State of Utah
Department of Commerce
Division of Public Utilities

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Action Request Response

To: Utah Public Service Commission

From: Utah Division of Public Utilities
Artie Powell, Director
Brenda Salter, Utility Technical Consultant Supervisor
Jeff Einfeldt, Utility Technical Consultant

Date: October 21, 2021

Re: **Docket No. 21-035-32**, PacifiCorp's Affiliated Interest Report for the year ended December 31, 2020.

RECOMMENDATION (Acknowledge Report)

The Division of Public Utilities ("Division") has reviewed PacifiCorp's ("Utility") Affiliated Interest Report ("Report") for the Year Ended December 31, 2020 and determined the report complies with MidAmerican Holdings Company Transaction Commitment #8 approved in Docket No. 05-035-54. The Division found no evidence that terms and pricing in these transactions are not at the lower of cost or market, or otherwise not in the public interest. The Division recommends the Commission acknowledge the report.

ISSUE

The purpose of the PacifiCorp Affiliated Interest Report is to inform the Public Service Commission ("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 certain financial information.

On May 28, 2021, the Commission issued an Action Request for the Division to review the Report with an original due date of June 28, 2021. Because the Division required additional time to complete the review, the Commission granted an extension to November 12, 2020. This is the Division's response to the Commission's Action Request.

ANALYSIS

In the absence of a Utah statute defining affiliated interests, the Division follows those found in Oregon, Washington, and California for guidance. 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 Division, at the direction of the Commission, reviews the extent affiliates exercise any substantial influence over the policies and actions of PacifiCorp. The Division noted seven new affiliates in 2020, The Coca-Cola Company, Global Healthcare Product Solutions LLC, Pars and Services Solutions LLC, United Airlines Inc., BHE Wind LLC, MATL LLP, and BHE GT&S LLC. Four entities are no longer listed on the Report; Penn Machine Company LLC, CalEnergy Generation Operating Company, Grid Assurance LLC, and MHC Inc. Of the remaining affiliates listed in the 2020 report, minor changes in ownership of less than one-half percent were noted for a number of affiliates. The greatest changes were recorded in American Airlines Inc., which decreased from 9.98% to less than 5%, The Bank of New York Mellon Corporation, which decreased from 9.98% to 8.39%, Delta Air Lines Inc., which decreased from 10.96% to less than

5%, Southwest Airlines Co., which decreased from 10.19% to less than 5%, and Wells Fargo & Company, which decreased from 9.48% to less than 5%.

TYPES OF SERVICES

PacifiCorp Affiliate transactions are of two kinds: 1) the administrative services provided and received that are covered by the Intercompany Administrative Services Agreement ("IASA"); and 2) the tangible goods and services provided and received outside 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 of the 2020 Affiliated Interest Report. IASA services received fell by approximately 15% (a loss of $1,487,643) to $8,514,931. IASA serviced provided increased by approximately 85% (a gain of $1,247,317) to $2,718,737. The billings and payments follow the procedures set forth by the IASA at 4(b) PAYMENT, and provide assurance these transactions provided the affiliates with the benefit of the services. The Division did not observe any indication of undue negative or positive financial impact to the Company as a result of these transactions.

Non-IASA Services

The non-IASA services are tangible goods and services exchanged between PacifiCorp and the respective affiliate. Non-IASA services received increased by 57% (an increase of $123,760,699) to $341,508,541. The purchase of wind equipment from BHE Wind, LLC totaling $147 million for the new and repowered wind projects approved in Docket Nos. 17-035-39 and 40 more than accounts for the increase in Non-IASA services received.

Non-IASA services provided increased by 63% (an increase of $1,514,877) to $3,908,978. Certain affiliates that provided and/or received significant amounts of non-IASA services are discussed below.

Coal

Coal producing affiliate transactions total $144,836,522 and comprise approximately 43% of non-IASA affiliate transactions of $345,418,000 for the year ended 2020. This represents a decrease of $10,640,485 in coal activity from the prior year. Coal activity for 2020 appears consistent with prior year and is trending down, continuing from last year when a decrease of $7,974,000 in coal activity occurred. The coal contracts and costs are reviewed during rate cases and other actions, therefore, the Division conducted no additional review or investigation of coal costs related to this report.

BHE Wind

A subsidiary of Berkshire Hathaway Renewables, BHE Wind is a new affiliate for the 2020 year. Transactions for 2020 total $147,029,375, or approximately 43% of non-IASA affiliated transactions. The purchases were for wind turbine equipment to support the repowered and new wind facilities approved in Docket Nos. 17-035-39 and 40, and were made pursuant to a purchase and sale agreement priced at BHE Wind's cost for the installation and renovation of wind turbines. These transactions and costs were also reviewed in PacifiCorp's general rate case, Docket No. 20-035-04, and are the subject of the Company's current major plant addition case, Docket No. 21-035-42. In its rate case order, the Commission determined the transactions to be in the public interest. Similarly, these transactions were analyzed by the Oregon Public Utility Commission in Dockets UI 442, UI 444, UI 445, and UI 446, and found to be for the common good.

Water Assessments

The ownership percentage the Utility holds in three water companies represents the water shares purchased by the Utility to provide the annual water needed for its generating plants. The water companies assess the shareholders an annual fee for the anticipated amount needed for operation. These water 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 operational needs of the water companies and are billed at cost. Total services received for 2020 are similar to the prior year. 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. BNSF is a wholly owned subsidiary of Berkshire Hathaway. Transactions with BNSF for 2020 total $28,857,667 representing 8.5% of the total dollar amount of non-IASA goods and services received from affiliates, down $6,344,333 from 2019. 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. These transactions are also subject to review by the Division during rate cases and other dockets as part of the coal analysis. The rail transportation services paid by PacifiCorp during the last three years is immaterial when compared with the total annual revenues of BNSF, representing less than two-tenths of one percent of the total annual revenues of BNSF. The pricing and amount of the services are considered to approximate lower of cost or market. The length of the contract and its inception prior to the ownership by Berkshire Hathaway lends additional assurance that the pricing structure is reasonable. No activity or indicators were found through services, pricing, or other methods that indicate undue influence over the policies and actions of either company.

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 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.

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 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 FERC. These pricing references provide sufficient verification as to be considered lower of cost or market pricing.

MidAmerican Energy Company

The MidAmerican Energy Company is a wholly owned subsidiary of MHC Inc. Transactions not under the IASA totaled $2,450,093 for 2020. These transactions, for mutual assistance, fall under the Intercompany Mutual Assistance Agreement ("IMAA") and were declared in Docket No. 11-999-01. Similar in structure to the IASA, the IMAA allows for resource sharing during emergency situations with all services being reimbursed using a similar method and pricing to the IASA.

Banking

At December 31, 2020, Berkshire Hathaway holds less than a 5% ownership interest in Wells Fargo. This decrease in ownership was reflected by the Schedule 13G filed with the SEC on September 4, 2020. As such, transactions with Wells Fargo are reported through September 4. 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. Non IASA services received by PacifiCorp for 2020 were $1,441,513 compared to $1,107,000 in 2019. No substantial influence over either company's policies or actions by the other was found to exist.

PacifiCorp also receives financial services through U.S. Bancorp and J. Aron & Company in which, at December 31, 2020, Berkshire Hathaway holds a 9.93% interest, and <5% interest respectively. Non IASA services received by PacifiCorp for 2020 totaled $3,741,584 for both companies. No substantial influence over either company's policies or actions by PacifiCorp were found to exist.

SUMMARY

Generally, 2020 financial activity between PacifiCorp and the listed affiliated entities closely resembles prior years' activity. The Division noted the IASA transactions largely involve the sharing of the Information Technology and Administrative Support resources and the costs to operate those departments. The pricing of these services is an allocation of costs rather than pricing to include a profit or markup. The Division did not attempt to audit the affiliates providing these services to PacifiCorp. The financial activity reported in the 2020 Affiliated Interest report for many of these affiliates fails to reach a level that allows influence sufficient to affect the operational decisions and pricing strategies. While it is proper the Commission require analysis of company minority interests listed in the report, it appears the pricing more closely approximates arms-length transactions than wholly-owned controlled entities. Based on the financial information reviewed by the Division, the pricing does not appear to be inappropriate.

The non-IASA services included coal and related rail transportation costs (roughly 50% of the total value of non-IASA transactions), wind-turbine equipment (roughly 43% of the total value of non-IASA transactions), water assessments, and other miscellaneous activity. In its review of the non-IASA goods and services, the Division observed the term "normal course of business at standard pricing" was found to be referenced often in the minority interest owned affiliates' financials and notes. Based on the financial information reviewed and other analysis performed by the Division related to the non-IASA goods and services, the pricing does not appear to be inappropriate.

The Division tests and reviews PacifiCorp's internal controls during general rate cases and other actions, further increasing the Division's belief that undue influence favoring the Utility or the listed affiliates regarding intercompany financial transactions is not evident.

CONCLUSION

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

1. Active affiliated interest relationships exist between PacifiCorp and the reported entities.

2. The appropriate affiliate transactions information has 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 the Commission accept PacifiCorp's Affiliated Interest Report for the year ended December 31, 2020.

cc: Michele Beck, Office of Consumer Services
Jana Saba, Rocky Mountain Power