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UTAH DEPARTMENT OF COMMERCE

Division of Public Utilities

MARGARET W. BUSSE
Executive Director

CHRIS PARKER
Division Director

Action Request Response

To: Public Service Commission of Utah

From: Utah Division of Public Utilities

Chris Parker, Director
Artie Powell, Manager
Brenda Salter, Utility Technical Consultant Supervisor
Doug Wheelwright, Utility Technical Consultant Supervisor
Jeff Einfeldt, Utility Technical Consultant

Date: November 14, 2022

Re: **Docket No. 22-035-26**, PacifiCorp's Affiliated Interest Report for the year ended December 31, 2021.

Recommendation (Acknowledge)

The Division of Public Utilities ("Division") has reviewed PacifiCorp's ("Utility") Affiliated Interest Report ("Report") for the Year Ended December 31, 2021 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.

Division of Public Utilities

Heber M. Wells Building • 160 East 300 South • P.O. Box 146751 Salt Lake City, UT 84114-6741
www.dpu.utah.gov • telephone (801) 530-7622 • toll-free in Utah (877) 874-0904 • fax (801) 530-6512

On May 27, 2022, the Commission issued an Action Request for the Division to review the Report with an original due date of June 27, 2022. Because the Division required additional time to complete the review, the Commission granted an extension to November 15, 2022. 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".¹

"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".²

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 five new affiliates in 2021: Bank of America, NetJets, Inc., Penn Machine Company LLC, BHE Compression Services, LLC, and BHE Infrastructure Group. Seven entities are no longer listed on the Report: American Airlines, Inc., Delta Airlines, Inc., J Aron & Company LLC, Parts and Service Solutions LLC, Southwest Airlines Co., United Airlines, Inc., and Wells Fargo & Company. Of the remaining affiliates listed in the 2021 Report, minor changes in ownership of less than one percent were noted for a number of affiliates.

¹ Rocky Mountain Power's Calendar Year 2021 Affiliated Interest Report 5-27-2022, page 13

² *Ibid.*

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 2021 Affiliated Interest Report. IASA services received by PacifiCorp increased by approximately 104% to \$17,365,106. IASA services provided increased by approximately 192% to \$7,931,114. An increase in transactions with Berkshire Hathaway Energy Company of \$7,174,000 and MidAmerican Energy Company of \$4,434,000 account for 82.5% of the increase.

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 by the utility decreased by 47% to \$181,850,000 primarily due to the one-time effect of the wind equipment transaction between PacifiCorp and BHE Wind, LLC in 2020 (\$147 million).

Non-IASA services provided by PacifiCorp increased to \$8,277,000 primarily due to transactions totaling \$6,313,000 with BHE Wind. Certain affiliates that provided and/or received significant amounts of non-IASA services are discussed below.

Coal

Coal producing affiliate transactions total \$149,537,634 and comprise approximately 79% of non-IASA affiliate transactions of \$189,702,926 for the year ended 2021. This represents an

increase of \$3,376,861 in coal activity from the prior year. Coal activity for 2021 appears consistent with the prior year and is trending up slightly. 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

The Utility sold wind turbines previously acquired from a third party to BHE Wind during this reporting period. During the prior reporting period, the Utility acquired wind equipment totaling \$145 million.

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 2021 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 2021 total \$19,321,838 representing 6.1% of the total dollar amount of non-IASA goods and services received from affiliates, down \$9,535,829 from 2020. When negotiated, the contract was an arm's length transaction. The majority of contract revisions since that time relate to 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 revenues. 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 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 to be considered lower of cost or market pricing.

Banking

Bank of America 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 2021 were \$568,000. No substantial influence over either company’s policies or actions by the other was found to exist.

Summary

Generally, 2021 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 2021 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.

Non-IASA services included coal and related rail transportation costs (roughly 89% of the total value of non-IASA transactions), wind-turbine equipment, 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.

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 acknowledge PacifiCorp's Affiliated Interest Report for the year ended December 31, 2021.

cc: Jana Saba, PacifiCorp
Michele Beck, Office of Consumer Service