

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UI 255

In the Matter of)	
)	
PACIFICORP, dba PACIFIC POWER & LIGHT COMPANY)	ORDER
)	
Application for Approval to Purchase Firm Transportation Service from Kern River Gas Transmission Company.)	

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On November 2, 2006, PacifiCorp, dba Pacific Power & Light Company (PacifiCorp) filed an application with the Public Utility Commission of Oregon (Commission) pursuant to ORS 757.495, and OAR 860-027-0040, for approval for a Firm Transportation Service Agreement between PacifiCorp and Kern River. PacifiCorp and Kern River executed a Letter Agreement dated October 30, 2006, pursuant to which Kern River and PacifiCorp intend to execute a Firm Transportation Service Agreement (Agreement). Under the terms of the Agreement, PacifiCorp will pay Kern River a discounted firm daily reservation/demand charge on a total quantity of 91,000 Dth per day. 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 December 19, 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 of the Firm Transportation Service Agreement with Kern River Gas Transmission Company is approved, subject to the conditions stated in the Staff Report attached as Appendix A.

Made, entered, and effective DEC 26 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. CA6

PUBLIC UTILITY COMMISSION OF OREGON
 STAFF REPORT
 PUBLIC MEETING DATE: December 19, 2006

REGULAR _____ CONSENT X EFFECTIVE DATE _____ NA _____

DATE: December 12, 2006

TO: Public Utility Commission

FROM: Michael Dougherty *in*

THROUGH: Lee Sparling and Marc Hellman *[Signature]*

SUBJECT: PACIFICORP: (Docket No. UI 255) Application for Approval to Purchase Firm Transportation Service from Kern River Gas Transmission Company.

STAFF RECOMMENDATION:

The Commission should approve PacifiCorp's (PacifiCorp or Company) application to purchase firm transportation service from Kern River Gas Transmission Company (Kern River), subject to the following conditions:

1. The Company shall provide the Commission access to all books of account, as well as all documents, data and records that pertain to any transactions with Kern River.
2. The Commission reserves the right to review, for reasonableness, all financial aspects of this transaction in any rate proceeding or alternative form of regulation.
3. 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.

DISCUSSION:

PacifiCorp filed this application on November 2, 2006, pursuant to ORS 757.495

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and OAR 860-027-0040. PacifiCorp and Kern River are wholly owned subsidiaries of MidAmerican Energy Holdings Company (MEHC).¹ Therefore PacifiCorp and Kern River are affiliated interests pursuant to ORS 757.015.

PacifiCorp requests approval from the Commission of a proposed Firm Transportation Service Agreement between PacifiCorp and Kern River. Kern River is a natural gas pipeline system, which transports natural gas to California, Nevada, and Utah. In order to transport natural gas to its Lake Side facility, PacifiCorp is procuring the natural gas transportation service from Kern River.

PacifiCorp and Kern River (collectively the "Parties") executed a Letter Agreement dated October 30, 2006, pursuant to which Kern River and PacifiCorp intend to execute a Firm Transportation Service Agreement (Agreement). Under the terms of the Agreement, PacifiCorp will pay Kern River a discounted firm daily reservation/demand charge on a total quantity of 91,000 Dth per day.

Pursuant to OAR 860-027-0040(3)(b) this type of service provided pursuant to a filed and approved Federal Energy Regulatory Commission (FERC) rate schedule would generally not require Commission approval; however, PacifiCorp and MEHC agreed to a different affiliate transaction standard as part of PacifiCorp's acquisition by MEHC. In Commission Order No. 06-121 (UM 1209) granting approval of the acquisition of PacifiCorp by MEHC, the Commission adopted Commitment No. O3 which provides as follows:

"MEHC and PacifiCorp commit that they will interpret Oregon Revised Statutes Sections 757.015 and 757.495 to require Commission approval of any contract between PacifiCorp and (i) any affiliate of MEHC or (ii) any affiliate of Berkshire Hathaway. This shall include the IASA. MEHC and PacifiCorp intend that by obtaining Commission approval of the IASA, PacifiCorp will avoid the need to seek individual approval of affiliate transactions which are subject to that agreement. The IASA is expected to address the provision of electric service to affiliates of MEHC or Berkshire Hathaway under tariff approved by state or federal authorities."

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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As a result, PacifiCorp submitted this affiliated interest application consistent with Oregon Commitment O3. Additionally, PacifiCorp requested expedited consideration of this application and requests Commission action by January 5, 2007.

Issues

Staff investigated the following issues:

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

Terms and Conditions of the Agreement

Staff did not observe any unusual terms and conditions of the Agreement. Under the terms of the Agreement, PacifiCorp will purchase natural gas transportation from Kern River with a contract demand of 91,000 Dth per day at a discounted rate of \$0.09 per Dth, for an initial term of 30 years commencing on February 1, 2007.

PacifiCorp will take transportation service under the terms of Kern River's Rate Schedule KRF-1 and the General Transportation Terms and Conditions applicable thereto and on file with FERC. PacifiCorp estimates its annual charges for services will be \$2,989,350. PacifiCorp will record all charges related to this Agreement to FERC Account 547, Fuel - Other Power Generation.

Transfer Pricing

As previously mentioned, PacifiCorp is procuring the natural gas service at a discounted rate that is prescribed in Kern River's Transporter Rate Schedule KRF-1 as filed with FERC. Pursuant to OAR 860-027-0048 (4)(e), Allocation of Costs by an Energy Utility:

"When services or supplies (except for generation) are sold to an energy utility by an affiliate, sales shall be recorded in the energy utility's accounts at the approved rate if an applicable rate is on file with the Commission or with FERC."

Because the applicable rates are on file with FERC, the Agreement's pricing meets the Commission transfer pricing standard.

Public Interest Compliance

Natural gas transportation service is a federally regulated product offered pursuant to terms and conditions approved by FERC. According to PacifiCorp, the service is being procured at a discounted rate and is the least cost option available to PacifiCorp, which

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will benefit PacifiCorp's customers. Staff has reviewed pricing information received from PacifiCorp and agrees that the Agreement with Kern River results in PacifiCorp's least cost option for firm transportation service.

The transportation service will help assure that the Lake Side plant will not be made unavailable for load-serving generation due to a lack of firm transportation service. The alternative delivery point of West Valley may also contribute to a reduction of electricity costs associated with that plant as PacifiCorp currently utilizes a \$0.12/Dth Kern River transportation contract to fuel West Valley. According to PacifiCorp, the Company plans to file affiliated interest applications for the Kern River contracts used to serve West Valley.

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.

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.

PacifiCorp has reviewed Staff's recommendation and does not object to the recommendation.

PROPOSED COMMISSION MOTION:

PacifiCorp's application for approval of the Firm Transportation Service Agreement with Kern River Gas Transmission Company, be approved subject to the three recommended conditions.

UI 255 Public Meeting Memo