

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 23, 2002**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____

DATE: April 16, 2002

TO: John Savage through Marc Hellman and Rebecca Hathhorn

FROM: Tom Riordan

SUBJECT: WILDERNESS CANYON WATER AND HILLVIEW WATER: (Docket UI 200) Application for an order approving a service contract with Olson Enterprises.

STAFF RECOMMENDATION:

The Commission should approve Wilderness Canyon Water (Wilderness) and Hillview Water (Hillview) application for a service contract with Olson Enterprises, an affiliated interest, and include the following conditions:

1. Wilderness and Hillview shall provide the Commission access to all books of account, as well as documents, data, and records of Wilderness' and Hillview's and Olson Enterprises' affiliated interests that pertain to this transaction.
2. The Commission reserves the right to review for reasonableness all financial aspects of this transaction in any rate proceeding or alternative form of regulation.
3. Wilderness and Hillview shall notify the Commission in advance of any substantive changes to the agreement, including any material change in price. Any such change shall be submitted in an application for a supplemental order (or other appropriate format) in this docket.

DISCUSSION:

Wilderness and Hillview filed this application on March 19, 2002, pursuant to ORS 757.495 and OAR 860-027-0040. Wilderness and Hillview request authorization from the Commission for Olson Enterprises to provide computer services for customer billing and basic accounting related to the water systems. Wilderness and Hillview, with fourteen and eleven customers respectively, are operating divisions of Hiland Water Corporation (Hiland). Micah Olson is an officer of Hiland and the owner of Olson

Enterprises. Therefore, Wilderness and Hillview and Olson Enterprises are affiliated interests under ORS 757.015.

In 2001, Olson Enterprises billed Wilderness and Hillview about \$228 in total for its services. The billing rate that Olson Enterprises charges is \$25 per hour, and is considered by the applicants to be below fair market value for comparable service. All amounts charged to Wilderness and Hillview are recorded on Hiland's books and shown as assigned costs to the water systems on Hiland's accounting spreadsheets.

Staff reviewed the terms of the contract, the transfer price and the records availability, audit provisions and reporting requirements. Staff found that there were no restrictive aspects to this service arrangement. Also, due to the size of and the unique characteristics of Wilderness and Hillview, there is no readily available market for the same services at the prices charged by OLson Enterprises. Customers are likely not harmed by this transaction because the company is paying a fair and reasonable price and meeting the Commission's transfer pricing policy.

After review of the filing, Staff concludes that the application involves an affiliated interest transaction that is fair and reasonable and not contrary to the public interest, with the inclusion of the proposed ordering conditions.

PROPOSED COMMISSION MOTION:

Wilderness Canyon Water's and Hillview Water's UI 200 application to enter into an affiliated interest transaction with Olson Enterprises, including the three recommended conditions stated in this memorandum be approved.