

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UI 249

In the Matter of)	
)	
PACIFICORP, dba PACIFIC POWER & LIGHT COMPANY)	ORDER
)	
Application for Approval of the Intercompany Administrative Services Agreement with MidAmerican Holdings Company.)	

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On March 31, 2006, PacifiCorp, dba Pacific Power & Light Company (PacifiCorp) filed an application with the Public Utility Commission of Oregon (Commission) pursuant to ORS 757.495, OAR 860-027-0040, and OAR 860-027-0041, for authorization of an Intercompany Administrative Services Agreement (IASA) and a waiver of OAR 860-027-0048, Cost Allocations by an Energy Utility. PacifiCorp is a wholly-owned subsidiary of MidAmerican Energy Holdings Company (MEHC). Therefore, PacifiCorp and MEHC are affiliated interests pursuant to ORS 757.015. The IASA will govern the provision of administrative services between and among MEHC and its subsidiaries, including PacifiCorp. A description of the filing and its procedural history is contained in the Staff Report, attached as Appendix A, and incorporated by reference.

Based on a review of the application and the Commission's records, the Commission finds that the application satisfies applicable statutes and administrative rules. At its public meeting on June 13, 2006, the Commission adopted Staff's recommendation.

OPINION

Affiliation

An affiliated interest relationship exists under ORS 757.015.

Applicable Law

ORS 757.495 requires a public utility to seek approval of contracts with affiliated interests within 90 days after execution of the contract.

ORS 757.495(3) requires the Commission to approve the contract if the Commission finds that the contract is fair and reasonable and not contrary to the public interest. However, the Commission need not determine the reasonableness of all the financial aspects of the contract for ratemaking purposes. The Commission reserves that issue for a subsequent proceeding.

CONCLUSIONS

1. An affiliated interest relationship exists.
2. The agreement is fair, reasonable, and not contrary to the public interest.
3. The application should be approved, with certain conditions.

ORDER

IT IS ORDERED that the application of PacifiCorp, dba Pacific Power & Light Company for approval of the Intercompany Administrative Services Agreement with MidAmerican Energy Holdings Company, and a waiver of OAR 860-027-0048(4)(d), Cost Allocations by an Energy Utility, are approved subject to the conditions stated in the Staff Report, attached as Appendix A.

Made, entered, and effective JUN 19 2006.

BY THE COMMISSION:



Becky L. Beier

Becky L. Beier
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

ITEM NO. CA8

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 13, 2006**

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: May 25, 2006

TO: Public Utility Commission

FROM: Michael Dougherty ^W
_{in}

THROUGH: Lee Sparling and Marc Hellman ^{JK}

SUBJECT: PACIFICORP: (Docket No. UI 249) Application for approval of the Intercompany Administrative Services Agreement with MidAmerican Energy Holding Company.

STAFF RECOMMENDATION:

The Commission should approve PacifiCorp's application to enter into an Intercompany Administrative Services Agreement (IASA or Agreement) with MidAmerican Energy Holding Company (MEHC), an affiliated interest, and approve a waiver of Oregon Administrative Rule (OAR) 860-027-0048, Cost Allocations by an Energy Utility, subject to the following conditions:

1. PacifiCorp shall maintain a detailed line item listing of all charges that are included in the allocated costs and be able to provide supporting documentation, including but not limited to, invoices, payroll records, and journal record entries when requested by Staff.
2. PacifiCorp, and other affiliates consistent with the Stipulation adopted in Order No. 06-082, shall continue to comply with Commitments Nos. 3, 4, 5, 6, 7, 8, 9, 13, 14, O 3, O 6, and O 9(b)(i) of Commission Order No. 06-121 (UM 1209), that pertain to access to books and records concerning the IASA and all other affiliated transactions.
3. The Commission reserves the right to review, for reasonableness, all financial aspects of this transaction in any rate proceeding or alternative form of regulation, including MEHC and PacifiCorp's use of the 2-factor formula.
4. PacifiCorp shall notify the Commission in advance of any substantive changes to the contract, including any material change in price. Any such change shall be

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submitted in an application for a supplemental order (or other appropriate format) in this docket.

DISCUSSION:

PacifiCorp filed this application on March 31, 2006, pursuant to ORS 757.495, OAR 860-027-0040, and OAR 860-027-0041. PacifiCorp is a wholly owned subsidiary of MEHC.¹ Therefore PacifiCorp and MEHC are affiliated interests pursuant to ORS 757.015.

PacifiCorp requests authorization from the Commission to enter into an IASA that governs the provision of administrative services between and among MEHC and its subsidiaries, including PacifiCorp. The parties to the IASA are MEHC, PPW Holdings LLC, and the other wholly owned subsidiaries of MEHC including:

- MidAmerican Energy Company (MEC);
- CalEnergy Generation;
- Kern River Gas Transmission Company;
- Northern Natural Gas Company;
- CE Electric UK Funding Plc.;
- HomeServices of America, Inc.; and
- PacifiCorp.

The administrative services provided by MEHC include:

- Services by executive, management, professional, technical, and clerical employees;
- Financial services, payroll processing services, employee benefit participation, supply chain and purchase order processing services, tax and accounting services, contract negotiation and administration services, risk management services, environmental services, and engineering and technical services;
- The use of office facilities; and,
- The use of automobiles, airplanes, other vehicles, and equipment.

Cost for these services will primarily originate from MEHC and MEC. Total estimated annual costs for administrative services are estimated at \$9,566,000. According to the IASA, PacifiCorp may provide services to MEHC and MEC; however, these provisions of services are expected to be minimal.

¹ PPW Holdings LLC is wholly owned by MEHC. PPW Holdings LLC, in turn, owns 100 percent of the common stock of PacifiCorp, which represents 99.76 percent of the voting securities of PacifiCorp.

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Issues

Staff investigated the following issues:

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

Terms and Conditions of the IASA

Staff did not observe any unusual terms and conditions of the IASA. The IASA contains an article for accounting and auditing that directs all parties to the Agreement to maintain books and records separately from other parties' records; and to provide access to the books and records. The IASA also specifically addresses charges and payments for services.

Transfer Pricing

Shared services will be charged at the fully loaded actual cost by the entity providing the service (Providing Party). There is no mark-up for profit. Labor will include such loadings as benefits, paid absences, and payroll taxes. Non-labor costs will be directly billed or allocated at actual amounts incurred by the Providing Party.

The Commission, in Order No. 91-513 (UI 105),² has previously allowed a cost-based approach, instead of the lower of cost or market standard pursuant to OAR 860-027-0048, when affiliate activities were limited to a specific contract function. Additionally, the IASA provision of corporate and administrative services is similar to the previous affiliated interest agreement between PacifiCorp and Scottish Power that was approved by the Commission in Order No. 03-726 (UI 221).³

According to the IASA, all shared services incurred by the Providing Party will be directly charged whenever possible. When costs can not be directly identified, costs will be allocated to receiving entities by the Providing Party using a 2-factor formula consisting of assets and payroll, each equally weighed. PacifiCorp's response to Staff's UM 1209 Data Request No. 80, dated September 1, 2005, estimates that approximately 70 percent of the MEHC/MEC costs will be directly charged and the remainder allocated.

² In the Matter of the Application of PACIFICORP, dba PACIFIC POWER & LIGHT COMPANY, for an order approving a contract for mining services with Energy West Mining Company, an affiliated interest.

³ In the Matter of the Application of PACIFICORP for an order approving a cross charge contract with ScottishPower UK plc governing affiliated interest cost allocations.

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Although PacifiCorp and MEHC will use a 2-factor formula for allocating costs, the Commission will establish the appropriate corporate cost allocation for determining rates consistent with Commitment 14(f) of Commission Order No. 06-121 (UM 1209).

Commission Staff has previously relied on a 3-factor formula when determining allocations. The 3-factor formula is an equal weighing of assets, payrolls, and revenues. Additionally, PacifiCorp has historically applied a 3-factor formula when allocating management fees to subsidiaries.⁴

PacifiCorp's response to Staff's UM 1209 Data Request No. 65, dated August 29, 2005, indicates that there is an approximate \$314,000 annual savings to customers (\$89,308 Oregon-allocated) when using the 3-factor formula instead of the 2-factor formula. This is a relatively small difference at this time. If in the future, the difference between the 2-factor formula and the 3-factor formula becomes significant, Staff would request an investigation be opened for the purposes of changing the allocation formula.

Because Commitment 14(f) of UM 1209 allows the Commission to determine the allocation factors to be used for setting rates; and Staff's recommended Condition No. 3 of this memo reserves the right of the Commission to review, for reasonableness, all financial aspects of this transaction in any rate proceeding, MEHC and PacifiCorp's use of the 2-factor formula is not, at this time, problematic.

Public Interest Compliance

The need for, and conditions surrounding the IASA were thoroughly reviewed by Staff during UM 1209. As a result of this review, various Commitments by MEHC and PacifiCorp were accepted by the parties involved in the docket. These Commitments include:

- Commitment 13 – The filing of an IASA.
- Commitment 14 – Discusses cost allocation methodology to be used by MEHC. Commitment 14(f) of UM 1209 allows the Commission to determine the allocation factors to be used when determining rates.
- Commitment O 3 – Requires Commission approval of any contract between PacifiCorp and affiliates.
- Commitment O 6 – Requires Commission approval of any amendments filed to the IASA.
- Commitment O 9(b)(i) – Discusses a rate credit concerning management fees and states that the rate credit is offsetable to the extent PacifiCorp demonstrates to the Commission's satisfaction, in the context of a general rate case, that

⁴ PacifiCorp's Fiscal Year 2005 Affiliated Interest Report, dated September 1, 2005.

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corporate allocations from MEHC to PacifiCorp included in PacifiCorp's rates are less than \$7.3 million.

The administrative service charge of \$9,566,000 is \$4,734,000 less than the fiscal year 2006 ScottishPower corporate cross charge of \$14,300,000. In addition, pursuant to UM 1209 Commitment O 9(b)(i), the \$1.5 million rate credit is offsetable to the extent corporate allocations from MEHC included in PacifiCorp's rates are less than \$7.3 million. As a result, customers will experience an overall savings as a result of services being provided by MEHC as compared to previous services provided by ScottishPower.

Records Availability, Audit Provisions and Reporting Requirements

Order Conditions Number 1 and 2, listed above in the Staff recommendation, afford the necessary Commission examination of PacifiCorp's records concerning this application.

Based on the review of this application, Staff concludes the following:

1. The application involves an affiliated interest transaction that is fair and reasonable and not contrary to the public interest, with the inclusion of the proposed ordering conditions.
2. Necessary records are available.

PROPOSED COMMISSION MOTION:

PacifiCorp's application for approval of the Intercompany Administrative Services Agreement with MidAmerican Energy Holding Company, and a waiver of Oregon Administrative Rule 860-027-0048(4)(d), Cost Allocations by an Energy Utility, be approved subject to the four recommended conditions.

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