

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UI 253

In the Matter of)	
)	
PACIFICORP, dba PACIFIC POWER & LIGHT COMPANY)	ORDER
)	
Application for Approval to Secure Insurance Coverage from MidAmerican Energy Holdings Company (MEHC) Insurance Services Ltd.)	

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On June 16, 2006, PacifiCorp, dba Pacific Power & Light Company (PacifiCorp) filed an application with the Public Utility Commission of Oregon (Commission) pursuant to ORS 757.490, ORS 757.495, and OAR 860-027-0040, for authorization to secure insurance coverage from MidAmerican Energy Holdings Company Insurance Services Ltd. (MEHC Insurance). PacifiCorp and MEHC Insurance are wholly-owned subsidiaries of MidAmerican Energy Holdings Company (MEHC). Therefore, PacifiCorp and MEHC Insurance are affiliated interests pursuant to ORS 757.015. MEHC Insurance will provide property damage and liability insurance coverage for 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 August 22, 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 for approval to secure insurance coverage from MidAmerican Energy Holdings Company Insurance Services Ltd. is approved, subject to the conditions stated in the Staff Report attached as Appendix A.

Made, entered, and effective AUG 24 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. CA17

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 22, 2006

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A

DATE: July 31, 2006

TO: Public Utility Commission

FROM: Suzanne Smith *SS*
we

THROUGH: Lee Sparling, Marc Hellman, and Michael Dougherty *W*

SUBJECT: PACIFICORP: (Docket No. UI 253) Application for approval to secure insurance coverage from MidAmerican Energy Holdings Company (MEHC) Insurance Services Ltd.

STAFF RECOMMENDATION:

The Commission should approve PacifiCorp's (Company or PacifiCorp) application to secure insurance coverage from MEHC Insurance Services Ltd (MEHC Insurance), an affiliated interest, subject to the following conditions:

1. PacifiCorp shall provide the Commission access to all books of account, as well as documents, data and records of PacifiCorp's affiliated interests that pertain to this transaction.
2. PacifiCorp, consistent with the Stipulation adopted in Order No. 06-121, shall continue to comply with Commitment No. O 10 (a) and (b) of Commission Order No. 06-121 (UM 1209), that pertain to formation of a new captive insurance company.
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.
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 submitted in an application for a supplemental order (or other appropriate format) in this docket.

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DISCUSSION:

PacifiCorp filed this application on June 16, 2006, pursuant to ORS 757.490, ORS 757.495 and OAR 860-027-0040. PacifiCorp and MEHC Insurance are wholly owned subsidiaries of MidAmerican Energy Holdings Company (MEHC).¹ Therefore PacifiCorp and MEHC Insurance are affiliated interests pursuant to ORS 757.015.

PacifiCorp requests authorization from the Commission to secure insurance coverage from MEHC Insurance. PacifiCorp contends that the presence of a captive insurance company² will provide the company with an economic, efficient, and realistic alternative to commercial market insurers. MEHC Insurance will provide property damage and liability insurance coverage for PacifiCorp.

MEHC Insurance's primary focus will be to provide insurance coverage for all or significant portions of the deductibles in PacifiCorp's existing property and general liability insurance policies, and to provide coverage for activities that commercial insurance industry carriers will no longer provide, e.g. overhead distribution and transmission line property damage (T&D). Total policy costs are set to be no more than \$7.4 million (total company) per year.

PacifiCorp states that the costs associated with formation of the captive will not be reflected in PacifiCorp's regulated accounts nor will they be allocated directly or indirectly to PacifiCorp. MEHC Insurance will be comparable in cost and services previously provided by Scottish Power's captive insurance company Dornoch Risk International Ltd.³ Premiums paid to MEHC Insurance will replace current customer contributions for deductible/self insurance and not result in additional costs to customers.

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.

² A captive is a limited purpose insurance company established with the specific objective of financing risks emanating from its parent and corporate family.

³ Dornoch Risk International Limited was formed as a as captive insurance carrier for PacifiCorp prior to purchase by MEHC.

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Issues

Staff investigated the following issues:

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

Terms and Conditions of MEHC Insurance Policies

MEHC Insurance proposes to offer the following insurance coverage for PacifiCorp through the policy period (March 21, 2006 through March 21, 2007).

Insurance Type	Policy
Property Insurance	\$6 million excess of \$1.5 million retention
T & D Insurance	\$10 million annual limit, excess \$5 million annual aggregate retention
General Liability	\$750,000 excess of \$250,000 retention

These coverage amounts mirror those previously established by Dornoch and approved by the Commission in UI 233 and UI 233(1). Staff did not observe any unusual terms and conditions of the insurance.

Transfer Pricing

In UM 1209 (Commission Order No. 06-121), MEHC and PacifiCorp committed (Commitment No. O 10) that it would use an existing captive insurance company or form a new captive insurance company to provide insurance coverage for PPL's operations.

The Commitment states:

- a) MEHC commits to use an existing, or form a new, captive insurance company to provide insurance coverage for PacifiCorp's operations. The costs of forming such captive will not be reflected in PacifiCorp's regulated accounts, nor allocated directly or indirectly to PacifiCorp. Such captive shall be comparable in costs and services to that previously provided through ScottishPower's captive insurance company Dornoch. MEHC further commits that

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insurance costs incurred by PacifiCorp from the captive insurance company for equivalent coverage for calendar years 2006 through 2010, inclusive, will be no more than \$7.4 million (total company). Oregon Commission Staff has valued the potential increase in PacifiCorp's total company revenue requirement from the loss of ScottishPower's captive insurance affiliate as \$4.3 million annually, which shall be the amount of the total company rate credit. This commitment expires on December 31, 2010.

b) This commitment is offsetable if PacifiCorp demonstrates to the Commission's satisfaction, in the context of a general rate case, the costs included in PacifiCorp's rates for such insurance coverage is not more than \$7.4 million (total company).

MEHC Insurance will conduct operations and set premiums at a level sufficient to cover loss claims, administrative expenses, and appropriate reserves. The company will not be operated to generate any profit. Additionally, PacifiCorp and MEHC committed that costs incurred by PacifiCorp from the captive insurance company for coverage will be equivalent to Dornoch's provided coverage for calendar years 2006 through 2010, inclusive, and be no more than \$7.4 million (total company).

Public Interest Compliance

The need for, and conditions surrounding the formation of a captive insurance company, were thoroughly reviewed by Staff during UM 1209. As a result of this review, Commitment No. O 10 was accepted by the parties involved in the docket.

After review, Staff agrees with PacifiCorp and MEHC's conclusion that the establishment and use of a captive insurance company will provide significant benefits to PacifiCorp and its customers.

Records Availability, Audit Provisions and Reporting Requirements

Order Condition Number 1, listed above in the Staff recommendation, affords the necessary Commission examination of PacifiCorp's records concerning this application.

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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; and
2. Necessary records are available.

PROPOSED COMMISSION MOTION:

PacifiCorp's application for approval to secure insurance coverage from MEHC Insurance Services Ltd, an affiliated interest, be approved subject to the four recommended conditions.

UI 253 Public Meeting Memo