

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of)
PacifiCorp for Approval of the) DOCKET NO. 06-035-40
Intercompany Administrative Service)
Agreement with MidAmerica Energy) ORDER ACKNOWLEDGING
Holdings Company) INTERCOMPANY ADMINISTRATIVE
) SERVICES AGREEMENT
)

ISSUED: OCTOBER 6, 2006

By The Commission:

By Application filed April 3, 2006, Pacificorp submitted to the Commission the Intercompany Administrative Services Agreement (“IASA”) between MidAmerican Energy Holdings Company (“MEHC”) and its subsidiaries. The filing of the IASA is driven by commitments made in the process of gaining approval of the acquisition of Pacificorp by MEHC. The acquisition of PacifiCorp by MEHC was approved in our January 26, 2006, Order in Docket No 05-035-54. In that same docket, we issued a March 14, 2006, Order, in, which we adopted an amended Consolidated List of Commitments including Commitment U 21 which reads: “MEHC and PacifiCorp will request Commission approval, for cost allocation and affiliate transaction purposes, of the IASA and any amendments filed pursuant to Commitment 13.” Commitment 13 requires that: “The Intercompany Administrative Services Agreement (IASA) will include the corporate and affiliate cost allocation methodologies. The IASA will be filed with the Commission as soon as practicable after the closing of the transaction. Approval of the IASA will be requested if required by law or rule, but approval for ratemaking purposes will not be requested in such filing. Refer to Commitment 14 (f). Amendments to the IASA will also be filed with the Commission.” Subsequent to its filing, comments on the IASA have been filed by the Committee of Consumer Services (Committee), the Division of Public Utilities (Division) and the Utah Industrial Energy Consumers (UIEC).

The IASA specifies how administrative services among MEHC and its subsidiaries will be provided and the accounting for them. This includes administrative services provided by MEHC to its subsidiaries, the subsidiaries to MEHC, and MEHC subsidiaries to other MEHC subsidiaries. Administrative services are to be charged at actual cost by the party providing the service. Administrative services costs will be directly charged when the organization receiving the service can be identified. Amounts that are not directly attributable to an organization are to be allocated each month to all subsidiaries benefitting from the service. The IASA provides for three methods of calculating and allocating monthly charges: direct charges; services charges; or an allocation methodology. For direct charges, the IASA provides that the Party receiving the benefit of Administrative Services (Recipient Party) will be charged for the operating costs incurred by the Party providing the Administrative Services (Providing Party), including, but not limited to, allocable salary and wages, incentives, paid absences, payroll taxes, payroll additives (insurance premiums, health care and retirement benefits and the like), direct non-labor costs, if any, and similar expenses, and reimbursement of out-of-pocket third party costs and expenses. Relative to service charges, the IASA provides that these are costs that are impractical to charge directly but for which a cost/benefit relationship can be reasonably identified. A practical allocation method will be established by the Providing Party that allocates the cost of this service equitably and consistently to the Recipient Party. Any changes in the methodology will be communicated in writing to rate-regulated subsidiaries at least 180 days before the implementation of the change. Finally, with respect to allocations, the IASA provides that these are costs incurred for the general benefit of the entire corporate group for which direct charging and service charges are not practical. An allocation methodology will be established

and used consistently from year to year. Any changes to the methodology will be communicated in writing to rate-regulated subsidiaries at least 180 days before the implementation of the change.

The Committee recommends the IASA may be used for the provision of, accounting for and the allocation of costs of administrative services, subject to the following four conditions:

1. Changes to the allocation methodologies, allowed for under Article 4.(1)(ii) and (iii) of the IASA, should be communicated to regulatory agencies;
2. Parties providing services should be required to maintain a current, up-to-date, cost allocation manual or written details documenting the cost allocation methodologies;
3. Documentation should be provided regarding Berkshire Hathaway Incorporated's participation in cost sharing; and,
4. The IASA should not be approved, now, for rate making purposes. The Division recommends that the IASA may be used for the limited purpose of the accounting for intercompany provision of services, but that any Commission action on the IASA should acknowledge that the IASA is for internal company accounting only and is not necessarily endorsed as a mechanism for setting retail rates in Utah. The Division agrees with the CCS four recommended conditions. Like the Committee and the Division, the UIEC does not oppose the use of the IASA for non-ratemaking tracking of intercompany provision of administrative services. However, the UIEC notes that the IASA addresses only administrative services. The UIEC recommends that the Commission should expand coverage to all affiliate transactions, not just those for administrative services. Further, the UIEC recommends that transactions should be accounted for at the lower of market or cost, similar to UIEC's representation of FERC's rules that non-power goods and services transactions with non-regulated special affiliates, such as fuel supply, construction, or real estate, use the lower of cost or market pricing.

We conclude that Pacificorp's filing of the IASA fulfills the filing commitments made as part of the Pacificorp acquisition. We agree with Pacificorp, the Committee, the Division and the UIEC that the IASA may appropriately be used to account for transactions between Pacificorp, MEHC and affiliates. Pacificorp's application does not seek ratemaking approval and all comments on the IASA recommend that the Commission not approve the IASA's use in determining the appropriateness of costs for ratemaking purposes. For its limited purpose, outside of ratemaking, we conclude that the IASA provides a reasonable initial mechanism to account for such transactions and the initial allocation of costs for the administrative services to be provided between the companies. We also agree that the four Committee recommendations should be applied and followed by Pacificorp, MEHC and affiliates. We believe that the IASA coupled with implementation of the recommendations will provide a sufficient basis upon which administrative services may be tracked and will provide sufficient documentation for adequate review in ratemaking settings. We do not agree with the UIEC's recommendation to expand coverage to all transactions. We do not disagree that other transactions may be of interest, particularly as they may be relevant in a ratemaking situation. Review for ratemaking purposes is not restrained and is always open. But expansion of the IASA, as suggested by the UIEC, is beyond the specific commitments made as part of the acquisition approval.

Wherefore, we enter this ORDER, wherein we:

1. Acknowledge Pacificorp's filing of the IASA. This filing fulfills the filing commitment included in the amended Consolidated List of Commitments referenced in our March 14, 2006, Order;

DOCKET NO. 06-035-40

-5-

2. Order that changes to the allocation methodologies, shall be communicated to regulatory agencies;
3. Parties providing services through the IASA shall maintain current, up-to-date, cost allocation manuals or written details documenting the cost allocation methodologies;
4. Pacificorp shall provide documentation regarding Berkshire Hathaway Incorporated's participation in cost sharing when such information is available; and
5. The IASA is not approved for ratemaking purposes.

Dated at Salt Lake City, Utah, this 6th day of October, 2006.

/s/ Ric Campbell, Chairman

/s/ Ted Boyer, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary
G#50796