

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 10, 2016**

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: April 21, 2016

TO: Public Utility Commission

FROM: Marianne Gardner *MP*

THROUGH: *J* Jason Eisdorfer and *AA* Marc Hellman

SUBJECT: PACIFICORP: (Docket No. UI 369) Requests Approval of Affiliated Interest Agreement with HomeServices Relocation.

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should approve PacifiCorp's (PacifiCorp or Company) application (Application) for approval of a Master Professional Services Contract for Employee Relocation Services (Contract) with HomeServices Relocation LLC. (HomeServices), an affiliated interest, subject to the following conditions:

1. PacifiCorp shall notify the Commission of any substantive changes to the Contract, including any material changes in price or other parameters specified in the Agreement. Any such changes shall be filed in this docket.
2. PacifiCorp shall report to the Commission, as part of its annual affiliated interest report, all transactions entered into under the contract with HomeServices.
3. The Commission reserves judgment on the fairness and reasonableness of the contract for ratemaking purposes.

ISSUE:

Whether the Commission should approve the Contract as an affiliated interest agreement and allow the Company to engage in ordinary course business transactions with HomeServices as needed under the terms and conditions of the Contract.

APPLICABLE LAW:

"Affiliated interest," as defined in ORS 757.015, includes every corporation five percent or more of whose voting securities are owned by any corporation or person owning at least five percent of the voting securities of a public utility or by any person or corporation in any chain of successive ownership of at least five percent of voting securities of the utility. See ORS 757.015(3). ORS 757.495 requires a public utility to seek approval of contracts with affiliated interests within 90 days after execution of the contract. The required process for submitting an agreement for review by the Commission is set forth in ORS 757.015(2) and OAR 860-027-0040.

ORS 757.495(3) provides that the Commission may approve an affiliated interest agreement if the agreement is fair and reasonable and not contrary to the public interest. Under OAR 860-027-0048(4)(g), for cost allocation purposes, "when services or supplies are sold to an energy utility by an affiliate under contract, the transfer price shall be based upon the tariff or terms of the contract approved by the Commission Order under ORS 757.495." The Commission need not determine the reasonableness of all financial aspects of the contract for ratemaking purposes, but, rather, may reserve that issue for subsequent proceedings. See Commission Order No. 11-071.

DISCUSSION AND ANALYSIS:

Background

PacifiCorp is a wholly-owned indirect subsidiary of Berkshire Hathaway Energy Company (BHE). HomeServices is a limited liability company, which is a wholly-owned subsidiary of HomeServices of America, Inc. HomeServices of America, Inc. is a wholly-owned subsidiary of BHE. BHE's ownership interest in PacifiCorp and HomeServices of America, Inc. creates an affiliated interest between PacifiCorp and HomeServices. The affiliated relationship is reported as such in PacifiCorp's "Annual Report 2014 – Affiliated Interest" filed with the Commission under docket RE 69.

HomeServices is a full-service residential real estate brokerage firm, whose services include comprehensive relocation management services to employees of PacifiCorp and its affiliates. The services include, among other things, residential realty services, mortgage services, household goods moving and storage, and temporary living arrangements.

PacifiCorp previously entered into a service contract with HomeServices in 2007, which the Commission approved in Order No. 07-269, Docket UI 264. Subsequently, PacifiCorp renewed the HomeServices' contract in 2010, which the Commission

approved in Order No. 11-055. On November 3, 2015, BHE and HomeServices entered into a new, updated service contract, which is essentially a renewal of the prior contract. Under the Contract, BHE subsidiaries have the option to sign onto the Contract via a Participation Letter and receive the same terms and conditions as BHE. After determining the terms and conditions to be reasonable, PacifiCorp opted to sign onto the Contract continuing to use HomeServices for relocating employees and new hires. The Contract is in effect from January 1, 2016 to December 31, 2018.

Analysis

Staff reviewed PacifiCorp's filing to ensure the filing contained all of the information required of an application subject to OAR 860-027-0040. Staff examined the contract submitted with the application and issued 13 information requests (IRs). The Company's responses to Staff's IRs provided further detail regarding the competitive aggregated tender process, transfer pricing between HomeServices and PacifiCorp, PacifiCorp's forecasted service costs under the agreement, the blanket purchase order, three signed relocation authorization forms for 2016, and actual service costs paid by PacifiCorp to HomeServices for each year 2007 through 2015.

Staff investigated the following issues:

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

Terms and Conditions of the Agreements

There do not appear to be any unusual or restricted terms to the agreement. Under the terms of the Contract, HomeServices will assist new and existing employees when relocating to a new position within the Company. HomeServices will create a moving cost bid, provide movers, arrange temporary housing, provide residential real estate services and ensure all expenses comply with the Company's relocation policy and agreement. Schedules Relocation Benefits –A and Relocation Benefits – B list the relocation benefits available to eligible employees.¹

A relocation contact is assigned to each BHE company participating in the agreement. Employees are required to work with the HomeServices consultant assigned to their relocation. In addition to the Contract terms, PacifiCorp has additional special conditions that can be found in Appendix 1 of the filing. Among the special conditions

¹ UI 369/PacifiCorp, Exhibit A at 38-60.

are requirements that the Contract/Vendor keep detailed documentation, which PacifiCorp has the right to audit to ensure compliance.

Transfer Pricing

The various fees in the current agreement are either equal to or less than the previous 2010 contract. The pricing is not disclosed in this memo as PacifiCorp has requested the pricing be kept confidential in accordance with OAR 860-001-0070. PacifiCorp confirmed HomeServices has negotiated a discount off the tariff for transportation and for storage in transit for all corporate moves with HomeServices contracted carriers. Household goods charges and all other direct costs are a straight pass, so all discounts are passed on to PacifiCorp.

The selection of HomeServices was through a competitive tender process undertaken by BHE and its affiliates that included PacifiCorp. BHE issued an RFP to eight potential bidders on August 14, 2015. Bidders were asked to provide responses to a technical questionnaire, pricing on four typical moving scenarios encountered at BHE, and the bidders' proposed fee structure. Responses were received on September 14, 2015. The responses were reviewed by an evaluation team against established criteria. According to the evaluation matrix provided to Staff, the five companies evaluated met all of the technical services criteria, but HomeServices ranked 1 on the pricing evaluation with significantly lower pricing than the second ranked company.

Based on the current budget, PacifiCorp estimates 2016 employee relocation services provided by HomeServices to be \$700,876. PacifiCorp issued a blanket PO to HomeServices on March 3, 2016 for \$1,800,000. The PO is issued pursuant to the terms and conditions of the Contract for employee relocation services and is valid from January 1, 2016 to December 31, 2018.

Public Interest Compliance

The Commission customarily uses a "no harm" standard to determine whether an affiliated interest agreement is contrary to the public interest. Staff finds the HomeServices fees and costs are reasonable in comparison to that of other companies offering similar services. Also, HomeServices will transfer actual costs of its contractors and vendors that will include the discounts HomeServices has negotiated with its third-party service providers. Therefore, Staff believes the Contract is consistent with the public interest.

Records Availability, Audit Provisions, and Reporting Requirements

Staff notes that the Commission retains the ability to review all affiliated transactions of the Company through its annual affiliated interest report and general rate case filings.

Staff's recommended conditions allow Commission examination of the Companies' records concerning the Contract.

CONCLUSION:

PacifiCorp has reviewed this memo and has not communicated any objections or concerns. Based on the review of this application, Staff concludes;

1. The Contract does not appear to contain any unexpected or unusual terms or conditions;
2. The transfer pricing is fair and reasonable;
3. The transaction is not contrary to the public interest; and,
4. Necessary records are available.

PROPOSED COMMISSION MOTION:

Approve PacifiCorp's application for approval of the Contract as an affiliated interest agreement and allow the Company to engage in ordinary course business transactions with HomeServices as needed under the terms and conditions of the Contract subject to Staff's recommended conditions.