

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 28, 2015

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: January 6, 2015

TO: Public Utility Commission

FROM: Linnea Wittekind *LW*

THROUGH: *JF* Jason Eisdorfer and *MH* Marc Hellman

SUBJECT: PACIFICORP: (Docket No. UI 353) Requests Approval of Affiliated Interest Agreement with Metalogic Inspection Services LLC.

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should approve PacifiCorp's (PacifiCorp or Company) application for approval of PacifiCorp's participation in the Master General Services Agreement (Agreement) between Berkshire Hathaway Energy Company and Metalogic Inspection Services LLC, an affiliated interest, subject to the following conditions:

1. PacifiCorp shall notify the Commission in advance of any substantive changes to the contracts, including any material change in price. Any such changes shall be submitted in an application for a supplemental order (or other appropriate format) in this docket.
2. PacifiCorp shall report to the Commission, as part of its annual affiliated interest report, all transactions entered into under the affiliated interest agreements with Metalogic Inspection Services LLC.

DISCUSSION:

PacifiCorp filed this application with the Commission on December 12, 2014, pursuant to ORS 757.495(1) and OAR 860-027-0040. PacifiCorp is an indirect, wholly-owned subsidiary of Berkshire Hathaway Energy Company (BHE). BHE is a subsidiary of Berkshire Hathaway, Inc. (Berkshire). Metalogic Inspection Services (Metalogic) is also a wholly owned subsidiary of BHE.

"Affiliated interest," as defined in ORS 757.015(3), includes every corporation five percent or more of whose voting securities are owned by any corporation or person owning five percent of the voting securities of a public utility or in any successive chain of ownership of a public utility. Berkshire's ownership interest in PacifiCorp and Metalogic qualifies as an affiliated interest.

Metalogic provides certain metallurgical testing and evaluation services, including Linear Phased Array (LPA) examinations and general non-destructive evaluation (NDE) services. LPA is an ultrasonic technique of examining boiler tubes, welding and is conducted during performance of boiler overhaul repair. NDE examination services provide inspection, professional recommendation and reporting on boilers. The Agreement for certain services was negotiated between BHE and Metalogic. BHE subsidiaries may take services under the Agreement by executing a participation letter. PacifiCorp determined it would be beneficial to participate in the agreement and executed a participation letter.

The Company notes that this transaction may qualify for a waiver of OAR 860-027-0040 filing requirements based on the amount spent for the transaction. OAR 860-027-0043 allows for the waiver of the rules governing affiliate interest transactions upon petition by a utility and approval by the Commission, including transactions valued at less than 0.1 percent of the utility's Oregon operating revenues for the previous calendar year.

Issues

Staff investigated the following issues:

1. Terms and Conditions of the Agreement;
2. Transfer Pricing;
3. Public Interest Compliance; and
4. Records Availability, Audit Provisions, and Reporting Requirements.

Terms and Conditions of the Agreement

Staff did not observe any unusual terms or conditions in the contract; it appears to have been negotiated at arm's-length. BHE conducted a formal competitive bid process and selected Metalogic after it achieved the highest score as evaluated against the required LPA scope of work.

Transfer Pricing

PacifiCorp expects to spend approximately \$600,000, cumulative, over three years for services under the Agreement.

According to the Company pricing under the Agreement is competitive. Staff has reviewed the pricing which contains confidential pricing information and is commercially sensitive and therefore not shared in this report.

According to OAR 860-027-0043, the Commission may, for good cause, waive the affiliated interest transaction requirements of OAR 860-027-0040. The rule provides:

Upon petition by a utility and approval by the Commission for good cause, the requirements of OARs 860-027-0040 and 860-027-0041 may be waived for individual transactions or classes of transactions. As a general guideline, in the absence of showing that the transaction is fair and reasonable and not contrary to the public interest, transactions exceeding 0.1 percent of the previous calendar year's Oregon utility operating revenues will not qualify for waiver.

As part of MEHC's acquisition of PacifiCorp, however, the Company agreed to file affiliated interest applications for all transactions between MEHC affiliates, regardless of the monetary amount involved.

Public Interest

The purchase of the parts is in the public interest. PacifiCorp owns and operates thermal generation plants that require periodic inspection and testing to ensure efficient operation. According to the Company, periodic evaluation and testing of boiler tubes and welding are important parts on the ongoing inspection and testing needs.

Records Availability, Audit Provisions, and Reporting Requirements

Order Conditions numbers 1 and 2, listed above in the Staff recommendations afford the necessary Commission examination of PacifiCorp's records concerning the transaction with Metalogic.

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.

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PROPOSED COMMISSION MOTION:

PacifiCorp's application for approval of affiliated interest transaction Metalogic Inspection Services LLC and its participation in the Master General Services Agreement be approved subject to the two recommended conditions.

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