

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: July 14, 2020**

REGULAR \_\_\_\_\_ CONSENT  X  EFFECTIVE DATE  July 15, 2020

DATE: June 30, 2020

TO: Public Utility Commission

FROM: Stephanie Yamada

THROUGH: Bryan Conway, Michael Dougherty, and Bruce Hellebuyck **SIGNED**

SUBJECT: AVION WATER COMPANY:  
(Docket No. ADV 1131/Advice No. 20-01)  
Requests approval to increase System Development Charges.

**STAFF RECOMMENDATION:**

Staff recommends that the Public Utility Commission of Oregon (Commission) allow Avion Water Company's (Avion) proposed changes to Schedule No. 7, increasing System Development Charges (SDC), to go into effect for service rendered on and after July 15, 2020, and approve the application for Waiver of Less than Statutory Notice (LSN).

**DISCUSSION:**

Issue

Whether the Commission should allow Avion's filed tariff sheet, increasing System Development Charges, 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. Tariff filings to be effective on less than 30 days following notice of the change may be authorized with a waiver of less than statutory notice pursuant to ORS 757.220.

Public utilities must charge and collect for their services in conformance with the schedules that are in effect pursuant to ORS 757.225 and ORS 757.310(1). Pursuant to ORS 757.310(2), a public utility may not charge a customer an amount for a service that is different from the amount it charges any other customer for a like and contemporaneous service under substantially similar circumstances. Pursuant to ORS 757.325(1), a public utility may not give undue preference to any particular person or locality, or subject any particular person or locality to undue prejudice.

### Analysis

#### *Background*

Avion is a water utility serving approximately 14,000 domestic water and 790 irrigation customers in the vicinity of Bend, Oregon. With this filing, Avion proposes to increase the System Development Charges that apply to developers of projects using Avion's water service. This filing was submitted on June 9, 2020, with a proposed effective date of July 15, 2020. Avion later submitted an amendment to the filing on June 29, 2020, accompanied by an LSN form. The amendment and accompanying LSN were necessary to add clarifying language to the filed tariff sheet and to correct a mathematical error in the rate calculation that was identified during conversations between Avion and Staff. The necessary corrections were identified less than 30 days prior to the proposed effective date.

On December 6, 2016, the City of Bend received approval for the expansion of its Urban Growth Boundary (UGB) from the Oregon Department of Land Conservation and Development, adding 2,380 acres of land for new development in the city.<sup>1</sup> Because a portion of the UGB expansion area falls within Avion's service territory, the expansion of the UGB has in turn increased the potential customer base that may request to receive water service from Avion. Avion states that, with the UGB expansion and associated new development taking place in Bend, the Company "has started to experience growth that is much greater in scale, coming in a much more haphazard manner" than it has typically experienced in recent decades.<sup>2</sup>

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<sup>1</sup> <https://www.bendoregon.gov/government/departments/growth-management/urban-growth-boundary-remand>.

<sup>2</sup> Advice Letter, Avion Docket No. ADV 1131.

System Development Charges, sometimes referred to as Residential Development Charges, “are one-time charges paid by new developments to offset the capital costs associated with the construction of water facilities needed to serve the development.”<sup>3</sup> In addition to Avion, the Commission has previously approved such charges for Roats Water System, Inc., and Long Butte Water System, Inc. The tariffs of Pelican Bay Heights Water System, LLC also contained a similar charge, though that company’s rates have not been regulated by the Commission since 2018.<sup>4</sup>

Avion’s System Development Charges reside in Schedule No. 7 of the Company’s tariff, and have not been adjusted in more than twenty years. Avion’s filing states that the proposed increases to the SDCs are intended to “more accurately reflect the infrastructure costs of adding new services” as necessitated by new development within the UGB expansion area. The additional infrastructure needed consists of increased water production and storage capacity. Avion states that while existing production and storage capacity is sufficient to serve the current customer base, additional capacity will be needed to serve the increase in customers that is expected to result from the UGB expansion. Consequently, Avion finds it necessary to increase its standard System Development Charges at this time.

*Proposed SDCs*

Avion’s current and proposed SDCs are summarized in the table below.

| <b>Meter Size</b>   | <b>Multiplier</b> | <b>Current</b> | <b>Proposed</b> |
|---------------------|-------------------|----------------|-----------------|
| 5/8"                | 1                 | \$ 1,000       | \$ 3,000        |
| 3/4"                | 1.5               | \$ 1,500       | \$ 4,500        |
| 1"                  | 2.5               | \$ 2,500       | \$ 7,500        |
| 1 ½"                | 5                 | \$ 5,000       | \$ 15,000       |
| 2"                  | 8                 | \$ 8,000       | \$ 24,000       |
| 3"                  | 15                | \$ 15,000      | \$ 45,000       |
| 4"                  | 25                | \$ 25,000      | \$ 75,000       |
| 6"                  | 50                | \$ 50,000      | \$ 150,000      |
| 8"                  | 80                | \$ 80,000      | \$ 240,000      |
| 4" and less fire    | 2                 | \$ 2,000       | \$ 6,000        |
| 6" and greater fire | 4                 | \$ 4,000       | \$ 12,000       |

The “Multiplier” column in the above table reflects the standard factors typically used to apportion base rate revenues to customers based on meter size during water rate cases. These standard factors reflect the relative capacity differences between meters

<sup>3</sup> See PUC Order No. 07-048, at 5-6, Docket No. UM 1248 (Feb. 10, 2007).

<sup>4</sup> Order No. 18-122, Docket No. UP 356 (April 10, 2018).

of different sizes and help to ensure that the increased costs associated with serving larger meter sizes are reflected in rates. For example, as shown in the above table, a 3” meter has a multiplier of 15, meaning that its capacity is 15 times that of a standard 5/8” meter. Consequently, the 3” rate is 15 times that of the 5/8” rate.

Staff utilized two different calculation methodologies in assessing the reasonableness of Avion’s proposed SDCs. Each of these methodologies is discussed below.

*Calculation Method 1*

Avion’s methodology for calculating its proposed SDCs, which differed from Staff’s methodology, is discussed below. Information regarding Avion’s calculation methodology was obtained through conversations between Avion and Staff and from a spreadsheet that Avion shared with Staff showing the details of the Company’s calculations. As mentioned previously, the additional infrastructure needed to serve the additional customers consists of water production and storage capacity.

**Increased Production Needs**

As summarized in the table below, Avion’s current water sources provide a total production capacity of 14,968 gallons per minute (GPM).

| <b>Source</b>           | <b>Flow Rate (GPM)</b> |
|-------------------------|------------------------|
| China Hat 1             | 1,300                  |
| China Hat 2             | 1,635                  |
| China Hat 3             | 1,750                  |
| Parrell                 | 1,339                  |
| DRW                     | 1,865                  |
| Rock                    | 1,132                  |
| South                   | 882                    |
| Tekampe Blue            | 1,420                  |
| Tekampe Red             | 1,300                  |
| Tekampe White           | 595                    |
| Dyer                    | 1,750                  |
| <b>Total Production</b> | <b>14,968</b>          |

With a customer base of 12,465 within the greater Avion area, this represents a current production capacity of 1.2 GPM per customer.

Based on the \$1 Million construction cost and 1,750 GPM production capacity associated with its existing China Hat 3 well, Avion estimates the cost of water production to be  $\$1 \text{ Million} \div 1,750 = \$571.43$  per GPM of production capacity provided.

Additionally, as outlined in Docket No. ADV 767, Avion sometimes reaches the maximum pumping amount allowed without mitigation under its currently-held water rights during the high-use summer months. Consequently, Avion anticipates that additional water rights will be necessary to accommodate the increase in Avion’s customer base that is expected to result from the City of Bend’s UGB expansion.

Avion estimates the cost to obtain an additional water right with no mitigation at \$50,000 for 350 GPM, or \$142.86 per GPM of production capacity provided. Combined with the existing production cost of \$571.43 per GPM (discussed previously), Avion estimates the total production cost associated with serving the new customers to be \$714.29 per GPM. At the current production rate of 1.2 GPM per customer, Avion anticipates the total production costs associated with new customers to be \$857.72 per customer.

**Increased Storage Needs**

As summarized in the table below, Avion currently utilizes a storage capacity totaling 12,032,000 gallons, which equates to 965.27 gallons per customer.

| <b>Storage</b> | <b>Capacity (Gallons)</b> |
|----------------|---------------------------|
| China Hat #1   | 2,550,000                 |
| China Hat #2   | 4,787,000                 |
| DRW            | 2,400,000                 |
| Dyer           | 2,295,000                 |
| <b>Total</b>   | <b>12,032,000</b>         |

Avion’s calculation utilizes an estimated reservoir capacity of 2,200,000 gallons to serve the anticipated influx of customers resulting from the UGB expansion. As summarized in the table below, the total estimated cost of this additional capacity is \$5,030,200, which is equivalent to \$2.29 per gallon.

| <b>Item</b>                   | <b>Estimated Cost</b> |
|-------------------------------|-----------------------|
| 8700 feet of pipe @ \$160/ft  | \$1,392,000           |
| Tank                          | \$1,115,000           |
| Concrete Ring Wall Foundation | \$113,000             |
| 5 Acre Reservoir Easement     | \$250,000             |
| 4 Acre Pipe Easement          | \$200,000             |
| Excavation & Site Preparation | \$1,960,200           |
| <b>TOTAL</b>                  | <b>\$5,030,200</b>    |

Based on Avion’s current storage capacity of 965.27 gallons per customer, the total cost of additional storage needed to serve the new customers is estimated at  $965.27 \times \$2.29 = \$2,207.03$  per customer.

As summarized in the below table, Avion’s total estimated cost for its anticipated additional production and storage capacity is \$3,064.75 per customer.

| <b>Need</b>                   | <b>Estimated Cost per Customer</b> |
|-------------------------------|------------------------------------|
| Increased Production Capacity | \$857.72                           |
| Increased Storage Capacity    | \$2,207.03                         |
| <b>Total Cost</b>             | <b>\$3,064.75</b>                  |

For the sake of simplicity, Avion requests to establish the standard 5/8” SDC at a flat \$3,000 rather than the calculated amount of \$3,064.75. Rates for larger meter sizes are calculated by multiplying the standard 5/8” charge of \$3,000 by the multiplier factors discussed previously.

*Calculation Method 2*

Previously, in Docket No. UW 143, Staff determined a methodology for calculating SDCs,<sup>5</sup> and that methodology was endorsed by the Commission.<sup>6</sup> The methodology utilized by Staff in that docket can be summarized as follows:

$$SDC = \frac{\text{Gross Plant}}{\text{Total Customers}} - \text{Meter Charge} - \text{Hookup Fee}$$

The gross plant adopted in Avion’s most recent rate case, UW 171, was \$53,004,476.<sup>7</sup> Avion’s total residential and commercial customer count in that case, after adjusting for differences in meter sizes using the factors discussed previously, was 15,348. Though Avion’s tariff lists its hookup fee “at cost,” in conversations with Staff, Avion stated that the average hookup fee is \$384.12 based on comparable recent actuals. Avion does not separately assess a meter charge as meters are paid for and owned by the Company.

Utilizing these figures, Staff calculated the base SDC as follows:

$$SDC = \frac{\$53,004,476}{15,348} - \$0 - \$384.12 = \$3,069.39$$

<sup>5</sup> Docket No. UW 143, Exhibit Staff/100, Dougherty/20-22.

<sup>6</sup> Docket No. UW 143, Order No. 11-146, Page 12.

<sup>7</sup> Docket No. UW 171, Order No. 17-496, Attachment A, Brock/1.

*Charge is Reasonable and Non-Discriminatory*

Staff's calculated amount of \$3,069.39 is close to Avion's calculated amount of \$3,064.75 and to Avion's requested amount of \$3,000. As such, Staff finds Avion's proposed 5/8" SDC of \$3,000 to be reasonable. Again, rates for larger meter sizes are calculated by multiplying the 5/8" base charge by the meter size factors discussed previously. The use of these meter size factors in calculating rates for larger meter sizes is standard in water rate calculations, and Avion's current SDCs were calculated using these factors. As such, Staff also finds Avion's proposed SDCs for meters larger than 5/8" to be reasonable.

Because the proposed System Development Charges will be paid for by developers, the upgrades will be considered Contributions in Aid of Construction (CIAC) pursuant to OAR 860-036-2380. As such, any new plant assets added to Avion's system as a result of Schedule 7 will be excluded from rate base for ratemaking purposes. The proposed increase in System Development Charges should have no financial impact on current Avion customers. Furthermore, Avion states that it has been in contact with developers regarding the proposed changes to the SDCs, and that developers are generally aware of the proposed changes.

Staff notes that Avion's proposed SDCs are comparable to those assessed by the City of Bend. The current City of Bend water SDC for a single family unit with a 3/4" meter is \$5,578, compared to Avion's proposed \$4,500 for the same meter size.

*Other Outstanding Matters*

In discussions regarding the present filing, Avion and Staff were reminded that Schedule No. 12 of Avion's tariff (the Woodriver Village System Impact Fee) is also affected by the standard SDC charges shown on Schedule 7. Specifically, Schedule 12 requires developers to pay the Schedule 7 SDCs during the ten-year line share period following project completion. Because Avion's current Schedule 12 explicitly lists charges equal to those shown in its current Schedule 7, those rates should be updated to reflect Avion's proposed changes to the SDCs. As such, Avion has agreed to make another filing, as soon as practicable, to align the provisions of its Schedule 12 to those of its proposed Schedule 7.

Conclusion

Staff finds that Avion's proposed increases to its System Development Charges are reasonable and non-discriminatory. Avion's proposed Schedule 7 tariff complies with applicable statutes and Commission rules, and should therefore be approved.

**PROPOSED COMMISSION MOTION:**

Allow Avion's revised Schedule No. 7, increasing System Development Charges for developers within Avion's service territory, to go into effect for service rendered on and after July 15, 2020, on less than statutory notice.