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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UI 206

In the Matter of)	
)	ORDER
RUNNING Y UTILITY COMPANY)	
)	
Application for Approval of a Management)	
and Office Services Agreement with Running)	
Y Resort, Inc.)	

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS AND REPORTING REQUIREMENTS

On August 12, 2002, Running Y Utility Company (Running Y) filed an application with the Public Utility Commission of Oregon (Commission) for an order approving a Management and Office Services Agreement (Agreement) with Running Y Resort Inc. (Resort).

Based on 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 December 17, 2002, the Commission adopted Staff's recommendation memo. Staff's recommendation report is attached as Appendix A, and incorporated by reference.

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. An affiliated interest relationship exists.
2. The agreement is fair, reasonable, and not contrary to the public interest.
3. The application should be granted, with certain conditions and reporting requirements.

ORDER

IT IS ORDERED that the application of Running Y Utility Company for authority to enter into the Agreement with Running Y Resort is granted, with the following conditions:

1. The Agreement cost does not exceed \$17,000 for calendar year 2002 and that the annual escalation rate at contract renewal for subsequent years does not exceed 3.0%.
2. Running Y Utility Company shall provide the Commission access to all books of account, as well as documents, data, and records of Running Y Utility Company and Running Y Resort's affiliated interests that pertain to this transaction.
3. The Commission reserves the right to review for reasonableness all aspects of this transaction in any rate proceeding or alternative form of regulation.

4. Running Y Utility Company shall notify the Commission in advance of any substantive changes to the Agreement, including any material change in price other than the escalation increase. Any such change shall be submitted in an application for a supplemental order (or other appropriate format) in this docket.

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: December 17, 2002**

REGULAR _____ CONSENT X EFFECTIVE DATE _____

DATE: November 7, 2002

TO: John Savage through Marc Hellman and Rebecca Hathorn

FROM: Michael Dougherty

SUBJECT: Running Y Utility Company: (Docket No. UI 206) Application for Approval of a Management and Office Services Agreement with Running Y Resort Inc.

STAFF RECOMMENDATION:

The Commission should approve Running Y Utility Company's (Running Y and Company) application for Management and Office Services Agreement (Agreement) with Running Y Resort Inc. (Resort), an affiliated interest, and include the following conditions:

1. The Agreement cost does not exceed \$17,000 for calendar year 2002 and that the annual escalation rate at contract renewal for subsequent years does not exceed 3.0%.
2. Running Y shall provide the Commission access to all books of account, as well as documents, data, and records of Running Y and Resort's affiliated interests that pertain to this transaction.
3. The Commission reserves the right to review for reasonableness all financial aspects of this transaction in any rate proceeding or alternative form of regulation.
4. Running Y shall notify the Commission in advance of any substantive changes to the Agreement, including any material change in price other than the escalation increase. Any such change shall be submitted in an application for a supplemental order (or other appropriate format) in this docket.

DISCUSSION:

Running Y filed this application on August 12, 2002, pursuant to ORS 757.495 and OAR 860-036-0730. The application was included as part of Running Y's general rate

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case, Docket No. UW 87. Running Y and the Resort are both wholly owned subsidiaries of Eagle Crest, Inc. and therefore are affiliated interests under ORS 757.015.

Running Y requests authorization from the Commission for the Resort to provide management and office services including customer communications, executive management assistance, finance, accounting, tax, purchasing services, risk management, information systems support and corporate services. Running Y did not pursue competitive bids for services because Running Y has "been used to and happy with centralized services received from Running Y Resort, Inc."¹

Under the Agreement, the Resort will supply Running Y with an estimated statement of services for the upcoming calendar year that is based on the previous year's cost. In their application, Running Y estimates the Agreement cost to be \$23,032 for calendar year 2002. The Agreement was effective January 1, 2002 and is automatically renewable annually in increments of one year.

Staff does not agree that Running Y's statement of services costs are the lower of cost or market and recommends that the Agreement not exceed \$17,000 for 2002. Staff also recommends that annual escalation costs be limited to 3.0% if the contract is automatically renewed on an annual basis. The following table illustrates the difference between Running Y's and Staff's costs for management and office services:

Service	Running Y	Staff	Difference
Customer Communications	\$532	\$532	\$0
Management	\$1,000	\$0	\$1,000
Finance, Accounting, Tax	\$16,000	\$11,700	\$4,300
Office Services	\$100	\$100	\$0
Purchasing	\$400	\$400	\$0
Risk Management	\$1,000	\$0	\$1,000
Information Systems	\$3,000	\$3,000	\$0
Corporate	\$1,000	\$1,000	\$0
Total	23,032	\$16,732	\$6,300

Running Y agreed to Staff's recommended changes during the Rate Case (UW 87) Settlement Conference conducted November 6, 2002.

Management

In the Company's application, Running Y lists an estimated cost of \$1,000 for management services, which includes executive management assistance, strategic

¹ Resort Resources, Inc. letter dated September 19, 2002

planning and general operating management. As part of the rate case (UW 87), Running Y submitted annual salary costs of \$6,720 for an onsite part-time utility manager. The part-time utility manager is also the Resort's Construction Development Manager and a portion of this manager's salary is a direct charge to Running Y.

Staff believes that this \$1,000 fee for Management Services is redundant of the onsite part-time manager's salary, as well as the \$1,000 cost listed for Corporate Services in the statement of services and should not be included in the Agreement.

Finance, Accounting and Tax

Running Y lists an estimated cost of \$16,000. In their application, Running Y states that this figure is based on historical costs that include approximately 515 hours per year performed by bookkeeping and finance personnel for these services.

To verify that Running Y costs met the Commission's transfer pricing policy (a lower of cost or market rate standard), Staff performed both a market and labor survey for the Klamath Falls region. The following two tables show the result of Staff's analysis:

Market Survey

Accounting Firms Contacted ²	Cost Estimate ³	Difference from Resort Fees
Firm 1, Klamath Falls	\$8,000	\$8,000
Firm 2, Klamath Falls	\$9,100	\$6,900
Firm 3, Bend	\$18,000	(\$2,000)
Average	\$11,700	\$4,300

Labor Survey (Klamath/Lake region)⁴

Occupation	Median Hourly	Loaded 25% ⁵	Hour/Annual ⁶	Total Wage
Accounting Manager ⁷	\$31.17	\$38.96	95	\$3,701.44
Tax Manager	\$31.17	\$38.96	20	\$779.25

² Staff initially contacted seven accounting firms. Although none of the firms that responded have a water utility client, one firm does assist other water utility companies in preparing the OPUC Annual Affiliated Interest Report.

³ These estimates were current as of September 2002.

⁴ Median Hourly Wages (50 Percentile) were taken from the Oregon Labor Market Information System (olmis.org), which is produced by the Oregon Employment Department.

⁵ Per a data request response, Running Y applies a 25% loading for taxes and benefits.

⁶ Hourly estimates for each occupation was supplied by Running Y. In their application response, Running Y allocated Budget Preparation and Supervision to the Resort's Chief Financial Officer. Staff allocated these functions to the Accounting Manager.

⁷ Accounting and Tax Manager median hourly was taken from the statewide median for Financial Managers as wage data for the Klamath/Lake region was not available.

Bookkeeping & Accounting Clerks	\$12.08	\$15.10	375	\$5,662.50
Payroll Clerk	\$11.09	\$13.86	25	\$346.56
Total			515	\$10,489.75

As a result of the market and labor surveys, Staff determined that \$11,700 was a reasonable estimate of market costs for finance, accounting and tax services for the Klamath region and that this cost be used in the Agreement's schedule of services.

Risk Management

In the Company's application, Running Y lists an estimated cost of \$1,000 for Risk Management, which includes services related to insurance coverage, environmental, safety and transportation planning, evaluation and /or administration.

As part of the rate case (UW 87), Running Y submitted annual costs for Safety and Environmental of \$2,069 recorded under PUC Account 620, O&M. Per Running Y, the cost "is a direct charge made by the in-house Risk Department who make sure the company is complying with OSHA rules and that employees are knowledgeable and aware of safety issues."⁸ Additionally in a data request response, Running Y stated that the Resort Risk Management Department is basically the Insurance Department and charges relate to overseeing and evaluating insurance needs for each subsidiary company, as well as providing assistance with claims management.

Per UW 87, Running Y's overall property, liability and vehicle insurance costs allocated to water operations totals \$1,200 annually. Staff believes that this \$1,000 fee for Risk Management is both redundant of the Safety & Environmental costs listed under O & M costs and disproportionately high compared to actual insurance costs and should not be included in the Agreement.

Escalation Rate

Staff computed the escalation rate (3.0%) based on the U.S. Department of Labor, Bureau of Labor Statistics', Consumer Price Index, All Urban Consumers (CPI-U) average for the years 1992 – 2002. The CPI-U ten-year average is 2.67% with a high of 3.4% in 2001.

⁸ Resort Resources, Inc. letter dated September 10, 2002.

After review of the filing, Staff concludes that the application involves an affiliated interest transaction that, with the inclusion of the proposed ordering conditions, is fair and reasonable and not contrary to the public interest.

PROPOSED COMMISSION MOTION:

Runny Y Utility Company's UI 206 application to enter into an affiliated interest transaction with Running Y Resort, Inc, including the four recommended conditions stated in this memorandum, be approved.

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