

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 5, 2007**

REGULAR CONSENT EFFECTIVE DATE _____ NA _____

DATE: May 23, 2007

TO: Public Utility Commission

FROM: Marion Anderson

THROUGH: Lee Sparling, Marc Hellman, and Michael Dougherty

SUBJECT: ODELL WATER COMPANY: (Docket No. UI 265) Application for affiliated interest compensation contracts between Odell Water Company and Phillip, Jack, and Patti Davis.

STAFF RECOMMENDATION:

The Public Utility Commission (PUC or Commission) should approve the application of Odell Water Company, Inc. (Odell or Company) for affiliated interest agreements 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 payments to Phillip, Jack, and Patti Davis.
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.
4. Total annual compensation payments shall not exceed the following schedule:

Phillip Davis, President	\$9,063
Jack Davis, Vice-President	\$9,063
Patti Davis, Secretary/Treasurer	\$5,100

5. Implementation of the Employment Agreement's "Other Benefits" provisions will require a supplemental filing for Commission approval.

DISCUSSION:

This application was filed on April 30, 2007, pursuant to ORS 757.015 and 757.495, and OAR 860-036-0730. The Davis' affiliation arises from group ownership of the Company. The application is a result of a revision to traditional Staff policy on owners employed by their utility.

Precedent was established for the revised Staff policy in Docket UW 117, Order No. 06-657, dated December 4, 2006. In Commission Order No. 06-657, 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).

The following issues were investigated:

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

Scope of the Agreements

Three employment agreements were submitted for review. A summarization of the listed duties follows:

Phillip Davis, President	Water company operation, acting as Water Services Manager
Jack Davis, Vice-President	Water company operation, acting as Assistant Water Services Manager
Patti Davis, Secretary/Treasurer	Water company administrative, financial, and secretarial functions, acting as Executive Administrator and Office Manager

The three contracts contain an Other Benefits section that makes provision for medical insurance premium payments; corporate term life insurance; vehicle usage; and a profit sharing and/or pension plan. These Other Benefits are not currently in effect and costs have not been assigned.

Transfer Pricing

Pursuant to OAR 860-036-0739, Allocation of Costs by a Water Utility, when services or supplies are sold to a water utility by an affiliate, sales shall be recorded in the water utility's accounts at the affiliate's cost or the market rate whichever is lower. Given the nature of this application, Staff's review will focus on market rate analysis since cost and market are essentially the same.

The Oregon Labor Market Information System (OLMIS) was used for market valuation determination under the statewide General and Operations Managers, and county specific Office and Administrative Support Workers wage categories respectively.

General and Operations Managers

10th	25th	50th (median)	75th	90th	Average Hourly Rate
\$19.85	\$26.91	\$37.81	\$54.42	\$0.00	\$44.11

Office and Administrative Support Workers

10th	25th	50th (median)	75th	90th	Average Hourly Rate
\$7.92	\$8.50	\$12.32	\$14.98	\$17.33	\$12.29

The normal annual hours figure is 2,076. Treating this operation as a part-time activity for the family, that figure was halved (1,038 hours) and dividing the proposed annual salaries thereby yields two \$8.73 and one \$4.91 hourly rates respectively. Staff has no objections to these levels of remuneration since they are below market wage levels.

Determination of Public Interest Compliance

These agreements are 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 arrangements' scope is reasonable.

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2. The contracts will not harm customers and are not contrary to the public interest with the recommended conditions.
3. Necessary records are available.

PROPOSED COMMISSION MOTION:

Odell Water Company's affiliated interest agreements with Phillip, Jack, and Patti Davis be approved, subject to the recommended conditions.