

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 21, 2015**

REGULAR X CONSENT _____ EFFECTIVE DATE Upon Approval

DATE: July 15, 2015

TO: Public Utility Commission

FROM: Celeste Hari *CH*

THROUGH: Jason Eisdorfer, Bryan Conway, and Bruce Hellebuyck *BAC*

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

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Crooked River Ranch Water Company's (Crooked River) request to borrow up to an additional \$600,000 from the U.S. Department of Agriculture (USDA), subject to the following conditions and reporting requirements:

1. The amount of the loan will not exceed \$600,000. This limit applies only to this loan and does not affect previously approved financing or yet to be approved financing by the Commission.
2. The Company will file a report with the Commission stating the exact amount of the loan upon receipt of the construction bids.
3. The negotiated interest rate for the 40 year loan must be no higher than 2.875 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.
5. 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

Crooked River is a member-owned, private, non-profit water utility company that provides water to customer base of approximately 1,600 customers. Most of the connections are single family residential dwellings. Crooked River 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.

Crooked River filed this application on July 13, 2015, pursuant to ORS 715.415(2) and in the form required by OAR 860-036-0720. The filing is an addition to the financing application that the Commission approved in May 2014, in docket UF 4287, Order No. 14-178. The loan approved in that Order is for \$5,637,000 and is financed through the USDA Rural Development Program. The original loan was approved for the sole purpose of construction of a new water tower and infrastructure project (Project).

Order No 14-178 contained the following requirement:

The Company will file a rate case with the Commission to increase its revenues by the amount necessary to cover the Company's cost of service.

That requirement reflected Staff's understanding that the USDA required Crooked River to increase its rates to cover the costs of the loan as a condition to making the loan. The Commission approved a rate revision to cover the original loan payments in UW 162, by Order No. 15-062.

The application before you today provides an additional loan amount of up to \$600,000 for that same project. It will be also financed through the USDA. Because the amount of this loan (\$600,000) is significantly smaller than the prior loan approved in Order No. 14-178 (\$5,637,000), the USDA has not imposed a requirement for Crooked River to increase rates to service the additional loan payments. As a result, the condition listed above requiring the Company to increase rates is not contained in my recommendation.

The Project has been delayed due to a host of issues, including a change in the engineering firm utilized, permitting delays, and issues with easements. The delays caused the bidding dates to move back, during which time the construction costs increased beyond the amount approved in Order No 14-178. The most recent estimate from Crooked River's engineers is that the Project could receive bids for up to \$600,000

more than approved in that order. The USDA committed to providing the necessary additional funding, but requires approval from the Commission allowing the Company to further encumber its assets for the loan. If the bids come in for less than the \$600,000, Crooked River will take a loan for only the minimum amount necessary to cover the increased costs.

The application was a late addition to the Public Meeting due to the timing of the bidding process. The Project went out for bid on June 17, 2015, and bidding closes on July 23, 2015. In order to fund, the USDA must have Commission approval by July 23, 2015. In order to prevent further delays and potentially even higher cost increases, Crooked River has requested expedited consideration at this Public Meeting so it will be ready to move forward when the bidding closes.

The Project is critical to the system and \$300,000 in engineering and legal expenses has already been invested toward it. It is important for the Crooked River to begin construction as soon as possible to avoid stopping construction through two winters as the building season for the Redmond area is shortened due to the snow and ground freezing during the winters. As is demonstrated by the delay it has already encountered, any further delays may be costly for Crooked River and its ratepayers.

Loan

Crooked River applied for this additional funding through the USDA Rural Development Program. The USDA requires the Commission's approval allowing Crooked River to use its assets as collateral for this loan.

Crooked River expects the new loan to have the following terms:

- 1) An annual interest rate of 2.875 percent.
- 2) The initial term of the loan is 40 years.
- 3) The annual payment on this loan would be approximately \$25,000.

There are no specific issuance expenses related to the loan.

Use of Proceeds

This loan is not introducing additional components of the previously approved Project. This additional loan is only necessary to cover the increased cost of the Project. The overall Project consists of the following components/improvements:

- Replacement of one existing, 700,000 gallon above ground water 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 underground water 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 for the same Project as the original loan and is consistent with the purpose for which securities may be issued under ORS 757.415.

Staff Analysis

Crooked River substantiated the need for the Project in the original application under UF 4287. The construction bids are estimated to be higher than the original amount approved in Order No. 14-178. The Crooked River Ranch Water Company Board of Directors and customers have supported this Project and continue to do so. Crooked River will take a loan only for the exact amount necessary to cover the increased construction costs. Without this additional loan, the entire Project may be in jeopardy.

Staff recently completed a rate case in UW 162 where all revenues and expenses were reviewed and rates set accordingly. The rate case included the original loan amount. Crooked River's current revenues are sufficient to allow it to make at least one payment on the proposed loan without increasing its rates at this time. The Company committed to filing a rate case at the completion of the Project, projected to be December 2016.

Based on prospective information provided by Crooked River and Staff's review, approval of the application with the proposed conditions will provide the additional funding to move forward with the Project as described. 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 \$600,000 be approved with Staff's conditions and reporting requirements.