

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UI 242

In the Matter of)
)
HILAND CORPORATION dba HILLVIEW)
WATER, SHADOW WOOD WATER)
SERVICE, and WILDERNESS CANYON) ORDER
WATER)
)
Application for Approval of an Office Space)
Lease Agreement with Melvin and Marilyn)
Olson, Affiliated Interests.)

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On October 19, 2005, Hiland Corporation dba Hillview Water, Shadow Wood Water Service, and Wilderness Canyon Water (Hiland) filed an application with the Public Utility Commission of Oregon (Commission) pursuant to ORS 757.495 and OAR 860-036-0730, requesting approval of an office space lease agreement between Hiland and Melvin and Marilyn Olson, affiliated interests. 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 Hiland Corporation dba Hillview Water, Shadow Wood Water Service and Wilderness Canyon Water, for an affiliated interest transaction with Marilyn and Melvin Olson, is approved, subject to the three conditions, as further stated in Appendix A.

Made, entered, and effective DEC 28 2005.

BY THE COMMISSION:



Becky L. Beier

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 29, 2005

TO: Public Utility Commission

FROM: Marion Anderson 

THROUGH: ^m Lee Sparling, ^m Marc Hellman, and Michael Dougherty

SUBJECT: HILAND CORPORATION dba HILLVIEW WATER, SHADOW WOOD WATER SERVICE, and WILDERNESS CANYON WATER: (Docket No. UI 242) Application for Approval of an Office Space Lease Agreement with Melvin and Marilyn Olson, Affiliated Interests.

STAFF RECOMMENDATION:

The Commission should approve the application of Hiland Corporation dba Hillview Water, Shadow Wood Water Service, and Wilderness Canyon Water (Hiland), for an office space lease agreement with Melvin and Marilyn Olson, affiliated interests, with the following conditions.

1. Hiland shall provide the Commission access to all books of account, as well as all documents, data and records that pertain to any transactions with Melvin and Marilyn Olson.
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. Hiland 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.

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DISCUSSION:

This application was filed October 19, 2005, under ORS 757.495 and OAR 860-036-0730. Melvin and Marilyn Olson are owners of Hiland, establishing the affiliation under ORS 757.015. Hiland has other non rate-regulated water utility subsidiaries.

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 covers the rental of exclusive office space with four desks within the Olson home for Hiland activities. A 14' by 16' room and a secondary 10' by 6' area holding a copier, second computer, and printer are so designated.

Transfer Pricing: The proposed monthly charge for the 284 square footage of office space rental is \$310. This results in a charge of \$1.09 per square foot including utilities, maintenance, etc. Staff was able to get an informal office space square footage estimate from one of the two commercial property management organizations in Newberg that would make the proposal satisfactory for purposes of the lower of cost or market standard, OAR 860-036-0739.

Per non-updated information furnished in a recent rate case, there are twelve Hiland subsidiaries. This rental charge will be allocated on the basis of pro-rated water utility subsidiary customer count.

Determination of Public Interest Compliance: With Staff's transfer pricing allocation dictate, 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 arrangement's scope is reasonable.
2. Potential transactions will not harm customers and are not contrary to the public interest with the recommended conditions.

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3. Necessary records are available.

PROPOSED COMMISSION MOTION:

Hiland's office space lease contract with Melvin and Marilyn Olson, affiliated interests, be approved, subject to the three recommended conditions.

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