

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UI 291

In the Matter of

SOUTH COAST WATER DISTRICT, INC.

Affiliated Interest Application with Oregon
Water Services, Inc. and Oregon Water
Services-Florence.

ORDER

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On December 29, 2009, South Coast Water District, Inc. (South Coast) filed an application with the Public Utility Commission of Oregon (Commission) pursuant to ORS 757.495, and OAR 860-036-0730, for approval of affiliated interest agreements with Oregon Water Services, Inc. and Oregon Water Services-Florence. Randall A. Reitz wholly owns South Coast and respectively owns 90 and 60 percent of Oregon Water Services, Inc. and Oregon Water Services-Florence. This filing supersedes the previous mix of contracts approved under Docket UI 188 in Order No. 01-172. 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 March 9, 2010, 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. Affiliated interest relationships exists.
2. The agreements are fair, reasonable, and not contrary to the public interest.
3. The application should be approved, with certain conditions.

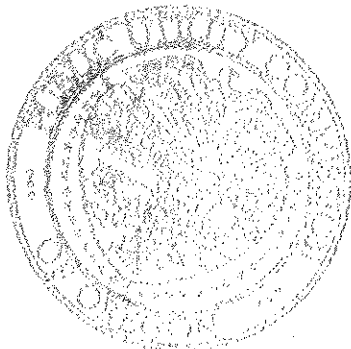
ORDER

IT IS ORDERED that:

1. The agreement between South Coast Water District, Inc. and Oregon Water Services, Inc. is approved, subject to the conditions stated in the Staff Report attached as Appendix A.
2. The agreement between South Coast Water District, Inc. and Oregon Water Services-Florence is approved, subject to the conditions stated in the Staff Report attached as Appendix A.

Made, entered, and effective MAR 11 2010.

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. CA7

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 9, 2010

REGULAR CONSENT EFFECTIVE DATE NA

DATE: February 18, 2010

TO: Public Utility Commission

FROM: Marion Anderson 

THROUGH:  Lee Sparling,  Marc Hellman, and  Michael Dougherty

SUBJECT: SOUTH COAST WATER DISTRICT INC: (Docket No. UI 291)
Application requesting approval of Affiliated Interest Agreements with Oregon Water Services, Inc. and Oregon Water Services-Florence, affiliated interests.

STAFF RECOMMENDATION:

The Public Utility Commission (the Commission) should approve the application of South Coast Water District, Inc. (South Coast or the Company) for affiliated interest agreements with Oregon Water Services, Inc. and Oregon Water Services-Florence under 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/from 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. The management salary and employee wage figures cited in this memorandum are allowed an annual growth not greater than the U.S. Bureau of Labor Statistics Consumer Price Index.

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5. No mark-up on billings from the two affiliates is authorized.

DISCUSSION:

This application was filed on December 29, 2009, pursuant to ORS 757.495 and OAR 860-036-0730. Randall A. Reitz wholly owns South Coast and respectively owns 90 and 60 percent of Oregon Water Services, Inc. and Oregon Water Services-Florence. This filing supersedes the previous mix of contracts approved under Docket UI 188 in Commission Order No. 01-172.

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

The two affiliates will provide all needed labor and materials for the operation and maintenance of the Company. Mr. Reitz's son is manager and water operator (certified Drinking Water Operator Level 1). There is a regularly retained service technician performing needed duties. For special projects, McKenzie Excavating is employed.

Transfer Pricing

The Oregon Labor Market Information System (OLMIS) was the primary vehicle to establish the lower of cost or market standard required under OAR 860-036-0739(3)(e). Staff Recommendation Condition No. 5 serves as further cost control.

South Coast operations are located in Lane County. Mr. Reitz's son is paid \$1,000 per month while Lane County OLMIS data shows an average monthly Manager, All Other remuneration of \$5,733. The service technician is paid \$17 per hour while Lane County OLMIS data shows an average hourly Technician rate of \$16.81. Per a conversation with Mr. Reitz, dealings over time have shown McKenzie Excavating to be the lowest cost local provider for this type of outsourced work. All billings of the service technician and McKenzie Excavating are channeled through the affiliates. This information is acceptable to Staff for demonstrating cost/market compliance.

The annual allowed billing ceiling for each of the affiliates is \$25,000 for a total potential utility billing of \$50,000. While this is not a ratemaking docket, it is noted that in the

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most recent rate case, Docket UW 134, conducted in 2009, the total operating expense amounted to \$26,664.

Determination of Public Interest Compliance

This 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 will not harm customers and is not contrary to the public interest with the recommended conditions.
3. Necessary records are available.

PROPOSED COMMISSION MOTION:

The affiliated interest agreement between South Coast Water District, Inc. and, Oregon Water Services, Inc. and Oregon Water Services-Florence be approved, subject to the recommended conditions.

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