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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UI 202

In the Matter of)	
CLINE BUTTE UTILITY COMPANY)	ORDER
for Approval of a Service Agreement with)	
EAGLE CREST, INC., an Affiliated Interest.)	

DISPOSITION: APPLICATION APPROVED; WITH CONDITIONS

On April 29, 2002, the Public Utility Commission of Oregon (Commission) received an application from Cline Butte Utility Company, requesting authorization from the Commission for approval of an office lease and Master Services Agreement with Eagle Crest, Inc. Eagle Crest, Inc. will provide the following services including, customer communications; management; finance; accounting and tax; legal and regulatory; office services; purchasing services; risk management; information systems support; corporate services, and miscellaneous service expenses. Assistance provided by Eagle Crest directly benefiting the Recipient would be attributed directly to the Recipient by assessing a direct charge at full cost including the direct portion of salary, salary-related expenses, out-of-pocket travel expenses and direct materials and supplies.

OPINION

Jurisdiction

ORS 757.005 defines a "public utility" as anyone providing heat, light, water or power service to the public in Oregon. The Company is a public utility subject to the Commission's jurisdiction.

Affiliation

An affiliated interest relationship exists under ORS 757.015.

Applicable Law

ORS 757.495 requires public utilities to seek approval of contracts with affiliated interests within 90 days after execution of the contract.

ORS 757.495(3) requires the Commission to approve the contract if the Commission finds that the contract is fair and reasonable and not contrary to the public interest. However, the Commission need not determine the reasonableness of all the financial aspects of

the contract for ratemaking purposes. The Commission may reserve that issue for a subsequent proceeding.

CONCLUSIONS

1. The Company is a public utility subject to the jurisdiction of the Commission.
2. An affiliated interest relationship exists.
3. The agreement is fair, reasonable, and not contrary to the public interest.
4. The application should be granted, with certain conditions and reporting requirements.

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 20, 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 Cline Butte Utility Company. to enter into an affiliated interest transaction with Eagle Crest, Inc., 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.

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: AUGUST 20, 2002**

REGULAR _____ CONSENT X EFFECTIVE DATE _____

DATE: August 12, 2002

TO: John Savage through Marc Hellman and Rebecca Hathorn

FROM: Marion Anderson

SUBJECT: CLINE BUTTE UTILITY COMPANY: (Docket No. UI 202) Application for Approval of an Office Lease and Master Services Agreement with Eagle Crest, Inc.

STAFF RECOMMENDATION:

The Commission should approve this provision of services to the utility (Cline Butte) by the parent organization (Eagle Crest) with the following conditions:

1. Cline Butte Utility Company shall provide the Commission access to all books of account, as well as all documents, data and records of Cline Butte Utility Company and Eagle Crest Inc., that pertain to transactions between the two.
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. Cline Butte Utility 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. Cline Butte Utility Company and Eagle Crest Inc., shall maintain records to show, upon Commission request, the cost of Eagle Crest Inc., goods and services provided to Cline Butte Utility Company. The return component used in the calculation shall be Cline Butte Utility Company's, currently authorized Oregon overall rate of return multiplied by the portion of Eagle Crest Inc.'s, net assets used for those provisions.

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DISCUSSION:

This application was a part of the UW 85 rate case filed by the utility on February 15th of this year. The decision arrived at, in that rate case, was for stipulation of a total dollar revenue requirement without expense specificity. Thereby, this matter was severed from consideration in the rate case. The annual charge for provisions hereunder is approximately \$69,000.

The lease affords Cline Butte office space for operations and parking spaces for employees and patrons. The lease charge is \$1.00/square foot/month, which is consistent with the local commercial realtor's estimate of \$.95 to \$1.00.

The utility's consultant provided comparative cost quotations with documentation from external sources to establish market valuations for the various services making up the management and office services agreement. I am satisfied that Eagle Crest's charges conform with the Commission's policy on the lower of cost or market principle for affiliated interest transactions. The application appears to be fair and reasonable and not contrary to the public interest.

PROPOSED COMMISSION MOTION:

Cline Butte Utility Company's purchase of services and leased office space from Eagle Crest Inc., be approved, effective July 9, 2002 (the date of the associated rate case order).