

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UI 258

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

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On January 18, 2007, 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, requesting approval of a Transportation Services Agreement dated July 12, 2002, and an Interruptible Back-haul Transportation Services Agreement dated July 19, 2002, between PacifiCorp and Kern River Gas Transmission Company (Kern River). PacifiCorp and Kern River are both wholly-owned subsidiaries of MidAmerican Energy Holdings Company, and are therefore affiliated interests pursuant to ORS 757.015. 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 February 27, 2007, 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

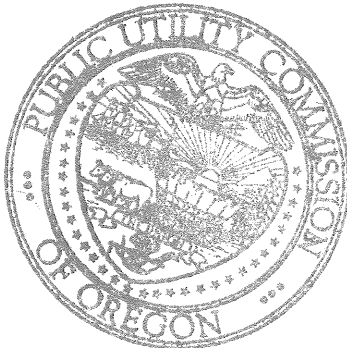
1. An affiliated interest relationship exists.
2. The agreement is fair, reasonable, and not contrary to the public interest.
3. The application should be approved, with certain conditions.

ORDER

IT IS ORDERED that the application of PacifiCorp for approval of the Transportation Services Agreement and the Interruptible Back-haul Transportation Services Agreement between PacifiCorp and Kern River Gas Transmission Company is approved, subject to the conditions stated in the Staff Report attached as Appendix A.

Made, entered, and effective MAR 05 2007.

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.

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 27, 2007

REGULAR _____ CONSENT X EFFECTIVE DATE _____ NA _____

DATE: February 8, 2007

TO: Public Utility Commission

FROM: Michael Dougherty *MD*

THROUGH: *LS* Lee Sparling and *MH* Marc Hellman

SUBJECT: PACIFICORP: (Docket No. UI 258) Application Requesting Approval to Continue Purchasing Gas Transportation Service from Kern River Gas Transmission Company.

STAFF RECOMMENDATION:

The Commission should approve PacifiCorp's (PacifiCorp or Company) application to continue 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 January 18, 2007, pursuant to ORS 757.495 and OAR 860-027-0040. PacifiCorp and Kern River are wholly owned subsidiaries of

UI 258
February 8, 2007
Page 2

MEHC.¹ Therefore PacifiCorp and Kern River are affiliated interests pursuant to ORS 757.015.

PacifiCorp requests approval from the Commission of:

1. A Transportation Services Agreement dated July 12, 2002, between PacifiCorp and Kern River (Kern River Contract #3017); and
2. An Interruptible Back-haul Transportation Services Agreement dated July 19, 2002, between PacifiCorp and Kern River (Kern River Contract #6017).

Kern River is a natural gas pipeline system, which transports natural gas to California, Nevada, and Utah. Pursuant to the terms of the Agreements, PacifiCorp is authorized to use natural gas transportation services on Kern River's natural gas transmission system. The Agreements were executed prior to PacifiCorp and Kern River (collectively, the "Parties") having an affiliated interest. With this application, PacifiCorp requests Commission authorization to continue to engage in business transactions with Kern River.

Under the terms of Contract #3017, PacifiCorp is authorized to use natural gas transportation service on Kern River's natural gas transmission system. Under the terms of Contract #6017, PacifiCorp purchases natural gas back-haul transportation from Kern River with a maximum volume up to 60,000 Dth per day.

PacifiCorp will pay Kern River a discounted rate of \$0.12 per Dth actually transported for the entire term of the agreement for interruptible back-haul transportation from the Goshen (Utah) receipt point to the West Valley delivery point on Kern River's system exclusive of surcharges. PacifiCorp estimates its annual charges for services pursuant to the Agreements at \$600,000.

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:

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.

UI 258
February 8, 2007
Page 3

“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.”

As a result, PacifiCorp submitted this affiliated interest application consistent with Oregon Commitment O3.

Issues

Staff investigated the following issues:

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

Terms and Conditions of the Agreements

Staff did not observe any unusual terms and conditions of the Agreements. Under the terms of the Agreement, PacifiCorp will purchase natural gas back-haul transportation service from Kern River with a maximum volume up to 60,000 Dth per day at a discounted rate of \$0.12 per Dth.

The transportation service is offered pursuant to terms and conditions of Kern River's FERC Gas Tariff and Rate Schedule KRI-1. PacifiCorp estimates its annual charges for services will be \$600,000. 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 KRI-1 as filed with FERC. Pursuant to OAR 860-027-0048 (4)(e), Allocation of Costs by an Energy Utility:

UI 258
February 8, 2007
Page 4

“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 will benefit PacifiCorp's customers.

The transportation service helps assure that the West Valley Facility is not rendered unavailable for generating power to serve load due to a lack of transportation service.

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 Transportation Services Agreement and the Interruptible Back-haul Transportation Services Agreement with Kern River Gas Transmission Company, be approved subject to the three recommended conditions.

UI 258 pmm