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**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UI 228

In the Matter of	)	
	)	ORDER
ROATS WATER SYSTEM INC.	)	
	)	
Application for Approval of a Significant	)	
Transaction between Roats Water System, Inc.	)	
and William Roats Excavation, LLC.	)	

**DISPOSITION: APPLICATION APPROVED WITH CONDITIONS**

On March 25, 2004, Roats Water System Inc. (Roats Water) filed an application with the Public Utility Commission of Oregon (Commission) pursuant to ORS 757.495 and OAR 860-036-0730, requesting approval of a project agreement between Roats Water and William Roats Excavation, LLC (Roats Excavation), an affiliated interest. A description of the filing and its procedural history is contained in the Staff Report, attached as Appendix A, and incorporated by reference.

Based on a review of the application and the Commission's records, the Commission finds that the application satisfies applicable statutes and administrative rules. At its Public Meeting on April 27, 2004, the Commission adopted Staff's recommendations.

**OPINION**

**Jurisdiction**

ORS 757.005 defines a "public utility" and the Company is a public utility subject to the Commission's jurisdiction.

**Affiliation**

An affiliated interest relationship exists, as defined 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, as modified herein, including certain conditions and reporting requirements.

**ORDER**

IT IS ORDERED that the application of Roats Water System, Inc., to enter into an affiliated interest transaction with William Roats Excavation, LLC, is approved, subject to the conditions, as further stated in Appendix A.

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. CA8

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: APRIL 27, 2004**

REGULAR \_\_\_\_\_ CONSENT  X  EFFECTIVE DATE  MARCH 15, 2004

**DATE:** April 2, 2004

**TO:** Lee Sparling through Marc Hellman and Rebecca Hathhorn

**FROM:** Marion Anderson

**SUBJECT:** ROATS WATER SYSTEM, INC.: (Docket No. UI 228) Application for Approval of a Significant Transaction between Roats Water System, Inc. and William Roats Excavation, LLC.

**STAFF RECOMMENDATION:**

The Commission should approve Roats Water System, Inc.'s (Roats Water) application for a project agreement with William Roats Excavation, LLC (Roats Excavation), an affiliated interest, with the following conditions:

1. Roats Water shall provide the Commission access to all books of account, as well as all documents, data and records of Roats Water and Roats Excavation 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. Roats Water 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. Roats Excavation shall maintain records to show, upon Commission request, the cost of this project's goods and services provided to Roats Water. The return

component used in the calculation shall be Roats Water's currently authorized Oregon overall rate of return multiplied by the portion of Roats Excavation's net assets used for the project completion.

**STAFF RECOMMENDATION: (continued)**

5. The Roats Excavation fee ceiling for this project is \$415,000.

**DISCUSSION:**

This application was submitted to the Commission on March 25, 2004, pursuant to ORS 757.495 and OAR 860-036-0730. The affiliated interest relationship is established under ORS 757.015(2) in that William K. and Shirley Roats own 91 percent of Roats Water, and William K. Roats is sole owner of Roats Excavation.

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: This contract will allow the connection of Roats Water with a new storage and pumping facility jointly owned with Avion Water Company, Inc. It entails the construction of replacement transmission and distribution water mains.

Transfer Pricing and Determination of Public Interest Compliance: Mr. Roats solicited bids on this project, under a job notes description. Proposals were received from two non-affiliated companies. Copies of all this documentation were submitted with the Commission application. The Roats Excavation fee ceiling of \$415,000 is lower than both non-affiliated proposals. Staff considers this ceiling to be fair and reasonable. Condition 4 will allow future rate case review for determination of compliance with the lower of cost or market requirement in OAR 860-027-0048.

Records Availability, Audit Provisions and Reporting Requirements: Condition No. 1 affords Staff the necessary access to all records regarding this matter.

**PROPOSED COMMISSION MOTION:**

William Roats Excavation, LLC's construction of transmission and distribution water mains under this project authorization for Roats Water System, Inc. be approved with the previously listed conditions.

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ORDER NO. 04-233

UI 228