

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UI 417

In the Matter of

OREGON WATER UTILITIES - CLINE
BUTTE, INC.,

Application for an Affiliated Interest
Agreement with SOUTHWEST WATER
COMPANY, including its subsidiaries.

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on December 3, 2019, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

BY THE COMMISSION:



A handwritten signature in blue ink, appearing to read "Nolan Moser".

Nolan Moser
Chief Administrative Law Judge

A party may request rehearing or reconsideration of this order under 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 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Circuit Court for Marion County in compliance with ORS 183.484.

ITEM NO. CA10

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 3, 2019**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____ **N/A** _____

DATE: November 19, 2019

TO: Public Utility Commission

FROM: Stephanie Yamada

THROUGH: Michael Dougherty, Bryan Conway, and Bruce Hellebuyck **SIGNED**

SUBJECT: OREGON WATER UTILITIES – CLINE BUTTE, INC.:
(Docket No. UI 417)
Requests approval of an Affiliated Interest Agreement with SouthWest Water Company and its subsidiaries.

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should approve Oregon Water Utilities – Cline Butte, Inc.'s (Cline Butte or Company) application (Application) for approval of a Management and Operations Agreement (Agreement) with SouthWest Water Company (SouthWest) and its subsidiaries, subject to conditions.

DISCUSSION:

Issue

Whether the Commission should grant the Company's request to enter into an Agreement with Affiliates for the provision of goods and services by the Affiliates to Cline Butte.

Applicable Law

Pursuant to ORS 757.015(2), a corporation or person has an affiliated interest relationship with a public utility when it owns or holds, directly or indirectly, at least five percent of the voting securities of that public utility. Pursuant to ORS 757.015(3), a corporation that is owned by any corporation or person owning at least five percent of the voting securities of the public utility also has an affiliated interest relationship with a public utility.

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ORS 757.495(1) and OAR 860-036-2210(2) require that when a public utility enters into a contract with an affiliated interest, it must seek Commission approval of the contract within 90 days of execution of the contract. The contract shall be deemed to be executed on the date the parties sign a written contract or on the date the parties begin to transact business under the contract, whichever date is earlier. ORS 757.495(6) requires the Commission to enter an order on the matter within 90 days after the matter has been submitted to the Commission for consideration.

Pursuant to ORS 757.495(3), the Commission will approve affiliated interest agreements if the terms are fair and reasonable and not contrary to the public interest. However, the Commission need not determine the reasonableness of all financial aspects of the agreement for ratemaking purposes, and may reserve that issue for subsequent proceedings.¹

Pursuant to OAR 860-036-2230(2)(e), when services or supplies are sold to a water utility by an affiliate, sales must be recorded in the water utility's accounts at the lower of the affiliate's cost or the market rate. The affiliate's cost must be calculated using the water utility's most recently authorized rate of return. Term 13 of the Stipulation adopted in Order No. 17-156, in which the Commission approved the sale of Cline Butte to SouthWest, specifies that Cline Butte must comply with the requirements of OAR 860-036-2230 when recording affiliate transactions on its books and records.

Analysis

Background

Cline Butte is a water utility that provides service to approximately 1,700 customers near Redmond, Oregon. SouthWest acquired Cline Butte in 2017; the Commission approved the sale of the utility with Order No. 17-156 in Docket No. UP 345. With the present Application, Cline Butte seeks Commission approval of a Management and Operations Agreement for the provision of goods and services to Cline Butte by entities having an affiliated interest relationship with Cline Butte. As discussed further below, the affiliates in question include SouthWest and SouthWest's subsidiaries. A related docket, Docket No. UI 418, addresses an analogous proposed affiliated interest agreement between SouthWest and Oregon Water Utilities – Mountain Lakes, Inc. (Mountain Lakes).

Staff issued four information requests, investigated the affiliate status, reviewed the Agreement, its terms and conditions, transfer pricing, public interest compliance, and records availability as described below.

¹ See Order No. 11-071 in Docket No. UI 306.

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Affiliate Status

Cline Butte and Mountain Lakes are wholly-owned subsidiaries of Northwest Utility Systems (NWUS), which is a wholly-owned subsidiary of SouthWest. SouthWest also owns Suburban Water Systems (Suburban) as well as several other subsidiaries located in multiple states. Pursuant to ORS 757.015(2) and (3), all SouthWest subsidiaries excluding Cline Butte itself (collectively, Affiliates) are considered to have affiliated interest relationships with Cline Butte. Although the Agreement allows for services to be rendered for Cline Butte by any of the Affiliates, the Company states that it is currently expected that Cline Butte will receive services only from SouthWest, NWUS, and Suburban.²

Terms and Conditions

Cline Butte filed its Application for approval of the Agreement on September 6, 2019. The Agreement was signed on June 5, 2018, with a retroactive effective date of June 2, 2017. The date of execution of the Agreement for the purposes of ORS 757.495(2) and OAR 860-036-2210(2) is June 2, 2017. Both the statute and rule require a contract to be filed with the Commission no later than 90 calendar days after its date of execution. The Company initially filed a slightly different version of the Agreement within the required 90-day period, on August 31, 2017.³ Discussions between Staff and the Company resulted in Cline Butte's withdrawal of that application on November 8, 2017. The Company later filed another application on June 5, 2018,⁴ and discussions between Staff and the Company again resulted in Cline Butte's withdrawal of that application on August 23, 2018. Staff understands that the present Application is intended to address concerns previously expressed by Staff in response to the August 2017 and June 2018 filings. As such, Staff recommends that no action be taken on the basis of the present Application having been filed after the 90-day statutory window.

The Agreement calls for certain goods and services to be provided to Cline Butte by the Affiliates. The services described under the Agreement include financial and banking, human resources, insurance and risk management, legal, rates and regulation, communication, engineering, accounting and bookkeeping, information systems, administration, and operations and maintenance services. The goods described under the Agreement include office and shop space, vehicles and transportation equipment, tools, computers, telephone, internet, and other communications and IT equipment, and office furniture, supplies, and other miscellaneous equipment.

² Application, Page 5.

³ See Docket Nos. UI 389 and UI 391.

⁴ See Docket No. UI 401.

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Pursuant to page 3 of the Agreement, Cline Butte may incur two types of costs from affiliate services: direct costs and common costs. Direct costs are those incurred for services rendered by the Affiliates that are attributable to a specific entity, such as Cline Butte. Common costs are not attributable to a specific entity and are therefore allocated amongst the entities benefitting from the service.

Direct costs are assigned directly to the entity to which the costs are attributable. NWUS employees use timecards to record time spent on tasks directly relating to Cline Butte, and the corresponding labor cost is directly assigned to Cline Butte accordingly. Direct costs attributable to Suburban employees are recorded and assigned to Cline Butte in a similar manner. Although Cline Butte incurs mostly common costs from SouthWest, certain costs that SouthWest incurs on behalf of its subsidiaries, such as certain insurance coverages and IT maintenance costs, are assigned to Cline Butte based on specific cost drivers associated with those costs.

Common costs allocable from SouthWest are allocated using a three-factor allocation methodology calculated using equally weighted gross plant, payroll, and operating expenses. The Application states that this three-factor formula is used by the California Public Utilities Commission to allocate costs to Suburban from SouthWest, and that the use of this methodology “allows SouthWest to maintain consistency of corporate overhead cost recovery across its subsidiaries.”⁵ SouthWest’s Cost Allocation Manual, which was provided with the Application, provides the following example to illustrate the mechanics of the three-factor allocation methodology using hypothetical figures. The below example results in an allocation of 61.4 percent of the cost to Affiliate 1.

Three-Factor Methodology Example

| Factor | Affiliate 1 | Affiliate 2 | Affiliates Total | Affiliate 1 % of Total | Factor Weight | Affiliate 1 Allocation |
|---|--------------------|--------------------|-------------------------|-------------------------------|----------------------|-------------------------------|
| Gross Plant (\$) | 700 | 550 | 1,250 | 56.0% | 33.3% | 18.7% |
| Operating Expenses Including Payroll Expenses(\$) | 102 | 48 | 150 | 68.0% | 33.3% | 22.7% |
| Payroll Expenses (\$) | 45 | 30 | 75 | 60.0% | 33.3% | 20.0% |
| Total Allocation | | | | | | 61.4% |

Common costs allocable from Suburban and NWUS are allocated across the benefitting entities using customer counts as well as meter equivalent factors, which account for

⁵ Application, Page 7.

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the higher costs associated with serving customers with larger meter sizes. This method is similar to the method used by Staff to allocate base rate revenues based on meter size when performing rate calculations. An example of how allocation percentages are calculated based on meter equivalent factors is shown in the table below.

| Meter Size | Customer Count | | | Factor | Weighted Equivalents | | |
|------------------------------|----------------|------------|------------|--------|----------------------|---------------|---------------|
| | Company 1 | Company 2 | Company 3 | | Company 1 | Company 2 | Company 3 |
| 5/8" | 100 | 160 | 200 | 1.0 | 100 | 160 | 200 |
| 3/4" | 50 | 30 | 1 | 1.5 | 75 | 45 | 1.5 |
| 1" | 20 | 3 | 1 | 2.5 | 50 | 7.5 | 2.5 |
| Total | 170 | 193 | 202 | | 225 | 212.5 | 204 |
| Allocation Percentage | | | | | 35.07% | 33.13% | 31.80% |

As explained in the Application, affiliated interest costs to be recorded by Cline Butte can further be categorized as either operational or administrative. Currently, NWUS provides operational services and goods, and Suburban and SouthWest provide administration.⁶ Operational services provided by NWUS include meter reading, maintenance, and repair. Administrative services provided by Suburban include information technology, accounting, customer service, human resources, and general management. Administrative services provided by SouthWest include finance, legal, and executive leadership. Generally, NWUS employees are located and perform work in the vicinity of the utility.⁷ Suburban and SouthWest employees are located in Southern California.

Staff reviewed the Agreement and has not identified any unusual or restrictive terms or conditions at this time.

Transfer Pricing

In its Application, the Company states that, in its "previous affiliate interest applications for approval of the Agreement (subsequently withdrawn), SouthWest had not owned [Cline Butte] long enough to establish robust projections regarding ongoing affiliate costs."⁸ Additionally, at the time those applications were submitted, "affiliate costs associated with the transition of ownership were incurred that were not expected to be ongoing."⁹ As SouthWest acquired Cline Butte in 2017, the year 2018 represents the

⁶ Application, Page 7.

⁷ Application, Page 5.

⁸ Application, Page 8.

⁹ *Ibid.*

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first complete calendar year in which Cline Butte operated (and recorded costs) under SouthWest ownership. The present Application reflects 2018 costs and indicates that Cline Butte incurred the following costs from the Affiliates in 2018:

| Affiliate | Amount |
|-------------------------|------------------|
| Suburban ¹⁰ | \$94,087 |
| SouthWest ¹¹ | \$222,228 |
| NWUS ¹² | \$660,806 |
| TOTAL | \$977,121 |

In response to Staff's Information Request 2, the Company clarified that the amounts shown above do not include the provision of any goods to Cline Butte by the Affiliates in 2018, as "[n]o products or goods were provided in 2018 to [Cline Butte] by SouthWest or any of its subsidiaries, including Suburban and NWUS."¹³ The Application states that the 2018 amounts shown above represent reasonable estimates of the amounts that will be charged to Cline Butte annually by NWUS, Suburban, and SouthWest. Staff investigated the reasonableness of these amounts as discussed further below.

The Agreement specifies that goods and services rendered to Cline Butte by the Affiliates will be provided at cost, without any profit markup. Because OAR 860-036-2230(2)(e) requires affiliated interest transactions to be recorded in the water utility's accounts at the lower of the affiliate's cost or the market rate, if the Company intends to record these transactions using the affiliates' cost, the affiliates' cost must be lower than the equivalent market rate for the goods and services to be transacted.

NWUS Costs

As shown in the above table, affiliate costs from NWUS totaled \$660,806 in 2018. This amount includes \$242,666 in employee costs, consisting of \$77,145 in directly-assigned costs and \$165,521 in common costs that were allocated using meter equivalent factors as described previously.¹⁴

In its Application, the Company states that the "compensation strategy for SouthWest in general, as well as specifically for NWUS employees, is to target compensation levels at the median level for the local market."¹⁵ The Company further reasons that "[b]ecause

¹⁰ Application, Page 9.

¹¹ Application, Page 10.

¹² Application, Page 7.

¹³ Cline Butte's response to Staff's Information Request 2.

¹⁴ Application, Page 8.

¹⁵ Application, Page 8.

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the employees are based locally and are compensated based on a strategy targeting the 50th percentile of local market rates, it can be assumed that their wages and salaries represent market rates.”¹⁶ Staff estimated market rates for comparable labor to assess the Company’s compliance with the lower of cost or market requirement of OAR 860-036-2230.

In its Confidential Excel Attachment 1 provided in response to Staff’s Information Request 1, the Company provided labor hours, costs, position descriptions, and corresponding market rate estimates associated with NWUS employees who performed work on behalf of Cline Butte in 2018, as requested by Staff. Based on the information provided by the Company, Staff established its own market rate estimates using the American Water Works Association’s (AWWA) 2018 Compensation Survey for Small Water Systems. The Company’s cost as well as the Company’s and Staff’s market rate estimates are shown in Confidential Attachment A. As shown in that attachment, in both Staff’s and the Company’s estimates, the total estimated market rate exceeds NWUS’ cost of providing the labor in question. As such, Staff finds that the NWUS labor costs shown in Confidential Attachment A generally comply with the lower of cost or market requirement of OAR 860-036-2230. However, ratemaking treatment for these items will be determined in the Company’s next general rate case. If a waiver of OAR 860-036-2230 is determined to be necessary and warranted at that time, the Commission may grant it for good cause shown in that proceeding.

Suburban and SouthWest Costs

The costs to Suburban and SouthWest for administrative services provided to Cline Butte in 2018 are summarized below.¹⁷

| Function | Suburban | SouthWest | Total |
|---|-----------------|------------------|------------------|
| Accounting, Billing, & Finance | \$38,375 | \$29,237 | \$67,611 |
| Management/Executive | \$26,633 | \$44,617 | \$71,250 |
| Human Resources | \$1,714 | \$6,003 | \$7,717 |
| Legal | \$4,376 | \$1,531 | \$5,907 |
| Regulatory | \$420 | \$7,309 | \$7,729 |
| Information Technology | \$6,467 | \$30,698 | \$37,166 |
| Engineering, Operations, Customer Service, Safety, Facilities | \$16,101 | \$4,669 | \$20,771 |
| Depreciation & Amortization | \$0 | \$35,743 | \$35,743 |
| Total | \$94,087 | \$159,807 | \$253,894 |

¹⁶ Cline Butte’s response to Staff’s Information Request 4.

¹⁷ Application, Page 14.

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The \$94,087 cost for services rendered by Suburban consists of \$6,765 in directly assigned costs and \$83,722 in common costs,¹⁸ which are allocated using meter equivalent factors as described previously. The \$159,807 in SouthWest costs shown above represent common costs and were assigned using the three-factor allocation methodology described previously.

In its Confidential Excel Attachment 1 provided in response to Staff's Information Request 1, the Company provided labor hours, costs, position descriptions, and corresponding market rate estimates associated with Suburban employees who performed work on behalf of Cline Butte in 2018, as requested by Staff. Based on the information provided by the Company, Staff established its own market rate estimates for the labor in question. For positions for which AWWA data were available, Staff based its estimates on the 2018 AWWA Compensation Survey that was mentioned previously. For all other positions, Staff used wage information from the Quality Info (QI)¹⁹ database for the Central Oregon area, except where only statewide data were available. Confidential Attachment B shows the average hourly costs of Suburban employees' labor by functional area, including Suburban's actual costs and its comparable market rate estimates as well as Staff's comparable market rate estimates. As shown in that attachment, Staff found that average hourly market rates were generally comparable to Suburban's costs for similar labor in all areas other than management costs, for which Suburban's cost was substantially higher than local market rates. However, ratemaking treatment for these costs will be determined in the Company's next general rate case. If a waiver of OAR 860-036-2230 is determined to be necessary and warranted at that time, the Commission may grant it for good cause shown in that proceeding.

While the Company provided detailed hourly labor and wage information for NWUS and Suburban employees, it stated that is "not possible to identify specific SouthWest employee hours charged" to Cline Butte "[b]ecause services provided by SouthWest are general in nature (e.g. securing debt financing)," and costs are consequently "allocated indirectly to benefitting utilities using the three-factor allocation methodology described in the application."²⁰ In its Application, the Company argues that while Suburban and SouthWest employees' "geographical markets are not necessarily the same as [Cline Butte]'s local market...when compared on a functional basis rather than an employee-by-employee compensation basis, the cost of these administrative services are less than market rates due to the economy of scale benefits achieved through the shared services model."²¹

¹⁸ Application, Page 9.

¹⁹ Formerly Oregon Employment Department's Oregon Labor Market Information System (OLMIS).

²⁰ Cline Butte's response to Staff's Data Request 1.

²¹ Application, Page 13.

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As shown on Page 14 of the Application, the Company argues that while the combined cost for administrative services from Suburban and SouthWest totaled \$253,894 in 2018, the cost of hiring only four full-time employees would exceed that amount, as shown below.

| <u>ERI Job Title</u> | <u>Bend Median Salary</u> |
|---|---------------------------|
| Experienced Accountant | \$74,849 |
| Experienced Utilities Superintendent | \$80,694 |
| Information Technology Manager | \$77,207 |
| Experienced Customer Service Representative | \$39,708 |
| Total | \$272,458 |

Furthermore, the four full-time employees shown here would not provide the full range of services that are currently provided by Suburban and SouthWest. Information provided by the Company indicates that the Agreement provides Cline Butte with access to numerous skilled employees across a range of functional areas, including several employees with significant professional and industry-specific experience.

Staff generally agrees that shared services agreements can benefit small water utilities by distributing costs across multiple entities while providing access to high-quality labor and industry expertise. For instance, because employees that perform work on behalf of Cline Butte are employees of the Affiliates and are not employed by Cline Butte directly, certain employee and overhead costs that benefit multiple entities can be shared across all benefitting entities rather than being borne entirely by Cline Butte directly. Staff also generally agrees that absent the affiliate relationship, Cline Butte would be required to hire additional staff to perform the same functions currently performed by Suburban and SouthWest, thus eliminating the benefits from economies of scale. Such a scenario would likely increase costs to Cline Butte's customers.

The \$253,893 in SouthWest and Suburban administrative costs described above do not include an additional \$62,421 in SouthWest costs relating to items that were assigned to Cline Butte using specific costs drivers, as summarized in the table below.²²

²² Application, Page 10.

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| Other SouthWest Costs | | |
|------------------------------|------------------------------------|-----------------|
| Account # | Account Name | Amount |
| 604 | Employee Pensions and Benefits | \$34,566 |
| 658 | Insurance - Workman's Compensation | (\$2,032) |
| 659 | Insurance - Other | \$9,425 |
| 657 | Insurance - General Liability | \$2,093 |
| 656 | Insurance - Vehicle | \$1,796 |
| 675 | Miscellaneous Expenses | \$13,111 |
| 648 | Computer and Electronic Expenses | \$3,464 |
| | Total | \$62,421 |

Staff notes that the Company did not provide market value comparators for these costs. In lieu of such a comparison, Staff compared Cline Butte's per-customer cost in these accounts to the average cost across 23 other non-SouthWest-affiliated regulated water utilities for which 2018 Annual Results of Operations Reports were available. The expenses shown above were included in operating expense accounts 604, 648, 656 to 659, and 675.²³ For the 23 companies examined, these accounts totaled \$1,884,963 over 26,167 customers in 2018, resulting in an average cost of \$72.04 per customer. By contrast, Cline Butte's total expense in these accounts was \$78,258 (including both affiliate and non-affiliate costs) over 1,730 customers, resulting in an average cost of \$45.24 per customer. Assuming that other utilities' average costs are representative of Oregon market values for similar expenses, this indicates that, under the Agreement, SouthWest's costs in these accounts are lower than comparable market rates.

As detailed in the above tables, the combined cost of services rendered to Cline Butte from SouthWest and Suburban in 2018 totaled \$316,315. Term 11 of the Stipulation adopted in Order No. 17-156 approving the sale of Cline Butte to SouthWest states that Cline Butte "will not seek rate recovery for more than \$125,300 annually for affiliated interest costs charged by SouthWest and Suburban to [Cline Butte] in the first general rate case or similar proceeding filed by [Cline Butte] [following the sale to SouthWest]." As such, only the first \$125,300 of the combined cost from SouthWest and Suburban would affect customer rates in Cline Butte's next general rate proceeding.

Furthermore, Cline Butte "expects the overall affiliate interest cost from Suburban to decrease over the next few years as certain tasks become more routine and less managerial oversight is needed."²⁴ Cline Butte states that costs incurred from Suburban during the first six months of 2019 total \$33,416—extrapolated over the remainder of the year, Suburban costs would total \$66,832 in 2019, which reflects a

²³ Application, Page 10.

²⁴ Application, Page 9.

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nearly

30 percent decrease over 2018 levels.²⁵ The Company also anticipates that the amounts charged by SouthWest “may decrease in the future as SouthWest’s customer base is expanded through growth and acquisitions”²⁶ and that it “anticipates bringing its actual management costs closer to the amount allowed in rates as SouthWest experiences continued customer growth.”²⁷ Due to the apparent changing nature of the affiliate costs from SouthWest and Suburban, any proposed inclusion of these costs in rates should be re-examined by Staff during Cline Butte’s next general rate proceeding.

After reviewing information provided by the Company with regard to services provided to Cline Butte by the Affiliates, Staff generally finds that the Agreement generally meets the lower of cost or market requirement of OAR 860-036-2230. Staff notes that the reasonableness and appropriate ratemaking treatment for these costs will be determined in Cline Butte’s next general rate proceeding.

Public Interest Compliance

In its Application, the Company argues that Cline Butte is able to provide increased quality of service under the Agreement because the Agreement allows Cline Butte to access “resources encompassing the full breadth of a large water utility company, despite [Cline Butte] itself being relatively small.”²⁸ The Company also argues that “access to the full range of SouthWest’s resources” benefits Cline Butte customers “through increased reliability and resiliency,” stating that “should there be a natural disaster in Oregon or California that disrupts [Cline Butte]’s operations, [Cline Butte] would benefit by being able to access other SouthWest subsidiaries as necessary.”²⁹ As an example, the Company explains that many of SouthWest’s Texas customers were affected by Hurricane Harvey in 2017, and that the Texas call center was unable to be opened during that time. However, because SouthWest was able to route incoming calls from Texas customers to Suburban’s call center in California, its Texas customers retained access to customer service representatives during that time. Staff generally agrees that Cline Butte benefits from having access to the broader organizational resiliencies provided by SouthWest and its other subsidiaries.

Again, customer rates would not be affected by the present Agreement until the conclusion of Cline Butte’s next general rate proceeding. Because UI dockets do not resolve any issues for ratemaking treatment, any costs associated with the Agreement would be reviewed for public interest compliance during a general rate proceeding.

²⁵ Application, Page 9.

²⁶ Application, Page 10.

²⁷ Application, Page 7.

²⁸ Application, Page 11.

²⁹ Application, Page 11.

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Records Availability, Audit Provisions, and Reporting Requirements

Staff notes that the Commission retains the ability to review all affiliated transactions of Cline Butte through its annual affiliated interest report and rate case filings. Staff's recommended conditions allow for Commission examination of the Company's records concerning the Agreement. SouthWest's Cost Allocation Manual also specifies that "[d]ocumentation regarding transactions between the regulated utility and its affiliates should be made available for review by the appropriate Commission or other regulatory authority upon request to address their reasonable concerns in their exercise of their responsibilities in examining any of the costs sought to be recovered by the utility in rate proceedings."³⁰

Conclusion

Based on the review of this application, Staff concludes the following:

1. The proposed affiliated interest agreement is fair, reasonable, and not contrary to the public interest, and
2. Necessary records are available.

PROPOSED COMMISSION MOTION:

Approve Cline Butte's application for approval of a Management and Operations Agreement with the SouthWest and its subsidiaries, subject to the following conditions:

1. The Company will provide the Commission access to all books of account as well as all documents, data, and records that pertain to any payments made from the Company to Affiliates.
2. The Commission reserves the right to review, for reasonableness, all financial aspects of this transaction in any rate proceedings or alternative form of regulation.
3. The Company will notify the Commission in advance of any substantive changes to the Agreement, including any material changes in price. Any such changes shall be submitted in an application for a supplemental order (or other appropriate format) in this docket.

³⁰ SouthWest Cost Allocation Manual, Page 2.

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4. The Company will report to the Commission, as part of its annual affiliated interest report, a summary of Affiliate costs charged to the Company.
5. With its next general rate proceeding filing, the Company will provide:
 - a. A demonstration of the cost and market value of all goods/services acquired under the contract, and
 - b. A demonstration that the Company has complied with term 13 of the UP 345 term sheet for the goods and services acquired.
6. The Company will record expenses incurred under the Agreement in its accounts at the affiliate's cost or the market rate, whichever is lower.

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