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State of Utah
Department of Commerce
Division of Public Utilities

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ACTION REQUEST RESPONSE

To: Public Service Commission of Utah

From: Utah Division of Public Utilities

Chris Parker, Director

Artie Powell, Energy Section Manager

David Thomson, Utility Technical Consultant

Clair Oman, Utility Technical Consultant

Date: January 30, 2015

Re: Review and Make Recommendations

PacifiCorp's Affiliated Interest Report for the Year Ended December 31, 2013.
Request to Review and Make Recommendations.

Docket No. 14-035-66

ISSUE/REQUEST

On June 11, 2014, the Public Service Commission of Utah (Commission) issued an Action Request to the Division of Public Utilities (Division) to review and make recommendations regarding PacifiCorp's Affiliated Interest and Transaction Report with a due date of September 30, 2014. In addition, the Commission has requested the Division provide greater detail in the requested response such that it may better understand the scope of the Division's investigation and the facts that lead to its conclusions. The Division requested additional time to complete the necessary review and analysis required by this request. On September 15, 2014, the Commission granted the request for extension of time with a due date of January 30, 2015.

For increased transparency of the Companies Affiliate report the Division has completed a worksheet summary of the report. This worksheet is referenced as PacifiCorp Affiliate worksheet summary report and is attached. This worksheet segregates and summarizes the two major types of affiliate transactions of services received and included in the Intercompany Administrative Services Agreement (IASA) and those services not under the IASA.

The Division selected a statistical sample of the Company Affiliates included in the report and requested that the Company provide the number of transactions completed during the year covered by the report. The PacifiCorp Affiliate transactions are made up of two distinctions, one being the Services Provided and Received not included in the IASA and the other Transactions consisting of those Services Provided and Received covered by the methodology and procedures defined by the IASA. The Division selected different statistical sampling methods for the two differing populations of transactions.

IASA Services

For those transactions falling under the IASA, the Billing and Payment of the transactions are set forth as follows:

(b) PAYMENT.

(i) Each Providing Party shall bill the Recipient Party monthly for all charges pursuant to this Agreement via billings to the Company. The Company, in its capacity as a clearinghouse for intercompany charges within the Company shall aggregate all charges and bill all Recipient Parties in a single bill. Full payment to or by the Company for all Administrative Services shall be made by the end of the calendar month following the intercompany charge. Charges shall be supported by reasonable documentation, which may be maintained in electronic form.

The providing parties are required by the IASA to bill each and all Recipient Parties through the Company (which acts as a clearinghouse) for the charges appropriate each month. The Division requested the SAP general ledger detail in order to review the billing amounts. As these billings are completed monthly, the SAP general ledger detail was requested for total months, with

different months' samples selected for each of the affiliate companies that are providing services under the IASA. The testing of these sample billings by the Division found no indications that the billings included profit markup amounts. The SAP general ledger payment detail was also requested for all payments that were made during the year covered by the report. This transaction detail was requested for each affiliate in order to verify that all billings through the IASA were paid. The testing of this detail provided the Division with reasonable assurance that the involved affiliates' billings and payments were made whole through the IASA procedures.

Non IASA Services

As indicated by the PacifiCorp Affiliate worksheet summary attached, the coal producing affiliate transactions comprise approximately 83% of the total non-IASA affiliate transactions for the year ended 2013. The coal contracts and cost are reviewed during rate cases and coal contract reviews; therefore, the Division sees no need for further review at this time.

The water companies that provide the water for the power plants operate as non-profit companies and PacifiCorp owns less than 40% of any one of the three companies involved. The Division has conducted high level reviews of the services received and found that these are payments for water assessments that provide the amount of water needed for the existing plants consumption. Further review of these transactions is considered unnecessary under the circumstances.

The Company has provided requested samples of the BNSF Railway Company (BNSF) affiliate transactions and they have been reviewed by the Division. The contract covering these transactions has been in effect prior to the purchase of BNSF by Berkshire Hathaway when the contract was in effect an arm's length transaction. The majority of revisions since that time have been in the area of fuel charges and increases. The pricing has not indicated variable unjustified pricing that the Division finds inappropriate. The revenue growth shown in the Consolidated Statements of Income indicated ordinary growth.

The remainder of the Non-IASA affiliated transactions were part of the sampling of transactions provided by the Company and reviewed by the Division. The pricing as described by the

Company was “business standard pricing” and although the Division was unable to verify the lower of cost or market rule for these amounts the Division found no pricing amounts that were obviously inappropriate for the transaction with which they were associated.

In working with the report submitted by the Company the Division has found changes that would make the report easier to review and therefore recommends that the Commission require the following changes as part of the affiliate report to be filed in future years.

1. Pages of the report be numbered consecutively.
2. Summary worksheet report similar to the worksheet included by the Division be required.
3. Require the separation and total summary of the non-IASA and IASA services.
4. Include the current ownership interest amount for each affiliate listed in the report.

The DPU has completed the review of the Affiliated Interest Report and the associated information. As a result of this review the DPU believes that:

1. Active affiliated interest relationships exist between PacifiCorp and the reported entities.
2. The appropriate affiliate transactions’ information have been provided to the Division upon request to the Company.
3. The activity between the affiliates as reported in the filing does not appear to be adverse to the public interest.

The Division recommends that the Commission accept the Companies Affiliate Interest Report.

CC Jeffrey Larsen, Rocky Mountain Power
Bob Lively, Rocky Mountain Power
Michele Beck, Office of Consumer Services