

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UI 273

In the Matter of	)	
	)	
ROATS WATER SYSTEM, INC.	)	ORDER
	)	
Affiliated Interest Application with	)	
William K. Roats.	)	

**DISPOSITION: APPLICATION APPROVED WITH CONDITIONS**

On July 13, 2007, Roats Water System, Inc. (Roats) filed an application with the Public Utility Commission of Oregon (Commission) pursuant to ORS 757.015, ORS 757.495, and OAR 860-036-0730. Roats' filing seeks approval of an affiliated interest agreement with William K. Roats. 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 September 11, 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 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 Roats Water System, Inc.'s affiliated interest agreement with William K. Roats is approved, subject to the conditions stated in the Staff Report attached as Appendix A.

Made, entered, and effective SEP 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: September 11, 2007

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE \_\_\_\_\_ NA \_\_\_\_\_

DATE: August 29, 2007

TO: Public Utility Commission

FROM: Marion Anderson



THROUGH: Lee Sparling, Marc Hellman, and Michael Dougherty



SUBJECT: ROATS WATER SYSTEM, INC.: (Docket No. UI 273) Application for an affiliated interest contract between Roats Water System Inc. and William K. Roats.

**STAFF RECOMMENDATION:**

The Public Utility Commission (PUC or Commission) should approve the application of Roats Water System, Inc. (Roats or the Company) for an affiliated interest agreement with William K. Roats 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 payments to William K. Roats.
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. Total 2007 compensation payments to William K. Roats including salary, health, and retirement benefits shall not exceed \$101,473.

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5. The Company may escalate both the salary and compensation amounts listed in the previous condition 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 July 13, 2007, pursuant to ORS 757.015 and 757.495, and OAR 860-036-0730. William K. Roats and his wife own the Company; therefore, an affiliated interest relationship exists.

This application is a revision to traditional Staff policy on owner utility employment. Precedent for owner employment services agreements was set in Docket UW 117. The Commission clarified the requirements relating to situations where owners of water utilities were also employed by the utility. Staff had historically not requested an affiliated interest filing in such circumstances and instead rigorously reviewed the compensation expense during general rate reviews. The Commission found that the plain, natural, and ordinary meaning of the affiliated interest statute mandates that payment of wages and benefits to an owner of a utility requires an affiliated interest filing, pursuant to ORS 757.495(1).

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

Staff requested and received a position description for William K. Roats as follows:

The full-time position of President/CEO which is held by William K. Roats includes responsibilities of managing, planning, coordinating, and administering all activities of the Roats Water System, Inc. William K. Roats is responsible for the short and long range strategy of the organization. He is responsible for the Water Development planning and Hydraulic System planning. In addition, he is responsible for the Capital Program development both for the long and short range. He also directs and administers the Operations/Maintenance Division, functions of Source and Supply, Water Quality, Water Control, Transmission and Distribution, and Maintenance and

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Process Control. William K. Roats has worked for the Company for over 40 years, with 18 of these years as President/CEO.

The Roats employee base consisted of six full-time and six part-time individuals in 2006 for 1,432 ratepayers, the Company's largest customer base in the past five years. The Company's 2006 total revenue was \$788,185, and 2006 rate base (excluding contributions in aid of construction) was \$782,507. The Commission's Consumer Services Section has only received a total of two customer complaints on the Company in 2006 and 2007.

#### 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. Given the nature of this application, Staff's review will focus on market rate analysis since cost and market are essentially the same.

The annual compensation requested in the application was \$116,480. The American Water Works Association (AWWA) was cited by the Company and Staff used the AWWA salary survey for Top Operations and Maintenance Executives, Top Planning Executive, and Top Engineering Executive of 25 or fewer employees for a blended market valuation determination. That survey uses three quotations per position; Minimum, Mid-Point, and Maximum. The following table highlights the AWWA compensation survey for the three positions.

	<b>Minimum</b>	<b>Mid-Point</b>	<b>Maximum</b>
Top Planning Executive	\$69,185	---	\$93,208
Top Operations Executive	\$61,336	\$70,776	\$84,989
Top Engineering Executive	\$70,949	\$76,952	\$98,430
<b>Average (Blended)</b>	<b>\$67,156</b>	<b>\$73,864</b>	<b>\$92,209</b>

Given the aforementioned employment description, William K. Roats' experience, and the Company size, Staff recommends the Maximum annual blended salary rate of \$92,209. The recommended amount is reasonable given Roat's significant growth (40 percent in the past five years), cost pressures associated with the rapid growth, the Company's excellent customer service, and the fact that the Company's President/CEO entails responsibilities for all three of the above positions.

The Company offers health and retirement benefits to all full-time employees of Roats. The 2006 cost for William K. Roats for benefits and retirement was \$9,264. As a result, total 2007 compensation payments to William K. Roats, including health and retirement

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benefits, shall not exceed \$101,473. Per Staff Recommendation Condition No. 5, the Company may escalate the total compensation on an annual basis at a percentage not to exceed the annual CPI-U as published by the BLS.

Determination of Public Interest Compliance

With the inclusion of Staff's recommended conditions, the employment services agreement is fair and 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 modified by Staff, will not harm customers and is not contrary to the public interest with the recommended conditions.
3. Necessary records are available.

**PROPOSED COMMISSION MOTION:**

Roats Water System, Inc.'s modified affiliated interest agreement with William K. Roats be approved, subject to the recommended conditions.

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