ACTION REQUEST RESPONSE

To: Public Service Commission of Utah

From: Utah Division of Public Utilities

Chris Parker, Director

Artie Powell, Energy Section Manager

Clair Oman, Utility Technical Consultant

Date: November 3, 2015

Re: Review and Make Recommendations

Docket No. 15-035-58. PacifiCorp's Affiliated Interest Report for the Year Ended December 31, 2014. Requesting the Division to Review the above Report for Compliance and Make Recommendations.

ISSUE/REQUEST

On June 1, 2015, the Commission issued an Action Request to the Division for a review of PacifiCorp's Affiliated Transaction Report indicating a due date of June 29, 2015. The Division required additional time to complete the review. The Commission granted two extensions to the Action Request Response, the first extension due October 30, 2015 with the final extension due no later than November 3, 2015. This is the Division's response to the Commission's Action Request.

DISCUSSION AND COMMENTS

Affiliated interests of PacifiCorp are defined by Oregon Revised Statutes 757.015, Revised Code of Washington 80.16.010 and California Public Utilities Commission Decision 97-12-088, as amended by Decision 98-08-035, as having two or more officers or Directors in common with PacifiCorp or by meeting the ownership requirements of five percent direct or indirect ownership.

Although PacifiCorp provides retail electricity services to certain affiliates within its service territory, such transactions are excluded from this report because they are billed at tariff rates. Due to the volume and breadth of the Berkshire Hathaway Inc. ("Berkshire Hathaway") family of companies, it is possible that employees of PacifiCorp have made purchases from certain Berkshire Hathaway affiliates not listed here, and have been reimbursed by PacifiCorp for those purchases as a valid business expense. PacifiCorp does not believe those transactions would be material individually or in aggregate.

The purpose of the PacifiCorp Affiliated Interest report is to inform the Commission of the current subsidiaries and affiliates associated with PacifiCorp, including a brief narrative of the operations of each affiliate including officers and directors in common, the services received and provided, and the financial information.

The Division, at the direction of the Commission, reviews the extent that affiliates actually exercise any substantial influence over the policies and actions of PacifiCorp.

TYPES OF SERVICES

The PacifiCorp Affiliate transactions are of two kinds: 1) the administrative services provided and received that are covered by the methods and procedures defined by the Intercompany Administrative Services Agreement (IASA); and 2) the tangible services provided and received that are not included in the IASA.

IASA Services

The services provided and received under the IASA are billed and payments are made according to the IASA agreement. The Division requested the complete SAP general ledger detail of these transactions and was able to reconcile to the totals included on the Summary of transactions included in section II for the period under review. This reconciliation verified that the amounts due for services whether provided or received were subsequently paid. These billings and payments follow the procedures set forth by the IASA at 4(b) PAYMENT and provide verification that these transactions provided the affiliates with the benefit of the services and no financial impact negative or positive

Non-IASA Services

The Non-IASA services are tangible goods and services exchanged between PacifiCorp and the respective affiliate. The affiliates that provided and/or received material amounts of non-IASA services are reviewed below.

Coal

As calculated from data included in the PacifiCorp Affiliate interest report the coal producing affiliate transactions comprise approximately 77% of the total non-IASA affiliate transactions for the year ended 2014. The coal contracts and costs are reviewed during rate cases; therefore, the Division conducted no additional review or investigation at this time.

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 needed for operation. These irrigation companies are organized under Section 501(c) 12 of the Internal Revenue Code and operate as non-profit organizations. The billings for these services are based on the non-profit operation requirement of the water companies and are billed at cost.

Further review of these transactions is considered unnecessary under the circumstances described above.

BNSF Rail Freight Service

The contract for rail freight of coal products between PacifiCorp and BNSF Railway Company (BNSF) is a multiyear contract and was negotiated and in force prior to the purchase of BNSF by Berkshire Hathaway. When negotiated, the contract was an arm's length transaction. The majority of contract revisions since that time have been in the area of fuel surcharges. The Company has provided requested SAP transaction data of the BNSF affiliate transactions and they have been reviewed by the Division. The operating interest in BNSF held by Berkshire Hathaway is 100% since purchased. The rail transportation services dollar amounts paid by PacifiCorp during the last three years has been extremely small when compared with the total annual revenues of BNSF and not sufficient to be considered material. These revenues have been at less than one tenth of one percent of the total revenues of BNSF when calculated on a yearly basis. The pricing and amount of the services are considered to approximate lower of cost or market. Further evaluation is not necessary. The length of the contract and its inception prior to the ownership by Berkshire Hathaway gives additional indication that the pricing structure is reasonable. No activity or indicators were found through services, pricing, or other methods that indicated influence over the policies and actions of either company.

HomeServices of America, Inc.

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. The pricing in this contract appears to be reasonable for the services provided, however, the Division recommends the Commission require PacifiCorp in the 2015 report to issue an RFP that includes HomeServices of America, Inc. and two additional service providers and provide the Commission with an industry pricing comparison from the three providers. This would provide some assurance to the Commission that the prices being charged are within acceptable range of those charged in the industry.

Kern River Gas Transmission Company

Natural gas transportation services are priced at a tariff rate on file with the Federal Energy Regulatory Commission ("FERC") or as priced in a negotiated rate transportation service agreement filed with and approved by the FERC. This pricing structure makes the pricing of services acceptable as market pricing. Neither company appears to be exercising any substantial influence over the policies and actions of the other.

International Business Machines Corporation

At December 31, 2014, Berkshire Hathaway held a six percent ownership interest in IBM. IBM provides services to PacifiCorp in the normal course of business at standard pricing. The dollar amount of the services provided to PacifiCorp by this affiliate does not reach the level that would be sufficient to consider that either company is exercising any substantial influence over the other. This pricing would allow the normal course of business at standard pricing to be considered lower of cost or market pricing.

Nevada Power Company

Wholesale energy purchases and sales are priced based on a negotiated rate capped by the selling entity's cost. Electricity transmission services and transmission ancillary services provided by Nevada Power are priced pursuant to Nevada Power's Open Access Transmission Tariff ("OATT"). Transmission line losses provided by Nevada Power are priced pursuant to a Nevada Power OATT schedule. Electricity transmission services provided by PacifiCorp are priced based on a formula rate on file with the FERC. Transmission line losses and transmission ancillary services provided by PacifiCorp are priced pursuant to PacifiCorp's OATT Schedules. Operations and maintenance costs are ultimately based on PacifiCorp's share of actual operations and maintenance costs incurred. Interest income is priced based on rates on file with the FERC. These pricing references provide sufficient verification as to be considered lower of cost or market pricing.

Wells Fargo & Company

At December 31, 2014, Berkshire Hathaway held a nine percent ownership interest in Wells Fargo. Wells Fargo provides financial services to PacifiCorp in the normal course of business at standard pricing for certain transactions, and at negotiated rates below standard pricing for certain other transactions. No substantial influence over either company's policies or actions was found to exist and allowed these pricing arrangements to be considered lower of cost or market driven.

Moody's Investors Service ("Moody's)

At December 31, 2014, Berkshire Hathaway held a twelve percent ownership interest in Moody's. Moody's Investor Service provides banking services to PacifiCorp in the normal course of business at standard pricing. Influence over either company's policies and actions was not found to exist and allowed these pricing arrangements to be considered lower of cost or market driven.

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 pricing 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 than a pricing practice where a profit or markup would be involved.

In its review of 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. The data 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 operational ownership interest to the level that generally allows influence sufficient to affect the operational 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 transactions than wholly-owned controlled entities. This is the Division's interpretation and approximation from exposure to the 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 Company's 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.

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.

This concludes the Division's report and response to the Action Request from the Commission. The Division recommends that the Commission accept PacifiCorp Affiliated Interest Report for the year ended December 31, 2014, with the recommendation that in the next year's report include an industry pricing comparison that would provide some assurance to the Commission that the prices being charged by the HomeServices of America, Inc. are within acceptable range of those charged in the industry.

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