

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 10, 2006**

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

DATE: September 28, 2006

TO: Public Utility Commission

FROM: Marion Anderson

THROUGH: Lee Sparling, Marc Hellman, and Michael Dougherty

SUBJECT: PETE'S MOUNTAIN WATER COMPANY INC: (Docket No. UI 254)
Application for affiliated interest agreement between the Company and
Terry L. Webber and Suzanne Webber.

STAFF RECOMMENDATION:

The Public Utility Commission (PUC or Commission) should approve the application of Pete's Mountain Water Company, Inc. (Pete's or the Company) for an affiliated interest agreement with the following conditions.

1. The Company shall provide the Commission access to all books of account, as well as all documents, data, and records that pertain to any transactions with affiliates.
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. The 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.

DISCUSSION:

This application was filed on September 26, 2006, pursuant to ORS 757.015 and 757.490, and OAR 860-036-0730. The Webbers own the Company and this application is an outgrowth of the concurrent rate case, UW 117.

The following issues were investigated:

- Scope of the Agreement
- Transfer Pricing
- Determination of Public Interest Compliance
- Records Availability, Audit Provisions, and Reporting Requirements

Scope of the Agreement: This filing deals with the rental of a room of approximately 131 square feet within the Webbers home. This rental serves as Pete's business office.

Transfer Pricing: The proposed rental price is \$1,902 per annum. This charge supports \$1.21 per square foot per month. The application lists a survey conducted in the nearby city of Canby that showed small office spaces were about \$3.00 per square foot per month. Additionally, \$52 for annual electricity used in the office is requested.

I called four realtors located in Canby and received advice that the rental charge seemed reasonable. I take no issue with the power cost.

Determination of Public Interest Compliance: This agreement is fair and reasonable and not contrary to the public interest.

Records Availability, Audit Provisions, and Reporting Requirements: Staff Recommendation Condition No. 1 affords necessary access to any relevant records.

Based on the review of this application, Staff concludes the following:

1. The arrangement's scope is reasonable.
2. Potential transactions, as qualified, will not harm customers and are not contrary to the public interest with the recommended conditions.
3. Necessary records are available.

PROPOSED COMMISSION MOTION:

Pete's affiliated interest agreement with Terry L. Webber and Suzanne Webber be approved, subject to the recommended conditions.