

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 7, 2023**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** March 22, 2023

DATE: February 21, 2023

TO: Public Utility Commission

FROM: Steph Yamada

THROUGH: Bryan Conway and Marc Hellman **SIGNED**

SUBJECT: METOLIUS MEADOWS PROPERTY OWNERS ASSOCIATION:
(Docket No. ADV 1484/Advice No. 22-01)
Introduces a new Reservoir Project Surcharge.

STAFF RECOMMENDATION:

Staff recommends that the Commission allow Metolius Meadows Property Owners Association's (MMPOA) proposed Schedule No. 4, introducing a new Reservoir Project Surcharge, to become effective for service rendered on and after March 22, 2023, subject to the following conditions.

1. All funds collected through Schedule No. 4 will be used to fund the reservoir improvements described in this memo and not for any other purpose, except that any excess funds will be added to the Company's reserve account and used toward necessary capital improvements in the future.
2. Upon completion of the reservoir improvements described in this memo, the Company will submit a final report to the Commission showing the amounts collected under Options 1 and 2 of Schedule No. 4, the final total cost of the capital expenditure, and the amount transferred to the Company's reserve account, if any.

DISCUSSION:

Issue

Whether the Commission should allow MMPOA's filed tariff sheets, introducing the Reservoir Project Surcharge, to become effective.

Applicable Rule or Law

Under ORS 757.205(1)-(2), a rate-regulated water utility must file schedules showing all rates, tolls, and charges for any service performed by it within the state and all rules and regulations that in any manner affect its rates. The Commission may approve tariff changes if they are deemed to be fair, just, and reasonable. ORS 757.210. Tariff revisions may be made by filing revised sheets with the information required under the Commission's administrative rules, including OAR 860-036-2010.

Filings that propose any change in rates, tolls, charges, rules, or regulations must be filed with the Commission at least 30 days before the effective date of the change. ORS 757.220.

Analysis

Background

MMPOA is a rate and service-regulated nonprofit water utility serving 157 customers in the vicinity of Camp Sherman, Oregon. All but 13 customers of the utility are also members of MMPOA in its capacity as a property owners association. With this filing, MMPOA proposes to introduce the Reservoir Project Surcharge. This filing was initially submitted on January 23, 2023, with a proposed effective date of March 22, 2023. MMPOA submitted a minor revision to the filing on January 25, 2023.

The proposed surcharge will be used to fund necessary improvements to the utility's reservoir capacity. The Company states that the development served by the utility was originally platted and developed in the early 1970s. At that time, though the original plan called for two 44,000-gallon reservoirs, only one was installed by the developer. While the single reservoir has served the community adequately for several decades, changes in the community's demographics, combined with the age of the current reservoir, will require new capital investments to improve water capacity. MMPOA states that while the community initially consisted largely of vacation homes, over time its demographics have shifted to include more full-time residents, which has in turn resulted in increased water usage. Additionally, MMPOA states that the existing reservoir is not earthquake-ready, and its most recent inspection revealed signs that the concrete is beginning to spall.

MMPOA engaged a civil engineer who recommended the installation of a new 113,000-gallon reservoir. Following construction of the new reservoir, the existing reservoir will be drained, restored, and brought back into use as additional capacity. MMPOA states that during the peak water usage period of May through October, its existing reservoir is filled and emptied five to six times per day, leaving only

approximately four hours of available water if the pumping system were to fail. The construction of a new reservoir and restoration of the existing reservoir is expected provide at least 24 hours of additional capacity.

Cost

MMPOA has contracted with AKS Engineering & Forestry to provide civil engineering, survey, and land use consulting services regarding the proposed reservoir project, and has hired BANR Enterprises, LLC to carry out the proposed construction. The estimated cost for these items is summarized below.

Company	Item	Cost
BANR Enterprises, LLC	Reservoir Construction	\$551,283
AKS Engineering & Forestry	Project Management	\$2,380
AKS Engineering & Forestry	Topographic/Site Design Surveying	\$9,860
AKS Engineering & Forestry	Concept Civil Engineering	\$1,670
AKS Engineering & Forestry	Final Civil Engineering	\$17,285
AKS Engineering & Forestry	Construction Permitting/Planning Support	\$7,790
AKS Engineering & Forestry	Contractor Bidding and Selection	\$3,105
AKS Engineering & Forestry	Construction Support & Administration	\$10,975
AKS Engineering & Forestry	Project Close Out	\$4,610
AKS Engineering & Forestry	Geotechnical Exploration	\$23,325
AKS Engineering & Forestry	Misc.	\$500
TOTAL ESTIMATED PROJECT COST		\$632,783

Staff notes that the Company provided a revised BANR contract on January 26, 2023, showing a total cost of \$549,219 rather than the \$551,283 shown above. The Company states that the revised estimate reflects the removal of fencing costs and an increase in other costs associated with the reservoir construction. While the revised estimate is slightly lower overall, it does not include any amount relating to fencing, which is required by the Oregon Health Authority to be installed around distribution reservoirs. Consequently, the Company proposes to use the prior, slightly higher estimate of \$551,283 for the purpose of calculating the surcharge in this case. Staff finds this to be reasonable. The Company is currently exploring its options for constructing fencing.

MMPOA proposes to add a 10 percent contingency to the estimated project cost, resulting in a total of **\$696,061** to be collected from customers. The contingency is intended to cover any unforeseen or unexpected costs that may arise while the project is underway. Any excess funds collected through the proposed Reservoir Project Surcharge will be added to the Company’s reserve account and used to fund necessary capital improvements in the future.

Given recent high inflation levels and the related price uncertainty, Staff finds that the inclusion of a contingency is reasonable, as any excess amount will ultimately be used for necessary system expenditures. The Company plans to undergo additional necessary capital improvements in the future, including upgrading several thousand feet of water mains from the original four-inch PVC piping to six-inch polyethylene piping.

Proposed Tariff

Under its new Schedule No. 4, MMPOA proposes to collect the \$696,061 project amount from its 157 customers, resulting in a Reservoir Project Surcharge of \$4,434 per customer. The proposed tariff offers two payment options that customers may choose from. Under Option 1, customers may pay the entire \$4,434 up front within 30 days of the proposed April 1, 2023, assessment date. Under Option 2, customers may pay in installments of one payment per year for 10 years. The installment would be paid in conjunction with the customer's annual water bill.

The Company states that approximately 78 percent, or 122 of its customers have indicated that they intend to pay up front under Option 1, resulting in an initial cash collection of approximately \$540,888. The remaining \$155,173 of the project cost will be financed through a bank loan, which will be repaid over a 10-year period by the approximately 35 customers who are expected to pay in installments under Option 2. Customers who elect Option 2 will also pay interest at the actual rate of the bank loan secured by MMPOA. The Company's request for Commission approval of the bank loan is addressed separately in Docket No. UF 4336.

As discussed in the Staff Report submitted in Docket No. UF 4336, the interest rate associated with the loan is subject to float until closing but would have been 7.01 percent as of January 13, 2023. Using this rate and a 10-year loan period, the annual payment associated with the loan would be \$21,630, or approximately \$618 per year from each of the 35 customers paying under Option 2. Such customers would have the option once per year to pay off the remainder of their assessment, thereby avoiding future interest payments.

Customer Impact

MMPOA has communicated extensively with its customers regarding the proposed reservoir project. The Company invited all customers (including the 13 non-members of the association) to two town hall-style meetings in October of 2022 to provide updates and respond to customer questions. The Company also sent a written notification of the proposed project and associated surcharge options to all customers and has communicated by email and telephone to address any questions that customers have.

In order to estimate the amount that would be paid up-front by customers (and in turn, the amount that would need to be borrowed to cover the project cost), the Company has attempted to contact each of its 157 customers to assess their intent to pay under Option 1 or Option 2. As of December 12, 2022, 142 customers had indicated their choice to the Company, with 112 (or approximately 78 percent) of those customers choosing to pay up front under Option 1.

While the proposed surcharge does not require any formal customer notification to be sent according to applicable statutes and rules, based on the Company's description of its interactions with customers, Staff finds that customers are adequately informed and prepared for the implementation of the proposed surcharge. Staff is not aware of any customers who object to the implementation of the surcharge.

The Company has reviewed a draft of this memo and has not noted any concerns.

Conclusion

Staff finds that the proposed Reservoir Project Surcharge complies with applicable statutes and rules and should be approved.

PROPOSED COMMISSION MOTION:

Allow MMPOA's proposed Schedule No. 4, introducing the Reservoir Project Surcharge, to become effective for service rendered on and after March 22, 2023.