

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: June 13, 2017

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE \_\_\_\_\_ N/A \_\_\_\_\_

DATE: May 16, 2017

TO: Public Utility Commission

FROM: Kathy Zarate KZ

THROUGH: Jason Eisdorfer and Marc Hellman

SUBJECT: PACIFICORP: (Docket No. UI 383) Requests Approval of Affiliated Interest Transaction Agreement with American Express Global Business Travel (GBT US LLC) 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 Global Business Travel (GBT US LLC) (GBT), an affiliated interest, (Application) 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 GBT US LLC. Travel.

## **DISCUSSION:**

### Issue

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

### Applicable Law

PacifiCorp filed this application with the Commission on April 25, 2017, pursuant to ORS 757.495(1) and OAR 860-027-0040.

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.

PacifiCorp is an indirect, wholly-owned subsidiary of Berkshire Hathaway Energy Company (BHE). BHE is a subsidiary of Berkshire Hathaway, Inc. (Berkshire). Berkshire holds more than a five percent interest in American Express Company (AXP) common stock. GBT operates as a subsidiary of AXP. Berkshire Hathaway's ownership interest in AXP, and AXP's ownership interest in GBT creates an affiliated interest for PacifiCorp through Berkshire's ownership interest in BHE and BHE's ownership interest in the Company.

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 seven 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 Agreement consists of two documents, a contract between BHE and GBT and an affiliate acceptance letter that allows PacifiCorp to participate in the contract through its affiliation with GBT. 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 \$150,000 over the three-year term of the agreement on travel services purchased from GBT. This estimate maintains what has been the average annual amount PacifiCorp has spent on travel services over the past five years, which is \$57,018.<sup>1</sup> This level of transactions is extremely small when compared to PacifiCorp's revenue requirements. PacifiCorp asserts in its application that participating in a contract negotiated by GBT 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.

Thirteen companies were invited by BHE to participate in the bidding event.<sup>2</sup> Of these companies, seven submitted bids.<sup>3</sup> GBT 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 travel policies, and the availability of their customer service team.<sup>4</sup>

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 GBT for business travel services as part of the Agreement should be approved.

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<sup>1</sup> See Company's response to Staff Data Request No.3 for Company's annual travel service expense from 2013 through 2016, inclusive.

<sup>2</sup> See Company's response to Staff Data Request No. 4.

<sup>3</sup> See Company's response to Staff Data Request No. 7.

<sup>4</sup> See Company's response to Staff Data Request No. 8.

*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.

*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 GBT Travel.

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 Agreement with GBT Travel, an affiliated interest, subject to Staff's recommended conditions.