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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UI 237

In the Matter of)	
)	ORDER
SALMON RIVER WATER COMPANY)	
)	
Application for an Affiliated Interest)	
Agreement with ROSE LODGE WATER)	
COMPANY, INC.)	

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On October 25, 2004, Salmon River Water Company 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 financing agreement with Rose Lodge Water Company, Inc., an affiliated interest. A description of the investigation into the agreement 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 December 7, 2004, the Commission adopted Staff's recommendation.

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 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 approved, with certain conditions.

ORDER

IT IS ORDERED that the application of Salmon River Water Company to enter into an affiliated interest transaction with Rose Lodge Water Company, Inc. is approved, subject to certain 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 request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 7, 2004**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____ **N/A**

DATE: November 23, 2004

TO: Lee Sparling through Marc Hellman and Rebecca Trujillo

FROM: Marion Anderson

SUBJECT: SALMON RIVER WATER COMPANY: (Docket No. UI 237) Application for approval to maintain an open line of credit with Rose Lodge Water Company, Inc., an affiliated interest.

STAFF RECOMMENDATION:

The Commission should approve Salmon River Water Company's (Salmon River) application for a financing agreement with Rose Lodge Water Company, Inc., (Rose Lodge) an affiliated interest, with the following conditions:

1. Salmon River shall provide the Commission access to all books of account, as well as all documents, data and records of Salmon River and Rose Lodge 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. Salmon River 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. Salmon River's line of credit from Rose Lodge is capped at \$15,000 at any time.

DISCUSSION:

This application was filed on October 25, 2004, with reference to ORS 757.495 and OAR 860-036-0730. Both Salmon River and Rose Lodge are entirely owned by Ralph and Bette Carter. This establishes affiliation under ORS 757.015. These loans began in 2001, and the Carters have been informed of the Commission requirement for timely filing of such matters.

The following issues were investigated:

- ◆ Scope of the Arrangement and Risk Assessment
- ◆ Evaluation of Terms and Conditions
- ◆ Determination of Public Interest Compliance
- ◆ Records Availability, Audit Provisions and Reporting Requirements

Scope of the Arrangement and Risk Assessment

Rose Lodge will, on occasion, lend money to Salmon River. These loans are necessary for operational maintenance due to inadequate cash flow. Under the ownership conditions, there is no appreciable risk.

Evaluation of Terms and Conditions

The history of these transactions is as follows:

<u>Loan Amount</u>	<u>Date</u>	<u>Prime Rate (%)</u>	<u>Loan Interest Rate (%)</u>
\$200	5/18/2001	7.5	6
\$1,500	8/22/2001	6.75	6
\$500	11/19/2001	5.5	6
\$4,500	11/28/2001	5.5	6
\$250	12/13/2002	4.25	0
\$1,000	5/28/2004	4	4
\$2,000	6/18/2004	4	4
TOTAL \$9,950			

These rates appear to comply with the lower of cost or market standard. Repayments to principal are made when "cash flow allows" - \$2,640 to date, leaving a balance of \$7,310.

The cap, imposed in Staff Recommendation 4, is approximately equal to the total rate base Staff calculated in the concurrent rate case, UW 102. Salmon River is not to exceed \$15,000 in total outstanding loan amounts. If the utility needs to borrow more than \$15,000, it must seek Commission approval as an addendum to this agreement.

Determination of Public Interest Compliance

This agreement is fair and reasonable and not contrary to the public interest.

Records Availability, Audit Provisions, and Reporting Requirements

Staff Recommendation 1 affords the Commission adequate access to records and provides for the auditing of transactions regarding this matter between Salmon River and Rose Lodge.

PROPOSED COMMISSION MOTION:

Salmon River Water Company's open line of credit with Rose Lodge Water Company be approved.

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