ORDER NO. 21-350

ENTERED Oct 25 2021

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

WA 83

In the Matter of SUNRIVER WATER LLC, Application for Approval to Expand Allocated Service Territory.	ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on October 21, 2021, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

BY THE COMMISSION:

Nolan Moser
Chief Administrative Law Judge

A party may request rehearing or reconsideration of this order under 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 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Circuit Court for Marion County in compliance with ORS 183.484.

ITEM NO. RA1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 21, 2021

REGULAR X **CONSENT** ____ **EFFECTIVE DATE** N/A

DATE: October 1, 2021

TO: Public Utility Commission

FROM: Stephanie Yamada

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

SUBJECT: SUNRIVER WATER, LLC:
(Docket No. WA 83)
Requests approval to expand the Company's allocated service territory.

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should approve Sunriver Water, LLC's (Sunriver, Sunriver Water, or Company) application to expand its service territory allocation, and grant a waiver of the requirement to file a customer mailing list as provided in OAR 860-036-1820(1)(a) and OAR 860-036-1810(1)(k).

DISCUSSION:

Issue

Whether the Commission should approve Sunriver's application for an expanded service territory allocation (Application), and waive requirements to file a customer mailing list.

Applicable Rule or Law

Pursuant to ORS 758.302(2), a water utility may apply to include in its designated exclusive service territory any area adjacent to its existing service territory designation, subject to the following conditions:

a. The applicant plans to extend service to the adjacent area in the six months following the date of the application,
b. The adjacent area is not being served by any other water provider, and

c. The applicant demonstrates that it is more economical and feasible to provide service to the adjacent area by an extension of the applicant's existing facilities than by an extension of the facilities of another water provider or community water supply system.

ORS 758.302(4) requires the Commission to give notice of the filing by newspaper publication as well as written notice of the application to all other water providers in the areas adjacent to the area described in the application.

The requirements and exhibits that must be included with an application for an expanded water service territory are detailed in OAR 860-036-1820(1).

Pursuant to OAR 860-036-1820(2), within 15 calendar days of the filing of such an application, a water utility must provide written notice to existing customers. The notice must contain the information required by OAR 860-036-1810(2) as modified to reflect the request to expand service territory.

Pursuant to OAR 860-036-1000, upon request or its own motion, the Commission may waive any of the Division 036 rules for good cause shown.

Analysis

Background

Sunriver is a privately owned rate- and service-regulated water utility serving approximately 4,700 customers in Deschutes County. Sunriver Water is a wholly-owned subsidiary of NW Natural Water of Oregon, LLC, which is a wholly-owned subsidiary of NW Natural Water Company, LLC, which in turn is a wholly-owned subsidiary of Northwest Natural Holding Company.[1] Prior to its acquisition by NW Natural Water of Oregon, Sunriver was owned by Sunriver Resort Limited Partnership (Sunriver Resort or Resort). The Commission approved the sale of the utility with Order No. 19-147 in Docket No. UP 384, issued April 24, 2019.

Sunriver's original service territory allocation was awarded with Order No. 01-991, issued November 21, 2001. The Commission subsequently approved an expansion to the territory with Order No. 06-437, issued July 26, 2006.

With this filing, Sunriver proposes to expand its allocated service territory to provide domestic water service to the Caldera Springs Annexation (CSA). CSA is a proposed development immediately adjacent to existing customers and distribution facilities of

[1] Supplemental Update to the Application, Page 3.

Sunriver, and is planned to be developed in phases over the next five to ten years.[2] When fully built out, the CSA will include up to 340 residential homes and 75 rental cabins.[3]

In its Application, Sunriver indicated that it plans to begin providing service directly to customers in the proposed expanded territory in September of 2022.[4] However, Sunriver has indicated that water service will be extended and used for construction and fire suppression purposes immediately upon receiving the necessary approvals. At the time the application was filed, construction was planned to begin in August 2021, in compliance with the six-month requirement stated in ORS 758.302.

A map of the utility's current service territory is included as Attachment B, and a map of the proposed expanded service territory is included as Attachment C. A map of the current Caldera Springs development and the proposed expansion to the CSA is included as Attachment D.

The initial Application was filed on April 7, 2021, and a Prehearing Conference was held in this docket on June 24, 2021. In a Prehearing Conference Memorandum issued by Chief Administrative Law Judge Nolan Moser on July 7, 2021, Sunriver was directed to supplement its Application with certain additional information by July 21, 2021. Sunriver subsequently filed a Supplemental Update to the Application on July 20, 2021.

Service to CSA

Sunriver states that the need for water service for the CSA can most efficiently be met by Sunriver Water LLC, as there are currently no other existing community water systems located within ten miles of the development tract.[5] Sunriver currently provides water service to the existing portion of the Caldera Springs development. Under the proposal, the existing water main would be extended east from the existing portion of Caldera Springs to service the CSA.[6]

In response to a Staff data request, the Company stated that, "[t]o Sunriver Water's knowledge, the developer of the Caldera Springs Annexation has not planned to create a separate standalone utility to serve the development because it does not make financial sense to do so and the development has been planned around being a part of the Sunriver Water system for the last 20 years."[7]

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[2] *See* Attachment A, Sunriver's response to Staff's Data Request 1.
[3] Calderasprings.com/expansion.
[4] Application, Section B.4.
[5] *See* Attachment E, Sunriver's response to Staff's Data Request 8.
[6] Application, Section B.5.
[7] *See* Attachment F, Sunriver's response to Staff's Data Request 9.

Staff discussed the possibility of the CSA being served by an entity other than Sunriver Water with the Deschutes County watermaster. If a new entity were to be created to serve the CSA, it would need to acquire water rights, which would most likely be an extremely expensive endeavor due to the high cost of the associated mitigation credits that would be required. The watermaster indicated that it would theoretically be possible for CSA customers to obtain water from domestic wells serving up to three homes each; such usage would be exempt from water permitting requirements under ORS 537.545 and there would be no associated mitigation requirement. However, as such a scenario would require drilling nearly 140 wells to serve the proposed CSA, it would not be a practical or efficient solution. As such, Staff finds that water service to the CSA can most efficiently be provided by Sunriver Water.

Capital Costs

In its Application, Sunriver initially estimated the cost of the capital improvements necessary to serve the expanded service territory at $5,950,000.[8] In its Supplemental Update to the Application, Sunriver revised this amount to $5,073,000, as shown in Table 1, based on more current design information obtained by the Company since its initial filing.[9]

Table 1: Capital Improvements to Serve CSA

Account #	Account Name	Total Projected Cost
304	Structures and Improvements	$222,593
309	Supply Mains	$100,000
310	Power Generation Equipment	$85,000
311	Pumping Equipment	$204,000
331	Transmission and Distribution Mains	$3,948,007
335	Hydrants	$498,400
346	Communication Equipment	$15,000
TOTAL		**$5,073,000**

The above table represents the capital costs for total build out of the distribution and pressure booster systems necessary to serve the expanded territory. The proposed expenditures are expected to take place between 2022 and 2032. The tentative phasing schedule for the construction of the water system is included as Attachment G.

Costs of the capital expenditures necessary to serve the expanded service territory will be incurred by the developer of the expanded territory, Caldera Springs Real Estate,

[8] Application, Section B.17.
[9] *See* Attachment G, Supplemental Update to Application, Exhibit 1.

LLC (Developer), and the associated assets will subsequently be transferred to Sunriver Water as Contributions in Aid of Construction (CIAC).[10] In its Supplemental Update to the Application, Sunriver stated that, as part of the development approval process, Deschutes County has required the Developer to demonstrate financial ability to complete the necessary infrastructure of each phase, and to complete and/or otherwise guarantee the construction for each phase before the sale of properties is permitted.[11] As each phase of development is completed, "the fully operational and approved section of the water system will be turned over to Sunriver Water as CIAC to become part of the Company's water system."[12]

CIAC is excluded from rate base during rate calculations, and utilities do not earn a rate of return on CIAC assets. Neither Sunriver Water nor its current customers are expected to bear the burden of the initial capital expenditures necessary to serve the expanded territory. It is not uncommon for a developer to construct water facilities to serve a new residential development and then donate those facilities to the utility at no cost. Typically, the developer recovers its cost of constructing those facilities via inclusion in the sales price of the homes within the development. As such, it is likely that initial capital investment costs will be borne by new customers who purchase homes in the newly developed CSA.

Although CIAC is excluded from rate base, under current tax laws, the fair value of CIAC assets is includable as taxable income in the year in which it is received. As such, Sunriver's receipt of CIAC assets associated with the expanded territory will generate a related tax liability each year in which such assets are received. In response to a Staff Data Request, Sunriver explained that those assets "are then subject to depreciation recovery for income tax purposes over approximately 25 years," and consequently, "there is not an overall increase in the amount of income taxes paid by the water utility, but there is a matter of cash flow timing."[13] As shown in Attachment G, the value of contributed plant is expected to total $1,890,873 in 2022. The Company states that "using a blended statutory income tax rate of 27%," this contribution "would result in an initial tax obligation of $510,536 which is then recovered through tax depreciation deductions which reduce the tax obligation by approximately $20,421 each year for 25 years."[14] Sunriver states that it "will bear the cash flow timing difference of income taxes over the recovery period."[15]

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[10] Supplemental Update to the Application, Page 2.
[11] Supplemental Update to the Application, Page 3.
[12] Ibid.
[13] *See* Attachment M, Sunriver's response to Staff's Data Request 13.
[14] Ibid.
[15] Ibid.

The deferred taxes associated with this timing difference are expected to result in a rate base addition of $490,115 in the year of receipt ($510,536 less $20,421), and Sunriver states that the annual revenue from "customers in the expanded territory is anticipated to address this."[16] Staff agrees that the revenues generated from the expanded territory would cover the revenue effect of this rate base addition should it later be allowed for inclusion in a ratemaking proceeding. The revenue anticipated to be generated from the expanded territory is discussed later in this memorandum.

The Company also notes that there is currently "active legislation at the federal level that would reinstate the exemption from taxation of contributions to water utilities," and that "the bill, if it becomes law, will exempt all contributions in aid of construction made to water utilities retroactively to January 1, 2021." The bill, known as the Infrastructure Investment and Jobs Act (H.R. 3684), passed the U.S. Senate on August 10, 2021.[17] Staff further notes that ratemaking treatment of any tax consequences would be addressed in a ratemaking proceeding.

Operating Expenses

With its Application, Sunriver provided the estimated operating expenses associated with serving the CSA at full build out.[18] As shown in Table 2, those expenses are expected to total $58,167 annually.

[16] Ibid.
[17] https://www.congress.gov/bill/117th-congress/house-bill/3684/actions.
[18] Application, Section B.18.

Table 2: Operating Expenses to Serve CSA		
#	**Account**	**Amount**
601	Salaries and Wages	$ 19,600
604	Employee Pension and Benefits	$ 5,300
615	Purchased Power	$ 6,300
619	Office Supplies Expense	$ 2,800
620	Material & Supplies (O&M)	$ 2,300
631	Contract Engineering	$ 1,000
633	Contract Legal	$ 100
634	Contract Management	$ 11,567
635	Contract Testing	$ 100
650	Transportation Expense	$ 2,400
656	Insurance Vehicle	$ 1,400
657	Insurance General Liability	$ 500
658	Insurance Workman's Compensation	$ 2,100
670	Bad Debt Expense	$ 100
673	Training and Certification Expense	$ 400
675	Miscellaneous Expense	$ 2,200
TOTAL		**$ 58,167**

Sunriver expects that customers in the proposed expanded service territory will pay the same rates as current customers.[19] At current rates, Staff estimates the annual revenue associated with the expanded service territory to be $248,616 at full build-out, calculated as shown in Table 3.

Table 3: Revenue from CSA							
Customer Type	**Count**	**Monthly Base Rate**	**Revenue from Base Rates**	**Projected Consumption (gallons)**	**Rate per 1,000 gallons**	**Revenue from Commodity Rates**	**Total Revenue**
Resi 5/8",3/4"	75	12.94	$11,646	5,460,000	$1.50	$8,190	$19,836
Resi 1"	340	32.35	$131,988	24,752,000	$1.50	$37,128	$169,116
Com 5/8",3/4"	1	12.94	$155	72,800	$1.50	$109	$264
Com 2"	1	103.51	$1,242	883,845	$1.50	$1,326	$2,568
Irrigation 3”	1	202.62	$2,431	34,000,000	$1.60	$54,400	$56,831
TOTAL	**418**		**$147,463**	**65,168,645**		**$101,153**	**$248,616**

[19] Application, Section B.15.

Based on this information, revenues from the expanded territory will exceed the $58,167 in associated operating expenses that are expected to result from the provision of service to the CSA.

In its Supplemental Update to the Application, Sunriver stated that the "Company's currently filed rate case (UW 186) does not request recovery of any of the planned expenses needed to provide service to the expanded territory," and that "[t]o the extent the Company incurs additional expense between rate cases, the Company will absorb those costs."[20] The specific inputs and cost drivers affecting Sunriver's proposed rates in UW 186 will be examined in detail as part of that case.

Capacity
In 2020, Sunriver's current customer base consumed approximately 520 million gallons of water, distributed as shown in Table 4.[21]

Table 4: Current Customers & Consumption

Customer Class	Number of Customers	Total Annual Consumption (Gallons)	Average Annual Consumption Per Customer (Gallons)
Residential	4,497	327,378,760	72,799
Commercial/Industrial	237	191,537,520	808,175
Residential Non-Metered	40	703,800	17,595
TOTAL	**4,774**	**519,620,080**	**898,570**

When fully built out, the proposed expanded service territory is expected to accommodate 418 new customers utilizing approximately 65 million gallons of water annually, as shown in Table 5.[22]

[20] Supplemental Update to Application, Page 3.
[21] Application, Section A.10.
[22] Application, Section B.9.

Table 5: New Customers & Consumption (Expanded Territory at Full Build-Out)				
Customer Class	**Meter Size**	**Potential Number Of Customers**	**Average Annual Consumption Per Customer (Gallons)**	**Total Projected Annual Consumption (Gallons)**
Residential Single Family	5/8", 3/4"	75	72,800	5,460,000
Residential Single Family	1"	340	72,800	24,752,000
Commercial/Industrial	5/8", 3/4"	1	72,800	72,800
Commercial/Industrial	2"	1	883,845	883,845
Lakes, streams, irrigation	3"	1	34,000,000	34,000,000
TOTAL		**418**	**35,102,245**	**65,168,645**

Sunriver provided information about the system's current capacity in Section A.15 of the Application. As shown in Table 6, Sunriver's existing water rights and wells provide for a maximum capacity of more than eight million gallons per day, which is equivalent to more than three billion gallons annually.

Table 6: Capacity			
Water Right	**Source**	**Maximum Capacity (Gal/Day)**	**Maximum Capacity (Gal/Year)**
G-17882	Well 14	2,952,000	1,077,480,000
G-17882	Well 9	2,268,000	827,820,000
G-3810 & G-5609	Well 2	2,217,600	809,424,000
G-17882	Well 15	864,000	315,360,000
Total		**8,301,600**	**3,030,084,000**

As calculated below, Sunriver anticipates it will retain approximately 2.45 billion gallons of unutilized capacity after the CSA is fully built out. The combined usage of current and new CSA customers is expected to utilize approximately 19 percent of Sunriver's total capacity, with 81 percent remaining.

Table 7: Capacity Utilization (Gallons)

		% of Total
Current Capacity	**3,030,084,000**	**100%**
Annual Usage:		
Current Customers	519,620,205	17%
New CSA Customers	65,168,645	2%
Total Projected Annual Demand	**584,788,850**	**19%**
Remaining Unused Capacity	**2,445,295,150**	**81%**

Based on this information, Staff finds that Sunriver has sufficient capacity available to serve both current customers and new CSA customers.

Financial and Technical Ability

In response to a Staff data request, the Company stated that "Sunriver Water possesses the financial ability to adequately serve the existing and proposed expanded service territories, as shown in the general rate case filed by Sunriver Water on May 28, 2021 (UW 186). Also, all future Caldera Springs Annexation (CSA) development fees will be borne by the developer, so there will not be any additional costs to the Utility or its customers."[23] In its Supplemental Update to the Application, Sunriver also submitted NW Holdings' Form 10-K for 2020 and its Form 10-Q for the first quarter of 2021.[24]

Sunriver asserts that it also possesses the technical ability to adequately serve the existing and proposed expanded service territories. In response to a Staff data request, the Company stated that it has "six certified operators, four operators in training and four office staff who currently run the daily operations, and will be able to continue running the facilities included in the expanded territories."[25]

At this time, Staff does not have concerns regarding the financial or technical ability of Sunriver to provide service within the proposed expanded service territory.

Customer Notice

OAR 860-036-1820(2) requires written notice of the application to be provided to existing customers within 15 days of the filing date of a service territory application. With a filing date of April 7, 2021, the deadline for providing the customer notice was April 22, 2021. Staff reviewed the draft notice prior to its sending and found it to be in

[23] *See* Attachment H, Sunriver's response to Staff's Data Request 2.
[24] Supplemental Update to the Application, Exhibits 4 and 5.
[25] *See* Attachment I, Sunriver's response to Staff's Data Request 3.

compliance with applicable administrative rules. The Company informed Staff that the notice was sent by the April 22, 2021 deadline. Furthermore, in compliance with ORS 758.302(4), the Commission provided notice of the filing by electronic notice to the Water Industry List on April 22, 2021, and by publication in the Bend Bulletin on April 25, 2021, and May 2, 2021.

OAR 860-036-1820(1)(a) and OAR 860-036-1810(1)(k) require a complete customer mailing list to be included with applications for expanded service territory. Although the Company was prepared to provide such a list, Staff and the Company agreed that it should not be submitted with the other application materials. Application materials are posted on the PUC website for public viewing, and both Staff and the Company agreed that many customers may not wish for their names and addresses to be posted online. Furthermore, Staff did not find that a customer mailing list was necessary in order to carry out its review of the Application. As such, Staff recommends that the Commission waive the requirement to file a complete customer mailing list along with the application.

Customer Concerns

Thirteen customers filed comments in protest of Sunriver's application to expand its service territory. Furthermore, a Public Comment Hearing was held in this docket via Zoom on August 4, 2021. Approximately 13 customers attended that meeting, many of whom expressed concerns regarding the present Application. Members from the Company as well as Sunriver Resort were also in attendance, and answered questions and responded to customer comments at the meeting. The concerns expressed by customers throughout this docket are discussed below. No customer requested a hearing on this matter.

Cost to Expand Existing System

Several customers urged the Commission to require the Developer to bear the cost of any system improvements needed to serve the proposed expanded territory. At the time that the Company's initial Application was filed with the Commission, it was unknown whether such costs would be borne by the Developer or by Sunriver. However, that point has since been clarified; as discussed previously, the entirety of the $5,073,000 in improvements needed to serve the expanded territory will be paid for by the Developer and donated to the utility as CIAC.

Water Availability

Many customer comments centered on the potential impact of the CSA on the availability of water to current customers and throughout the region generally. As discussed previously, the addition of 418 new customers in the CSA is not expected to result in water shortages to Sunriver's existing customers. Customer concerns relating to water availability are discussed further below.

Transfer of Wells 4 and 12. A number of customers expressed concerns regarding two wells that were transferred to Sunriver Resort when the utility was purchased by NW Natural Water of Oregon in 2019. Specifically, customers worried that the Company's loss of these two wells represented a decrease in the overall availability of water, and that the added burden of serving the CSA may further exacerbate the issue. At least one customer also expressed concerns regarding the loss of the golf course revenues associated with one of the two wells.

The two wells in question are Well 4 and Well 12. A letter submitted in this docket from Tom O'Shea, Managing Director of Sunriver Resort, indicated that Well 4 was removed from use in 1995 at the direction of the Oregon Water Resources Department.[26] The water rights associated with Well 4 were subsequently transferred to another well, and Well 4 was filled with concrete to render it inoperable.[27] Due to its longtime inoperable status, its transfer to the resort in 2019 did not have an impact on customers of Sunriver Water. Mr. O'Shea also explained that Well 12 was previously found to be unsuitable for domestic use and was consequently used only for irrigation of the Crosswater golf course since 2006. Because the Crosswater golf course is owned by Sunriver Resort, it was appropriate for the Resort to take ownership of Well 12.

Staff notes that while Sunriver Water lost the revenues associated with Well 12 upon its transfer to the Resort, the associated costs of maintaining the well and serving the Crosswater golf course were also eliminated. Furthermore, pursuant to Conditions 21 and 22 of the Stipulation adopted with Order No. 19-147 in Docket No. UP 384, customers were compensated for the loss of Wells 4 and 12 in the form of one-time bill credits. Specifically, $40,837 was distributed to domestic customers as compensation for Well 4, and $29,451 was distributed to domestic customers as compensation for Well 12. The transfer of the two wells is discussed further in the Joint Testimony submitted in Docket No. UP 384.[28]

As discussed previously, Sunriver Water currently has access to four wells that provide a combined capacity of more than three billion gallons annually. Because the expected combined annual usage of current customers and new CSA customers is expected to represent approximately 19 percent of that amount, Staff finds that the expansion of Sunriver's territory and service to customers in the CSA is not likely to result in water shortages.

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[26] *See* Attachment J, Letter to Scene 12 July 2021, from Tom O'Shea, Managing Director, Sunriver Resort.
[27] Ibid.
[28] *See* Oregon Water-SRW-Staff-CUB-SROA/100, Palfreyman, O'Shea, Yamada, Gehrke, and Palcic/13 to 15.

Recent Outage. Some customers expressed concerns related to a recent outage in the Company's primary well. In June of this year, customers received correspondence from Sunriver Water indicating that the primary well was offline and that usage should be limited until the well could be repaired.[29] In the interim, water was supplied by a backup well. Some customers interpreted this outage as evidence that the current system lacks the capacity and/or resources to adequately serve the current customer base, indicating that service to the CSA would further increase the probability of outages. Furthermore, because customers were asked to limit usage during the outage, some customers were concerned that the curtailment needs represented evidence of insufficient capacity to serve current customers.

At the August 4, 2021 Public Comment Hearing, Sunriver explained that the June 2021 outage was due to the failure of an electrical breaker and was not indicative of a broader capacity or service issue. It took approximately one week to receive and install a replacement breaker, as a replacement was not readily available and was ordered from out of state. The Company stated that potable water provided from the backup well remained available to customers during this time, though customers were asked to limit the use of this water for irrigation purposes until the primary well could be restored. The Company also stated that it ordered spare parts to ensure that a replacement breaker will be readily available if another failure were to occur in the future.

Water Pressure
Some customers expressed a concern that the addition of new customers in the CSA may reduce water pressure in the current system. In response to a Staff data request, Sunriver indicated that the addition of demand from the CSA will "have no discernable effect on water pressures in the existing service territory."[30] Sunriver further stated that a new booster pump station will be needed to provide adequate pressure in the higher-elevation portion of the CSA, and that this new booster station "will improve pressures in the southern portion of the existing service territory."[31]

Drought, Aquifer, and Environmental Conditions
The U.S. Drought Monitor (USDM) shows the intensity of drought using a five-category system, from Abnormally Dry (D0) conditions to Exceptional Drought (D4).[32] Most of Deschutes County is currently under USDM classifications D3 and D4, representing Extreme Drought and Exceptional Drought, respectively. A number of customers expressed concerns regarding the construction of the CSA given the current drought conditions in Deschutes County, arguing that further development in the area will

[29] *See* Attachment K, June 17 2021 Outage Notice.
[30] *See* Attachment E, Sunriver's response to Staff's Data Request 8.
[31] Ibid.
[32] https://www.drought.gov/states/oregon/county/deschutes.

worsen the existing water shortage in the region. Some customers cited anecdotal evidence of well water levels dropping or running dry in other private wells in the region. Several customers expressed concerns that water levels in the aquifer from which Sunriver currently draws water may be decreasing, and that the utility should not agree to take on new customers amid such a decrease.

Unrelated to the present docket, similar stories of drying wells in Deschutes County have also been relayed to Staff in 2021. However, at the August 4, 2021 Public Comment Hearing, representatives from Sunriver indicated that the Company's well levels are monitored on a daily basis, and that the Company has observed no depression in water levels despite the current drought, even during the highest usage months of the year. Sunriver also indicated that the specific aquifer utilized by the Company's wells is not affected by the groundwater fluctuations that occur during a drought. On August 6, 2021, the Company submitted a follow-up to the Public Comment Hearing discussion in which it stated that the Company's "hydrologist has confirmed that [the Company's] wells are the best indicator of potential impact from external environmental factors."[33]

A number of customers expressed more general concerns regarding the proposed new development and its impact on the region. For example, some customers argued that the CSA will result in increased traffic and a negative impact on wildlife in the Sunriver area. Others expressed concerns regarding the environmental impacts of new development and increased water usage in the area. In the interest of conservation, one customer urged the Commission to compel Sunriver Resort to water its golf courses using reclaimed water rather than potable water.

While the protection of Oregon's natural resources is of understandable concern to many Oregonians, Staff notes that issues relating to land use and development within Deschutes County are overseen by the Deschutes County Board of Commissioners, from which the Developer has received approval to move forward with the proposed CSA development. Furthermore, the allocation of water resources in Oregon is overseen by the Oregon Water Resources Department, and the issuance and usage of Sunriver's water rights are overseen by that entity. Water quality is monitored by the Oregon Department of Environmental Quality (ODEQ), and the provision of drinking water is overseen by Oregon Drinking Water Services, which is a division of the Oregon Health Authority. While the Commission strives to promote water conservation among its regulated utilities by adopting metered rates to discourage wastage wherever appropriate, it does not direct the allocation of water resources or to restrict the construction of new housing throughout the state. For these reasons and because

[33] *See* Attachment L – Sunriver's follow-up to August 4 Public Comment Hearing.

Sunriver Resort is not a Commission-regulated entity, the Commission is also unable to dictate the manner in which Sunriver Resort waters its golf courses.

Wastewater Facility
Finally, several customers expressed concerns regarding the capacity of the wastewater facility that serves the current Sunriver community. These customers argued that the current facility is insufficient to serve the exiting community, and that the addition of more customers would exacerbate existing issues, including the emission of odor.

The wastewater facility is owned and operated by Sunriver Environmental, LLC, which is a separate entity from Sunriver Water and is not regulated by the Commission. As such, issues relating to the wastewater facility are outside of the scope of the present case. Nevertheless, at the August 4, 2021 public comment hearing, representatives from the Company confirmed that the wastewater facility currently has the capacity to treat all wastewater from both the existing Sunriver community and the proposed CSA. The Company also stated that additional (non-capacity-related) improvements are currently being made to the wastewater facility in conjunction with recommendations from the ODEQ.

Conclusion

For the reasons stated above, Staff finds that the application by Sunriver Water to expand its allocated service territory complies with applicable statues and administrative rules, and should be approved. Staff further finds that there is good cause for the Commission to waive the requirement for Sunriver Water to provide a customer mailing list as part of its application.

PROPOSED COMMISSION MOTION:

Approve Sunriver Water's application to expand its service territory allocation, and grant a waiver of the requirement to file a customer mailing list as provided in OAR 860-036-1820(1)(a) and OAR 860-036-1810(1)(k).

Sunriver.WA83.ServiceTerritoryExpansion

NW Natural

Rates & Regulatory Affairs
WA 83
Sunriver Water LLC Exclusive Service Territory Application
Data Request Response

Request No.: WA 83 OPUC DR 1

1. Please describe the history of and future plans for the Caldera Springs development and Caldera Springs Annexation as they pertain to Sunriver Water.

Response:

Caldera Springs Annexation (CSA) is a proposed development immediately adjacent to existing customers and distribution facilities of Sunriver Water LLC. CSA will be developed in phases over the next five to ten years, depending upon market demand. CSA has received Conceptual Master Plan approval from Deschutes County and the final Master Plan and tentative Plan are in underway. Upon receipt of approvals, construction drawings for CSA will be completed and submitted to the Oregon Health Division (OHD) for review and approval.

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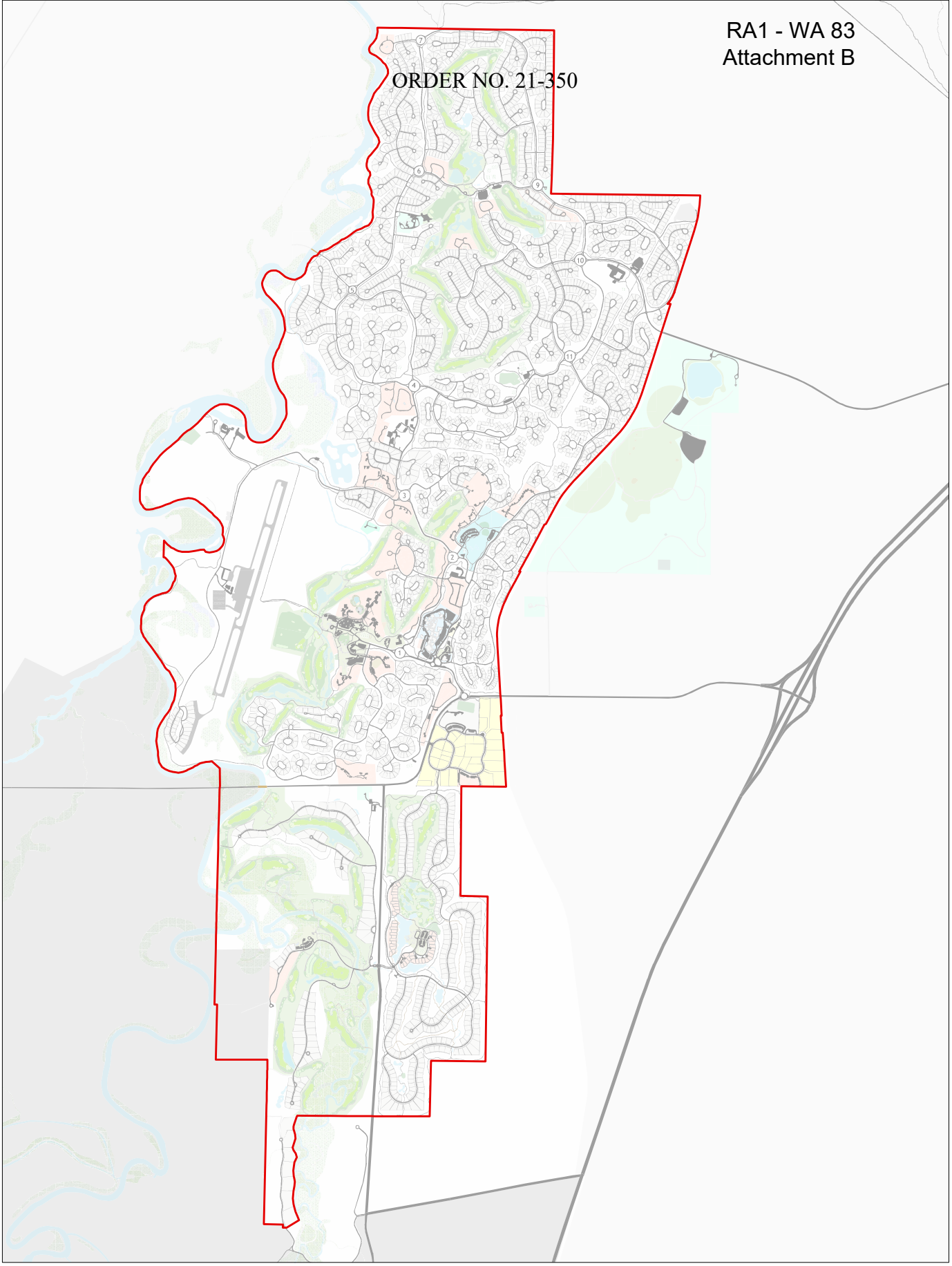


EXHIBIT A.7
CURRENT SERVICE TERRITORY

Current Service Territory

N

0 1,000 2,000 3,000 4,000 FT

CREATED BY: ENELSON 2/18/2021

APPENDIX A

ORDER NO. 21-350

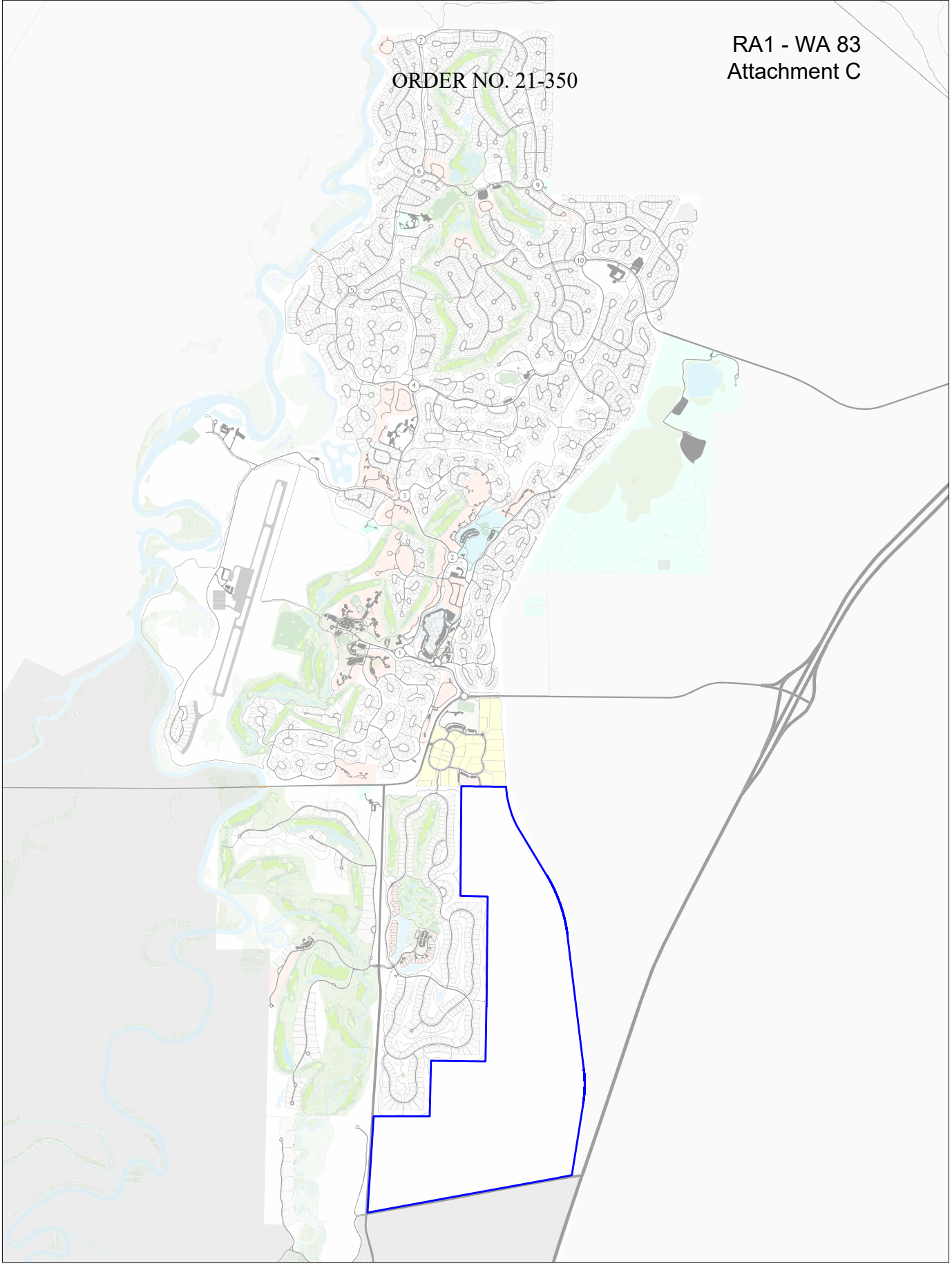


EXHIBIT B.2
PROPOSED EXPANDED SERVICE TERRITORY

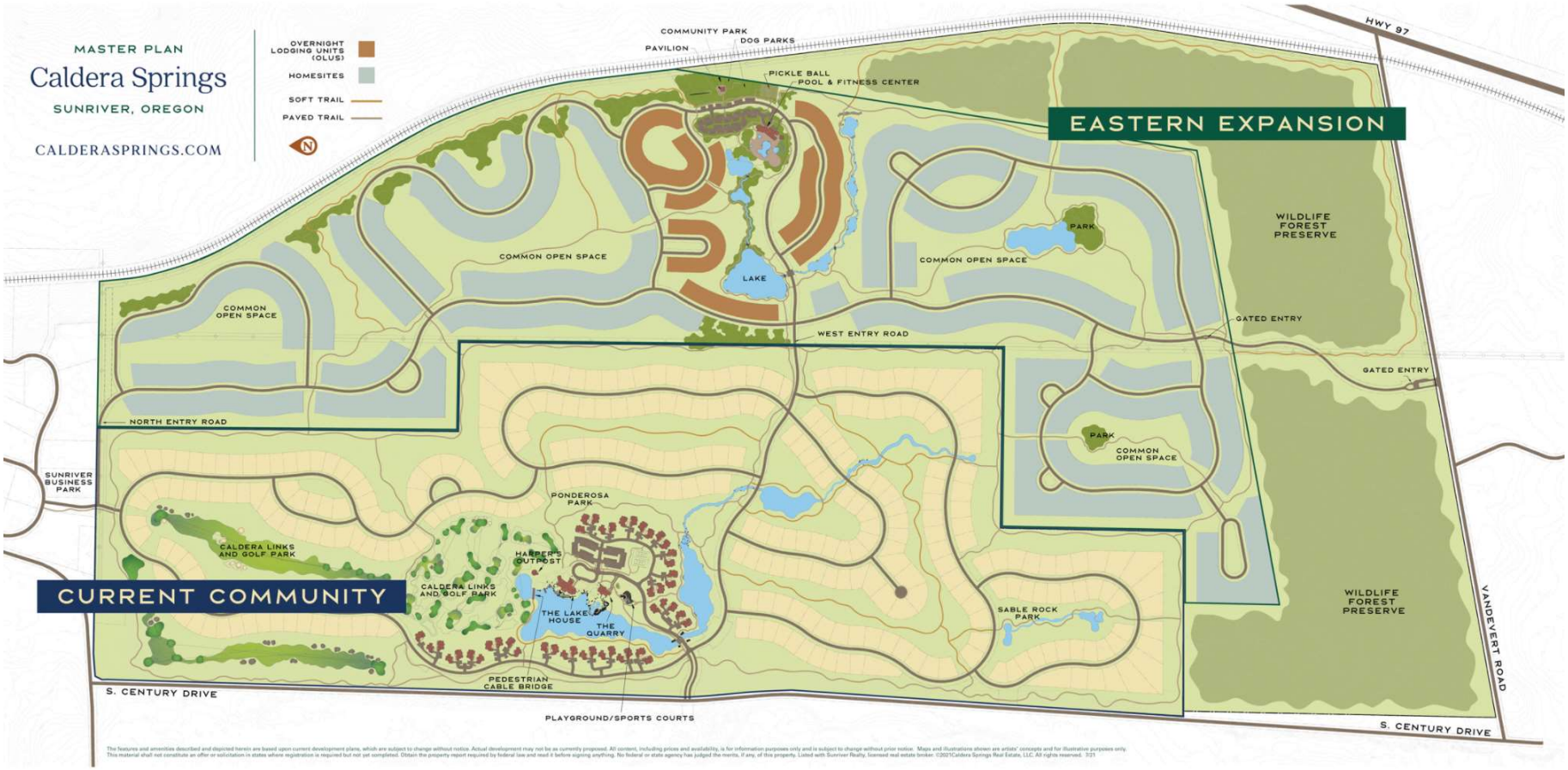
Proposed Expanded Service Territory

N

0 1,000 2,000 3,000 4,000 FT

CREATED BY: ENELSON 2/18/2021

APPENDIX A



Source: calderasprings.com/expansion

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Data Request Response

Request No.: WA 83 OPUC DR 8

8. Regarding Sunriver Water's decision to expand its facilities to serve the Caldera Springs Annexation, please provide the analyses performed by Sunriver and/or its affiliates with regard to this decision, and explain why Sunriver made the decision to serve the expanded territory based on these analyses.

Response:

The need for water service for Caldera Springs Annexation can most efficiently be met by Sunriver Water LLC. No other existing community water systems are located within ten miles of the development tract.

This subject was addressed in the Water Master Plan, page 9, Water System Analysis section. This analysis and water system modeling work showed that the addition of Caldera Springs Annexation demands have no discernable effect on water pressures in the existing service territory. A new booster pump station will be needed to serve the new, higher-elevation service territory. This booster station will improve pressures in the southern portion of the existing service territory.

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9. Does Sunriver Water have any knowledge as to why the developer of the Caldera Springs Annexation has not planned to create a separate standalone utility to serve the development? Please explain.

Response:

To Sunriver Water's knowledge, the developer of the Caldera Springs Annexation has not planned to create a separate standalone utility to serve the development because it does not make financial sense to do so and the development has been planned around being a part of the Sunriver Water system for the last 20 years.

WA 83 OPUC DR 6 Attachment 2
Page 1 of 1

Provide the **projected improvements or capital costs** to the existing water system and/or a new water system to provide adequate service to the expanded service territory you are applying for. Indicate the costs by the accounts provided. If the account is not applicable, write n/a or leave it blank. If attaching a schedule, mark as Exhibit B.14.

Tentative Phasing of Water System Construction

Account Number	Capital Account Name	Total Projected Cost of Proposed System (current $)	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
301	Organization												
302	Franchises												
303	Land and Land Rights												
304	Structures and Improvements	$222,593	$222,593										
305	Collecting and Impounding Reservoir												
306	Lake, River, and Other Intakes												
307	Wells and Springs												
308	Infiltration Galleries and Tunnels												
309	Supply Mains	$100,000	$100,000										
310	Power Generation Equipment	$85,000	$85,000										
311	Pumping Equipment	$204,000	$204,000										
320	Water Treatment Equipment												
330	Distribution Reservoirs and Standpipes												
331	Transmission and Distribution Mains	$3,948,007	$1,122,566	$47,566	$351,991	$180,752	$332,964	$475,663	$237,832	$418,584	$304,425	$142,699	$332,964
333	Services												
334	Meter and Meter Installation												
335	Hydrants	$498,400	$141,714	$6,005	$44,436	$22,818	$42,034	$60,048	$30,024	$52,842	$38,431	$18,014	$42,034
336	Cross Connection/Backflow Prevention Devices												
339	Other Plant and Miscellaneous Equipment												
340	Office Furniture and Equipment												
341	Transportation Equipment												
343	Tools, Shop, and Garage Equipment												
344	Laboratory Equipment												
345	Power Operated Equipment												
346	Communication Equipment	$15,000	$15,000										
347	Electronic and Computer Equipment												
348	Miscellaneous Equipment												
	Total	$5,073,000	$1,890,873	$53,571	$396,427	$203,570	$374,998	$535,712	$267,856	$471,426	$342,855	$160,714	$374,998

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Request No.: WA 83 OPUC DR 2

2. Does Sunriver Water possess the financial ability to adequately serve the existing and proposed expanded service territories? Please explain, and include any documentation necessary to support the answer.

Response:

Yes. Sunriver Water possesses the financial ability to adequately serve the existing and proposed expanded service territories, as shown in the general rate case filed by Sunriver Water on May 28, 2021 (UW 186).

Also, all future Caldera Springs Annexation (CSA) development fees will be borne by the developer, so there will not be any additional costs to the Utility or its customers.

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Request No.: WA 83 OPUC DR 3

3. Does Sunriver Water possess the technical ability to adequately serve the existing and proposed expanded service territories? Please explain, and include any documentation necessary to support the answer.

Response:

Yes. Sunriver Water possesses the technical ability to adequately serve the existing and proposed expanded service territories. We have six certified operators, four operators in training and four office staff who currently run the daily operations, and will be able to continue running the facilities included in the expanded territories. For additional information about Sunriver Water's technical ability, please see the general rate case application filed by Sunriver Water on May 28, 2021 (UW 186).

Letter to Scene 12 July 2021

In last month's Scene, there were two submittals regarding concerns over the elimination of two wells (number #4 and #12) with the sale of the Sunriver Water Company (SWC) in 2019. We would like to clarify the situation surrounding the concerns expressed.

Located next to the banks of the Deschutes and north of Harper Bridge, Well #4 was constructed in 1943 as part of Camp Abbot and began serving Sunriver in 1967. The water rights associated with #4 were for groundwater extraction (as are all water rights owned by SWC). In 1995, Oregon Water Resources advised SWC that the rights for #4 could no longer be utilized at that location due to its proximity to the Deschutes and their concern that surface water from the river might make its way into #4. As a result, the water rights to #4 were transferred to another SWC well further away from the Deschutes, and the pumps and equipment were removed. The shaft was later filled with concrete to render it inoperable. At the time of the sale of SWC, #4 had not been in service to SWC for 20 years, so had no impact on water production to the system.

Also mentioned was Well #12, located at the NE corner of Crosswater. Constructed in 1993 as part of the Crosswater development, this well was given to SWC by the developer. A few years into service, it was discovered that water from #12 was unsuitable for domestic use (due to blue mineral deposits) and, in 2006 when the main Sunriver production well #14 was completed, #12 was disconnected. The water rights associated with #12 were transferred to #14, and the well was modified to provide for irrigation of the Crosswater golf course with specific rights for that use only.

Both of these wells were retained by Sunriver Resort to eliminate the ongoing costs and liabilities of owning those sites by SWC. This was reviewed and approved by the Public Utility Commission as part of the SWC sale in 2019. Also, it was determined that retaining these wells would not have any adverse impact on the operations and service to SWC customers, including the ability of SWC to serve the Caldera Springs expansion area in the future. This information is all contained in the PUC records and can be found on the PUC website for any who may be interested in examining further.

Tom O'Shea
Managing Director
Sunriver Resort

P.O. Box 3699 Sunriver, OR 97707 || 541-593-4197 || After Hours Emergencies 541-419-6469

IMPORTANT INFORMATION ABOUT YOUR DRINKING WATER

June 17, 2021

Sunriver Utilities Company Customer,

Sunriver Water's primary well is currently down due to mechanical failure. We are therefore using a backup well to continue to provide water service. Although this is not an emergency, we would appreciate your cooperation in conserving water while we are utilizing the backup well. We are working to correct this situation as quickly as possible and anticipate completing the repair within the next few days.

We are asking for your help to conserve water until further notice. There is nothing else you need to do. You do not need to boil your water or take other corrective actions.

Thank you for your cooperation during this repair. For more information please contact our office at 541-593-4197.

Sincerely,

Sunriver Utilities Company

www.sunriverwater.com

SUNRIVER
WATER LLC / ENVIRONMENTAL LLC

VIA ELECTRONIC FILING

August 6, 2021

Public Utility Commission of Oregon
Attn: Filing Center
201 High St. SE, Suite 100
Post Office Box 1088
Salem, Oregon 97308-1088

Re: WA 83 – In the Matter of Sunriver Water LLC, Expanded Service Territory Application – Public Comment Hearing Discussion Follow-Up

Administrative Law Judge Allwein:

Sunriver Water LLC ("Sunriver Water" or the "Company") very much appreciates the robust questions and comments from, and discussion with, our customers, parties and Your Honor during the Public Comment Hearing on Wednesday, August 4, 2021. The Company asked for permission to follow-up on several items requested during the Public Comment Hearing. At your direction, we are filing this letter in the docket with the requested additional information.

- Sunriver Water's Master Plan covers capital projects through 2040 and water resources needed for full buildout.
- The North Well location is adjacent to the North Reservoir.
- The North Well Application 16874 (Permit 17882) allows 1,790 acre-feet annual use at 3.9 CFS rate (1,750 gpm rate). This right requires mitigation to use the water. Sunriver Water already has acquired 2.1 acre-feet of permanent mitigation credits, which allows 5.25 acre-feet of use.
- Our hydrologist has confirmed that our wells are the best indicators of potential impact from external environmental factors (e.g., precipitation levels).
- Most of the Deschutes River water systems are tapping a shallow aquifer, whereas Sunriver Water's wells are in a deeper aquifer.

Sincerely,

Sunriver Water LLC

/s/ Tim Smith

Tim Smith
General Manager
tsmith@sunriverutilities.com
(971) 285-4025

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Data Request Response

Request No.: WA 83 OPUC DR 13

13. In Exhibit 1 of Sunriver's Supplemental Update to the Application, submitted July 20, 2021, the Company provided updated figures showing that $5,073,000 in capital expenditures will be necessary to serve the proposed expanded service territory. In that Supplemental Update, Sunriver also noted that "[a]ll of these capital expenditures for the expanded service territory area will be made by the developer of the expanded territory, Caldera Springs Real Estate, LLC…with those capital assets transferred to Sunriver Water as contributions in aid of construction" (CIAC). Furthermore, pursuant to tax changes enacted with the Tax Cuts and Jobs Act in 2018, water utilities are required to pay tax on the receipt of CIAC assets. Regarding the tax obligation associated with Sunriver's receipt of $5,073,000 in CIAC assets,

a. Please provide the estimated tax obligation to Sunriver that is expected to result from Sunriver's receipt of these assets. Please include any documentation, analyses, and/or work papers necessary to support the response.

b. Who will pay for the tax obligation described in section (a) of this question?

c. Is the tax obligation associated with Sunriver's receipt of this CIAC expected to have an impact on customer rates? Please explain why or why not. If the answer is yes, please provide the estimated rate impact and include any documentation, analyses, and/or work papers necessary to support the response.

Response:

a) Under current federal and Oregon income tax law, the fair value of the assets contributed is includable as taxable revenue in the year of receipt. Those same assets are then subject to depreciation recovery for income tax purposes over approximately 25 years (water utility general income tax life). As a result, there is not an overall increase in the amount of income taxes paid by the water utility, but there is a matter of cash flow timing.

   The developer's cost of the plant contribution in 2022, as noted in Exhibit 1 of the Supplemental Update, is $1,890,873. Including this amount as taxable revenue upon receipt, using a blended statutory income tax rate of 27%, would result in an initial tax obligation of $510,536 which is then recovered through tax depreciation deductions which reduce the tax obligation by approximately $20,421 each year for 25 years.

b) As the taxpayer receiving the plant contribution and claiming the future income tax depreciation, Sunriver Water will bear the cash flow timing difference of income taxes over the recovery period.

c) Utilizing the figures provided in (a) above, the net increase to rate base in the year of receipt would be $490,115 ($510,536 less $20,421). The average annual revenue from the new commercial, irrigation, and residential customers in the expanded territory is anticipated to address this. We have indicated to the developer that it may become necessary to request an additional finance charge to address the period over which the initial tax obligation is recovered.

There is active legislation at the federal level that would reinstate the exemption from taxation of contributions to water utilities. On August 10, 2021, the US Senate passed their version of HR 3684, the *Infrastructure and Jobs Act* (also known as the Bipartisan Infrastructure Bill). The US House of Representatives has made a non-binding commitment to vote on this bill by September 27, 2021. The bill, if it becomes law, will exempt all contributions in aid of construction made to water utilities retroactively to January 1, 2021.