

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 27, 2014

REGULAR _____ CONSENT X EFFECTIVE DATE Upon Approval

DATE: May 16, 2014

TO: Public Utility Commission

FROM: Jim Stanage *JS*

THROUGH: Jason Eisdorfer, Bryan Conway, and Bruce Hellebuyck *AE* *BH*

SUBJECT: CROOKED RIVER RANCH WATER COMPANY: (Docket No. UF 4287)
Application to encumber utility operating property.

STAFF RECOMMENDATION:

I recommend that the Commission approve Crooked River Ranch Water Company's (Crooked River) request to borrow the sum of \$5,637,000 from the U.S. Department of Agriculture (USDA), subject to the following conditions and reporting requirements:

1. The Company will file a rate case with the Commission to increase its revenues by the amount necessary to cover the Company's costs of service.
2. The amount of the loan(s) will not exceed an aggregate of \$5,637,000. This limit applies only to this loan(s) and does not affect previously approved financing or yet to be approved by the Commission.
3. The negotiated interest rate for the 40 year loan must be no higher than 3.25 percent per year.
4. The Company will promptly report to the Commission if there are changes in the terms of the new loan that reduces or removes the requirement for loan guarantees required.
5. The Company shall file a new rate case by August 1, 2014. Crooked River may file a rate case at any time prior to August 1, 2014, which would fulfill the intent of this filing requirement.
6. The Commission reserves judgment on the reasonableness for ratemaking purposes of the Company's capital costs, capital structure, and the

commissions and expenses incurred to acquire loan(s). In its next rate proceeding, the Company will be required to show that its capital costs, including embedded expenses and capital structure, are just and reasonable.

DISCUSSION:

Background

The Company filed this application on May 6, 2014, pursuant to ORS 715.415(2) and in the form required by OAR 860-036-0720. Crooked River is a member-owned, private, non-profit water utility Company that provides water to an approximate customer base of 1,600 customers. Most of the connections are single family residential dwellings. The Company is a Class B water utility with revenues above \$200,000 but less than \$1,000,000. Crooked River Ranch is an unincorporated private resort community in southern Jefferson County with a small portion of the ranch in north Deschutes County. The 12,000-acre ranch has a population of approximately 5,000 and is located between the Deschutes River and the Crooked River near the south end of Lake Billy Chinook.

Over the past two years, Crooked River has identified ways to correct several current water service issues including water pressure, low storage capacity, and water production. Through an independent engineering analysis, the Company has developed a plan to correct all of these issues by installing a 1 million gallon elevated storage tank that will increase water pressure throughout the system by 30 percent to 50 percent. This plan also includes an additional 1,200 gallons-per-minute well with a backup generator that will increase the efficiency and dependability of the system. According to the Company, this project is essential to continue to supply dependable drinking water that is compliant with all state guidelines.

The purpose of Crooked River's application is to obtain Commission approval to borrow the sum of \$5,637,000 from the USDA, Rural Development Program. The Company will be replacing existing plant and constructing additional plant with the loan proceeds.

As required by the National Environmental Policy Act (NEPA), the Rural Development Program has approved an Environmental Assessment prepared by WHPacific Inc. that evaluated the potential environmental effects and consequences of the proposed project. Notice of the availability of the Environmental Assessment for public review and comment, have been published by the USDA in accordance with Section 106 of the NEPA review.

Loan

Crooked River has applied for funding through the USDA Rural Development Program. One item that is needed to receive this funding through the USDA is the Commission's approval allowing the Company to use its assets as collateral for this loan.

The Company expects the new loan to have the following terms:

- 1) An annual interest rate of 3.25 percent.
- 2) The initial term of the loan(s) is 40 years.
- 3) The annual payment on the loan would be approximately \$252,000.

There are no specific issuance expenses related to the loan.

Use of Proceeds

Once Crooked River has received the Commission's approval for this loan and USDA has issued a letter of conditions, then Crooked River will need to secure funding through a line of credit from a banking institution for the engineering design costs. Once the construction project has been awarded to a contractor, Crooked River will then need to secure an interim construction loan. The USDA loan will also pay off both the line of credit and the interim construction loan.

This proposed project consists of the following components/improvements:

- Replacement of one existing, 700,000 gallon above groundwater storage reservoir (AGWSR) with a larger, one million gallon, AGWSR;
- Addition of a 1,200 gallon per minute (gpm) drinking water well and installation of an 8-inch water main (underground) from this new well to the new AGWSR, a distance of approximately 150 feet;
- Installation of an 8-inch under groundwater main from an existing water supply well (Well No. 4) to the new AGWSR, a distance of approximately 0.25 miles;
- Construction of a detention/infiltration basin and related improvements for reservoir overflow/discharge;
- Installation of a new emergency generator adjacent to the proposed pump station;
- Miscellaneous related improvements including construction of a 15-foot wide gravel access road way off of Tower Road, a pump house, and installation of secure fencing; and,
- Demolition and removal of the existing 700,000 gallon water storage reservoir.

The proposed use of the proceeds for the current application is consistent with

ORS 757.415(1)(a) and (c).

Staff Analysis

The Company substantiated the need for the proposed plant improvements in its Preliminary Engineering Report and its Water System Master Plan Update. The Crooked River Ranch Water Company Board of Directors has unanimously supported this project and believes that it is essential to continue to supply dependable drinking water that is compliant with all state guidelines.

Crooked River's current revenues would not be sufficient to allow it to make its payments on the proposed loan without substantially increasing its rates, and therefore, the Company needs to complete a rate case in order to facilitate financing of its proposed system improvements.

Based on prospective information provided by Crooked River and staff's review, approval of the application with the proposed conditions will provide reasonable access to capital markets. The application appears fair and reasonable and not contrary to the public interest.

PROPOSED COMMISSION MOTION:

The application for the authority to borrow not more than \$5,637,000 be approved with staff's conditions and reporting requirements.