

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UI 241

In the Matter of )  
 )  
SHADOW WOOD WATER SERVICE ) ORDER  
 )  
Application for Approval of a Services )  
Agreement with Olson LLC, an Affiliated )  
Interest. )

**DISPOSITION: APPLICATION APPROVED WITH CONDITIONS**

On October 14, 2005, Shadow Wood Water Service Inc. (Shadow Wood) 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 services agreement between Shadow Wood Water Service and Olson, LLC (Olson), 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 December 20, 2005, 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**

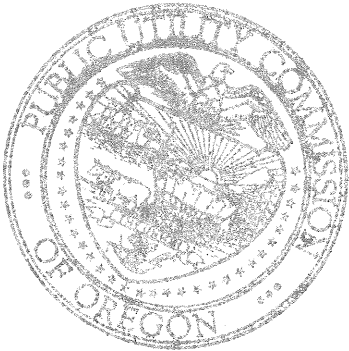
- 1. The Company is a public utility subject to the jurisdiction of the Commission.
- 2. An affiliated interest relationship exists.
- 3. The agreement is fair, reasonable, and not contrary to the public interest.
- 4. The application should be granted, as modified herein, including certain conditions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

**ORDER**

IT IS ORDERED that the application of Shadow Wood Water Service to enter into an affiliated interest transaction with Olson, LLC, is approved, subject to the five conditions, as further stated in Appendix A.

Made, entered, and effective DEC 28 2005.

BY THE COMMISSION:



*Becky L. Beier*  
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**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 20, 2005

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE June 1, 2005

DATE: November 30, 2005

TO: Public Utility Commission

FROM: Marion Anderson *MSA*

THROUGH: *LS* Lee Sparling, *MH* Marc Hellman, and *MD* Michael Dougherty

SUBJECT: SHADOW WOOD WATER SERVICE: (Docket No. UI 241) Application for Approval of a Services Agreement with Olson LLC, an Affiliated Interest.

**STAFF RECOMMENDATION:**

The Commission should approve the application of Shadow Wood Water Service for a services agreement with Olson LLC, an affiliated interest, with the following conditions.

1. Shadow Wood Water Service shall provide the Commission access to all books of account, as well as all documents, data and records that pertain to any transactions with Olson LLC.
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. Shadow Wood Water Service 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. Appropriately classified work records showing the direct and allocated charges in the services listing will be maintained.
5. Hourly wages shown in the Discussion section will be loaded with 6.2 percent Social Security and 1.45 percent Medicare taxes. Additional loadings for benefits, capped at the Bureau of Labor's standard of 25.9 percent, (health, dental, retirement,

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insurance, vacation, etc.) shall be documented. Time calculations will exclude travel to and from the job site.

**DISCUSSION:**

This application was filed on October 14, 2005, under ORS 757.495 and OAR 860-036-0730. Shadow Wood Water Service (Shadow Wood) is a subsidiary of Hiland Corporation (Hiland). Ownership of Hiland and Olson LLC (Olson) is intermingled, establishing the affiliation under ORS 757.015.

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: The contract lists Olson's provision of the following services:

1. collection of routine water samples and delivery to the laboratory for testing;
2. continuance of on call status for emergencies;
3. coordination of repairs, maintenance, and improvements;
4. performance of routine and emergency repairs;
5. construction of improvements;
6. maintenance of the Drinking Water Operator certification; and
7. conduct of miscellaneous bookkeeping activity.

Transfer Pricing: Per un-updated information furnished in a recent rate case, there are twelve Hiland subsidiaries including Shadow Wood. The costing scheme for the above listed services is as follows (allocated on the pro-rated subsidiary customer count):

1. Direct assignment
2. Allocated
3. Allocated
4. Direct assignment
5. Direct assignment
6. Allocated
7. Allocated

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Reimbursement for any associated subcontracting expenditures will follow the same scheme.

Specific job title and equipment hourly charges were submitted by Shadow Wood in the application. Charges are set at:

Water Operator	\$22	Tractor with attachments	\$40
Equipment Operator	\$20	Mini Excavator	\$21
Laborer	\$15	Medium Excavator	\$29
Office Manager	\$15	Large Excavator	\$39
Backhoe	\$50	Forklift	\$15
Vacuum Trailer	\$28	Equipment Trailer	\$38 per day
Service Truck	\$10	Chop Saw	\$25 per day
Dump Truck	\$40	Trash Pump	\$25 per day

Charges were taken from the recent Shadow Wood rate case, UW 106 (adopted by the Commission in Order No. 05-993), the Oregon Labor Market Information System, and a telephone canvass of equipment renting organizations drawn from the American Rental Association website.

Determination of Public Interest Compliance: With Staff's transfer pricing adjustments, the contract's terms and conditions seem just and reasonable.

Records Availability, Audit Provisions, and Reporting Requirements: Staff Recommendation Condition No. 1 affords necessary access to any relevant records.

Based on the review of this application, Staff concludes the following:

1. The agreement's scope and transfer pricing, as modified, are not unreasonable.
2. Potential transactions will not harm customers and are not contrary to the public interest with the recommended conditions.
3. Necessary records are available.

**PROPOSED COMMISSION MOTION:**

Shadow Wood Water Service's application for approval of a services agreement with Olson LLC, an affiliated interest, be approved effective June 1, 2005, subject to the five recommended conditions.