



# State of Utah

DEPARTMENT OF COMMERCE  
Committee of Consumer Services

To: The Public Service Commission of Utah

From: The Committee of Consumer Services  
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Date: June 14, 2006

Subject: Docket No. 06-035-40: Committee of Consumer Services' Comments In the Matter of the Application of PacifiCorp for Approval of the Intercompany Administrative Services Agreement with MidAmerican Energy Holdings Company

## Background

On March 31, 2006 PacifiCorp filed with the Commission an application for Approval of the Intercompany Administrative Services Agreement ("IASA") between MidAmerican Energy Holdings Company ("MEHC") and its subsidiaries. Following the March 21, 2006 close of the acquisition of PacifiCorp by MEHC, PacifiCorp became an MEHC subsidiary and subject to the IASA.

The acquisition of PacifiCorp by MEHC was approved, subject to specific Commitments, by the Public Service Commission ("Commission") in its January 26, 2006 Order in Docket No 05-035-54. In its March 14, 2006 Order, in that same docket, the Commission 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.

## Discussion

### 1 Methodology

The IASA specifies how administrative services between and among MEHC and its subsidiaries will be provided. This includes administrative services provided by: MEHC to its subsidiaries; the subsidiaries to MEHC; and MEHC subsidiaries to other MEHC subsidiaries.

Administrative services will 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 will be allocated each month to all subsidiaries benefiting from the service.

The IASA provides for three methods of calculating and allocating monthly charges: direct charges; services charges; or an allocation methodology.

Direct Charges: 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.

Service Charges: 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 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.

Allocations: Cost 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.

Based on prior experience with ScottishPower, the costs that Utah rate payers may be asked to bear for shared or administrative services can be substantial.

The methodology used to distribute affiliate charges and the transparency of the transactions is of major importance.

Article 4 (a) (ii) & (iii) of the IASA state that any changes in the methodology for allocating service charges and allocating costs incurred for the general benefit of the entire corporate group will be communicated in writing to rate-regulated subsidiaries at least 180 days before the implementation of the change.

In order to better facilitate the review of costs being charged to and from PacifiCorp under the IASA in rate proceedings, any changes to the allocation methodology should also be communicated to the regulatory agencies.

Parties providing services should be required to maintain a current and up to date cost allocation manual or written materials documenting the cost allocation methodologies to be utilized for service charges and allocated costs. This information should be updated regularly as changes are made to the allocation methodologies utilized.

## 2 Berkshire Hathaway

The application states that the IASA governs the provision of administrative services between and among MEHC and its subsidiaries. Berkshire Hathaway Inc. ("BHI") and its subsidiaries (other than those falling under the MEHC umbrella) are not included in the IASA. BHI and its other non-MEHC subsidiaries should be included in an affiliate transaction agreement if there are potential transactions that would require cost sharing or allocations from BHI and its non-MEHC subsidiaries or a statement should be provided clearly indicating that there will be no services that will require costs to be charged or allocated from these entities.

## 3 Rate Making

As per the terms of Commitment 13, the application indicates that approval for ratemaking purposes is not requested in this filing and that "[T]he reasonableness of payments under the IASA by PacifiCorp to MEHC and its subsidiaries will be considered in subsequent rate proceedings".

We agree that it would be inappropriate at this time for the Commission to approve the IASA for rate making purposes. We can not assess the full impacts of the cost allocation methods encompassed in the IASA until they are applied in a rate case where the rate impacts can be reviewed comprehensively and in detail.

## Recommendations

The Committee recommends that Commission approval of the IASA be subject to the following conditions:

- 1) Changes to the allocation methodologies allowed for under Article 4.(1)(ii) and (iii) 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 BHI's participation in cost sharing; and
- 4) The IASA should not be approved for rate making purposes.