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June 28, 2006

Public Service Commission of Utah
Heber M. Wells Building, 4th Floor
160 East 300 South
Salt Lake City, Utah 84114

Attention: Julie Orchard
Commission Secretary

RE: **PacifiCorp Reply Comments to the Comments of the CCS and UIEC**
Docket No. 06-035-40 (In the Matter of the Application of PacifiCorp for Approval of the Intercompany Administrative Services Agreement with MidAmerican Energy Holdings Company)

Dear Commissioners:

On March 31, 2006, pursuant to the Commission's January 27, 2006 Order in Docket No. 05-035-54, 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. The IASA governs the provision of administrative services between and among MEHC and its direct and indirect subsidiaries, including PacifiCorp. As specified in the Application, PacifiCorp did not seek approval of the IASA for ratemaking purposes.

On May 31, 2006, the Commission issued a Notice of Deadline establishing a schedule for filing comments and reply comments in this docket. Pursuant to the Commission's Notice, on June 14, 2006, the Committee of Consumer Service ("CCS") and the Utah Industrial Energy Consumers ("UIEC") filed comments on the IASA.

In these reply comments, PacifiCorp will briefly address the issues raised in the CCS and UIEC comments.

Reply To CCS Comments

In their filed comments, the CCS recommends the Commission approve the IASA subject to four conditions. The CCS's first proposed condition is that changes to the allocation methodologies allowed for under Article 4 (a)(ii) and (iii) of the IASA should be communicated to regulatory agencies. As explained by the CCS, this condition is intended to facilitate their review of costs charged or recovered under the IASA in rate proceedings.

While the CCS could request information regarding any changes to IASA allocation methodologies through data requests in a rate proceeding, PacifiCorp is not opposed to a condition that requires PacifiCorp to communicate that information to regulatory agencies, without a specific request, in a rate proceeding. PacifiCorp notes, however, that only 30% of the total costs to be billed under the IASA are likely to be based on some form of allocation and, as a result, any potential change in an allocation methodology is unlikely to have a material cost impact on PacifiCorp.

The CCS's second proposed condition is that parties providing services to PacifiCorp under the IASA should be required to maintain a current, up to date, cost allocation manual or written details documenting the cost allocation methodologies. That condition is consistent with the manner in which the IASA is administered and is acceptable to PacifiCorp.

The CCS's third proposed condition is that documentation should be provided regarding Berkshire Hathaway participation in cost sharing. As explained by the CCS, Berkshire Hathaway and its non-MEHC subsidiaries are not parties to the IASA and, to the extent that they will be providing or exchanging services with MEHC and its subsidiaries, including PacifiCorp, they should be subject to "an affiliate transaction agreement". This commitment is unnecessary.

Since Berkshire Hathaway and its non-MEHC subsidiaries are not expected to provide, or exchange, services with MEHC or any of its direct and indirect subsidiaries, including PacifiCorp, there is no documentation to provide. If and when any affiliate transactions are contemplated between Berkshire Hathaway (or any of its non-MEHC subsidiaries) and MEHC and its subsidiaries, the appropriate affiliate transaction filings will be made with regulators, as required under the PacifiCorp's current Commission approved procurement policy and the terms of commitment U 3 ("Commitment U 3") approved by the Commission in its January 27, 2006 Order in Docket No. 05-035-54.

The CCS's fourth condition is that the IASA should not be approved for ratemaking purposes. PacifiCorp agrees with this condition. Indeed, PacifiCorp has not requested approval of the IASA for ratemaking purposes. The IASA governs the sharing of costs among MEHC and its subsidiaries. It does not govern the recovery of those costs from customers. The recovery of those costs from Utah customers will be determined by the Commission in an appropriate future regulatory proceeding.

Reply to UIEC Comments

While UIEC does not object to the approval of the IASA, it seeks to broaden the scope of this proceeding to address contract approval and rate recovery issues that should be addressed in an appropriate docket. UIEC points out that the IASA only covers administrative services and that it does not cover all other possible affiliate transactions, including those with Berkshire Hathaway and its non-MEHC subsidiaries. UIEC then argues that "all affiliate transactional documents", including any tax sharing agreement signed by PacifiCorp, "should be filed with the Commission for approval as well as served on all parties of record in the MEHC/PacifiCorp acquisition docket." The UIEC proposal constitutes a dramatic change from existing

Commission precedent, regulations and procedure and is unsupported by any analysis of its legal and policy implications. This is not the appropriate proceeding in which to address the UIEC proposal and it should be rejected.

The Intercompany Administrative Services Agreement, like previous administrative services agreements, was intended and understood to apply only to administrative services such as legal services, government and corporate affairs, tax services, financial and accounting services, risk management, human resource services and environmental services. It was not intended to apply to every possible affiliate transaction, or to tax allocation.

Affiliate transactions outside the scope of the IASA were intended to be treated, as contemplated under Commitment U3, in accordance with current Commission procedures. Pursuant to Commitment U 3, PacifiCorp or MEHC is required to notify the Commission in writing prior to implementation of plans by PacifiCorp or MEHC: (1) to form an affiliate for the purpose of transacting business with PacifiCorp; or (2) to commence new business transactions between an existing affiliate and PacifiCorp. Under this procedure, which reflects current Commission practice, the Commission addresses affiliate transaction issues, including prudence and cost recovery issues, in a rate case rather than in the type of pre-approval process suggested by UIEC.

In support of its pre-approval proposal, UIEC contends that FERC requires that all non-power transactions between affiliates be at the lower of cost or market. That statement fails to reflect that, in Order No. 667, FERC allowed centralized service companies to continue to sell non-power goods and services to affiliated utilities “at-cost”, a position consistent with the treatment of those costs under the IASA. However, whatever the accuracy of UIEC’s view of the FERC requirements, the fact remains that those FERC requirements are not intended to determine how transactions are to be charged between affiliates, but rather how the costs of transactions between affiliates are to be reflected in regulated rates. In contrast, the IASA, and this proceeding, address the way in which, for accounting purposes, costs will be shared among MEHC and its subsidiaries, not the regulatory recovery of those costs.

UIEC also raises, as support for its proposal to require pre-approval of the Tax Allocation Agreement, concerns regarding the status of the Tax Allocation Agreement. UIEC states that the current Tax Allocation Agreement does not include PacifiCorp and expresses concern that a new agreement which includes PacifiCorp may be changed. Those concerns are groundless. PacifiCorp is now a signatory to the Tax Allocation Agreement. The Tax Allocation Agreement has not been modified other than to specifically add PacifiCorp and to clarify that other entities joining the consolidated group will automatically be covered by the agreement. Once again, however, the recovery of tax expense from customers is a rate case issue and not an appropriate issue for this proceeding.

Conclusion

PacifiCorp initiated this proceeding by filing, pursuant to the Commission’s January 27, 2006 Order in Docket No. 05-035-54, an Application to obtain, for cost allocation and affiliate

PacifiCorp Reply Comments
Docket 06-035-40
June 28, 2006

transaction purposes, Commission approval of its proposed IASA. The IASA governs the provision of administrative services between and among MEHC and its direct and indirect subsidiaries, including PacifiCorp. As specified in the Application, PacifiCorp did not seek approval of the IASA for ratemaking purposes.

The CCS proposes, consistent with the appropriate scope of this proceeding, conditions to the approval of the IASA that address issues such as the preservation and dissemination of information that may be required in a future ratemaking proceeding. As noted above, PacifiCorp does not oppose the CCS proposals.

In contrast, while UIEC does not object to the approval of the IASA, it seeks to broaden the scope of this proceeding to address contract approval and rate recovery issues that don't belong in this docket. UIEC argues that "all affiliate transactional documents", including any tax sharing agreement signed by PacifiCorp, "should be filed with the Commission for approval as well as served on all parties of record in the MEHC/PacifiCorp acquisition docket." The UIEC proposal constitutes a dramatic change from existing Commission precedent and procedure and is unsupported by any analysis of its legal and policy implications. This is not the appropriate proceeding in which to address the UIEC proposal and it should be rejected.

Accordingly, PacifiCorp respectfully requests the Commission approve the IASA with appropriate conditions as recommended by the CCS.

Respectfully submitted this 28th day of June, 2006.

By _____

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Senior Vice President and General Counsel