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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UW 93

In the Matter of)	
)	
AVION WATER COMPANY)	ORDER
)	
Application requesting a rate increase in the)	
amount of \$296,565, or 7.7 percent.)	

DISPOSITION: STIPULATION APPROVED; RATE INCREASE GRANTED

On August 13, 2003, Avion Water Company (Avion or the Company) filed Advice No. 03-6, requesting a general rate increase. Avion requested an increase in revenues of \$296,565 (from \$3,818,842 to \$4,115,407) or 7.8 percent. The Company requested an increase for residential and commercial customers only. Rates for fire service and irrigation service were to remain unchanged. Test year revenues for residential and commercial customers totaled \$3,549,975. Avion proposed to increase the residential and commercial customer rates by \$182,000. The remainder of the increase would be from Company recognition of Contributions in Aid of Construction.

At the September 23, 2003, Public Meeting, the Commission voted to suspend the advice pending an investigation. See Order No. 03-564.

A prehearing conference and public comment meeting were held in this matter in Bend, Oregon. Representatives of Avion and Commission Staff (Staff) were present. The parties agreed to a schedule. Subsequently, Staff analyzed Avion's filing and found that the Company's request for additional revenues is warranted. Staff and the Company entered into a stipulation (the Stipulation) that provided for total revenues for residential and commercial customers of \$3,838,474, which includes the \$182,000 increase in revenue and a customer growth upward adjustment of \$106,499. The parties agreed to a total rate base of \$13,447,498. On December 3, 2003, Staff filed testimony and exhibits supporting the Stipulation. The Stipulation is attached as Appendix B and incorporated by reference.

The Stipulation includes an accumulated buyback of Contributions in Aid of Construction (CIAC) of \$2,504,100 allowed in rate base. In September 1999, Avion filed a request for a general rate increase. In that docket, UW 70, Staff and Avion agreed to allow the

Company to buy back accumulated CIAC over a period of eight years. The same agreement was continued in a later docket, UW 79, filed in June 2001.

In 2002 a Water Issues Steering Committee reviewed the Commission's Water Program. One of the recommendations the Steering Committee made was that CIAC should no longer be included as a deduction to rate base. Contributed plant results in the long term elimination of an earnings base because contributed plant offsets utility capital investments. In May 2003, the Commission approved OAR 860-036-0756, Accounting for Contributions in Aid of Construction.

The parties to the current docket have agreed to fulfill the remainder of the UW 79 agreement allowing the buyback of a certain amount of CIAC. The CIAC balance as of the conclusion of UW 79 will continue to be written off and included in rate base over the remainder of the agreed upon eight years. The amortization will be complete in 2008, according to Staff's calculation. However, Staff will not support any additions to CIAC after the conclusion of the UW 79 agreement. Additional CIAC after the conclusion of the UW 79 agreement will not be considered a deduction to rate base or be included in rate base. Staff asserts that this is consistent with current Commission policy and with OAR 860-036-0756. Staff's testimony contains an exhibit, attached to this order as Appendix A and incorporated by reference, showing the balance of CIAC and how it will be drawn down and included in rate base through 2008. *See* Appendix A at 3.

The parties agreed to the accounting entries for the amortization of CIAC. Staff reviewed past accounting entries and noted that Avion was debiting Account 271—Contribution in Aid of Construction, and crediting Account 471—Miscellaneous Revenues. Staff informed Avion that the proper accounting treatment, in accordance with the National Association of Regulatory Utility Commissioners Uniform System of Accounts should be to debit Account 272—Amortization of CIAC, and credit Account 403—Depreciation Expense. Avion agreed to this accounting treatment.

Staff also reviewed the rate spread and rate design adopted in the last Avion general rate review and determined that the same methodology should continue to apply in this review. Staff has applied a split between base and variable rates of 56.5 percent and 43.5 percent, resulting in the rates shown in Appendix A at 2. Staff generally aims for a 60/40 split between these rates. In the last Avion rate case, UW 79, Staff was able to achieve the 60/40 split. However, in this docket, Avion asked to maintain its current commodity rate of \$0.80 per hundred cubic feet rather than lowering that rate. Staff believes that the split is acceptable and notes that it often varies slightly from the traditional 60/40 methodology. Staff also reviewed the fire and irrigation rates and agrees with Avion that they should remain the same. Average percentage rate changes for residential and commercial customers are shown in Appendix A.

We have reviewed the record in this docket, including Staff's testimony and exhibits supporting the Stipulation and the Stipulation itself. The Stipulation is a reasonable resolution of the issues in this docket. The rates established in the Stipulation are just and reasonable. We conclude that it should be adopted in its entirety.

ORDER

IT IS ORDERED that:

1. The Stipulation is adopted in its entirety.
2. The Company shall charge rates according to the rate schedules set forth in Advice No. 03-6, tariff sheets designated PUC Oregon No. 2, Eighth Revised Sheet No. 3.
3. The rates set out in the Stipulation shall become effective on January 31, 2004.

Made, entered, and effective _____.

Lee Beyer
Chairman

John Savage
Commissioner

Ray Baum
Commissioner

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UW 93

In the Matter of Rate Schedules)
Filed by AVION WATER) STIPULATION
COMPANY for Water Service.)

Avion Water Company, (Avion or the Company), appearing by and through its Owner and President, Jan Wick, and the Public Utility Commission Staff (Staff) appearing by and through its attorney, Jason W. Jones, Assistant Attorney General, enter into this agreement in settlement of all issues between them.

1.

The Parties' written testimony, exhibits, and tariff sheets, will be received in evidence pursuant to this stipulation without requiring any party to lay a foundation for its admission.

2.

Staff and the Company (Parties) agree that Avion will increase revenues by \$182,000, resulting in total annual revenues of \$3,838,474. The stipulated revenue requirement is shown in Attachment A of the stipulation.

3.

The Parties agree that the Company shall charge rates according to the rate schedules set forth in tariff sheets designated PUC Oregon No. 2, Eighth Revised

1 Sheet No. 3 as shown in Exhibit Staff/3 of Staff's testimony, which is part of this
2 stipulation.

3 4.

4 The Parties agree to the amortization of Contributions in Aid of Construction
5 (CIAC) according to the schedule shown in Exhibit Staff/3, Hathhorn/4. The Parties
6 further agree that the amortization of CIAC should be debited to Account 272 -
7 Accumulated Amortization of CIAC and credited to Account 403 - Depreciation
8 Expense.

9 5.

10 By entering into this stipulation, no Party shall be deemed to have approved,
11 accepted, or consented to the facts, principles, methods or theories employed by
12 any other Party in arriving at the agreed revenue requirement and rate spread.

13 6.

14 The Parties recommend that the Commission adopt this stipulation in its
15 entirety. The Parties have negotiated this stipulation as an integrated document.
16 Accordingly, if the Commission rejects all or any material portion of this stipulation,
17 each Party reserves the right, upon written notice to the Commission and all Parties
18 to this proceeding within 15 days of the date of the Commission's order, to withdraw
19 from the stipulation and request an opportunity for the presentation of additional
20 evidence and argument.

