

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UI 259

In the Matter of)	
)	
AVION WATER COMPANY, INC.)	ORDER
)	
Application for an affiliated interest agreement)	
with Conservation Associates, LLC.)	

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On January 22, 2007, Avion Water Company, Inc. (Avion), filed an application with the Public Utility Commission of Oregon (Commission) pursuant to ORS 757.490 and OAR 860-036-0730, requesting approval of a consulting agreement between Avion and Conservation Associates, LLC, 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 April 10, 2007, the Commission adopted Staff’s recommendation.

OPINION

Affiliation

An affiliated interest relationship exists under ORS 757.015.

Applicable Law

ORS 757.495 requires a public utility 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 reserves that issue for a subsequent proceeding.

CONCLUSIONS

1. An affiliated interest relationship exists.
2. The agreement is fair, reasonable, and not contrary to the public interest.
3. The application should be granted, as modified herein, including certain conditions and reporting requirements.

ORDER

IT IS ORDERED that the application of Avion Water Company, Inc., for approval of the consulting agreement between Avion Water Company, Inc., and Conservation Associates, LLC, is approved, subject to the conditions stated in the Staff Report attached as Appendix A.

Made, entered, and effective APR 13 2007.

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.

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 10, 2007

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: March 22, 2007

TO: Public Utility Commission

FROM: Marion Anderson *MSA*

THROUGH: *li* Lee Sparling, *H* Marc Hellman, and *m* Michael Dougherty

SUBJECT: AVION WATER COMPANY: (Docket No. UI 259) Affiliated interest application between the Company and Conservation Associates, LLC.

STAFF RECOMMENDATION:

The Public Utility Commission (PUC or Commission) should approve the application of Avion Water Company (Avion or the Company) for an affiliated interest agreement with Conservation Associates, LLC with the following conditions:

1. The Company shall provide the Commission access to all books of account, as well as all documents, data, and records that pertain to any transactions with affiliates.
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. The Company 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. If the annual amount paid to the affiliate exceeds the waiver threshold of OAR 860-036-0738, a written contract and compliance with OAR 860-036-0730(j) will be required.

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DISCUSSION:

This application was filed on January 22, 2007, pursuant to ORS 757.490 and OAR 860-036-0730. Jan Wick is the majority shareholder of both Avion and Conservation Associates, LLC and therefore the entities are affiliated interests pursuant to ORS 757.015.

According to the Company, \$1,152.90 was paid out in 2005, \$0 in 2006, and no utility expenditures are expected in 2007. The prior level of payments is below the 0.1 per cent of 2005 operating revenues (the last annual report filed) threshold under OAR 860-036-0738 for waiver of OAR 860-036-0730. Given the circumstances, Avion was able to file an abbreviated application.

The following issues were investigated in this application:

- Scope of the Agreement
- Transfer Pricing
- Determination of Public Interest Compliance
- Records Availability, Audit Provisions, and Reporting Requirements

Scope of the Agreement: Conservation Associates LLC has and will provide consultation on Avion's securing available energy tax credits. There is no current written contract (see Staff Recommendation Condition 4).

Transfer Pricing: Compliance with OAR 860-036-0739(3)(e), the lower of cost or market principle, would be Staff's major concern in this matter if financial materiality is achieved in these transactions (see Staff Recommendation Condition 4).

Determination of Public Interest Compliance: A positive judgment on contractual just and reasonable terms is temporarily granted.

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.
3. Necessary records are available.

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PROPOSED COMMISSION MOTION:

The consulting agreement between Avion Water Company and Conservation Associates, LLC be approved subject to the four recommended conditions.

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