

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 6, 2013**

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: July 3, 2013

TO: Public Utility Commission

FROM: Brian Bahr ^{BB}
_{JE}

THROUGH: Jason Eisdorfer, Maury Galbraith, and Marc Hellman ^{MG} ^A

SUBJECT: PACIFICORP: (Docket No. UI 336) Requests Approval of Affiliated Interest Agreement with Wells Fargo & Company

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should approve PacifiCorp's (PacifiCorp or Company) application for approval of a set of relationships, as described in the Company's application, facilitating the second of two replacement Revolving Credit Facility Agreements (Agreement) with Wells Fargo Securities, LLC and Wells Fargo Bank, N.A. (collectively Wells Fargo); subsidiaries of Wells Fargo & Company (WFC), an affiliated interest, subject to the following conditions:

1. PacifiCorp shall provide the Commission access to all books of account as well as all documents, data, and records that pertain to any transactions involving WFC or its subsidiaries entered into by the Company pursuant to an Order issued in this proceeding.
2. The Commission reserves the right to review for reasonableness all financial aspects of these transactions in any rate proceedings or alternative form of regulation.
3. PacifiCorp shall notify the Commission of any substantive changes to the Agreement, including any material changes in price or other parameters specified in the Agreement. Any such changes shall be submitted in an application for a supplemental order (or other appropriate format) in this docket.
4. PacifiCorp shall report to the Commission, as part of its annual affiliated interest report, all transactions entered into under the Agreement with any WFC subsidiaries.

DISCUSSION:

PacifiCorp filed this application with the Commission on May 17, 2013, pursuant to ORS 757.495(1) and OAR 860-027-0040. PacifiCorp engaged Wells Fargo to be a lead arranger for replacement of two revolving credit facilities. Wells Fargo was also selected as one of the lenders. The first of the replacement of revolving credit facilities was approved by the Commission in Order No. 12-457, issued November 26, 2012. The Company is requesting with this application approval of its Agreement with Wells Fargo in facilitating replacement of the second. Additionally, Wells Fargo will continue to be the letter of credit (LC) issuing bank for LCs supporting six series of Pollution Control Revenue Bonds (PCRBs) guaranteed by the Company.

"Affiliated interest," as defined in ORS 757.015(3), includes "[e]very corporation five percent or more of whose voting securities are owned by any person or corporation owning five percent or more of the voting securities of such public utility or by any person or corporation in any chain of successive ownership of five percent or more of voting securities of such public utility."

PacifiCorp is an indirect, wholly-owned subsidiary of MidAmerican Energy Holdings Company (MEHC). MEHC is a subsidiary of Berkshire Hathaway, Inc. (BRK). BRK, directly and through its various subsidiaries collectively, holds over five percent of WFC common stock. BRK's ownership interest in PacifiCorp and Wells Fargo constitutes an affiliated interest.¹

Staff's review of this application included review of the Company's application and responses to data requests in its application for approval of the first of the two Agreements.² Staff also reviewed relevant Commission Orders and Company compliance filings, and consulted with Commission Staff members responsible for analyzing previous PacifiCorp affiliated interest filings.

Issues

Staff investigated the following issues:

1. Compliance with previous Commission Orders;
2. Terms and Conditions of the Agreement;
3. Transfer Pricing;

¹ Staff accessed the Yahoo finance website on May 29, 2013 at <http://finance.yahoo.com/q/mh?s=WFC+Major+Holders>. This resource reports that as of March 31, 2013, BRK owned over 458 million shares, or 8.65% of the outstanding common stock of WFC. At that time, BRK held nearly twice as many common shares as the second largest holder of WFC common equity.

² See Commission Docket No. UI 328.

4. Risk Assessment;
5. Public Interest; and
6. Records Availability, Audit Provisions, and Reporting Requirements.

Compliance

Staff notes that Condition No. 5 of Appendix A in Commission Order No. 12-457 in Docket No. UI 328, approving the first of the two Agreements, requires the Company file a separate affiliated interest application regarding replacement of the second credit facility, should it include Wells Fargo. This application fulfills that requirement.

The Company's application also complies with Order No. 10-450 in Docket No. UI 302, which requires the Company to notify the Commission of material changes to LCs supporting PCRBs. In addition, PacifiCorp reported on new credit support arrangements on March 31, 2013, updating the Company's October 8, 2010, report in compliance with Order No. 03-135 in Docket No. UF 4195.

The Company's reporting appears complete and consistent with the requirements of the above orders.

Terms and Conditions of the Agreement

PacifiCorp did not solicit or receive new proposals for the second replacement of the revolving credit facilities; the lead arranger banks were engaged at the time of the first replacement to assist in arranging both the first and second replacement.³ Details of the evaluation process used by PacifiCorp in selecting Wells Fargo can be found in Order No. 12-457.

Staff finds no unexpected or unusual terms or conditions in the Agreement. Staff finds no unmerited preference for Wells Fargo by PacifiCorp in the solicitation and selection processes.

Transfer Pricing

PacifiCorp is subject to current market pricing for LC fees and related fronting fees when establishing new (or amended) LCs. Market rates were determined by the Company through discussion with banks as well as comparative pricing information provided in proposals and in periodic review of U.S. Securities and Exchange Commission (SEC) filings by other borrowers.⁴ Staff reviewed these fees and found the pricing to be fair and reasonable.

³ See Company's response to Staff Data Request No. 1a.

⁴ See Company's response to Staff Data Request No. 1b.

Risk Assessment

As stated above, the lead arranger banks were engaged at the time of the first replacement to assist in arranging both the first and second replacements. In Appendix A of Order No. 12-457, Staff states:

Staff's investigation concluded that none of these risk factors is a concern either with respect to this revolving credit facility generally, or with respect to Wells Fargo's role therein specifically in the context of this second replacement credit facility.

Based on a review of the analysis of risk in this prior docket, Staff concludes that the risk associated with engaging Wells Fargo in this transaction is minimal.

Public Interest

Based on a review of the selection process and evaluation criteria described in Docket No. UI 328, the Company's selection process and criteria appear reasonable. The credit facility and LCs arranged between PacifiCorp and lenders, inclusive of the Agreement with Wells Fargo, ensure the Company has adequate liquidity in the form of revolving credit facilities and associated LCs to meet its utility obligations. The choice of Wells Fargo reduces indirect ratepayer exposure to credit rating downgrades and geographic risk compared to alternatives screened by the Company.

In each selection criteria, Wells Fargo scored equally well or better than alternate institutions. Wells Fargo's proposed fees are equal to or lower than those proposed by competitors. The Company's selection of Wells Fargo indirectly reduces risks and costs compared to alternative lead arrangers. An increase in LC fees starting in 2013 is unavoidable given current market conditions.

Based on Staff's review of the Company's application, the Company's responses to Staff's data requests, and information provided in Docket No. UI 328, Staff finds the Agreement to be in the public interest (customarily a "no harm" standard applied by the Commission) as the transactions under the Agreement seem reasonable and do not harm customers.

Records Availability, Audit Provisions, and Reporting Requirements

Staff's recommended Conditions 1 through 4 provide for all necessary Commission examination of PacifiCorp's records concerning the Agreement with Wells Fargo. PacifiCorp has reviewed this memo and has not communicated any objections or concerns.

Based on the review of this application, Staff concludes:

1. The application regards an affiliated interest agreement that is fair and reasonable and not contrary to the public interest with inclusion of the proposed ordering conditions; and
2. Necessary records are available.

PROPOSED COMMISSION MOTION:

PacifiCorp's application regarding this second replacement Revolving Credit and Letter of Credit Facility Agreement with Wells Fargo, an affiliated interest, be approved subject to Staff's recommended conditions.