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: March 6, 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 (Company) 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.

The Division issued the report of recommendations and findings January 30, 2015. On February 4, 2015 the Commission issued an Action Request for response to the following requests:

> For IASA Services, the Division states it tested sample billings and found no indications that the billings included markup amounts. What did the Division's test entail and what did the Division learn about PacifiCorp's pricing practices that indicated the billings included no profit markup amounts?

IASA Services

The Division relies on the Company following the procedures and requirements set forth by the Company in the IASA for billing and payments for services provided and received. For each affiliate included in the 2013 PacifiCorp Affiliated Interest Report, the Division requested billing detail for a specified month. As per the IASA agreement at Subsection (b)(i) Payment billings are required to be billed on a monthly basis and the payments are also required to be paid on a monthly basis.

This billing detail was analyzed and reviewed to determine the type of costs that were included for these services. The type of costs billed in the samples reviewed all indicated the type of costs delineated in the Article 1 of the IASA agreement which are: "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." The costs were labeled and classified by the Company in accordance with the type of direct costs normally incurred for the services provided. The Division found no indication in the description or classification of the costs that led us to believe there were profit markups in these types of costs. The costs appeared to include only direct or allocated costs and no additional profit margins.

To test the payments for the services received and provided under the IASA, the Division requested and received the SAP accounting payment detail for the entire year 2013. These totals were traced to the PacifiCorp Affiliated Interest Worksheet Summary included by the Division in the previous Action Request Report dated January 30, 2015. The payments matched the total billing for services billed under the IASA, therefore there appears to be no revenue requirement impact on the Company or cross-subsidies between regulated and non-regulated affiliates. This finding by the Division indicates that there is no profit markup included in the IASA services.

Non-IASA Services

The Non-IASA services are significantly dissimilar in both magnitude and nature when compared to the IASA services. Non-IASA Services require the review and assessment of the costs individually rather than as a homogeneous group.

Coal

The following is PacifiCorp Response to DPU Data Request 2.4 explaining transactions relating to the wholly owned coal producing subsidiaries:

> Since Energy West Mining Company ("EWMC") is a wholly owned subsidiary of PacifiCorp and is therefore consolidated with PacifiCorp for SEC reporting purposes (which includes an intercompany eliminations process), PacifiCorp effectively net settles intercompany activity with EWMC through memo accounts. EWMC incurs its costs to produce Deer Creek mine coal and reflects those charges on the books at EWMC whereby PacifiCorp directly funds the EWMC bank account as funds are drawn upon to pay for those expenditures. The information technology and administrative support services provided by PacifiCorp to EWMC are reflected as credits to expense on PacifiCorp's books and as a charge to expense on the books at EWMC. This activity creates an increase to the intercompany receivable due from EWMC on PacifiCorp's books and a corresponding increase to the intercompany payable due to PacifiCorp on EWMC's books. Then each month end, all the charges reflected on EWMC's books are credited (zeroed out) and charged to coal inventory at PacifiCorp. This coal inventory is charged to fuel expense as the coal is consumed (primarily at the Huntington plant). This month end coal cost transfer reduces the intercompany receivable due from EWMC on PacifiCorp's books and correspondingly reduces the intercompany payable due to PacifiCorp on EWMC's books.

The coal contracts and costs are reviewed during each rate case and any inappropriate cost is adjusted at that time. It is the Division’s view that reviewing these costs again as part of the affiliate interest report is redundant and provides no benefit to consumers or the Commission. Therefore the Division made only a cursory review of these costs as part of the affiliate interest report.

Water Assessments

The ownership percentage the Company holds in three water companies represents the water shares purchased by the Company to provide the yearly amount of water needed for the generating plants. The water companies assess the shareholders the yearly anticipated amount to provide for operating cost. The Company does not appear to hold a sufficient ownership interest in any of the three water companies that would enable it to direct the activities of the companies. Therefore, the costs involved do not appear to provide opportunity for additional profit or markup of the services provided to the Company. The transactions appear to be considered quasi arms-length-transactions.

BNSF Rail Freight Service

The contract for rail freight of coal products between PacifiCorp and BSNF is a multiyear contract and was negotiated and in force prior to the purchase of BNSF by Berkshire Hathaway. The transactions for the year ended December 2013 were requested by the DPU and provided by the Company. The fuel surcharges appear to have the most significant impact on the charges during the current year. The length of the contract and its inception prior to the ownership by Berkshire Hathaway gives additional credence to the pricing structure being reasonable.

HomeServices

HomeServices of America, Inc. is a majority owned subsidiary of Berkshire Hathaway Energy Holding Company. HomeServices charges PacifiCorp a flat fee per relocation for its services, plus the actual costs of services procured from its vendors and service providers. A sample was taken from the transaction population and reviewed by examining copies of the invoices provided. The invoices examined were found to be well structured as to services provided and charges for the services. The pricing of services that were invoiced appeared to follow the pricing charges indicated in the affiliated interest report. HomeServices charges PacifiCorp a flat fee per relocation for its services, plus the actual costs of services procured from its vendors and service providers. The Division found no indicators that would support the premise that billings included improper markups.

Kern River Gas Transmission Company

Natural gas transportation services are priced at a tariff rate on file with the Federal Energy Regulatory ("FERC") or as priced in a negotiated rate transportation service agreement filed with and approved by the FERC. This structure makes it difficult to charge improper profit margins or pricing. A sample was taken and detail provided by the company was reviewed. The Division found no indications of markups.

International Business Machines Corporation

At December 31, 2013, Berkshire Hathaway held a six percent ownership interest in IBM. IBM provides services to PacifiCorp in the normal course of business at standard pricing. This is one of the affiliates that the Division believes the minority interest owned by Berkshire Hathaway fails to bring the ownership power to the level that allows influence sufficient to affect the operation decisions and pricing strategies.

Wells Fargo & Company

At December 31, 2013, Berkshire Hathaway held a nine percent ownership interest in Wells Fargo. Wells Fargo provides banking services to PacifiCorp in the normal course of business at standard pricing.

Moody's Investors Service ("Moody's)

At December 31, 2013, Berkshire Hathaway held a twelve percent ownership interest in Moody's Corporation. Moody's Investor Service provides banking services to PacifiCorp in the normal course of business at standard pricing.

Summary

The IASA services mainly consist of costs for providing information technology and administrative support services. The Division found through the sampling tests conducted that the services and costs for these services are very similar to those allocated to the various departments within PacifiCorp's various divisions. The Division's findings about PacifiCorp's pricings for the IASA was basically the sharing of the information technology and administrative support services department resources and the costs of operating those departments. Therefore the pricing of these services is more a division of the costs rather than a pricing practice where a profit or markup practice would be involved.

In the Non-IASA services procedures the Division learned that the term "standard business pricing" was found to be more applicable to the minority interest owned affiliates pricing rather than to PacifiCorp. These Non-IASA services varied from water assessments to employee relocation. In excess of 90% of the IASA services were information technology and administrative support services.

The Division did not attempt to audit the affiliates that provided these services to PacifiCorp. Instead the Division sampled the detailed invoices and billings that were provided to PacifiCorp. The documents provided had the appearance of what was referenced in the affiliate report as standard business pricing. The pricing and invoicing documents appeared to be standard business billing by companies that provided their services at what appeared to be normal revenue pricing for the services. There are many of these affiliates that the minority interest owned by Berkshire Hathaway fails to bring the ownership power to the level that generally allows influence sufficient to affect the operation decisions and pricing strategies. While it is proper that the Commission requires including minority interest owned companies in the report, it appears the pricing more closely approximates arms-length transaction than wholly-owned controlled entities. This is the Division's interpretation and approximation from exposure to the detail sample items reviewed and is the basis of the Division's prior report that the pricing is not obviously inappropriate. It is the Division's belief that the majority of the financial pricing and costs associated with the services that are provided and received in the Non-IASA transactions are appropriate. The pricing is not believed to be PacifiCorp's pricing but rather the affiliates' pricing structure that is applicable to all of the affiliates' customers.

The Division tests and reviews the Companies internal controls during general rate cases. Thus increasing the basis for the Division's reliance on the basic structure of the Company's assurances contained in the Affiliated Interest Report.

This concludes the Division's report and response to the additional follow-up questions from the Commission.

CC Jeffrey Larsen, Rocky Mountain Power
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