

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: March 13, 2007**

REGULAR  X  CONSENT \_\_\_\_\_ EFFECTIVE DATE \_\_\_\_\_ NA \_\_\_\_\_

**DATE:** February 26, 2007

**TO:** Public Utility Commission

**FROM:** Michael Dougherty

**THROUGH:** Lee Sparling and Marc Hellman

**SUBJECT:** PETE'S MOUNTAIN WATER COMPANY: (Docket No. UI 262)  
Application Requesting Approval of an Affiliated Interest Agreement  
between Pete's Mountain Water Company and Suzanne Webber.

**STAFF RECOMMENDATION:**

The Commission should approve Pete's Mountain Water Company's (Pete's Mountain or Company) affiliated interest agreement with Suzanne Webber (Ms. Webber), subject to 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 payments to Suzanne Webber.
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. Total annual compensation payments to Suzanne Webber shall not exceed \$42,192 for calendar year 2007. Total employee benefit payments to Suzanne Webber shall not exceed \$10,458 for calendar year 2007. Total payments to Suzanne Webber shall not exceed \$52,650 for calendar year 2007.
4. Pete's Mountain shall notify the Commission in advance of any substantive changes to the contract, including any material change in price over 10 percent of the levels in the original application. Any such change shall be submitted in an application for a supplemental order (or other appropriate format) in this docket.

## **DISCUSSION:**

Pete's Mountain filed this application on February 12, 2007, pursuant to ORS 757.495 and OAR 860-036-0730. Ms. Webber, jointly with her husband, Terry L. Webber, owns two-thirds (2/3) of the outstanding stock of Pete's Mountain and therefore, Mrs. Webber and Pete's Mountain are affiliated interests pursuant to ORS 757.015.

In Commission Order No. 06-657 (UW 117), dated December 4, 2006, the Commission clarified the requirements relating to situations where owners of water utilities were also employed by the utility. Staff had historically not requested an affiliated interest filing in such circumstances and instead rigorously reviewed the compensation expense during general rate reviews. In Order No. 06-657, the Commission found that the plain, natural, and ordinary meaning of the affiliated interest statute mandates that payment of wages and benefits to an owner of a utility requires an affiliated interest filing, pursuant to ORS 757.495(1).

Ms. Webber, as an officer, director, and employee (General Manager) of the Company, is receiving wages and benefits from the Company. Staff reviewed Ms. Webber's wages in UW 117 and recommended that Ms. Webber receive an annual salary of \$42,192 based on 173 hours per month in employment services. In addition to the annual salary, Staff recommended that the Webbers be allowed \$12,144 for medical, dental, and vision insurance, and a small amount of life insurance as an expense in rates. UW 117 was suspended by the Commission for a period of three months in Order No. 06-657 to allow more time to complete the investigation of rates prior to the conclusion of the initial suspension period, which expired on December 5, 2006.

In the affiliated interest filing, Pete's Mountain requests the Commission to approve the compensation agreement between the Company and Ms. Webber.

Ms. Webber is employed as the Company's General Manager with overall responsibility for operation of the Company. In addition to being a Certified Water Operator, Ms. Webber is responsible for all office and bookkeeping operations. She is the Company's only regular employee and maintains regular office hours.

Ms. Webber must plan and implement applications to governmental agencies; i.e., Water Resources Department and the Public Utility Commission. She takes the lead in long range planning for the Company, including capital improvements. She must deal with developers interested in connecting to the system while continuing to balance existing customers' needs and system capacity.

Ms. Webber has a wide range of responsibilities. She is responsible to respond to whatever arises concerning water operations even if not included in her described tasks. The job requires multiple skills and involves a wide range of responsibilities. The following table (provided to Staff by the Company during UW 117) highlights the duties and approximate hours per month performed by Ms. Webber.

**Table 1 – Monthly Duties of Ms. Webber**

<b>Job Description</b>	<b>Hours per Month</b>
Travel to and from Well Site	15
Monitor all Systems at Well Site	60
Collect Test Samples	1
Deliver Test Samples to Lab	2
Well Lot Maintenance (Mrs. Webber's duty until contractor is hired)	4
One Call Locate responses	10
Drive to and from Post Office & Bank	11
Work on various Reports	2
Read Meters	8
Prepare and send customer Bills	2
Prepare and send late notices	2
Pay Bills	2
Perform Banking duties	3
Respond to Phone inquiries	20
Read and respond to e-mail & fax	15
Consult with engineers	2
Consult with accountant	2
Consult attorney	2
Miscellaneous	10
<b>TOTAL</b>	<b>173</b>

Ms. Webber and Terry L. Webber are the Company's only Certified Water Operators. The Company is required to have a Certified Water Operator available at all times. Ms. Webber performs the primary role.

As a corporate director and as secretary of the corporation, Ms. Webber must also perform corporate management, consultation, planning and governance as required of a secretary and director of a corporation.

The application states that the estimated annual payments to Ms. Webber for the duties listed above will be \$42,192 (\$20.32 per hour). This is Staff's recommended amount in UW 117.

In addition to her base salary, the Company will pay an additional amount up to 25 percent of her gross salary for health insurance for her and her spouse and for the employer's contribution to her retirement or pension plan if such payments will be deductible as a business expense by the Company on its income tax returns. For 2007, total benefit payments would be \$10,458. This is actually less than Staff's UW 117 recommended amount of \$12,144.

In the application, the Company states that the rates for employment services may be adjusted annually based on changes in the Consumer Price Index in the Portland Metropolitan Area.

#### Issues

Staff investigated the following issues:

1. Transfer Pricing
2. Public Interest Compliance
3. Records Availability, Audit Provisions, and Reporting Requirements

#### Transfer Pricing

Pursuant to OAR 860-036-0739, Allocation of Costs by a Water Utility, the amount paid by a utility to an affiliated interest is required to be at cost or the market rate, whichever is lower. Given the nature of the proposed contract - between the Company and a majority shareholder, Staff's review will focus on analyzing the market rate since in this case the terms "market" and "cost" are the same given the uniqueness of this affiliated interest relationship and its human capital services.

To perform this analysis, Staff used both the Oregon Employment Department's Oregon Labor and Market Information System (OLMIS - [www.olmis.org](http://www.olmis.org)) and the American Water Works Association (AWWA) Water Utility Compensation Survey for a proxy to determine the market rate. The following table highlights OLMIS wages for various positions that are akin to the employment services that Ms. Webber would be performing for Pete's Mountain.

**Table 2 – OLMIS Wages (Hourly Rate – Region 15, Clackamas County)**

<b>Occupation</b>	<b>50<sup>th</sup> Percentile</b>	<b>75<sup>th</sup> Percentile</b>	<b>Average</b>
General and Operational Manager	\$40.94	\$55.40	\$45.92
Water and Liquid Waste Treatment Plant and System Operators	\$20.75	\$24.54	\$20.93
Office Clerk	\$12.67	\$15.72	\$13.21
Bookkeeping Clerk	\$14.12	\$18.08	\$15.59

The following table highlights AWWA wages for various positions that are akin to the employment services that Mr. Webber would be performing for Pete’s Mountain.

**Table 3 – AWWA Wages (Under 25 Employees shown as an Hourly Rate)**

<b>Occupation</b>	<b>50<sup>th</sup> Percentile</b>	<b>Average</b>
Office/Administrative Manager	\$18.55	\$19.46
Water Treatment Plant Operator	\$20.73	\$21.35

The average of the averages of the rates shown in the two above tables is \$22.74. In UW 117, Staff recommended a blended rate of \$20.32 per hour based on Ms. Webber’s considerable experience in operating the Company. There was no overtime component of wages included in UW 117.

This rate is less than the average of the averages, and Staff considers this wage reasonable because:

- Ms. Webber has considerable experience in operating the Company;
- The hourly wage is considerably less than the approximately \$50.00 per hour that Staff was quoted from two qualified water operators that perform work for various small water companies on a contract basis; and
- In UW 110, Long Butte Water System, Commission Order No. 06-075, dated February 1, 2006, Staff recommended and the Commission accepted a rate of \$31.06 per hour (10 hours per month) for services that are performed by a corporate officer of a small water utility.

Additionally, when Staff takes the hours dedicated for each task listed in Table 1 and multiplies a specific task by the OLMIS average rate that most closely approximates the task, Staff receives a weighted average hourly rate of \$20.08. This weighted wage substantiates the requested \$20.32 per hour requested by the Company.

As can be seen from the AWWA and OLMIS surveys and additional information provided above, Staff's UW 117 recommended rate meets the Commission's Transfer Pricing Policy.

Although in the application the Company states that the rates for employment services may be adjusted annually based on changes in the Consumer Price Index (CPI) in the Portland Metropolitan Area, recommended Order condition No. 3 would require the Company to file a supplemental application if the price of the contract as a result of CPI escalations, exceeds 10 percent.

In addition to her base salary, the Company will pay an additional amount up to 25 percent of her gross salary for health insurance for her and her spouse and for the employer's contribution to her retirement or pension plan if such payments will be deductible as a business expense by the Company on its income tax returns. Appropriate business records will be kept showing the time spent and the nature of the work by Ms. Webber each day.

#### Public Interest Compliance

Wages are an ordinary and necessary expense incurred in the operation of a business. In addition, wages to an owner should not be supplanted by the Company's net income that results from a return on plant investment, or by cash flow that partially results from the return of investment (non-cash depreciation expense).

In the case of this application, Pete's Mountain is paying a majority shareholder a rate that meets the Commission's Transfer Pricing Policy.

Additionally, recommended Order Condition No. 2 reserves the right for the Commission to review, for reasonableness, all financial aspects of this transaction in any rate proceeding or alternative form of regulation. This condition is extremely relevant since UW 117 has not been decided and wages are an issue in contention between the Parties.

In essence, this submittal of an affiliated interest application satisfies the requirement of Commission Order No. 06-657; however, the actual determination of wage amounts in rates will be determined in the Commission's final order in the matter of UW 117.

#### Records Availability, Audit Provisions, and Reporting Requirements

Order Condition Number 1, listed above in the Staff recommendation, affords the necessary Commission examination of Pete's Mountain records concerning this application.

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

1. 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.
2. Necessary records are available.

**PROPOSED COMMISSION MOTION:**

Pete's Mountain Water Company's application be approved subject to the four recommended conditions.