

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 24, 2018

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: March 28, 2018

TO: Public Utility Commission

FROM: Kathy Zarate *KZ*

THROUGH: *JF* Jason Eisdorfer and *JC* John Crider

SUBJECT: PACIFICORP: (Docket No. UI 358) Requests Approval of an amendment to the Master Professional Services Contract between Berkshire Hathaway Energy Company and FlightSafety International Inc.

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should approve PacifiCorp's (PacifiCorp or Company) application for approval of an amendment to the Master Professional Services Contract (Master Contract) between Berkshire Hathaway Energy Company and FlightSafety International Inc. (FlightSafety) subject to the following conditions:

1. 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.
2. PacifiCorp shall report to the Commission, as part of its annual affiliated interest report, all transactions entered into under the Agreement with FlightSafety.

DISCUSSION:

Issue

Whether the Company's Application satisfies applicable law such that the Commission should approve its Transaction Agreement with FlightSafety, an entity with which PacifiCorp has an affiliated interest.

Applicable Law

PacifiCorp filed this application with the Commission on January 10, 2018, pursuant to ORS 757.495(1) and OAR 860-027-0040.

PacifiCorp is an indirect, wholly-owned subsidiary of Berkshire Hathaway Energy Company (BHE). FlightSafety is also a subsidiary of Berkshire Hathaway. Berkshire Hathaway's ownership interest in PacifiCorp through BHE, and ownership interest in FlightSafety, qualifies FlightSafety as an affiliated interest of PacifiCorp.

An "affiliated interest," as defined in ORS 757.015(3), includes every corporation five percent or more of whose voting securities are owned by a corporation or person that also owns, or is part of a successive chain of ownership, five percent or more of the voting securities of a public utility.

Transactions between affiliated interests must be recorded at the lower of cost or market rate. OAR 860-027-0048(4)(e). OAR 860-027-0040 provides the Commission's application requirements for transactions between affiliated interests.

The Commission reviews affiliated interest transactions to ensure they are fair and reasonable and not contrary to the public interest. ORS 757.495(3).

Analysis

Staff's review of this Application included examination of the Company's current application, including the corresponding confidential exhibits, as well as the Company's responses to six data requests.

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

The amendment consists of two documents an Amended Statement of work and Amended Pricing Schedule, a contract between BHE and FlightSafety, and an affiliate acceptance letter that allows PacifiCorp to participate in the contract through its affiliation with FlightSafety. Staff reviewed both of these documents and did not find any unexpected or unusual terms or conditions.

Transfer Pricing

The Master Contract for Flight Training and PacifiCorp's application requesting approval of the contract underlying the amendment was approved by Commission on November 3, 2015 in Order No. 15-357. The Master Contract was set to expire July 31, 2017. PacifiCorp signed a new Affiliate participation Letter to the Amended Master Contract on October 12, 2017 with approval by the Commission.

In its application, PacifiCorp expects to pay Flight Safety a total of approximately \$56,200, which covers FlightSafety training for its two pilots over a the three-year term of the agreement on travel services purchased from FlightSafety. The Federal Aviation Administration (FAA) requires that all pilots take flight simulator training at least once a year and BHE pilots to take training every nine months. The cost of two training per year was \$9,360 per pilot.¹ PacifiCorp asserts in its application that participating in a contract negotiated by FlightSafety will allow for cost savings. The actual expense amount will be reviewed as part of the Company's next general rate case, and any cost savings will be passed on to customers.

There are two companies were invited by BHE to participate in the bidding event, CAE and FlightSafety². FlightSafety was selected because it received the highest evaluation score, which was based on price, ease of use of their booking tool, their process to offer the lowest advertised price, their ability to enforce travel policies, and the availability of their customer service team.

Staff finds the pricing to be market based, fair and reasonable, a continuation of past business relationships, and recommends that the rate charged to PacifiCorp by FlightSafety for business travel services as part of the Agreement amendment should be approved.

Public Interest Compliance

Relying on a travel services company allows PacifiCorp, which operates in multiple states, to coordinate its travel needs efficiently, consistently, and in a cost effective way. 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 will not harm customers.

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

² See Company's response to Staff Data Request No. 6.

Records Availability, Audit Provisions, and Reporting Requirements

Staff notes that the Commission retains the ability to review all affiliated transactions of the Company through both its annual affiliated interest report and in general rate case filings. Staff's recommended Conditions provide for all necessary Commission examination of PacifiCorp's records concerning the Agreement with FlightSafety.

PacifiCorp has reviewed this memo and has not communicated any objections or concerns.

Conclusion

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:

Approve PacifiCorp's application for approval of the Amendment Agreement with FlightSafety International Inc., subject to Staff's recommended conditions.