

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 15, 2015

REGULAR CONSENT EFFECTIVE DATE Upon Approval

DATE: December 3, 2015

TO: Public Utility Commission

FROM: Greg Miller

THROUGH: Jason Eisdorfer, Bryan Conway, and Bruce Hellebuyck

SUBJECT: PELICAN BAY HEIGHTS WATER SYSTEM, LLC: (Docket No. UF 4295)
Application to encumber utility property.

STAFF RECOMMENDATION:

Staff recommends that the Public Utility Commission of Oregon (Commission) approve Pelican Bay Heights Water System, LLC's (Pelican Bay or Company) request to enter into a loan agreement, subject to the following conditions and reporting requirements:

1. The Company will provide a final report of capital expenditures upon completion of the proposed construction indicating the actual amounts expended and providing a reconciliation to the amount of loan proceeds.
2. The Company will provide a report indicating the final terms of the loan. The Company will also notify the Commission in advance of any substantive changes to the loan terms, including any material change in the loan amount or interest rate. In the event Staff finds that any such change may in fact be material, Staff will notify the Company and the Company agrees to promptly file an application requesting a supplemental order (or other appropriate order) be issued approving the new loan terms and conditions.
3. The Commission reserves judgement on the reasonableness for ratemaking purposes of the Company's financing costs. 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.

4. Loan proceeds shall not be used for any ineligible activities or ineligible project costs, as determined by the lending agency. Additionally, loan proceeds shall only be used for those purposes authorized by the Commission.

ISSUE:

Pelican Bay requests Commission approval to enter into a loan agreement to construct a reservoir project.

RULE:

On October 2, 2015, Pelican Bay filed a financing application addressing the reservoir project, pursuant to ORS 757.415(2) and in the form required by OAR 860-036-0720.

ANALYSIS:

Pelican Bay is a small investor-owned water utility located in Harbor, Oregon. The Company provides domestic residential water service to 22 customers. There are an additional eight undeveloped lots that could potentially be utilized for home sites, eventually expanding the system to 30 households. Pelican Bay does not have any wells and purchases all of its water from Harbor Water District PUD (Harbor Water) and then pumps the water uphill to the end users. The Company does not have any storage capacity and cannot currently provide fire protection through its installed fire hydrants. Fire protection is provided by Harbor Fire District through tankers.

Loan

Pelican Bay has applied for funding through the Safe Drinking Water Revolving Loan Fund (SDWRLF), administered by Business Oregon's Infrastructure Finance Authority (IFA). The current commitment from the IFA is a loan of \$232,100 with principal forgiveness in the amount of \$154,260. The final terms will be based on a loan amount of \$77,840 (\$232,100 - \$154,260).

Pelican Bay expects the new loan to have the following terms:

- 1) An annual interest rate of 1.00 percent.
- 2) The term of the loan is 20 years, with the potential to extend to 30 years.
- 3) The annual payment on the 20 year loan would be approximately \$4,300.

The Company states that it has no equally cost-effective course of action to pursue.

Use of Proceeds

The overall Project consists of the following components/improvements:

- Procuring engineering and project management services;
- Construction of two 10,000 gallon stainless steel reservoir tanks;
- Installation of a 6 inch water pipeline, valves, and fire hydrant activation;
- Modification of pump station controls;
- Completion of an Environmental Report;
- Legal costs; and
- A 20 percent contingency reserve.

The proposed use of the proceeds for the current application is consistent with the purpose for which securities may be issued under ORS 757.415.

Annexation into Harbor Water

Pelican Bay previously approached Harbor Water to take over operations and ownership of the Pelican Bay system. Discussions over a possible merger with Harbor Water have been taking place since Pelican Bay's previous rate case (UW 143) in 2010. As mentioned in UW 143 testimony, Pelican Bay understood that Harbor Water would require storage capacity prior to any annexation. Harbor Water is willing to take over the system providing it meets the specifications of the rest of their facilities.

Pelican Bay and Harbor Water have since entered into a Letter of Intent (Letter). The Letter states that Harbor Water will annex the Pelican Bay water system three months after the completed installation and continuous operation of the required improvements discussed above and made possible by the loan. The Company acknowledges it will need to file a subsequent application with the Commission for approval to complete the final annexation process.

Staff Analysis

Consolidation with Harbor Water will help ensure services to residents in the Pelican Bay Heights area are continued into the future. The reservoir tanks will be gravity fed and provide increased water pressure, water quality standards, and promote water system efficiencies. Fire hydrants will become fully operational and provide the necessary pressure for proper fire suppression. Based on customer letters, emails, as well as oral communications with Pelican Bay, most residents appear supportive of the annexation.

The Company's current revenues are sufficient to allow payments on the proposed loan, if outlays are required prior to the full annexation taking place. According to the IFA, payments should not be necessary for three to six months after the reservoir project is fully complete.

CONCLUSION:

Based on the review of this application, Staff concludes the application is fair and reasonable and not contrary to public interest.

PROPOSED COMMISSION MOTION:

Pelican Bay's application for approval of the financing agreement with IFA should be approved, subject to Staff's recommended conditions and reporting requirements.