

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UI 217(1)

In the Matter of)
)
SEVENTH MOUNTAIN GOLF VILLAGE)
WATER CO.)
)
Application for Approval of a Revised Property)
Management Agreement with Canterbury)
Property Management, LLC, an Affiliated)
Interest.)

ORDER

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On October 25, 2005, Seventh Mountain Golf Village Water Co. (Seventh Mountain) filed an application with the Public Utility Commission of Oregon (Commission) pursuant to ORS 757.495 and OAR 860-036-0730, requesting approval of the modification of the existing property management agreement with Canterbury Property Management, LLC (CPM), 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 January 10, 2006, 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 Seventh Mountain Golf Village Water Company to enter into a revised property management agreement with Canterbury Property Management, LLC. is approved, subject to the five recommended conditions, as further stated in Appendix A.

Made, entered, and effective JAN 17 2006.



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 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 by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

ITEM NO. CA3

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 10, 2006

REGULAR _____ CONSENT X EFFECTIVE DATE January 1, 2006

DATE: December 28, 2005

TO: Public Utility Commission

FROM: Marion Anderson 

THROUGH: Lee Sparling, Marc Hellmah, and Michael Dougherty 

SUBJECT: SEVENTH MOUNTAIN GOLF VILLAGE WATER COMPANY: (Docket No. UI 217(1)) Application for Approval of a Revised Property Management Agreement with Canterbury Property Management, LLC, an Affiliated Interest.

STAFF RECOMMENDATION:

The Commission should approve the application of Seventh Mountain Golf Village Water Company (SMGV), with the following conditions, for a revision of the existing property management agreement with Canterbury Property Management, LLC (CPM), an affiliated interest.

1. SMGV shall provide the Commission access to all books of account, as well as all documents, data and records that pertain to any transactions with CPM.
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. SMGV 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. This agreement's cost, for Commission recognized rate inclusion, shall not exceed \$830 per month for calendar year 2006 and the annual escalation factor thereafter shall equal the lesser of the CPI or 2.5 percent.

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5. The hourly wage shown in the Discussion section will be loaded with 6.2 percent Social Security and 1.45 percent Medicare taxes. Additional loadings for benefits (health, dental, retirement, insurance, vacation, etc.), capped at the Bureau of Labor's current standard of 25.9 percent, shall be documented.

DISCUSSION:

This application was filed on October 25, 2005, pursuant to ORS 757.495 and OAR 860-036-0730. Dale Bernards is the owner/president of SMGV and half-owner/managing member of CPM, establishing the affiliation under ORS 757.015. This agreement modifies the existing agreement approved by Order No. 03-663 dated November 18, 2003.

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 Arrangement: The agreement's differences start with the change in the listed land lessor, from B&B Properties, LLC to Braber Properties, LLC. Next, the land lease terms have been deleted. An additional services section covering regulatory compliance and fiduciary responsibilities has been added. The property description listed in Schedule A for approximate rentable square footage has declined from 21,261 to 10,840. Monthly management compensation has increased with a ceiling of \$1,000. Finally, the Schedule C pecuniary interest disclosures note that Dale Bernards is the legal representative for Braber Properties, LLC.

Transfer Pricing: The areas underlying the contract's cost increase are the hourly wage and the total hours per month. The manager's hourly wage went from \$23 to \$33, and a revised monthly managerial time breakdown was submitted. The following table presents a comparison of monthly managerial time breakdowns between the two agreements:

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<u>Description</u>	<u>2003 Hours</u>	<u>2005 Hours</u>
Service Contracts	1	2
Collection and Segregation of Charges	6	12
Repair Contracts/Arrangements	1	4
Disbursements from Lessee's Account	.5	2
Accounts, Records, and Monthly Statements	2	*
Admin/Mtgs/PUC Compliance Reporting, etc.	0	10
Total Time	10.5	30

*included in the Collection and Segregation of Charges

Following the lower of cost or market methodology used for the original application, I examined the Oregon Employment Department's statewide (no regional analysis for Crook/Deschutes/Jefferson counties is available) hourly wage stratification for Property, Real Estate, and Community Association Managers and the resume of the assigned Canterbury employee. The 75th percentile figure of \$20.72 seems appropriate. Adding the loading described in Staff Recommendation Condition 5 above, the final figure is \$27.67. Using the 30 hours estimate, the monthly total is \$830.

Determination of Public Interest Compliance: The contract's terms and conditions are changed from those in the original agreement reviewed and approved by Staff in the existing Commission Order as detailed above. These changes as modified are 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 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:

SMGV's application for a revised property management agreement with CPM, an affiliated interest, be approved, subject to the five recommended conditions.

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