

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: JUNE 26, 2001**

REGULAR AGENDA___ CONSENT AGENDA X EFFECTIVE DATE_____

DATE: June 19, 2001
TO: Phil Nyegaard through Marc Hellman and Mike Myers
FROM: Marion Anderson
SUBJECT: UI 190 – Odell Water Company (Odell) Application for Approval of a Services Agreement with D&B Orchards, Inc. (D&B), an Affiliated Interest

SUMMARY RECOMMENDATION:

I recommend approval with conditions.

DISCUSSION:

The Commission received this application on June 1, 2001. The filing was made under ORS 757.015(5) and 757.495. Odell and D&B share three corporate officers thereby establishing the affiliation. The estimate of annual charges pursuant to this contract is \$2,427.

PERTINENT ISSUES:

I have investigated the following issues to determine if the agreement is fair and reasonable, and not contrary to the public interest.

1. Scope of Services
D&B will provide labor, equipment rental and transportation services to Odell.
2. Transfer Pricing Methods and Cost Allocations
D&B will bill labor charges at \$10 per hour while the dump truck rental charge is \$50 per hour. Transportation services are billed at the Internal Revenue Service business rate of \$.345 per mile.
3. Determination of Public Interest Compliance
The use of the Internal Revenue expense allowance is accepted at face value. Staff requested and received the rationale for costing the labor and equipment rental charges without competitive bidding. No dump truck is available on an hourly basis (10 hours of annual usage is projected) and the labor charge is reasonable.
4. Records Availability, Audit Procedures and Reporting Requirements
I believe that Detailed Recommendation Condition 1 affords the Commission adequate access to records and provides for the auditing of transactions between Odell Water Company and D&B Orchards, Inc.

CONCLUSIONS:

Based on an investigation and review of this application, my conclusions are as follows:

1. Odell Water Company is a regulated water company subject to the jurisdiction of the Public Utility Commission of Oregon.
2. An affiliated interest relationship exists between Odell Water Company and D&B Orchards, Inc.
3. The application appears to be fair and reasonable and not contrary to the public interest.

DETAILED RECOMMENDATION:

Based on the preceding discussion and conclusions, I recommend that the application presenting the services agreement between Odell Water Company and D&B Orchards, Inc. be approved with the following conditions:

1. Odell Water Company shall provide the Commission access to all books of account, as well as all documents, data and records of Odell Water Company and D&B Orchards, Inc. that pertain to transactions between the two.
2. The Commission reserves the right to review for reasonableness all financial aspects of this arrangement in any rate proceeding or earnings review under an alternative form of regulation.
3. Odell Water Company shall notify the Commission in advance of any substantive changes to the agreement, including any material changes in any cost. Any changes to the agreement terms that alter the intent and extent of activities under the agreement from those approved herein shall be submitted for approval in an application for a supplemental order (or other appropriate format) in this docket.
4. D&B Orchards, Inc. shall maintain records to show, upon Commission request, the cost of the goods and services provided to Odell Water Company. The return component used in the calculation shall be Odell Water Company's currently authorized Oregon overall rate of return multiplied by the portion of D&B Orchards, Inc.'s net assets used for provisions to Odell Water Company.