

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: October 9, 2007**

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

**DATE:** September 20, 2007

**TO:** Public Utility Commission

**FROM:** Marion Anderson

**THROUGH:** Lee Sparling, Marc Hellman, and Michael Dougherty

**SUBJECT:** WILLAMETTE WATER COMPANY: (Docket No. UI 272) Application for an affiliated interest contract between Willamette Water Company and Frontier Resources LLC.

**STAFF RECOMMENDATION:**

The Public Utility Commission (PUC or the Commission) should approve the application of Willamette Water Company, Inc. (Willamette or Company) for an affiliated interest agreement with Frontier Resources LLC (Frontier) 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 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.
4. Hourly and total annual rates loaded for benefits and taxes for the position services provided by Frontier shall be as specified in the following table:

<u>Position</u>	<u>Hourly Rate</u>	<u>Monthly Hours</u>	<u>Annual Rate</u>
Chief Executive Officer/General Manager	\$58.53	8	\$5,619
Director of Operations	\$49.08	81	\$47,706
Financial Manager	\$41.59	15	\$7,486
Accounting Clerk	\$20.67	45	\$11,162

5. The Company may escalate the above prescribed rates on an annual basis at a percentage not to exceed the annual Consumers Price Index – All Urban Consumers (CPI-U) published by the U.S. Bureau of Labor Statistics (BLS).
6. The following Frontier provisions are allowed at the rates shown:

Office rent with utilities	\$650 monthly
Automobile usage	1,000 miles monthly at the current IRS business mileage rate
Cell phone usage	\$60 per month

7. The annual authorization under this contract totals \$86,313.

#### **DISCUSSION:**

This application was filed on July 6, 2007, pursuant to ORS 757.015 and 757.495, and OAR 860-036-0730. Greg Demers is the principal shareholder of both Willamette and Frontier, establishing the statutory affiliated relationship. The requested annual application total is \$134,987.

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 states that the following goods and services will be provided by Frontier:

Financial Management: Cash management, financial reporting, financial budgets, all accounting needs, revenue collection, customer billing, accounts payable, tax matters, etc.

Management, Administration, Operations: Strategic planning, capital development. Direct all operational and administrative functions: customer service, cross connection program, repairs and maintenance, water quality assurance, leak detection, new service connections, engineering and main construction, regulatory compliance, rate administration, and community/governmental/vendor/customer/PUC communications.

Facilities: Office space with utilities included, equipment, transportation to conduct company business, and cell phone usage.

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. The application states that an attempt to determine management outsourcing was not fruitful.

The Oregon Labor Market Information System (OLMIS) for Lane County was used for market valuation determination. The following 2007 wages schedules were identified by Staff as appropriate:

<u>Position</u>	<u>Hourly Rate</u>	Bureau of Labor Statistics Benefits and Taxes Loading <u>@ 29.2%</u>	<u>Loaded Hourly Rate</u>
1. Chief Executive Officer/General Manager	\$45.30	\$13.23	\$58.53
2. Director of Operations	\$37.99	\$11.09	\$49.08
3. Financial Manager	\$32.19	\$9.40	\$41.59
4. Accounting Clerk	\$16.00	\$4.67	\$20.67

1. No data is available for Chief Executive Officer. The General and Operations Manager average figure is used as a proxy. This figure is materially lower than the requested rate. Staff's rationale is that while there is extensive experience, that experience is not in the regulated environment and the span of control is very small.
2. The General and Operations Manager median figure is used. This figure is materially lower than the requested rate. Staff's rationale is the same as given in 1.

3. The rate requested in the application is used. Staff's rationale is that rate lies between the average and the median.
4. The rate requested in the application is used. Staff's rationale is that rate lies between the Bookkeeping, Accounting, and Auditing Clerks median and 75<sup>th</sup> percentile figure and is justified by the directly transferable experience.

Staff takes no issue with all other matters in the filing. The proposed cell phone usage charge is \$60 per month. The office rent/utilities charge of \$1.75 per month on 371 square feet, totaling \$650, was vetted by calling several brokers. The impression drawn by Staff from those conversations was that Veneta is a very small market and the cited commercial square footage is also small. Given those facts, while the quotation is at the high end of such a lease, it is not unreasonable. Finally, the requested automobile allowance should utilize the IRS approved business rate (\$.485 per mile in 2007).

As a final check for reasonableness, an expense per customer comparison was made between Staff's recommendation for this application (just the total in Staff Recommendation Condition No. 4) and the 2006 average of all the other filed Class C Over 150 customers (Willamette's classification) annual reports. That average was taken from the following accounts

- 601 – Salaries and Wages-Employees
- 603 – Salaries and Wages-Officers
- 604 – Employee Pension and Benefits
- 631 – Contract-Engineering
- 632 – Contract-Accounting
- 634 – Contract-Management
- 636 – Contract-Labor

#### Determination of Public Interest Compliance

As modified by Staff Recommendation Condition No. 4, this agreement is just 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, as modified, is reasonable.

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

The Company does not object to Staff's recommendation.

**PROPOSED COMMISSION MOTION:**

Willamette Water Company's amended affiliated interest agreement with Frontier Resources LLC be approved, subject to the recommended conditions.