

ORDER NO. 02-560

ENTERED AUG 19 2002

**This is an electronic copy. Attachments may not appear.**

**BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

UI 194

In the Matter of the Application of ILLAHE )  
ESTATES WATER SYSTEM, INC., for ) ORDER  
Approval of a Management Contract with )  
Salem Development, Inc, an Affiliated Interest )

**DISPOSITION: APPLICATION APPROVED; WITH CONDITIONS**

On January 22, 2002, the Public Utility Commission of Oregon (Commission) received an application from Illahe Estates Water System, Inc., requesting authorization from the Commission for Salem Development, Inc. to provide management services involving water system operation, engineering, accounting, legal, customer relations, and regulatory matters related to the operations of the water system. Salem Development, Inc. will provide approximately 21 hours per month of services and Illahe will pay \$1,000 per month for twelve months to Salem Development, Inc., totaling \$12,000 annually. The agreement will remain in effect for five years beginning October 1, 2001.

Based upon a review of the applications and the Commission's records, the Commission finds that the application satisfies applicable statutes and administrative rules. At its public meeting on August 6, 2002, the Commission adopted Staff's recommendation to approve the application. Staff's recommendation is attached as Appendix A and is incorporated by reference.

**ORDER**

IT IS ORDERED that the application of Illahe Estates Water System, Inc. to enter into an affiliated interest transaction with Salem Development, Inc., including the three recommended conditions stated in Staff's report, is approved.

Made, entered, and effective \_\_\_\_\_.

BY THE COMMISSION:

---

**Becky L. Beier**  
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order to a court pursuant to ORS 756.580.

ITEM NO. CA5

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: August 6, 2002**

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

**DATE:** July 23, 2002

**TO:** John Savage through Marc Hellman and Rebecca Hathhorn

**FROM:** Mike Dougherty

**SUBJECT:** ILLAHE ESTATES WATER SYSTEM, INC.: (Docket No. UI 194)  
Application for approval of a management contract with Salem  
Development, Inc.

**STAFF RECOMMENDATION:**

The Commission should approve Illahe Water System Inc.'s (Illahe) application for management service contract with Salem Development, Inc. (SDI), an affiliated interest, and include the following conditions:

1. Illahe shall provide the Commission access to all books of account, as well as documents, data, and records of Illahe's and SDI's affiliated interests that pertain to this transaction.
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. Illahe shall notify the Commission in advance of any substantive changes to the agreement, including any material change in price. Any such change shall be submitted in an application for a supplemental order (or other appropriate format) in this docket.

**DISCUSSION:**

Illahe filed this application on January 22, 2002, pursuant to ORS 757.495 and OAR 860-036-0730. Illahe requests authorization from the Commission for SDI to provide management services involving water system operation, engineering, accounting, legal, customer relations, and regulatory matters related to the operations of the water system. Illahe is currently serving 192 customers.

UI 194  
July 23, 2002  
Page 2

The water system was originally owned and operated by SDI. SDI transferred the water system to Illahe in order to separate its real estate and water businesses into distinct entities. The Oregon Public Utility Commission approved the transfer in Order 01-304, entered April 20, 2001. Therefore, Illahe and SDI are affiliated interests under ORS 757.015.

Per the management service contract, SDI will provide approximately 21 hours a month supervising contracts and providing other management services including dealing with customer complaints and questions, handling emergencies, inspecting the water system, and filing required information, applications, permits with government entities. Illahe agreed to pay SDI a monthly fee of \$1,000 for twelve months totaling \$12,000 annually. The agreement will remain in effect for five years beginning October 1, 2001.

Because Illahe was not aware of any nonaffiliated management companies that would be interested in providing the necessary management services, Illahe did not use a competitive procurement process in obtaining this contract. In the application, Illahe states that the officers and directors of SDI possess the necessary experience and systems knowledge to effectively manage the water system and are able to provide these necessary skills at a lower cost than a nonaffiliated management company.

Staff reviewed the terms of the agreement, the transfer price, records availability, audit provisions and reporting requirements. Staff found that there were no restrictive aspects to this management contract. Illahe is paying approximately \$48 per hour for the management service. Staff compared this cost to comparable costs of management services and determined that Illahe is paying the lower of cost, or market value. Customers are likely not harmed by this transaction because Illahe is paying a fair and reasonable price and meeting the Commission's transfer pricing policy.

After review of the filing, Staff concludes that 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.

**PROPOSED COMMISSION MOTION:**

Illahe Water System, Inc.'s UI 194 application to enter into an affiliated interest transaction with Salem Development, Inc, including the three recommended conditions stated in this memorandum be approved.