cost to the utility. It represents an addition or
3 transfer to the capital of the utility, and is utilized to offset the acquisition,
4 improvement, or construction costs of the utility's property, facilities, or
5 equipment used to provide utility services to the public.

6 Oregon Administrative Rule 860-036-0756(3) specifically requires that CIAC
7 not be included in the ratemaking process, but recorded on a separate CIAC
8 plant and depreciation schedule. Staff removed all CIAC to prevent any
9 cost recovery for plant that was not paid for by CRRWC.

ISSUE 8, RATE SPREAD AND RATE DESIGN

Q. PLEASE DESCRIBE STAFF'S RECOMMENDED REVENUE SPLIT BETWEEN THE BASE RATE AND THE COMMODITY RATE.

13 A. Staff recommended a 74 percent allocation of revenue to the base rate and a
14 26 percent allocation to the commodity rates. This revenue split is in line with
15 CRRWC's actual fixed and variable expenses and reflects the high seasonality
16 of customer usage, which occurs much more heavily in the summer months
17 than in the winter. The rate design allows CRRWC to recover sufficient
18 revenues in the winter months to pay their expenses.

Q. PLEASE DESCRIBE STAFF'S RECOMMENDED RATE DESIGN.

20 A. Staff recommended keeping the current rate class structure composed of three
21 customer classes: 1) Metered Members (Commercial and Residential),

1 2) Temporary Event, and 3) Water Haulers. Staff also recommends the current
2 practice of including no water usage in the base rate. Staff recommends
3 eliminating the current two-tiered commodity structure in favor of a single-tiered
4 design wherein all members pay the same base and commodity rates.

5 1. **METERED MEMBERS**

6 Staff proposed a Metered Customer class that includes all residential,
7 commercial, multi-family units, HOA irrigation, and nonprofit-multi-metered
8 members. This classification does not include water haulers and temporary
9 community events.

10 2. **TEMPORARY COMMUNITY EVENTS**

11 Staff proposed a temporary community event tariff that includes only the
12 consumption charge and no base rate.

13 3. **WATER HAULERS**

14 Staff proposed a water haulers tariff that includes only the consumption
15 charge and no base rate.

16 **Q. PLEASE DESCRIBE HOW STAFF DETERMINED THE APPROPRIATE RATE**
17 **DESIGN.**

18 A. Staff's recommended rate design was crafted under the following principles:

- 19 1. Introducing a single-tiered commodity rate puts all members on the same
20 level without penalizing any particular usage group;
21 2. All members are encouraged to conserve water because there is no water
22 usage included with the base rate; and

1 3. Having a high ratio of base rate to variable rate reflects the high degree of
2 seasonal usage and allows CRRWC to pay its expenses during the low
3 usage winter months.

4 **Q. PLEASE DESCRIBE HOW STAFF DETERMINED THE APPROPRIATE**
5 **BASE RATES.**

6 A. The principle consideration in determining the appropriate base rate was
7 ensuring that CRRWC would generate enough revenues during the low usage
8 winter months to cover its expenses.

9 CRRWC's actual expenses work out to be a split of 25 percent variable and 75
10 percent fixed. The 74 percent base rate and 26 percent commodity rate split is
11 very close to CRRWC's actual variable and fixed expense percentages. This
12 split will generate enough base rate revenue to cover fixed expenses during the
13 low usage months. Staff reviewed CRRWC's revenue requirement expenses
14 and estimated the minimum amount of revenue necessary to meet CRRWC's
15 fixed monthly expenses at \$44,585. The stipulated monthly base rate of \$34.59
16 per customer provides enough revenue to cover CRRWC's fixed expense
17 during the low usage winter months.

18 Generally, Staff employs the American Water Works Associations (AWWA)
19 standard capacity factors³ to help determine base rates. In most water
20 companies, members pay a base rate equivalent to the size of the meter

³ The AWWA capacity factors are based on the percentage relationship of the maximum rate of use to the average rate of use. The capacity factors recognize the particular service requirements for total volume of water and peak rates of use. This is especially important when the capacity of the water supply is limited. However, CRRWC verified that there are no current constraints upon its water system.

1 necessary for their service. Prior to regulation, CRRWC did not follow AWWA
2 standards for installing meters. As a result, not all meters currently installed are
3 sized appropriately for the service required. CRRWC informed Staff that the
4 differential in meter sizes ranged from 3/4 by 5/8 inch to approximately
5 2-inches.

6 The Company believes that members would be inappropriately penalized for
7 having a meter that is not sized in accordance with standard practice, which the
8 customer did not request or possibly even know, was installed. According to
9 CRRWC, if various base rates were to be imposed based on current meter
10 sizes, it is probable that members with unnecessary larger meters would
11 request CRRWC install a smaller meter based on the justification that the meter
12 was not originally properly sized. The cost of replacement would fall on
13 CRRWC.

14 In lieu of using the AWWA capacity factors, Staff recommends a single base
15 rate for all meter sizes to assure fair and equitable rates.

16 **Q. PLEASE DESCRIBE HOW STAFF DETERMINED THE COMMODITY**
17 **RATE.**

18 A. The primary goal of Staff in proposing a single commodity rate is to implement
19 a rate design that treats all members fairly and reasonably. Staff designed the
20 rates so the typical water user would not be significantly affected, but high-end
21 users would still pay a higher bill for using a greater proportion of water.
22 CRRWC will not have a water capacity issue after the Project is completed. It
23 will not cost more to provide water to high-end users, so there is no strong

1 economic justification for requiring an increasing two-tiered commodity rate.
2 Staff analyzed several rate scenarios, and the single commodity rate selected
3 provides the most reasonable rates for all members. Staff proposed a single
4 commodity rate of \$1.09 per 100 cf of usage.

5 **Q. WERE THERE ANY UNUSUAL FACTORS THAT IMPACTED RATES?**

6 A. Yes. The Company used consumption data from 2013, to calculate its revenue
7 requirement and rates. In its analysis, Staff recalculated the consumption and
8 found errors in the method the Company used to establish consumption. Staff
9 used its own recalculated consumption to set the commodity rate. The
10 adjustment provided lower annual consumption and removed obvious outlier
11 data that indicated billing or meter reading errors. Staff used the corrected data
12 to calculate rates to ensure the revenue generated would meet the revenue
13 requirement.

14 In addition, Staff used only water sales revenues to calculate water service
15 rates. This is because miscellaneous revenues from other sources of
16 income should not be included when calculating rates.

17 **Q. PLEASE EXPLAIN THE IMPACT OF STAFF'S RATE DESIGN UPON**
18 **MEMBERS.**

19 A. The impact of Staff's recommended rates is shown in Staff/101, Hari/4-6. As
20 indicated in the exhibit, members will experience an increase in their monthly
21 bill in the range of \$11.59 to \$27.59 per month, depending upon usage.

1

ISSUE 9, THE STIPULATION

2

Q. WHAT POSITION HAVE THE PARTIES TAKEN REGARDING THE STIPULATION?

3

4

A. Staff and CRRWC support the Stipulation and this testimony as shown in the Stipulation. Interveners Calvin Walters and Barbara Oakley agreed not to oppose the Stipulation. There are no other parties to the case.

5

6

7

Q. WHAT ARE THE STIPULATED RATES?

8

A. The Stipulation reflects a rate design allocating 74 percent of the revenue requirement to the base rate and 26 percent to the commodity rate. Staff/101, Hari/4-6, shows the stipulated rates and rate design. The stipulated rates are summarized in Table 4:

9

10

11

12

Table 4 –Stipulated Rates

	Customer Class	Base Rate (per meter)	Commodity Rate (per 100 cf)
1	Residential/Commercial	\$34.59	\$1.09
2	Temporary Community Event	n/a	\$1.09
3	Water Haulers	n/a	\$1.09

13

Q. PLEASE STATE THE REMAINING COMPONENTS OF THE STIPULATION.

14

15

A. The Stipulation reflects the following:

16

1. A Rate Base of \$4,972,098.

17

2. An effective date of May 23, 2015.

18

3. A five-year suspension of the deposits to the Regular Contingency Fund expense

19

- 1 4. Depreciation expense associated with the Project or \$98,573 collected from
2 June, 2015 through October, 2016 will be deposited into the Company's
3 Regular Contingency Account.
- 4 5. The \$290,444 of revenue collected as USDA loan payments by the early
5 rate implementation would be distributed in the following manner:
- 6 a. A deposit of \$193,629 will be made into an Annual Payment Reserve
7 Account as required by the USDA.
- 8 b. \$13,935 will be paid to completely discharge the Line of Credit Interest
9 Only Expense.
- 10 c. \$75,000 will be deposited in the Regular Contingency Account to take
11 the place of the \$15,000 annual expense for five years ending December
12 2020.
- 13 d. The remaining balance of \$7,880 will be deposited in the Regular
14 Contingency Account to assist in reaching the optimum six-month
15 reserve of operating expenses as recommended in UW 149.

16 **Q. WHAT WAS THE EFFECT OF THE STIPULATION ON THE REVENUE**
17 **REQUIREMENT PROPOSED BY THE COMPANY?**

- 18 A. The stipulated changes *decreased* the Company's proposed annual revenue
19 requirement from a 39.55 percent increase over its test year revenues to a
20 29.11 percent increase.
- 21 The stipulated revenue requirement *increased* CRRWC's proposed rate base of
22 \$636,896 to \$4,972,098. The increase in rate base is due to Staff's

1 adjustments to CRRWC's plant, including CRRWC's plant since its last rate
2 case, the addition of CWIP, and removal of CIAC.

3 **Q. DID ANY CUSTOMER EXPRESS CONCERNS REGARDING THE RATE**
4 **FILING?**

5 A. Yes. Some members expressed a general concern about the rate increases.

6 Staff is sensitive to these concerns and individually explained the reason for the
7 increase. Most members were satisfied that the increase was justified, but still
8 did not like an increase. CRRWC also contacted the members that expressed
9 concern and answered their questions.

10 Some members were concerned about the aesthetic effect of the new reservoir
11 tower, i.e., they did not want to be able to see the tower. Visibility of the tower
12 is unavoidable. Currently, the existing reservoir is visible to customers. There
13 was some confusion by certain members who thought that two towers would be
14 visible; however, the new tower will replace the old reservoir, which will be torn
15 down.

16 **Q. DOES THE STIPULATION ADDRESS AN EFFECTIVE DATE FOR THE NEW**
17 **RATES?**

18 A. Yes. The Stipulation reflects rates being effective for service rendered on and
19 after May 23, 2015.

20 **Q. DOES THE STIPULATION CONTAIN ANY CONDITIONS?**

21 A. Yes. The Stipulation requires CRRWC to comply with the following conditions
22 C1. The Company will deposit a total \$75,000 in the Regular Contingency

1 Account to take the place of the suspended \$15,000 annual expense for five
2 years ending December 2020.

3 C2. The Company will deposit a total of \$7,880 in the Regular Contingency
4 Account to assist in reaching the optimum six-month reserve of operating
5 expenses as recommended in UW 149.

6 C3. The Company will deposit of \$193,629 into an Annual Payment Reserve
7 Account as required by the USDA.

8 C4. The Company will pay \$13,935 to completely discharge the Line of Credit
9 Interest Only Expense.

10 C5. The Company will deposit a total \$98,573 of its revenue collected from
11 Depreciation expense collected between June 2015, and October 2016,
12 into its Regular Contingency Account.

13 **Q. ARE THE RESULTING RATES FAIR AND REASONABLE?**

14 A. Yes.

15 **Q. WHAT IS STAFF'S RECOMMENDATION?**

16 A. Staff recommends that the Commission receive the Stipulation and supporting
17 testimony into the record and adopt the Stipulation in its entirety.

18 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

19 A. Yes.

CASE: UW 162
WITNESS: CELESTE HARI

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 101

**Exhibits in Support
Of Direct Testimony**

February 4, 2015

Company Proposed Increase:	39.55%
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Staff Proposed Increase:	29.11%
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Revenue Requirement

	A	B	C	D	E	F	G	H
	Company	Company	Company	Staff	Staff	Staff	Staff	Total
	Balance per Application	Proposed Company Adjustments	Proposed Company Totals A+B=C	Staff Adjustments	Adjusted Results C+D=E	Revenue-Sensitive Adjustments	Total PUC Adjustments D+F=G	PUC Proposed Results C+G=H
REVENUES								
Unmetered Water Sales	0	0	0	0	0	0	0	0
Residential Water Sales	573,501	239,124	812,625	0	812,625	3,288	3,288	815,913
Commercial Water Sales	12,809	15,461	28,270	0	28,270	114	114	28,384
Fire Protection	0	0	0	0	0	0	0	0
Water Sales to Public Authorities	0	0	0	0	0	0	0	0
Irrigation -	0	0	0	0	0	0	0	0
Sales for Resale	0	0	0	0	0	0	0	0
Golf Course	0	0	0	0	0	0	0	0
Special Contracts	0	0	0	0	0	0	0	0
Miscellaneous Revenues	9,370	0	9,370	0	9,370	0	0	9,370
Cell Tower/Rent from Util. Property	4,468	0	4,468	0	4,468	0	0	4,468
Cross Connection Control Revenue	63,432	8,507	71,939	(71,939)	0	0	(71,939)	0
Backflow Testing Rev Add'l from CRR	1,710	0	1,710	(870)	840	0	(870)	840
TOTAL REVENUE	665,290	263,092	928,382	(72,809)	855,573	3,403	(69,406)	858,976
OPERATING EXPENSES								
Salaries and Wages - Employees	179,607	29,246	208,853	12,667	221,520		12,667	221,520
Salaries and Wages - Officers	0	0	0	0	0		0	0
Employee Pension & Benefits	6,118	4,482	10,600	(6,277)	4,323		(6,277)	4,323
Purchased Water	0	0	0	0	0		0	0
Telephone/Communications	10,630	370	11,000	(274)	10,726		(274)	10,726
Purchased Power	73,325	6,875	80,200	(5,409)	74,792		(5,409)	74,792
Fuel for Power Production	0	0	0	0	0		0	0
Other Utilities (gas, garbage)	773	140	913	(236)	677		(236)	677
Chemical / Treatment Expense	0	0	0	0	0		0	0
Office Supplies	5,379	(245)	5,134	(262)	4,872		(262)	4,872
Postage	8,489	(115)	8,374	443	8,817		443	8,817
O&M Materials/Supplies	37,097	(34,774)	2,323	4,967	7,290		4,967	7,290
Repairs to Water Plant	24,618	3,452	28,070	(16,099)	11,971		(16,099)	11,971
Contract Svcs - Engineering	23,988	(23,988)	0	0	0		0	0
Contract Svcs - Accounting	3,200	3,600	6,800	(3,600)	3,200		(3,600)	3,200
Contract Svcs - Legal	8,805	(201)	8,604	(871)	7,733		(871)	7,733
Contract Svcs - Management Fees	0	0	0	0	0		0	0
Contract Svcs - Testing	2,432	2,482	4,914	(1,177)	3,737		(1,177)	3,737
Contract Svcs - Labor	42,316	(316)	42,000	0	42,000		0	42,000
Contract Svcs - Billing/Collection	0	0	0	0	0		0	0
Contract Svcs - Meter Reading	22,744	133	22,877	(133)	22,744		(133)	22,744
Contract Svcs - Other	11,745	425	12,170	(502)	11,668		(502)	11,668
Rental of Building/Real Property	0	0	0	0	0		0	0
Rental of Equipment	125	0	125	0	125		0	125
Small Tools	3,112	0	3,112	(440)	2,672		(440)	2,672
Computer/Electronic Expenses	27,638	(2,375)	25,263	(3,686)	21,577		(3,686)	21,577
Transportation	6,593	7,372	13,965	(1,943)	12,022		(1,943)	12,022
Vehicle Insurance	3,973	(123)	3,850	(3,850)	0		(3,850)	0
General Liability Insurance	8,992	(6,622)	2,370	10,151	12,521		10,151	12,521
Workers' Comp Insurance	1,253	714	1,967	200	2,167		200	2,167
Insurance - Other	6,122	640	6,762	(6,762)	0		(6,762)	0
Amortz. of Rate Case	0	0	0	0	0		0	0
Gross Revenue Fee (PUC)	1,663	658	2,321	0	0	(174)	(174)	2,147
Bad Debt Expense	711	0	711	110	821		110	821
Cross Connection Control Program	90,674	(12,890)	77,784	(77,504)	280		(77,504)	280
Training and Certification	806	484	1,290	(699)	591		(699)	591
Consumer Confidence Report	200	0	200	0	200		0	200
Miscellaneous Expense	9,780	(2,011)	7,769	0	7,769		0	7,769
PR/Advertising	225	75	300	(188)	112		(188)	112
Contingency Deposit	20,000	(5,000)	15,000	(15,000)	0		(15,000)	0
USDA Replacement Reserve short lived assets	0	23,042	23,042	0	23,042		0	23,042
Colorado/Silverado	11,446	0	11,446	(11,446)	0		(11,446)	0
Line of Credit Interest Only	0	13,935	13,935	(13,935)	0		(13,935)	0
USDA Annual Loan Payment w/interest	0	193,629	193,629	0	193,629		0	193,629
TOTAL OPERATING EXPENSE	654,559	203,114	857,673	(141,753)	713,599	(174)	(141,927)	715,746
OTHER REVENUE DEDUCTIONS								
Depreciation Expense	74,211	(28,496)	45,715	75,800	121,515		75,800	121,515
Amort of Plant Acquisition Adjustment	0	0	0	0	0		0	0
Amortization Expense	0	0	0	0	0		0	0
Property Tax	862	0	862	0	862		0	862
Payroll Tax	13,811	2,249	16,060	1,981	18,041		1,981	18,041
Other	4,230	689	4,919	(4,919)	0		(4,919)	0
Federal Income Tax	0	0	0	0	0	0	0	0
Oregon Income Tax	0	0	0	0	0	0	0	0
Extraordinary Items Income Tax	0	0	0	0	0		0	0
TOTAL REVENUE DEDUCTIONS	747,673	177,556	925,229	(68,891)	854,017	(174)	(69,065)	856,164
NET OPERATING INCOME	(82,383)	85,536	3,153	(3,918)	1,556	3,576	(342)	2,811
UTILITY RATE BASE								
Utility Plant Invested by Company	1,051,206	184,698	1,235,904	4,232,115	5,468,019		4,232,115	5,468,019
	0	0	0	0	0		0	0
	0	0	0	0	0		0	0
Equals: Total Utility Plant	1,051,206	184,698	1,235,904	4,232,115	5,468,019	0	4,232,115	5,468,019
- Accum. Depreciation--Invested Plant	553,393	117,088	670,481	(114,900)	555,581		(114,900)	555,581
- Accum. Depreciation--CIAC	0	0	0	0	0		0	0
- Contributions in Aid of Construction	0	0	0	0	0		0	0
- Accumulated Deferred Income Tax	0	0	0	0	0		0	0
+ Accum. Amortization of CIAC	0	0	0	0	0		0	0
Equals: Net Invested Utility Plant	497,813	67,610	565,423	4,347,015	4,912,438	0	4,347,015	4,912,438
Plus: (working capital)								
Materials and Supplies Inventory	0	0	0	0	0		0	0
Working Cash (Total Op Exp /12)	54,528	16,926	71,473	(11,813)	59,660		(11,813)	59,660
TOTAL RATE BASE	552,341	84,536	636,896	4,335,202	4,972,098	0	4,335,202	4,972,098
Rate of Return	(0)		0		0			0.06%

Adjustment Summary

Acct No.	REVENUES	Company		PUC Proposed		Reason for Adjustment
		Proposed	PUC Adjustments	Results		
460	Unmetered Water Sales	0	0	0		No Adjustment
461.1	Residential Water Sales	812,625	3,288	815,913		Recalculated consumption
461.2	Commercial Water Sales	28,270	114	28,384		Recalculated consumption
462	Fire Protection	0	0	0		No Adjustment
464	Water Sales to Public Authorities	0	0	0		No Adjustment
465	Irrigation -	0	0	0		No Adjustment
466	Sales for Resale	0	0	0		No Adjustment
467	Golf Course	0	0	0		No Adjustment
468	Special Contracts	0	0	0		No Adjustment
471	Miscellaneous Revenues	9,370	0	9,370		No Adjustment
472	Cell Tower/Rent from Util. Property	4,468	0	4,468		No Adjustment
475	Cross Connection Control Revenue	71,939	(71,939)	0		Pass-through revenue
0	Backflow Testing Rev Add'l from CRR	1,710	(870)	840		Est. of coming year's needs
	TOTAL REVENUE	928,382	(69,406)	858,976		

OPERATING EXPENSES						
601	Salaries and Wages - Employees	208,853	12,667	221,520		COLAS and Benefit change
603	Salaries and Wages - Officers	0	0	0		No Adjustment
604	Employee Pension & Benefits	10,600	(6,277)	4,323		Benefit Change
610	Purchased Water	0	0	0		No Adjustment
611	Telephone/Communications	11,000	(274)	10,726		Items moved to other accounts
615	Purchased Power	80,200	(5,409)	74,792		No known increase in power rates
616	Fuel for Power Production	0	0	0		No Adjustment
617	Other Utilities (gas, garbage)	913	(236)	677		Moved to other accounts
618	Chemical / Treatment Expense	0	0	0		No Adjustment
619	Office Supplies	5,134	(262)	4,872		Moved to other accounts
619.1	Postage	8,374	443	8,817		Actuals
620	O&M Materials/Supplies	2,323	4,967	7,290		Moved from other accounts
621	Repairs to Water Plant	28,070	(16,099)	11,971		New Plant and offline well require less repairs
631	Contract Svcs - Engineering	0	0	0		No Adjustment
632	Contract Svcs - Accounting	6,800	(3,600)	3,200		Billing statement
633	Contract Svcs - Legal	8,604	(871)	7,733		Moved to other accounts
634	Contract Svcs - Management Fees	0	0	0		No Adjustment
635	Contract Svcs - Testing	4,914	(1,177)	3,737		3-year average
636	Contract Svcs - Labor	42,000	0	42,000		No Adjustment
637	Contract Svcs - Billing/Collection	0	0	0		No Adjustment
638	Contract Svcs - Meter Reading	22,877	(133)	22,744		Not in test year
639	Contract Svcs - Other	12,170	(502)	11,668		Moved to other accounts
641	Rental of Building/Real Property	0	0	0		No Adjustment
642	Rental of Equipment	125	0	125		No Adjustment
643	Small Tools	3,112	(440)	2,672		Moved to other accounts
648	Computer/Electronic Expenses	25,263	(3,686)	21,577		Disallowed one-time expenses
650	Transportation	13,965	(1,943)	12,022		Various disallowances
656	Vehicle Insurance	3,850	(3,850)	0		New all-in-one policy
657	General Liability Insurance	2,370	10,151	12,521		New all-in-one policy
658	Workers' Comp Insurance	1,967	200	2,167		Adjusted for salary increases
659	Insurance - Other	6,762	(6,762)	0		New all-in-one policy
666	Amortz. of Rate Case	0	0	0		No Adjustment
667	Gross Revenue Fee (PUC)	2,321	(174)	2,147		Revenue increase adjustment
670	Bad Debt Expense	711	110	821		Actuals
671	Cross Connection Control Program	77,784	(77,504)	280		Pass-through expenses
673	Training and Certification	1,290	(699)	591		Miscellaneous disallowances
674	Consumer Confidence Report	200	0	200		No Adjustment
675	Miscellaneous Expense	7,769	0	7,769		No Adjustment
OE1	PR/Advertising	300	(188)	112		Items that don't belong in rates
OE2	Contingency Deposit	15,000	(15,000)	0		Suspend for three years
OE3	USDA Replacement Reserve short lived assets	23,042	0	23,042		No Adjustment
OE4	Colorado/Silverado	11,446	(11,446)	0		Moved to Plant
OE5	Line of Credit Interest Only	13,935	(13,935)	0		One-time expense paid with collected funds
	TOTAL OPERATING EXPENSE	664,044	(141,927)	522,117		

OTHER REVENUE DEDUCTIONS						
403	Depreciation Expense	45,715	75,800	121,515		
406	Amort of Plant Acquisition Adjustment	0	0	0		No Adjustment
407	Amortization Expense	0	0	0		No Adjustment
408.11	Property Tax	862	0	862		No Adjustment
408.12	Payroll Tax	16,060	1,981	18,041		
408.13	Other	4,919	(4,919)	0		
409.1	Federal Income Tax	0	0	0		No Adjustment
409.11	Oregon Income Tax	0	0	0		No Adjustment
409.13	Extraordinary Items Income Tax	0	0	0		No Adjustment
	TOTAL REVENUE DEDUCTIONS	731,600	(69,065)	662,535		
	NET OPERATING INCOME	196,782	(342)	196,440		

UTILITY RATE BASE						
101	Utility Plant in Service	1,235,904	4,232,115	5,468,019		
272	Amortization of CIAC	0	0	0		No Adjustment
	Less:					
108.1	Depreciation Reserve	670,481	(114,900)	555,581		
271	Contributions in Aid of Const	0	0	0		No Adjustment
281	Accumulated Deferred Income Tax	0	0	0		No Adjustment
	Net Utility Plant	565,423	4,347,015	4,912,438		
	Plus: (working capital)					
151	Materials and Supplies Inventory	0	0	0		No Adjustment
WrkCash	Working Cash (Total Op Exp /12)	71,473	(11,813)	59,660		
	TOTAL RATE BASE	636,896	4,335,202	4,972,098		

Cost of Capital

Utility Proposed Rate of Return	0.50%
Test Year Rate of Return	-14.92%
Staff Proposed Rate of Return	0.06%

Cost of Debt

Debt	Original Balance	Outstanding Balance	Capital Structure	Cost	Weighted Cost
Ally Silverado Truck	\$ 23,095	\$ 10,695	0.22%	4.84%	0.01%
Ally Colorado	\$ 27,544	\$ 12,754	0.26%	4.84%	0.01%
BOTC VacTrailer	\$ 39,172	\$ 39,172	0.79%	4.28%	0.03%
			0.00%		
			0.00%		
			0.00%		
			0.00%		
			0.00%		
			0.00%		
			0.00%		
			0.00%		
			0.00%		
			0.00%		
TOTAL DEBT	\$89,811	\$62,621			0.06%

Equity

Equity	Original Balance	Outstanding Balance	Capital Structure	Cost	Weighted Cost
	0	\$4,909,477	98.74%	0.00%	0.00%
	0	\$0	0.00%	0.00%	0.00%
			0.00%		
			0.00%		
			0.00%		
			0.00%		
			0.00%		
			0.00%		
			0.00%		
			0.00%		
			0.00%		
			0.00%		
			0.00%		
			0.00%		
			0.00%		
			0.00%		
			0.00%		
TOTAL EQUITY	\$0	\$4,909,477			0.00%
TOTAL DEBT + EQUITY		\$4,972,098			0.06%

Rate of Return

Residential and Commercial Rate Design

Proposed Residential and Commercial Revenues: \$844,298
 Variable Rate: 26%
 Base Rate: 74%
 Variable Revenues: \$219,517
 Base Revenues: \$624,780
 Total: \$844,298

Staff Calculated Avg Mo Use
 1,091
 2,196

CRRWC used 1,400 cf as average annual monthly usage for residential
 CRRWC used 2,600 cf as average annual monthly usage for commercial

RATE COMPARISON

CURRENT Company Rates					
Size of Line	Average Monthly Usage in Units	Commodity Rate	Average Monthly Commodity Price	Base Rate	Total Average Monthly Bill
RESI	14.00	\$0.83	11.62	\$23.00	\$34.62
Tier 2	0	\$0.93	0	\$0.00	\$0.00
	0		0	\$0.00	\$0.00
COMM	26.00	\$0.83	21.58	\$23.00	\$44.58
Tier 2	0	\$0.93	0	\$0.00	\$0.00
	0		0	\$0.00	\$0.00
	0		0	\$0.00	\$0.00

BASE RATE

Size of Line	# of Customers	Current Monthly Base Rate	Calculated Revenue at Current Base Rates	Factors Used	AWWA Factors	Staff Proposed Monthly Base Rate	Staff Proposed Total Annual Revenues	% Increase
RESI & COMM	1,505	\$23.00	\$415,380	1	1	\$34.59	\$624,780	50%
TOTAL*	1,505		\$415,380				\$624,780	50%

* Total # of customers confirmed by Company 12/8/14

COMMODITY RATE

One Rate

Proposed consumption per data response	20,228,587
Divided by unit of measure:	100 cf
Equals total consumption:	202,286 UNITS
Proposed Variable Revenue:	\$219,517
Divided by consumption:	202,286
Equals commodity rate:	\$1.09 per 100 cf

PROPOSED Company Rates					
Size of Line	Average Monthly Usage in Units	Commodity Rate	Average Monthly Commodity Price	Base Rate	Staff Calculated Total Average Monthly Bill
RESI	14.00	\$0.97	13.58	\$34.50	\$48.08
Tier 2	0.00	\$1.24	0		\$0.00
	0.00		0		\$0.00
COMM	26.00	\$0.97	25.22	\$34.50	\$59.72
Tier 2	0.00	\$1.24	0		\$0.00
	0.00		0		\$0.00
	0.00		0		\$0.00

PROPOSED STAFF Rates at Company Stated Average Usage						
Size of Line	Average Monthly Usage in Units	Commodity Rate	Average Monthly Commodity Price	Base Rate	Total Average Monthly Bill	Increase from Current Rates
RESI	14.00	\$1.09	15.26	\$34.59	\$49.85	47.75%
COMM	26.00	\$1.09	28.34	\$34.59	\$62.93	46.88%
			0			

PROPOSED STAFF Rates at Staff Calculated Average Usage						
Size of Line	Average Monthly Usage in Units	Commodity Rate	Average Monthly Commodity Price	Base Rate	Total Average Monthly Bill	Increase from Current Rates
RESI	10.91	\$1.09	11.90	\$34.59	\$46.49	
COMM	21.96	\$1.09	23.94	\$34.59	\$58.53	
			0			

Residential and Commercial Rate Impact

**Residential
One Rate**

	Monthly Consumptions Customer Usage	Current Base Rate	Monthly Consumptions Customer Usage	Current Commodity Rate per 100 cf	Total Current Average Monthly Bill	Staff Proposed Customer Base Rate	Proposed Commodity Rate per 100 cf	Usage Factor	Total Proposed Monthly Bill	Difference
Average	1400	23	14	\$0.83	\$34.62	\$34.59	\$1.09	14	\$49.85	\$15.23
	0	23	0	\$0.83	\$23.00	\$34.59	\$1.09	0	\$34.59	\$11.59
	1000	23	10	\$0.83	\$31.30	\$34.59	\$1.09	10	\$45.49	\$14.19
	2000	23	20	\$0.83	\$39.60	\$34.59	\$1.09	20	\$56.39	\$16.79
	3000	23	30	\$0.83	\$47.90	\$34.59	\$1.09	30	\$67.29	\$19.39
	4000	23	40	\$0.83	\$56.20	\$34.59	\$1.09	40	\$78.19	\$21.99
	5000	23	50	\$0.83	\$64.50	\$34.59	\$1.09	50	\$89.09	\$24.59
	6000	23	60	\$0.93	\$78.80	\$34.59	\$1.09	60	\$99.99	\$21.19
	8000	23	80	\$0.93	\$97.40	\$34.59	\$1.09	80	\$121.79	\$24.39
	10000	23	100	\$0.93	\$116.00	\$34.59	\$1.09	100	\$143.59	\$27.59

**Commercial
One Rate**

	Monthly Consumptions Customer Usage	Current Base Rate	Monthly Consumptions Customer Usage	Current Commodity Rate	Total Current Average Monthly Bill	Staff Proposed Customer Base Rate	Proposed Commodity Rate per 100 cf	Usage Factor	Total Proposed Monthly Bill	Difference
Average	2600	23	26	\$0.83	\$44.58	\$34.59	\$1.09	26	\$62.93	\$18.35
	0	23	0	\$0.83	\$23.00	\$34.59	\$1.09	0	\$34.59	\$11.59
	1000	23	10	\$0.83	\$31.30	\$34.59	\$1.09	10	\$45.49	\$14.19
	2000	23	20	\$0.83	\$39.60	\$34.59	\$1.09	20	\$56.39	\$16.79
	3000	23	30	\$0.83	\$47.90	\$34.59	\$1.09	30	\$67.29	\$19.39
	4000	23	40	\$0.83	\$56.20	\$34.59	\$1.09	40	\$78.19	\$21.99
	5000	23	50	\$0.83	\$64.50	\$34.59	\$1.09	50	\$89.09	\$24.59
	6000	23	60	\$0.93	\$78.80	\$34.59	\$1.09	60	\$99.99	\$21.19
	8000	23	80	\$0.93	\$97.40	\$34.59	\$1.09	80	\$121.79	\$24.39
	10000	23	100	\$0.93	\$116.00	\$34.59	\$1.09	100	\$143.59	\$27.59

Temporary Event and Water Haulers Rates and Impact

Monthly Consumptions Customer Usage	Monthly Consumptions Customer Usage	Current Commodity Rate per 100 cf	Total Current Average Monthly Bill	Staff Proposed Customer Commodity Rate per 100 cf	Usage Factor	Total Proposed Monthly Bill	Difference
0	0	\$0.93	\$0.00	\$1.09	0	\$0.00	\$0.00
1000	10	\$0.93	\$9.30	\$1.09	10	\$10.90	\$1.60
2000	20	\$0.93	\$18.60	\$1.09	20	\$21.80	\$3.20
3000	30	\$0.93	\$27.90	\$1.09	30	\$32.70	\$4.80
4000	40	\$0.93	\$37.20	\$1.09	40	\$43.60	\$6.40
5000	50	\$0.93	\$46.50	\$1.09	50	\$54.50	\$8.00
6000	60	\$0.93	\$55.80	\$1.09	60	\$65.40	\$9.60
8000	80	\$0.93	\$74.40	\$1.09	80	\$87.20	\$12.80
10000	100	\$0.93	\$93.00	\$1.09	100	\$109.00	\$16.00



September 5, 2014

Dennis Kirk, President
Crooked River Ranch Water Company
13845 Commercial Loop
Terrebonne OR 97760

RE: Rural Development Loan and Grant Conditions,
Water System Improvement Project

Dear Mr. Kirk and Board of Directors:

LETTER OF CONDITIONS

USDA, Rural Development, Rural Utilities Service (RUS), hereby establishes conditions which must be understood and agreed to by you before further consideration may be given to your application. Any changes in project cost, source of funds, scope of services, and/or any other significant changes in the project or applicant must be reported to and approved by Rural Development by written amendment to this letter. Any changes not approved by Rural Development shall be cause for discontinuing processing of the application. This letter is not to be considered as loan approval or as a representation as to the availability of funds.

Please complete and return the attached Form RD 1942-46, "Letter of Intent to Meet Conditions," if you desire that further consideration be given to your application. This form also includes the request for the lowest interest rate possible. This will be either the interest rate at approval or loan closing, whichever is lowest. The loan will be considered approved on the date a signed copy of Form RD 1940-1, "Request for Obligation of Funds," is mailed to you.

If the conditions set forth in this letter, except those to be met at loan closing, are not met within 60 days from the date in this letter, Rural Development reserves the right to discontinue the processing of the application.

The term "Owner" as used in this letter refers to the above named addressee organization. Rural Development administers the RUS Water and Waste Disposal loan program. The term "facilities" refers to the water system, to be improved to serve the residences and businesses in the area.

Project Description:

The project will consist of the installation of a new 1million gallon elevated storage tank; drilling of new well ; and pipe well to the new tank.

Rural Development • Redmond Area Office
625 SE Salmon Ave. Suite 5 • Redmond, OR 97756
Voice (541) 923-4358, Ext 137 • Fax (541) 504-4396

USDA is an equal opportunity provider and employer.

If you wish to file a Civil Rights program complaint of discrimination, complete the USDA Program Discrimination Complaint Form (PDF), found online at http://www.ascr.usda.gov/complaint_filing_cust.html, or at any USDA office, or call (866) 632-9992 to request the form. You may also write a letter containing all of the information requested in the form. Send your completed complaint form or letter to us by mail at U.S. Department of Agriculture, Director, Office of Adjudication, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, by fax (202) 690-7442 or email at program.intake@usda.gov.

1. **Amount**

The Rural Development, RUS, loan will not exceed \$4,300,000. The grant will not exceed \$1,515,046.

2. **Loan Payment Schedule**

The loan will be payable over a period of 40 years from the date of loan closing. An amortized payment of principal and interest will be scheduled on an annual basis. The Owner will issue a Promissory Note and Deed of Trust. The annual payments will be \$193,629.00, unless you are notified otherwise.

Rural Development will utilize the Preauthorized Debit (PAD) payment process to allow loan payments to be electronically withdrawn from the owner's bank account on the day the payment is due. Form RD 3550-28, "Authorization Agreement for Preauthorized Payments," will be used to formalize authorization of this process.

3. **Interim Financing**

Interim financing shall be obtained immediately prior to the start of construction to finance the facilities during construction. A written commitment from the lender is required prior to RD's concurrence to the award. **Rural Development cannot issue a commitment letter to an interim lender until we have received closing instructions from USDA, Office of General Counsel and construction bids have been obtained confirming that the project can be completed based on available funding.**

These funds, along with other project funds received from other agencies and sources, shall be placed in a "Project Construction Account." Such funds will be expended only for eligible project expenses approved by Rural Development. The term of the interim financing will be for no less than the total construction period. Upon completion of the project, RUS loan funds will be used to purchase the interim financing debt. The amount of the interim financing will not exceed \$4,300,000.00 including interest.

4. **Disbursement of Funds**

Owner's contribution will be expended before the disbursal of any RUS funds. Other funding, including interim financing will be expended prior to RUS grant funds may be drawn when the interim financing is exhausted.

When interim financing is utilized RUS loan funds will be advanced to the Owner when the loan is closed. RUS loan funds will be exchanged for the Promissory Note and Deed of Trust and the RUS loan funds will be disbursed by the Owner to reimburse interim financing provided by a commercial lender or other approved source. After providing for all authorized project costs, any remaining RUS project funds advanced but not utilized will be returned to Rural Development and canceled.

Once the funds are deposited into the Construction Account, they become your responsibility. Financial institutions or depositories accepting deposits of public funds and providing other financial agency services to the Federal Government are required to pledge adequate, acceptable securities as collateral. General requirements for designating depositories and regulations governing the pledging of collateral are identified in 31 CFR

Part 202 ("Depositories and Financial Agents of the Federal Government"). Treasury's current acceptability and valuation requirements are identified in 31 CFR Part 380 ("Collateral Acceptability and Valuation") and specific eligibility and valuation guidance is provided in Treasury's procedural instructions and on Treasury's Bureau of the Public Debt website at www.publicdebt.treas.gov.

All funds in the account will be secured by a collateral pledge equaling at least 100% of the highest amount of funds expected to be deposited in the Construction Account at any one time.

Any RD grant funds not disbursed immediately upon receipt must be deposited in an interest bearing account except as follows:

- a. Federal grant awards (includes all federal funding sources) are less than \$120,000 per year.
- b. The best available interest bearing account would not be expected to earn in excess of the following:

Non-Profits

Interest earned on grant funds in excess of \$250 per year will be remitted to the RUS annually as required in 7CFR3019.

Public Bodies

Interest earned on grant funds in excess of \$100 per year will be submitted to RUS at least quarterly as required in 7CFR3016.

5. **Project Budget** - Funding from all sources has been budgeted for the estimated expenditures as follows:

<u>Project costs:</u>	<u>Total Budgeted:</u>
Construction	\$4,317,663
Engineering Fees (Incl. environmental fees)	\$ 877,947
Legal Counsel	\$ 46,270
Interim Interest	\$ 141,400
Project Contingency	\$ 431,766
TOTALS	\$5,815,046

6. **Excess RUS Loan & Grant Funds**

Your funding needs will be reassessed if there is a significant reduction in project costs after bids are received. Obligated loan or grant funds not needed to complete the proposed project will be de-obligated. Any reduction will be applied to grants first. An "Amended Letter of Conditions" will be issued for any revised project budget.

<u>Project Funding Sources</u>	<u>Funding Amount:</u>
Applicant Contribution	\$ -0-
USDA RUS Loan	\$4,300,000
USDA RUS Grant	\$1,515,046
TOTALS	\$5,815,046

Any changes in funding sources following obligation of RUS funds must be reported to the processing official. If actual project costs exceed the project cost estimates, an additional contribution by the Owner may be necessary. Prior to advertisement for construction bids, you must provide evidence of applicant contributions and approval of other funding sources. This evidence should include a copy of the commitment letter.

6. User Verification

This letter of conditions is based upon you providing evidence or a certification that there will be at least 1540 residential users and 39 commercial users on the (existing and proposed) system when construction has been completed.

Before the Agency can agree to the project being advertised for construction bids, you must provide evidence or a certification that the total required number of users are currently using the system or signed up to use the system and that the monthly water usage projected for each by the engineer is reasonable. In the event any of the large volume users discontinue the offered service, you must obtain enough additional revenue (i.e., increase in user rates, sign up of an adequate number of other users, reduction in project scope to reduce debt service and O&M, etc.) to make up the projected income that would be lost by not having those users on the system.

You must provide a positive program to encourage connection requirements, you must provide evidence of the ordinance and a certification attesting to the number of users that will be required to connect to the proposed system prior to advertisement bids. A guide for developing your "Positive Program to Encourage Connections" is available if needed.

7. Security Requirements

Security for the loan will be:

- a. Promissory Note and Deed of Trust on all lands owned
- b. Assignment of Income; this assignment is perfected in RUS Bulletin 1780-28, "Loan Resolution Security Agreement" (Non Profits) and the UCC-1 Financing Statement
- c. Assignment of Water Rights
- d. An assignment of all easements
- e. UCC-1 Financing Statement (for a Transmitting Utility) reflecting all movable equipment

The Owner, through its Counsel, is to provide Rural Development with a complete transcript for the Note. The opinion from the Counsel that is to accompany the

Promissory Note Transcript must show that the Note is a valid obligation of the Crooked River Ranch Water Company (See RUS Instruction 1780.14, Section 1780.14 (a)).

8. **Property Rights**

Prior to advertisement for construction bids, you must furnish satisfactory evidence that you have or can obtain adequate continuous and valid control over the lands and rights-of-ways needed for the project. Acquisitions of necessary land and rights must be accomplished in accordance with the Uniform Relocation and Real Property Acquisition Act.

The Owner has obtained the minimum amount of land necessary for the construction of the facilities. The land was acquired by patent, deed, permit, easement or right-of-way. Any land purchased will be subject to concurrence by the Rural Development and no land will be purchased where the price exceeds the present market value of the land. Prior to advertising for construction bids and in order for Rural Development to obtain closing instructions from its legal counsel and authorize a lender to provide interim financing, the Owner shall provide the following evidence of title to property and evidence of control over the land and rights necessary for the project:

- a. Title Insurance on any land upon which a Water Reservoir, Pump Station, Well or any other structure costing more than \$1,000.00 is to be constructed. A preliminary title report should be provided to RUS as soon as practical.
- b. Right-of-Way easements prepared on Form RD 442-20 or other approved form for all Rights-of-Way which the applicant obtained for the proposed project.
- c. Right-of-Way Map.
- d. A Right-of-Way Certificate prepared by the Owner on Form RD 442.21.
- e. An Opinion of Counsel Relative to Rights-of-Way prepared on Form RD 442-22.
- f. The owner, contractor or responsible party will be required to obtain all required permits for the project prior to advertisement for construction bids. A narrative opinion from your attorney concerning all permits, certificates, licenses and other items necessary to show that all legal requirements can be met and stating how they will be met.

9. **Pollution Control Standards & Other Governmental Requirements**

The Owner is to provide a certificate or letter from the Oregon Department of Water Resources or the Department of Environmental Quality certifying that the facilities will meet applicable pollution control standards. In addition, the owner is to comply with all other requirements of RUS Instruction 1780, Section 1780.57 (g) (h).

10. **Civil Rights & Equal Opportunity** –

You should be aware of and will be required to comply with other federal statute requirements including but not limited to:

Section 504 of the Rehabilitation Act of 1973 - Under section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794), no handicapped individual in the United States shall, solely by reason of their handicap, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving agency financial assistance.

Civil Rights Act of 1964 – All borrowers are subject to, and facilities must be operated in accordance with, title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d et seq.) and subpart E of part 1901 of this title, particularly as it relates to conducting and reporting of compliance reviews. Instruments of conveyance for loans and/or grants subject to the Act must contain the covenant required by paragraph 1901.202(e) of this title.

The Americans with Disabilities Act (ADA) of 1990 – This Act (42 U.S.C. 12101 et seq.) prohibits discrimination on the basis of disability in employment, State and local government services, public transportation, public accommodations, facilities, and telecommunications. Title II of the Act applies to facilities operated by State and local public entities which provides services, programs and activities. Title III of the Act applies to facilities owned, leased, or operated by private entities which accommodate the public.

Age Discrimination Act of 1975 – This Act (42 U.S.C. 6101 et seq.) provides that no person in the United States shall on the basis of age, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal financial assistance.

Agency financial programs must be extended without regard to race, color, religion, sex, national origin, marital status, age, or physical or mental handicap.

11. **Proposed Operating Budget and User Rate Structure**

You must maintain a rate schedule that provides adequate income to meet the minimum requirements for operation and maintenance (O&M), debt service, and reserves. You will be required to submit a copy of your proposed annual operating budget and rate analysis to the Agency which supports the proposed loan repayment prior to the Agency giving you written authorization to proceed with the bidding phase. The operating budget should be based on a typical year cash flow after completion of the construction phase. Form RD 442-7 - "Operating Budget" attached or similar form may be utilized for this purpose.

The rate analysis will be required to show the number of users, their average consumption based on a twelve month consecutive average, and rate structure to support

the necessary revenue to make the operating budget cash flow. It is expected that O&M will change over each successive year and user rates will need to be adjusted on a regular basis.

Technical assistance resources may be available to help you evaluate and complete a rate analysis on your system. If you are interested please contact our office for phone numbers and contacts of these organizations.

12. **Business Operations and User Charges**

The Owner is to conduct the business operations in accordance with applicable State Codes and the Owner's rules and regulations. The Owner will provide service from the facilities to all areas where it is economically feasible.

The Owner is to adopt and enforce Rules and Regulations so that all users will pay equitable rates and water conservation will be promoted. The Owner will provide Rural Development copies of these Rules and Regulations adopted by the Owner prior to the start of construction. The rate schedule should result in sufficient income from the users for the Owner to obtain adequate income to pay estimated O&M, reserves and debt service.

13. **Accounts, Records, and Audit Reports**

You may be required to obtain the services of an independent licensed Certified Public Accountant (CPA). When permitted by state statutes or with the approval of the Agency, a state or Federal auditor may perform the audit in lieu of a CPA.

Audit Requirements – You must enter into a written audit agreement with the auditor and submit a copy to the Agency prior to advertisement of bids. The audit agreement may include terms and conditions that the borrower and auditor deem appropriate; however, the agreement should include the type of audit or financial statements to be completed, the time frame in which the audit or financial statements will be completed, what type of reports will be generated from the services provided and how irregularities will be reported.

Prior to the advertisement for bids, your accountant must certify to you and the Agency that the accounts and records as required by your bond resolution have been established and are operational.

The following management data will be required from you on an annual basis and be submitted to the Agency as specified below:

- a. A borrower that expends \$500,000 or more in federal financial assistance per fiscal year shall submit an audit performed in accordance with the requirements of OMB Circular A-133. As described above, the total federal funds expended from all sources shall be used to determine federal financial assistance expended. Projects financed with interim financing are considered federal expenditures.
- b. A borrower that expends less than \$500,000 in Federal financial assistance per fiscal year and an outstanding Agency loan balance of \$1,000,000 or more shall

submit an audit performed in accordance with Generally Accepted Government Auditing Standards, (GAGAS).

- c. A borrower that expends less than \$500,000 in Federal financial assistance per fiscal year and has an outstanding Agency loan balance of less than \$1,000,000 may submit a management report, which includes at a minimum a Balance Sheet and an Income and Expense Statement.

Annual Budget and Projected Cash Flow - Thirty days prior to the beginning of each fiscal year, you will be required to submit an annual budget and projected cash flow to this office. With the submission of the annual budget, you will be required to provide a current rate schedule, a current listing of the Board or Counsel Members and their terms.

All borrowers who are not required to submit an audit report will, within 60 days following the end of the fiscal year furnish Rural Development with annual financial statements, consisting of a verification of the organization's balance sheet and statement of income and expense report signed by an appropriate official of the organization or other documentation as determined appropriate by the approval official. Form RD 442-2, Statement of Budget, Income and Equity, and RD 442-3, Balance Sheet may be used for this purpose.

Quarterly Reports – Quarterly management reports will be required until the processing office waives the required reports. You may use RD form 442-2 and complete schedule 1, page 1, columns 2-6 as appropriate and page 2. The area office will notify you in writing when the Quarterly reports are no longer required.

14. Insurance and Bonding

Prior to loan closing or start of construction, whichever occurs first, you must acquire the types of insurance and bond coverage shown below. The use of deductibles may be allowed providing you have the financial resources to cover potential claims requiring payment of the deductible.

The Agency strongly recommends that you have your engineer, attorney, and insurance provider(s) review proposed types and amounts of coverage, including any exclusions and deductible provisions. It is your responsibility and not that of the Agency to assure that adequate insurance and fidelity or employee dishonesty bond coverage is maintained.

- a. General Liability Insurance – Include vehicular coverage.
- b. Workers' Compensation - In accordance with appropriate State laws.
- c. Position Fidelity Bond(s) or Acceptable Dishonesty Insurance- All positions occupied by persons entrusted with the receipt and/or disbursement of funds must be bonded. You should have each position bonded in an amount equal to the maximum amount of funds to be under the control of that position at any one time. The coverage may be increased during construction of this project based on

the anticipated monthly advances. The minimum coverage acceptable to the Agency will be for each position to be bonded for an amount at least equal to one annual installment on your Agency loan or \$193,629. The amount of coverage should be discussed and approved by the Agency. Form RD 440-24, "Position Fidelity Bond" may be used for this purpose.

- d. National Flood Insurance - If the project involves acquisition or construction in designated special flood or mudslide prone areas, you must purchase a flood insurance policy at the time of loan closing.
- e. Real Property Insurance - Fire and extended coverage will normally be maintained on all structures except reservoirs, pipelines and other structures if such structures are not normally insured and subsurface lift stations except for the value of electrical and pumping equipment. Prior to the acceptance of the facility from the contractor(s), you must obtain real property insurance (fire and extended coverage) on all facilities identified above.

15. **Reserve Account**

Reserves must be properly budgeted to maintain the financial viability of any operation. Reserves are important to fund unanticipated emergency maintenance and repairs, and assist with debt service should the need arise.

It has been determined as part of this funding proposal that you have sufficient funds to establish reserves for the following purposes and amounts:

As part of this RUS loan proposal you must establish and fund annually a debt service reserve fund equal to 10% of the annual payment each year over the life of the loan until the city accumulates an amount equal to one annual installment. This reserve is required to establish an emergency fund for maintenance and repairs and debt repayment should the need arise. Ten percent of the proposed loan installment is \$19,363 per year.

This reserve should be maintained in a separate bookkeeping account and proof of the reserve balance will be provided each year in the Balance Sheet and/or the Notes to the Financial Statements in the Annual Audit Report. This reserve is in addition to any existing or future reserve account obligations of the Owner.

In addition to the debt service reserve account, you must fund a short lived asset replacement reserve by deposition a sum of \$23,042 annually.

16. **Loan Resolution**

RUS Bulletin 1780-28 "Loan Resolution Security Agreement" (non-profits) and a Resolution of Member or Stockholders showing the correct amount of loan is to be adopted and executed by the Owner and provided to Rural Development prior to the loan closing.

17. **Grant Agreement**

Attached is a copy of RUS Bulletin 1780-12, "Water or Waste System Grant Agreement," for your review. You will be required to execute a completed form prior to the advertisement for construction bids.

18. **Professional Service Contracts**

- a. **Engineering Services** – The Agency must approve any agreements and modifications to agreements for professional engineering services.

The agreement for engineering services should consist of the Engineers Joint Contract Documents Committee (EJCDC) documents as indicated in RUS Bulletin 1780-26, "Guidance for the Use of EJCDC Documents on Water and Waste Projects with RUS Financial Assistance" or other approved form of agreement.

- b. **Resident Inspector** – Full-time inspection is required unless a written exception is made by the Agency upon your written request. This service is to be provided by the consulting engineer or other arrangements as approved by the Agency.

Prior to the pre-construction conference, a resume of qualifications of the resident inspector(s) will be submitted to the owner and Agency for review and approval. The owner will provide a letter of acceptance for all proposed observers to the engineer and Agency. The resident inspector must attend the pre-construction conference.

- c. **Agreement for Other Professional Services** – Professional services of the following may be necessary: Attorney, bond counsel, accountant, auditor, appraiser, environmental professionals, and financial advisory of fiscal agent (if desired by applicant). Contracts or other forms of agreements for other services including management, operation, and maintenance will be developed by the applicant and presented to the Agency for review and concurrence. Guidance on entering into agreements or contracts of these types is available from the Agency.

19. **Construction Contract Documents, Final Plans and Bidding**

- a. The contract documents should consist of the EJCDC Construction Contract Documents as indicated in RUS Bulletin 1780-26 or other approved form of agreement.
- b. The contract documents, final plans, and specifications must comply with RUS Instruction 1780, Subpart C – Planning, Designing, Bidding, Contracting, Construction and Inspections and be submitted to the Agency for approval prior to advertisement for bids.
- c. The use of any procurement method other than competitive bidding must be requested in writing and approved by the Agency.

- d. A preconstruction conference must be held prior to the start of construction with the contractors, the engineer, Owner, resident inspector, other funding agencies' representatives and Rural Development. (Specific attention will be given to the responsibilities of the Owner, its consultants [project architect or engineer], and Rural Development regarding project monitoring, change orders, approval of pay requests, etc.). Rural Development Form RD 1924-16, "Record of Pre-construction Conference," or similar form will be used for the agenda.
- e. The Agency requires prior agency concurrence with all Change Orders, Invoices, and Payment Estimates.

20. **Construction Accounting and Monitoring**

A construction account must be set up and must provide for detailed accounting of all project costs. Payment requests must reflect the dollar amount of each funding agency's share in addition to the Rural Development share.

Project Monitoring Reports: All billed cost or disbursements for the project must be submitted monthly to Rural Development on OR Guide 21, "Project Monitoring Report." The owner must submit copies of all bills, invoices, or statements with the Monitoring Report.

The owner shall provide Rural Development with the initial monthly report prior to the pre-construction conference and continuing until the project is completed and accepted by the owner.

All funds will be disbursed by the owner for authorized construction that has been completed in accordance with approved construction plans and specifications and for land, legal, engineering, interest, and administrative costs related to the project. All proposed payments for construction will be documented on Form RD 1924-18, "Partial Payment Estimate," and will be submitted monthly to Rural Development for review and concurrence **prior to payment by the Owner**.

Electronic Fund Transfer: Once all interim financing funds and contributions by the owner and other agencies have been expended Rural Development grant funds will be advanced to the owner by the Rural Development on a 30-day basis as needed. The owner will provide Rural Development with a complete Form RD 440-11, "Estimate of Funds Needed for 30 Day Period Commencing XXX," or similar form for each advance of funds.

To facilitate a prompt disbursement, Form SF-3881, "Electronic Funds Transfer Payment Enrollment Form" will need to be completed and submitted prior to the initial grant fund request.

21. **Bid Authorization** – Projects are not to be advertised for construction bids until permission to do so has been received from the Rural Development Area Office. Once all conditions outlined in this letter have been met, the Agency may authorize you to advertise the project for construction bids. Such advertisement must be in accordance with appropriate State statutes. Immediately after bid opening you must provide the Agency with (a) bid tabulation and (b) your engineer's evaluation of bids and (c) your recommendation for contract awards.

If the Agency agrees that the construction bids received are acceptable adequate funds are available to cover the total project costs, and all administrative conditions of loan approval have been satisfied, loan closing instructions will be issued to you setting forth any further requirements that must be met before a Notice of award may be issued.

22. **Refinancing and Graduation to Other Credit**

The Owner agrees that if at any time it shall appear to the Government that the Owner is able to refinance the indebtedness from responsible cooperative or private credit sources, at reasonable rates and terms for loans for similar purposes and periods of time, the Owner will, upon request of the Government, apply for and accept such financing in sufficient amount to repay the Government and will take all action necessary to obtain the financing. Graduation is required by section 333(c) of the Consolidated Farm and Rural Development Act [7 U.S.C. 1983(c)].

23. **Drug-Free Workplace Act of 1988 (P.P. 100-690)**

The Owner must execute Form AD-1049, "Certification Regarding Drug-Free Workplace Requirements (Grants)."

24. **Vulnerability Assessments (VA) and Emergency Response Plans (ERP)**

Congress enacted the Public Health Security and Bioterrorism Preparedness Response Act of 2002, Public Law 107-188 (Bioterrorism Act). The Bioterrorism Act amended the Safe Drinking Water Act (SDWA) to require all medium and large sized community water systems (serving populations greater than 3,300) to assess vulnerability to terrorist attack and develop emergency plans for response to such an attack. Medium and large community water systems are being monitored by the U.S. EPA for completion of VA's and ERP's.

Rural Development requires all financed water and wastewater systems to have a Vulnerability Assessment (VA) and an Emergency Response Plan (ERP) in place. New water or wastewater systems must provide a certification that an ERP is complete prior to the start of operations. A certification that a VA is complete must be submitted within one year of the start of operations. All other borrowers must provide a certification that a VA and ERP is complete prior to bid authorization.

You will also be required to provide a certification that the VA and ERP are complete and are current every three years after the start of operations. RD does not need or want a copy of the VA or ERP. The requested certification will be sufficient to meet our needs. Technical assistance providers are available to provide on site assistance if desired.

25. **Debarment, Suspension, and Other Responsibility Matters**

Executive Order 12549 requires the following certifications:

- a. Form AD-1047, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters." The Owner must execute this form to certify it is not debarred or suspended from Government assistance.

- b. Form AD-1048, "Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion." This form is to be used by the Owner to obtain a certification from any person or entity with which it contracts exceeding \$25,000 in regard to this facility.

26. **Applicable State Statutes and Requirements** – Evidence must also be provided indicating your system has a licensed operator, meeting State requirements, will be available prior to the system becoming operational or a suitable supervisory agreement with a licensed operator is in effect.

27. **Equal Opportunity**

Compliance with Executive Order 11246 is required. The Owner shall complete and adopt Form RD-400-1, "Equal Opportunity Agreement."

28. **Historic Preservation**

The Owner agrees that all facilities will be designed and constructed in a manner which will contribute to the preservation and enhancement of sites, structures, and objects of historical, architectural, and archaeological significance. All facilities must comply with the National Historic Preservation Act of 1966 (16 U.S.C. 470) as supplemented by 36 CFR 800 and Executive Order 11593, "Protection and Enhancement of the Cultural Environment."

29. **Small and Minority Business Utilization**

Affirmative steps should be taken by the Owner to assure that small and minority businesses are utilized when possible as sources of supplies, equipment, construction and services. The Owner should utilize OR Guide 19 of OR Instruction 1942-A when developing a plan for utilizing minority and small business firms. The Owner will submit a written statement or other evidence to Rural Development of the steps taken to comply with this condition.

30. **Environmental Requirements** -

a. **Mitigation** - At the conclusion of the proposal's environmental review process, specific actions were determined necessary to avoid or minimize adverse environmental impacts. The following list of actions are required for successful completion of the project and must be adhered to during project design and construction:

1. The Crooked River Ranch Water Company shall obtain and comply with all required County, State, and federal permits, including mitigations measures;
2. Notices to land owners and residents with property access along roads to be impacted during construction should receive notices prior to beginning construction with estimated construction schedules and duration of traffic

impacts. Proper signage or traffic control measures should be implemented during construction for vehicle safety.

3. An Inadvertent Discovery Plan (IDP) must be "in place" before construction begins. If earth disturbing activities during project construction uncover cultural materials (i.e. structural remains, historic artifacts, or prehistoric artifacts), the area around the discovery shall be secured, all work shall cease, and the appropriate authorities shall be contacted to discuss appropriate protocol for removal, inventory, and proper preservation of the resource(s). These authorities are: 1) RD State Environmental Coordinator (SEC) Charlotte Rollier, at (503) 414-3356; 2) the Oregon State Historic Preservation Office Archaeologist, Dennis Griffin, at (503) 986-0674. The RD SEC will notify any applicable tribal contacts;
 4. If earth disturbing activities in any portion of the project area uncover human remains, all work shall cease immediately in accordance with Treatment of Native American Human Remains Discovered Inadvertently or through Criminal Investigations on Private and Public, State-Owned Lands in Oregon and ORS 97.740-.994 and 358.905-961. The area around the discovery shall be secured and the Jefferson County Coroner and RD SEC shall be notified immediately. The RD SEC shall notify the State Archeologist at SHPO and the appropriate tribes without delay;
 5. The project will require a Stormwater Management Plan that must be kept at the construction site with records of weekly inspections and storm event monitoring reports. Construction specifications shall contain requirements that reflect DEQ Best Management Practices (BMP) for temporary erosion and sedimentation controls during construction of the project;
 6. When disposing of excess, spoil, or other construction materials on public or private property, the ultimate recipient shall not fill in or otherwise convert wetlands or 100-year floodplain areas delineated on the latest Federal Emergency Management Agency (FEMA) floodplain maps.
- b. Project Modifications – The project as proposed has been evaluated to be consistent with all applicable environmental requirements. If the project or any project element deviates from or is modified from the original approved project, additional environmental review may be required.

31. Restrictions on Lobbying

In order to comply with Section 319 of Public Law 101-121 which prohibits applicants and recipients of Federal contracts, grants and loans from using Federal appropriated funds for lobbying the Federal Government in connection with the award of a specific contract, grant or loan, all contractors and subcontractors must:

- a. Execute the attached Certification for Contracts, Grants, and Loans.
 - b. Complete Standard Form LLL, "Disclosure of Lobbying Activities". The Certification (and, if appropriate, the Disclosure) must be provided to Rural Development.
32. **Cost Overruns** – Cost overruns exceeding 20% of the development cost at time of loan or grant approval or where the scope of the original purpose has changed will compete for funds with all other applications on hand as of that date. Cost overruns must be due to high bids or unexpected construction problems that cannot be reduced by negotiations, redesign, use of bid alternatives, rebidding or other means prior to consideration by the Agency for subsequent funding. Such requests will be contingent on the availability of funds.

33. **Use of Remaining Funds**

Applicant contributions and connection or tap fees will be the first funds expended in the project. Remaining funds may be considered in direct proportion to the amounts obtained from each source and handled as follows:

- Remaining funds may be used for eligible loan and grant purposes, provided the use will not result in major changes to the original scope of work and the purpose of the Loan and grant remains the same.
- Agency loan funds that are not needed will be deobligated within 60 days of project completion.
- Grant funds not expended for authorized purposes will be cancelled within 60 days of project completion. Prior to actual cancellation, you and your attorney and engineer will be notified of the Agency's intent to cancel the remaining funds and given appropriate appeal rights.

34. **Loan and Grant Closing**

The loan will be closed in accordance with instructions to be issued by the USDA Office of General Counsel.

Before the loan is closed, the Owner will be required to provide Rural Development with statements from the contractor, engineer, and attorney that they have been paid to date in accordance with their contract or other agreements and in the case of the contractor, he has paid his suppliers and subcontractors. Any exceptions must be authorized under Rural Development Instruction 1780, Section 1780.45.

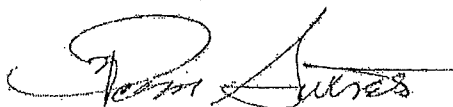
The RUS loan will be closed after the Owner has complied with the following conditions:

- a. Construction of the project is completed and the Owner, project engineer, and Rural Development approve and accept the project.
- b. The contractors have provided the required warranty bonds.
- c. The Owner shall submit a final report of project funds upon completion of the project. The report shall be in sufficient detail to allow Rural Development to determine that

interim financing funds were expended in compliance with Rural Development loan approval conditions.

Enclosed is the Processing Checklist, which lists the various steps and docket items necessary to accomplish in order to complete the proposed loan. We look forward to continue working with you to complete this project and if you have any questions please contact me at 541-923-4358, ext. 137; or at pam.swires@or.usd.gov.

Sincerely,

A handwritten signature in cursive script, appearing to read "Pam Swires", with a horizontal line extending from the end of the signature.

PAM SWIRES
Community Programs Specialist

cc: Sam Goldstein, Community Programs Director
Rachel Reister, CP Specialist
Niall Boggs, PE, WH Pacific, Consulting Engineers
Tommy Brooks, Attorney

Enclosures for Letter of Conditions

Form SF-3881 "Electronic Funds Transfer Payment..."
Form RD 400-1, "Equal Opportunity Agreement"
Form RD 400-4, "Assurance Agreement"
Form AD 3031 "Assurance Regarding Felony Conviction..."
Form RD 440-11, "Estimate of Funds Needed"
Form RD 440-24, "Position Fidelity Schedule Bond"
Form RD 442-2, "Statement of Budget, Income and Equity"
Operating Budget
Form RD 442-20, "Right-of-Way Easement"
Form RD 442-21, "Right-of-Way Certificate"
Form RD 442-22, "Opinion of Counsel Relative to Rights-of-Way"
Form RD 1940-1, "Request for Obligation of Funds"
Form RD 1942-46, "Letter of Intent to Meet Conditions"
Form RD-3550-28 "Authorization Agreement for Preauthorized Payments"
Form AD-1048, "Certification Regarding Debarment, Suspension, Ineligibility and
Voluntary Exclusion - Lower Tier Covered Transactions"
RUS Bulletin 1780-12, "Water or Waste System Grant Agreement"
Form RD 1942-8 "Resolution of Membership or Stockholders"
RUS Bulletin 1780-28, "Loan Resolution Security Agreement" (Non Profits)
OR Guide 1, 1780-6, "Processing Checklist"

NOTE: you may access our web-site for many of these forms
www.usda.gov/rus/water

CASE: UW 162
WITNESS: CELESTE HARI

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 102

Witness Qualifications Statement

February 4, 2015

WITNESS QUALIFICATION STATEMENT

NAME: Celeste Hari

EMPLOYER: Public Utility Commission of Oregon

TITLE: Utility Analyst, Telecommunications and Water Regulation Division.

ADDRESS: 3930 Fairview Industrial Drive SE, Salem, OR 97302
PO Box 1088, Salem, OR 97308-1088.

EDUCATION: Bachelor of Science, Business Management, Linfield College.
Associate of Science, Business Management, Chemeketa Community College.

EXPERIENCE: Employed with the Oregon Public Utility Commission since 1986. I am currently a Utility Analyst for the Telecommunications and Water Regulation Section.

Performed many functions within my career at PUC, including providing testimony in over 60 telecommunications dockets, analyzing tariffs, compiling reports, and processing applications for certificates of authority and ETC designations. More recently, I have provided testimony in several water rate cases.

CERTIFICATE OF SERVICE

UW 162

I certify that I have, this day, served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-001-0180, to the following parties or attorneys of parties.

Dated this 4th day of February, 2015 at Salem, Oregon



Mark Brown
Public Utility Commission
3930 Fairview Industrial Drive SE
Salem, Oregon 97302-1166
Telephone: (503) 378-8287

UW 162 Service List (Parties)

BARBARA OAKLEY (C)	14000 SW CINDER DR TERREBONNE OR 97760-9309 boakley@webformixair.com
CALVIN WALTER (C)	8906 SW SHAD RD TERREBONNE OR 97760 penlandlake@aol.com
CABLE HUSTON BENEDICT HAAGENSEN & LLOYD	
TOMMY A BROOKS	1001 SW FIFTH AVE, STE 2000 PORTLAND OR 97204-1136 tbrooks@cablehuston.com
CROOKED RIVER RANCH BOARD OF DIRECTORS	
DENNIS KIRK (C) PRESIDENT	PO BOX 2319 TERREBONNE OR 97760 dennis@crrwater.com
CROOKED RIVER RANCH WATER COMPANY	
FRANK DAY (C) GENERAL MANAGER	PO BOX 2319 TERREBONNE OR 97760 frank@crrwater.com
PUBLIC UTILITY COMMISSION OF OREGON	
CELESTE HARI (C) UTILITY ANALYST	PO BOX 1088 SALEM OR 97308-1088 celeste.hari@state.or.us
PUC STAFF--DEPARTMENT OF JUSTICE	
JASON W JONES (C) ASSISTANT ATTORNEY GENERAL	BUSINESS ACTIVITIES SECTION 1162 COURT ST NE SALEM OR 97301-4096 jason.w.jones@state.or.us