

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 11, 2017

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: June 26, 2017

TO: Public Utility Commission

FROM: Kathy Zarate *KZ*

THROUGH: F Jason Eisdorfer and Marc Hellman *EA*

SUBJECT: PACIFIC POWER: (Docket No. UI 384) Requests Approval of Affiliated Interest Transaction Agreement with Amarillo Gear Company, LLC.

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should approve PacifiCorp's (PacifiCorp or Company) application for approval of an Affiliated Interest Agreement (Application) with Amarillo Gear Company, LLC (Amarillo) 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 Amarillo Gear Company, LLC.

DISCUSSION:

Issue

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

Applicable Law

PacifiCorp filed its Application with the Commission on May 26, 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.

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

PacifiCorp is a wholly-owned indirect subsidiary of Berkshire Hathaway Energy Company (“BHE”). BHE is a subsidiary of Berkshire Hathaway, Inc. (“BHI”). BHI currently holds a majority interest in The Marmon Group. Amarillo Gear Company, LLC (“Amarillo”) is a member of The Marmon Group. Therefore, BHI’s ownership interest in PacifiCorp through BHE, and ownership interest in Amarillo through The Marmon Group, creates an affiliate interest relationship between PacifiCorp and Amarillo. PacifiCorp, BHE, and BHI do not hold an ownership interest in Midwest Cooling Towers Company¹.

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.

¹ See Company’s response to Staff Data Request No. 2.

Terms and Conditions of the Agreement

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

Transfer Pricing

In its Application, the value of all equipment to be purchased under the Midwest Contract is approximately \$392,600. The value of the Amarillo equipment to be supplied under the Midwest Contract is approximately \$231,600. The value of the equipment to be purchased under the Amarillo purchase order is approximately \$17,560. The equipment being purchased is oil filtration carts designed specifically for use with the Amarillo gear boxes, and is designed for the appropriate flow rates, pressure considerations, and volumetric considerations associated with these gear boxes. 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 Amarillo 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.

Eight companies were invited by BHE to participate in the bidding event.² Of these companies, eight submitted bids.³ Amarillo was selected because it received the highest evaluation score, suggested by Midwest Towers Inc. which was based on price, ease of use of their booking tool, their process to offer the lowest mechanical equipment price, their handling of equipment minimizes the initial purchase costs and the day to day operational cost.

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 Amarillo for standard materials supply as part of the Agreement should be approved.

Public Interest

Relying on a standard materials supply services company allows PacifiCorp, which operates in multiple states, to coordinate its material supply 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.

² See Company's response to Staff Data Request No. 3.

³ See Company's response to Staff Data Request No. 4.

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 Amarillo.

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 presents 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 Amarillo, LLC, an affiliated interest, subject to Staff's recommended conditions.