

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 21, 2007**

REGULAR _____ CONSENT X EFFECTIVE DATE _____ NA _____

DATE: August 14, 2007

TO: Public Utility Commission

FROM: Marion Anderson

THROUGH: Lee Sparling, Marc Hellman, and Michael Dougherty

SUBJECT: LONG BUTTE WATER SYSTEM, INC.: (Docket No. UI 271) Application for an affiliated interest contract between Long Butte Water System, Inc., and Patrick R. Hodge and Rebecca A. Hodge.

STAFF RECOMMENDATION:

The Public Utility Commission (PUC or Commission) should approve the application of Long Butte Water System, Inc. (Long Butte or the Company) for an affiliated interest agreement with owners, Patrick R. Hodge and Rebecca A. Hodge, under 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 Patrick R. Hodge and Rebecca A. Hodge.
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. The UW 110 salaries and wages figures for employees and officers, as specified in Order No. 06-027, are allowed annual growth not greater than the U.S. Bureau of Labor Statistics Consumer Price Index.

DISCUSSION:

This application was filed on June 8, 2007, pursuant to ORS 757.015 and 757.495, and OAR 860-036-0730. The filing seeks approval of an affiliated interest agreement for salaries and wages authorized in Docket UW 110, Order No. 06-027:

Account	Account Description	Annual Amount
601	Salaries and Wages – Employees (2.5 FTE)	\$72,644
603	Salaries and Wages – Officers	\$7,454

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

The application correctly allocates \$3,727 for each of the Hodges as officers of the Company. However, the cover letter misstates the annual wage figure as \$35,000 while the estimated wage figure listed in the contract is \$61,000. The current personnel situation consists of a full-time office employee earning \$20,800 annually. The remaining \$51,844 can be divided (in employee status) between the Hodges, for ratemaking purposes. The Company was informed by telephone.

Transfer Pricing

The aforementioned rate case Staff determinations are definitive.

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. The contract, as qualified above, will not harm customers and is not contrary to the public interest with the recommended conditions.
3. Necessary records are available.

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PROPOSED COMMISSION MOTION:

Long Butte Water System, Inc.'s affiliated interest agreement with Patrick R. Hodge and Rebecca A. Hodge be approved, subject to the recommended conditions.