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**BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

UI 188

In the Matter of SOUTH COAST WATER	)	
DISTRICT INC's Application for Approval of an	)	ORDER
Affiliated Interest Service Contract.	)	

**DISPOSITION: APPLICATION APPROVED WITH CONDITIONS**

On December 29, 2000, South Coast Water District, Inc. filed an application with the Public Utility Commission of Oregon (Commission) pursuant to ORS 757.495 requesting approval for the purchase of services from affiliated companies.

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 February 6, 2001, the Commission adopted Staff's recommendation to approve the application with conditions. Staff's recommendation is attached as Appendixes A, A-1, A-2, and B and is incorporated by reference.

**OPINION**

**Jurisdiction**

ORS 757.005 defines a "public utility" as anyone providing heat, light, water or power service to the public in Oregon. The Company is a public utility subject to the Commission's jurisdiction.

**Affiliation**

An affiliated interest relationship exists under ORS 757.015.

**Applicable Law**

ORS 757.495 requires public utilities to seek approval of contracts with affiliated interests within 90 days after execution of the contract. The intent of the statute is to protect ratepayers from the abuses which may arise from less than arm's length transactions. *Portland General Electric Company*, UF 3739, Order No. 81-737 at 6. Failure to file within the 90-day time limit may preclude the utility from recovering costs incurred under the contract. *See*

ORS 757.495.

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 may reserve that issue for a subsequent proceeding.

**CONCLUSIONS**

1. The Company is a public utility subject to the jurisdiction of the Commission.
2. An affiliated interest relationship exists.
3. The agreement is fair, reasonable, and not contrary to the public interest.
4. The application should be granted, with conditions.

**ORDER**

IT IS ORDERED that the application of South Coast Water District, Inc. for authority to engage in certain affiliated interest transactions with Delta Environmental Services, Oregon Water Services, pH Engineering, and Ravin Group LLC, is granted, subject to the conditions stated in Appendixes A, A-1, A-2, and B.

Made, entered, and effective \_\_\_\_\_.

BY THE COMMISSION:

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**Vikie Bailey-Goggins**  
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 of 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. A party may appeal this order pursuant to ORS 756.580

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: February 6, 2001**

**REGULAR AGENDA** \_\_\_\_\_ **CONSENT AGENDA**   X   **EFFECTIVE DATE**

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**DATE:** January 29, 2001

**TO:** Bill Warren through Marc Hellman and Mike Myers

**FROM:** Cameron Speir

**SUBJECT:** UI 188 South Coast Water District, Inc.'s Application for Approval of an Affiliated Interest Service Contract

**SUMMARY RECOMMENDATION:**

Staff recommends that the Commission approve South Coast Water District, Inc.'s (South Coast or Company) Application for Approval of an Affiliated Interest Service Contract.

**DISCUSSION:**

South Coast is a fully regulated public utility. Order No. 01-074 allows the Company to increase its rates upon compliance with stipulated conditions. The new rates may go into effect after South Coast complies with certain water quality requirements and receives approval for transactions with affiliated interests. Order No. 01-074 is attached as Attachment A.

On December 29, 2000, South Coast filed an application pursuant to ORS 757.495 requesting approval for the purchase of services from affiliated companies. The contract is attached as attachment B. South Coast is owned by Ravin Group, LLC (Ravin). Kevin Hunt and Randy Reitz are the principle owners of Ravin. Kevin Hunt is also vice-president of South Coast, president of Delta Environmental Services (DES) and vice president of pH Engineering (pH). Randy Reitz is president of South Coast and president of Oregon Water Services, Inc. (OWS). South Coast will rent all plant and equipment and purchase services relating to administration, operation and maintenance of the system from Ravin. Ravin, in turn, will contract with OWS and DES for managerial, administration, operational, maintenance, repair and water quality testing services. In addition, Ravin will purchase engineering services from pH.

South coast will rent all plant and equipment required to operate and maintain its system from Ravin for \$5,045 per year. This amount was agreed to by Staff and South Coast officers during South Coast's most recent rate case, UW 73, and is based upon annual depreciation expense and a just and reasonable rate of return. This specific plant is used because it is currently in place and capable of providing South Coast's customers with safe and adequate drinking water.

South Coast will purchase management services from Ravin at a rate of \$26 per hour plus a reasonable allowance for transportation costs at the federal mileage rate of \$0.325 per mile.

Staff and South Coast estimate that South Coast will pay Ravin \$2,518 per year for management services. This amount has been provided for in UW 73.

South Coast will purchase administrative services, such as bookkeeping, billing and collection, from Ravin at \$7.50 per hour. Staff and South Coast estimate that South Coast will pay \$1,406 per year.

Ravin will provide a local operator to look after day-to-day operation and maintenance of South Coast's system. The operator will perform periodic inspections, make routine repairs and handle service connections, disconnections and service calls during normal business hours at a rate of \$15.00 per hour plus transportation costs at the federal mileage rate of \$0.325 per mile. Charges for work done after normal business hours will be billed to South Coast according to approved tariffs.

Ravin will provide water quality testing and related services to South Coast at cost. Such services might include OHD-required tests for bacteria, nitrates and metals, regulatory reporting requirements and calibration of testing equipment. Staff and South Coast estimate that testing costs will average \$1,086 per year from 2000 through 2003.

South Coast obtains operation, maintenance, customer service and management services from Ravin because it allows for integrated operation of the system. Consolidation of these services with a single provider gives customers a single contact person and allows management to become familiar with individual customers' circumstances and provide an enhanced level of service. Ravin will obtain management, administration, operations, maintenance, repair and water quality testing services from OWS and DES. Ravin and its affiliates have a unique knowledge and special interest in the condition of the plant and equipment used by South Coast. Customers will benefit from this knowledge and interest.

Ravin will obtain engineering services necessary for the operation of South Coast from pH at a rate of \$65 per hour. Staff has determined that this rate is favorable to the market rate charged by other professional engineers for similar services. Also, pH has worked with the South Coast in the past and is familiar with the operation of the water system.

Ravin will provide all other services necessary for the operation of the South Coast water system. Any other services provided by affiliates of South Coast will be in accordance with rates described in the proposed contract or included in South Coast's approved tariffs.

#### Issues

Staff has investigated the following issues to determine if the agreement is fair and reasonable and not contrary to the public interest:

##### 1. Scope and Terms of Purchase of Services

Staff has reviewed the agreement's scope and terms of the provision of services and has not found any elements that are unusual or restrictive or that would likely negatively impact South Coast's customers. In fact, the services provided by Ravin Group and its affiliates should provide customers with much higher levels of water quality and service than in previous years.

2. Transfer Pricing Methods and Cost Allocation Procedures

Commission guidelines state that services provided by affiliates should be purchased at the lower of the cost or the market rate. Staff performed a detailed cost analysis in conjunction with South Coast's most recent rate case, UW 73, and has found that the prices prescribed by the contract meet the lower of cost or market test.

3. Demonstration of Public Interest Compliance

South Coast's ratepayers have experienced poor water quality and inadequate service from previous system owners. Ratepayers will not be harmed by the proposed transactions and should benefit from the proposed transactions. The quality of water service will greatly improve if the terms of the contract are executed. The services listed in the contract are priced at reasonable levels.

4. Records Availability, Audit Provisions and Reporting Requirements

The Commission's general investigative powers will provide the Commission with adequate access to South Coast's accounting information regarding the proposed contract.

**STAFF RECOMMENDATIONS:**

Staff recommends that the Commission approve South Coast Water District, Inc.'s application for approval of an affiliated interest service contract with the following conditions:

1. South Coast, Ravin, OWS, DES and pH shall provide the Commission access to all books of account as well as all documents and records which pertain to transactions between these companies.
2. The Commission reserves the right to review for reasonableness all financial aspects of this arrangement in any rate proceeding or earnings review.
3. South Coast must notify the Commission in advance of any substantive changes to the agreements. Any changes to the agreements in terms which alter the intent or extent of activities under the agreements from those approved herein shall be submitted for approval in an application for supplemental order in the is docket or another appropriate format.