

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UI 273(2), UI 466(2), UI 468(2)

In the Matters of

ROATS WATER SYSTEM, INC.

Amended Affiliated Interest Application
with William K. Roats, Related to Annual
CPI Adjustments Related to a Salary
Increase (UI 273(2));

Amended Affiliated Interest Application
with Michelle Roats Berg, Related to
Annual Salary Increase (UI 466(2));

Amended Affiliated Interest Application
with William C. Roats, Related to an
Annual Salary Increase (UI 468(2)).

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on June 10, 2025, 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:

Alison Lackey
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.

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 10, 2025**

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

DATE: May 27, 2025

TO: Public Utility Commission

FROM: Steph Yamada

THROUGH: Bryan Conway and Russ Beitzel **SIGNED**

SUBJECT: ROATS WATER SYSTEM, INC.:
(Docket Nos. UI 273(2), UI 466(2), and UI 468(2))
Requests approval of Affiliated Interest Agreements with William K. Roats,
Michelle Roats-Berg, and William C. Roats.

STAFF RECOMMENDATION:

Staff recommends that the Oregon Public Utility Commission (Commission) approve Roats Water System, Inc.'s (Roats or the Company) supplemental Applications for updated Affiliated Interest (AI) Employment Agreements with William K. Roats (WKR), Michelle Roats-Berg (MRB), and William C. Roats (WCR), 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.
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.

Docket Nos. UI 273(2), UI 466(2), UI 468(2)
May 27, 2025
Page 2

5. The value related to these AIs will be decided in Roats' current rate case, Docket No. UW 207.

DISCUSSION:

Issue

Whether the Commission should grant the Company's request to enter into revised AI Agreements with WKR, MRB, and WCR (collectively, Affiliates), for the provision of AI services to Roats.

Applicable Law

Pursuant to ORS 757.015(1) and (2), a corporation or person has an affiliated interest relationship with a public utility when it owns or holds, directly or indirectly, or is in any chain of successive ownership, of at least five percent of the voting securities of that public utility. Further, the Statute states that a corporation that is owned by any corporation or person owning at least five percent of the voting securities of a public utility also has an affiliated interest relationship with the public utility. ORS 757.015(3). Lastly, according to ORS 757.015(5), every corporation that has two or more officers or two or more directors in common with a public utility has an affiliated interest with the public utility.

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

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

Docket Nos. UI 273(2), UI 466(2), UI 468(2)
May 27, 2025
Page 3

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.

Analysis

Background

Roats is a privately owned, fully regulated water utility, serving approximately 4,000 customers in the vicinity of Bend, Oregon. WKR is the majority shareholder and President/CEO. MRB is a minority shareholder and General Manager, and WCR is a minority shareholder, Vice-President, and Plant Supervisor.

With the present filings, Roats seeks Commission approval of revised agreements for the provision of AI services to the Company by Affiliates. The Commission previously approved AI service agreements between Roats and Affiliates related to their individual roles with the Company.² Roats previously filed updates to those agreements on February 28, 2024.³

The Company filed the present round of updates on March 20, 2025, pursuant to ORS 757.495 and OAR 860-036-2210. These updates relate to annual compensation increases for Affiliates and do not represent any material change to the AI relationship or the duties carried out by any Affiliate compared to the 2024 update. The compensation increases are proposed to become effective in October 2025. Pursuant to ORS 757.495(6), the Commission must make a determination on this matter by June 18, 2025.

Affiliate Status

There is no formal contract between Roats and any Affiliate; they each provide direct services through their employment with Roats. All three Affiliates are considered to have affiliated interest relationships with the Company. Each Affiliate's affiliated interest relationship is covered under a separate docket, as follows:

- UI 273 – WKR,
- UI 466 – MRB,
- UI 468 – WCR.

Terms and Conditions

As stated above, there are no formal contracts between Roats and any Affiliate. All are considered "employees at-will" in terms of employment status. Additionally, while the

² See Order Nos. 07-398, 22-121, and 22-123.

³ See Docket Nos UI 237, UI 466, and UI 468, combined Staff Report for the May 16, 2024 Regular Public Meeting.

Docket Nos. UI 273(2), UI 466(2), UI 468(2)
May 27, 2025
Page 4

present update modifies certain compensation amounts provided to Affiliates, it does not make other changes to the terms of their employment with the Company.

Transfer Pricing

As employees and owners of Roats, each Affiliate's employment compensation is considered an affiliate cost. 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. Consequently, if the Company intends to record these transactions using the affiliate cost, the affiliate cost must be lower than the equivalent market rate for the goods and services to be transacted.

Staff reviewed the updated compensation figures, which were filed under a confidential designation. The salary increases appear to align with changes in the All-Urban CPI. Additionally, the Company has increased its 401(k) contribution match from three percent to six percent compared to the 2024 update.

As discussed previously, the Commission need not determine the reasonableness of the proposed compensation amounts in this proceeding. The proposed increases are not expected to have any impact on customers unless they are approved for inclusion in rates—a determination which will be made in the currently pending rate case proceeding, Docket No. UW 207. Staff will determine if Roats' proposed compensation amounts comply with OAR 860-036-2230(2)(e) in that docket.

Public Interest Compliance

Notwithstanding any determination of cost reasonableness, Staff believes the agreements remain fair, reasonable, and not contrary to the public interest.

Conclusion

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

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

The Company has reviewed a draft of this memo and noted no concerns.

Docket Nos. UI 273(2), UI 466(2), UI 468(2)
May 27, 2025
Page 5

PROPOSED COMMISSION MOTION:

Approve Roats Water System, Inc.'s supplemental Applications for approval of AI Employment Agreements with William K. Roats, Michelle Roats-Berg, and William C. Roats, subject to Staff's conditions identified in the Staff Recommendation section of this Staff report.

Roats UI 273(2), UI 466(2), UI 468(2)