

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 29, 2014

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: April 14, 2014

TO: Public Utility Commission

FROM: Brian Bahr *BB*

THROUGH: Jason Eisdorfer, Maury Galbraith, and Marc Hellman *E* *MG* *MH*

SUBJECT: PACIFICORP: (Docket No. UI 346) Requests Approval of Affiliated Interest Agreement with American Express Travel Related Services Company, Inc.

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should approve PacifiCorp's (PacifiCorp or Company) application for approval of an Affiliated Interest Agreement with American Express Travel Related Services Company, Inc. (AMEX Travel), an affiliated interest, 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 AMEX Travel.

DISCUSSION:

PacifiCorp filed this application with the Commission on March 12, 2014, pursuant to ORS 757.495(1) and OAR 860-027-0040. PacifiCorp is an indirect, wholly-owned subsidiary of MidAmerican Energy Holdings Company (MEHC). MEHC is a subsidiary of Berkshire Hathaway, Inc. (Berkshire). Berkshire holds over 5 percent interest in

American Express Company (AXP) common stock.¹ AMEX Travel operates as a subsidiary of AXP.

"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 AXP qualifies as an affiliated interest.

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 seven data requests.

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

The Agreement consists of two documents, a contract between MEHC and AMEX Travel and an affiliate acceptance letter that allows PacifiCorp to participate in the contract through its affiliation with MEHC. Staff reviewed both of these documents and did not find any unexpected or unusual terms or conditions.

Transfer Pricing

In its application, the Company states that it expects approximately \$35,000 in annual expenditures to AMEX Travel. This estimate is significantly less than the average annual amount PacifiCorp has spent on travel services over the past five years, which is \$67,372.² PacifiCorp asserts in its application that participating in a contract negotiated by MEHC 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.

¹ Staff accessed the Yahoo finance website on March 17, 2014 at <http://finance.yahoo.com/q/mh?s=AXP+Major+Holders>. This resource reports that Berkshire owns over 151.6 million shares, or 14.27% of the outstanding common stock of AXP.

² See Company's response to Staff Data Request No. 2 for Company's annual travel service expense from 2009 through 2013, inclusive.

Seventeen companies were invited by MEHC to participate in the bidding event.³ Of these companies, submitted bids.⁴ AMEX Travel 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 handling of unused or refunded tickets, their ability to enforce MEHC travel policies, and the availability of their customer service team.⁵

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. The expected annual expense of approximately \$35,000 under this contract would normally qualify for a waiver of OAR 860-027-0040 as the expense is less than 0.1 percent of PacifiCorp's annual Oregon operating revenue in 2012 of approximately \$1.3 billion.

Staff finds the pricing to be fair and reasonable, and recommends that the rate charged to PacifiCorp by AMEX Travel for business travel services as part of the Agreement be approved.

Public Interest

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.

³ See Company's response to Staff data Request No. 3.

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

⁵ 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 AMEX Travel.

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 for approval of the Agreement with AMEX Travel, an affiliated interest, be approved subject to Staff's recommended conditions.