

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UI 270

In the Matter of)	
)	
ALSEA PROPERTIES, INC.)	
)	ORDER
Affiliated Interest Application with Grimstad)	
& Associates.)	

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On June 4, 2007, Alsea Properties, Inc. (Alsea) filed an application with the Public Utility Commission of Oregon (Commission) pursuant to ORS 757.015, ORS 757.495, and OAR 860-036-0730. Signe Grimstad wholly owns Grimstad & Associates, as well as five percent of Alsea. 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, with conditions, applicable statutes and administrative rules. At its Public Meeting on August 21, 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. With the inclusion of Staff conditions, the services contract is fair, reasonable, and not contrary to the public interest.
3. The application should be approved, with certain conditions.

ORDER

IT IS ORDERED that Alsea Properties, Inc.'s affiliated interest agreement with Grimstad & Associates is approved, subject to the conditions stated in the Staff Report attached as Appendix A.

Made, entered, and effective AUG 24 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: August 21, 2007

REGULAR _____ CONSENT X EFFECTIVE DATE _____ NA _____

DATE: August 15, 2007

TO: Public Utility Commission

FROM: Marion Anderson *MSA*

THROUGH: *w* Lee Sparling, *#* Marc Hellman, and *m* Michael Dougherty

SUBJECT: ALSEA PROPERTIES, INC.: (Docket No. UI 270) Application for an affiliated interest contract between Alsea Properties, Inc. and Grimstad & Associates.

STAFF RECOMMENDATION:

The Public Utility Commission (PUC or Commission) should approve the application of Alsea Properties, Inc. (Alsea or the Company) for an affiliated interest agreement with Grimstad & Associates (Grimstad) subject to 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 payments to Grimstad & Associates.
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. Hourly rates for the following services shall be as specified:

Bookkeeping	\$25.76
Clerical	\$22.51
Tax and Special Projects	\$43.63

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5. The Company may escalate the above prescribed rates on an annual basis at a percentage not to exceed the annual Consumers Price Index – All Urban Consumers (CPI-U) published by the U.S. Bureau of Labor Statistics (BLS).

DISCUSSION:

This application was filed on June 4, 2007, pursuant to ORS 757.015, ORS 757.495, and OAR 860-036-0730. Signe Grimstad owns five percent of Alsea and wholly owns Grimstad, therefore an affiliated interest relationship exists.

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

Grimstad will provide management and operational services to Alsea including bookkeeping, general clerical, tax and special projects, customer interface, and water system maintenance. The licensed water operator is an independent contractor with a rate of \$15 per hour. The cost of the water operator is not included in the contract. This rate is reasonable and not contrary to the public interest.

Transfer Pricing

Pursuant to OAR 860-036-0739, Allocation of Costs by a Water Utility, when services or supplies are sold to a water utility by an affiliate, sales shall be recorded in the water utility's accounts at the affiliate's cost or the market rate whichever is lower. Because Grimstad is a certified public accountant, no competitive process was used in establishing this contract and all charges are subject to hourly billing. The Oregon Labor Market Information System (OLMIS) for Benton/Lincoln/Linn counties was used for market valuation determination.

The application proposes the following charges:

Bookkeeping	\$45 - \$85
Clerical	\$40
Tax and Special Projects	\$120

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The respective OLMIS occupations are listed in the following table: 1. Bookkeeping, Accounting, and Auditing Clerks; 2. Office Clerks; and 3. Accountants and Auditors.

	10th	25th	50th (median)	75th	90th	Average Hourly Rate	Annual Average
1.	\$10.22	\$12.15	\$14.08	\$16.93	\$19.94	\$14.76	\$30,692
2.	\$8.37	\$9.67	\$12.00	\$14.40	\$17.42	\$12.57	\$26,140
3.	\$16.23	\$18.79	\$21.29	\$25.84	\$33.77	\$22.92	\$47,672

Given the extensive experience of Grimstad, Staff selected the 90th percentile value and included a 29.2 percent benefits and taxes loading from the 2007 U.S. Bureau of Labor Statistics (BLS). This adjustment to the OLMIS listings yields the following charges:

Bookkeeping	\$25.76
Clerical	\$22.51
Tax and Special Projects	\$43.63

The Company may escalate the above prescribed rates at a percentage on an annual basis not to exceed the annual Consumers Price Index – All Urban Consumers (CPI-U) published BLS.

Cost allocations adjustments (facility, utilities, office supplies, etc.) to the aforementioned hourly rates for Grimstad assets utilization were raised in a Grimstad August 1, 2007, e-mail. However, no factors were received from Grimstad nor was there a response to the follow-up August 9, 2007, e-mail requesting the cost allocation information. As a result, the recommended hourly rates are based solely on wages and labor loadings for benefits and taxes.

Determination of Public Interest Compliance

With the inclusion of the proposed ordering conditions, this agreement is fair, reasonable, and not contrary to the public interest.

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. The contract, as adjusted by Staff, will not harm customers and is not contrary to the public interest with the recommended conditions.

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3. Necessary records are available.

PROPOSED COMMISSION MOTION:

Alsea Properties Inc.'s affiliated interest agreement with Grimstad & Associates be approved, subject to the recommended conditions.

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