

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UF 4248

In the Matter of	)	
	)	
NORTH HILL WATER CORPORATION	)	ORDER
	)	
Application for authorization to transact a	)	
loan from the Safe Drinking Water State	)	
Revolving Loan Fund.	)	

**DISPOSITION: APPLICATION APPROVED WITH CONDITIONS  
AND REPORTING REQUIREMENTS**

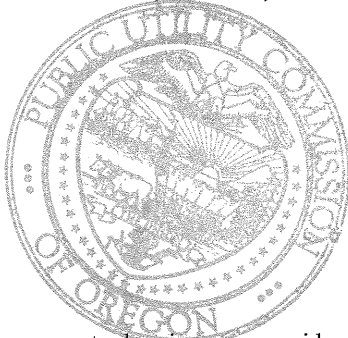
On June 17, 2008, North Hill Water Corporation, dba North Hill, filed an application with the Public Utility Commission of Oregon (Commission), pursuant to ORS 757.415 and OAR 860-036-0720(3), for authority to borrow approximately \$353,650 for improving the Association's water system. The basis for the request is detailed in Staff's Report, attached as Appendix A, and incorporated by reference.

Based on a review of the application and the Commission's records, the Commission finds that this application satisfies applicable statutes and administrative rules. At its public meeting on July 29, 2008, the Commission adopted Staff's recommendation and approved North Hill's request.

**ORDER**

IT IS ORDERED that the application of North Hill for the authority to borrow approximately \$353,650 for improving the Association's water system is approved, subject to the conditions and reporting requirements specified in Appendix A.

Made, entered, and effective JUL 31 2008.



BY THE COMMISSION:

*Becky L. Beier*  
\_\_\_\_\_  
**Becky L. Beier**  
Commission Secretary

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 by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

ITEM NO. CA12

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: July 29, 2008**

REGULAR \_\_\_\_\_ CONSENT  X  EFFECTIVE DATE \_\_\_\_\_ N/A \_\_\_\_\_

DATE: July 17, 2008

TO: Public Utility Commission

FROM: Steve Storm *SS*

THROUGH: Lee Sparling *LS*, Marc Hellman *MH*, and Michael Dougherty *MD*

SUBJECT: North Hill Water Corporation: (Docket No. UF 4248) Application for authority to enter into a loan agreement.

**STAFF RECOMMENDATION:**

I recommend the Public Utility Commission of Oregon (Commission) approve North Hill Water Corporation's (North Hill or Association) request to enter into a loan agreement, subject to the following conditions and reporting requirements:

1. The Association shall provide a final Report of Capital Expenditures upon completion of the proposed construction indicating the actual amounts expended and reconciling with the actual amount of the loan proceeds.
2. The Association shall provide a report indicating the final terms of the loan. The Association shall notify the Commission in advance of any substantive changes to the loan's 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 Association and the Association agrees to promptly file an application requesting a supplemental order (or other appropriate format) be issued approving the new loan terms and conditions.
3. The Commission reserves judgment on the reasonableness for ratemaking purposes of the Association's financing costs. In its next rate proceeding, the Association will be required to show that its capital costs, including embedded expenses and capital structure, are just and reasonable.

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4. Loan proceeds shall not be used for any ineligible activities or ineligible project costs, as determined by the Oregon Department of Human Services and/or the Oregon Economic and Community Development Department (OECD). Additionally, loan proceeds shall only be used for those purposes authorized by the Commission.<sup>1</sup>

**DISCUSSION:**

North Hill is a small association-owned (a Mutual Benefit with Members Corporation<sup>2</sup>) water system located near Hermiston, Oregon. The system currently serves approximately 28 customers.<sup>3</sup> The Association's current water sources are two wells. According to the Oregon Water Resources Department, the Association is currently in violation of its water right.

Order No. 08-164, issued March 13, 2008, required the Association to file appropriate tariffs with the Commission within 60 days. The Association filed on April 7, 2008 and the rate case (UW 128) is proceeding.

North Hill filed an application June 17, 2008, with the Commission, under Oregon Revised Statutes (ORS) 757.415 and Oregon Administrative Rule (OAR) 860-036-0720(3), for authority to borrow approximately \$353,650 for improving the Association's water system.

The Association represents that the proceeds will be used for:

- 1) Procuring engineering and project management services;
- 2) Completing a Geotechnical Report;
- 3) Procuring legal services for review of construction contracts and related construction project documents associated with constructing and upgrading the water system;
- 4) Replacing the existing reservoir;

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<sup>1</sup> See Oregon Administrative Rules (OAR) 860-036-0720 and Oregon Revised Statutes (ORS) 757.415.

<sup>2</sup> A mutual benefit nonprofit corporation is formed solely for the benefit of its members. Because it is not a charity, a mutual benefit nonprofit corporation cannot obtain 501(c)(3) status. If there is a dispute as to how a mutual benefit nonprofit corporation is being operated, it is up to the members to resolve the dispute since the corporation exists to solely serve the needs of its membership and not the general public.

<sup>3</sup> The indicated number of customers is from North Hill's application.

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- 5) Improving the booster pump station;
- 6) Drilling a new well;
- 7) Connecting the new well to a chlorine disinfection system and the new reservoir;
- 8) Expenses associated with bonding and insurance; and
- 9) Installing source meters and meters at each service connection not currently metered.

The amount requested includes a contingency reserve estimated at \$56,220, or 20% of the estimated loan amount.

These purposes are consistent with statutory requirements and are permitted under ORS 757.415.

The Association represents the loan will be awarded by the Oregon Safe Drinking Water Revolving Loan Fund (SDWRLF) program<sup>4</sup> and have an interest rate of 1.0 percent per annum and a 30-year term. These parameters imply a loan payment of approximately \$1,137.48 monthly. These loan terms will fully repay the loan's \$353,650 principal over 30 years. Per OECDD, there is a high probability that 25 percent of the loan's principal will be forgiven.<sup>5</sup>

The Association is presumed to have no equally cost-effective course of action to pursue. Condition 2 (above) allows the Association to proceed following an authorizing Commission Order even if non-substantive changes in the loan's terms have occurred. Should substantive changes to the loan's terms occur, Condition 2 requires an updated application, which will be reviewed in light of any changes if and when received.

North Hill filed a rate application and proposed tariffs in compliance with Order No. 08-164<sup>6</sup> on April 7, 2008. The application proposes a \$14,150 increase in

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<sup>4</sup> The Safe Drinking Water financing program provides low-cost financing for construction and/or improvements of public and private water systems. The Safe Drinking Water Fund is capitalized by annual grants from the U.S. Environmental Protection Agency (EPA) and matched with state resources. The program is managed jointly by the Department of Human Services (Drinking Water Program) and the Economic and Community Development Department (OECDD).

<sup>5</sup> The loan terms indicated are based on North Hill qualifying as a Disadvantaged Community as part of the Safe Drinking Water Revolving Loan Fund (SDWRLF) program. Appendix A (attached) lists the criteria for qualifying as a Disadvantaged Community.

<sup>6</sup> Order No. 08-164, effective on March 13, 2008, placed North Hill under financial and service regulation.

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annual revenues, from \$9,250 to \$23,400;<sup>7</sup> an increase of \$14,150 annually or \$1,179 monthly.<sup>8</sup> The revenues estimated to be generated by the proposed rates would appear to be marginally sufficient for covering the loan payments in the absence of any principal forgiveness.<sup>9</sup> Note that, with a 25 percent principal forgiveness at the beginning of the loan's term, the monthly payment to fully repay the principal over 30 years is \$853.11, which is within the incremental monthly revenue estimated to be generated by the proposed rates.

Requirements of the SDWRLF program include that a funded project must resolve an existing or potential health hazard or noncompliance under federal/state standards related to the public provision and conveyance of water for human consumption. The following are the main types of eligible activities and expenses:

- Engineering, design, upgrade, construction or installation of system improvements and equipment for water intake, filtration, treatment, storage, and transmission;
- Acquisitions of property, easements or the like, as needed to site, build, operate or protect facility or water source;
- Planning, surveys, legal/technical support, environmental review and so forth, arising from or attendant to improvement;
- Investments to enhance the physical security of drinking water and associated facilities, as well as water sources.

#### PROPOSED COMMISSION MOTION:

North Hill Water Corporation's application for the authority to enter into a loan agreement be approved with Staff's conditions and reporting requirements.

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<sup>7</sup> These projections, generated by a proposed flat monthly rate of \$75.00, are based on an average of 26 billing customers monthly.

<sup>8</sup> See K. Miller's Staff Report dated April 29, 2008, prepared for the May 6, 2008, Public Meeting (see also Docket No. UW 128).

<sup>9</sup> Qualifying as a Disadvantaged Community potentially has an impact on all loan terms. Should North Hill not qualify as such, revenue generated by the proposed rates may be insufficient to assure loan repayment.

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## Appendix A

### Criteria for Qualifying as a Disadvantaged Community<sup>10</sup>

- The average annual residential rate for drinking water must be at or above 1.37 percent (as of January 1, 2004\*) of the median annual household income of the area generally served by the water system:
  - The average annual water rate is 12 times the monthly fee that the water system would need to charge its residential service connections for 7,500 gallons of water consumption per month, as calculated by the applicant and verified by the Department after taking account of operations, maintenance, replacement reserves, debt repayment and all other reasonable system expenses, including the funded project.
  - As applicable, the water user rate will incorporate fee-equivalents derived from other local funding sources that are or will be used to pay for the water system, including any special levy on taxable property within the system's territory.
  - The median household income is based on the corresponding 2000 Census figure for the city or other more appropriate census statistical unit (e.g., census block group) that contains or is representative of the system's residential users.
  - A water system should consult with the Department if the 2000 Census figure might significantly overstate the relative level of current household income in the local area. In such cases, a special survey that either exists already or is newly commissioned (consistent with the Department's usual procedures) may be used to establish a comparable, up-to-date median income figure, which is then deflated to 2000 dollars.
- The median household income figure for the system area must be less than the corresponding figure for the State of Oregon (2000 Census), unless the average annual residential water rate is more than twice the 1.37 percent criterion above, as adjusted for inflation.

*\*Subsequent Adjustments for Price Inflation.* Effective annually on January 1 (starting with 2004), the 1.37-percent criterion was modified to account for any change in the Consumer Price Index (CPI) as determined by the U.S. Bureau of Labor Statistics in the previous year. This will continue until 2010 Census figures are available and/or changes are made to the computational factors described here.

<sup>10</sup> Per the Oregon Economic and Community Development Department's "SAFE DRINKING WATER IN OREGON Program Guidelines & Applicant's Handbook FOR THE FEDERALLY FUNDED Safe Drinking Water Revolving Loan Fund & Drinking Water Protection Loan Fund February 2004;" pages 9 through 12.