

Staff Audit Report of PacifiCorp

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Table of Contents

Executive Summary	4
Audit Objectives and Scope.....	4
Audit Areas.....	4
Audit Results.....	5
Other Comments.....	5
Summary of Findings	6
Company Background and Organization	11
Affiliates Interests and Subsidiaries.....	11
Staffing.....	20
Wages and Full-Time Equivalents (FTE).....	21
Severance Costs.....	22
Compensation Merit Pay, Incentive Policy, and Plans.....	23
Budget	26
Operational Budget.....	26
Capital Budget.....	26
Site Visit to Review PacifiCorp’s 10-Planning Process.....	27
Utility Plant	28
Utility Accounts.....	28
Capital Leases.....	32
Allowance for Funds Used During Construction.....	33
Environmental Regulations.....	35
Hydroelectric Plant Relicensing Costs.....	38
Actual Financial Performance	39
Actual Returns.....	39
Operations and Maintenance Expenses	40
Administrative and General (A&G) Expenses	41
Labor Costs.....	43
Labor Allocations.....	44
Benefit Costs.....	44
Medical/Dental/Vision Company Contribution.....	44
Pension/Postretirement Costs.....	45
Uncollectible Expenses (Account 904).....	46
Insurance Services and Injuries and Damages.....	47
Taxes	48
Tax Sharing Agreement with PacifiCorp Holdings Inc.....	48
Income Taxes.....	48
Other Taxes.....	49
Oregon Property Taxes.....	50
Deferred Taxes.....	51

Tax Credits.....	51
Financial Records	52
BPA Residential Exchange Settlement Agreement	52
Internal Audit	53
Affiliated Interest / Non-Regulated Cost Allocations	53
Affiliate Transactions.....	53
Subsidiary Loan Activity/Guarantees	53
Intercompany Administrative Services Agreement	54
Tax Sharing Agreement with Subsidiaries	55
Corporate Services/Cost Allocation Manual	55
Coal Purchases from Affiliates	55
Securities Issuances	55
Adequate Cooperation	55
Sectional Audit Objectives and Scope	56
Audit Areas	56
Competitive Issuance Costs	57
Access to Capital.....	58
Make-Whole Spreads in Bond Early Call Provisions.....	60
Early Redemptions.....	61
Investor and Other Presentations	61
Credit Facilities and Fees.....	61
Decrease in WAC of Long-term Debt	62
Impact of Issuer Financial Health on Ease of Remarketing PCRBs.....	62
Rating Agency Reports, Ratings, and Calculations	62
Topical Conclusion	63
Customer Service	64
Customer Count, Complaints and Service Levels	64
System Reliability Violations and Improvement Measures.....	66
Conclusion	67

Executive Summary

Staff conducted an operational audit of PacifiCorp during the third and fourth quarters of 2011. As part of the audit, Staff submitted 175 Data Requests to PacifiCorp, conducted telephone conversations, and conducted a site visit on December 19, 2011. Although focused on operations from years 2008 through 2010, Staff examined additional data for consistency in context of historical information that will be reviewed in a subsequent rate case.

Other than PacifiCorp's responses to Staff's data requests, Staff relied on the following resources:

1. PacifiCorp's Fiscal Year 2010 Result of Operations Report;
2. PacifiCorp's Fiscal Year 2010 Affiliated Interest Annual Report;
3. PacifiCorp's 2010 FERC Form 1 Report;
4. PacifiCorp's 2010 SEC Forms (e.g., 8-K and 10-K);
5. Bank of America's 2010 SEC Form 8-K; and
6. An analysis of the Company's historic and outstanding debt securities.

Audit Objectives and Scope

1. To review and provide information that will assist Staff in any upcoming PacifiCorp rate case.
2. Provide an informational base for future regulatory and other inquiries into the operations of PacifiCorp.
3. To develop suggestions for further investigation during the rate case.

Audit Areas

Staff audited the following areas and topics:

1. Company Background
2. Affiliated Interest
3. Budgets
4. Utility Plant
5. Allowance for Funds Used During Construction (AFUDC)
6. Actual Financial Performance
7. Operations and Maintenance
8. Administrative and General Expenses
9. Financial Records
10. Tax Calculation
11. Security Issuances
12. Customer Service

Audit Results

As a result of the audit being performed prior to PacifiCorp's rate case, Staff separated audit findings into two categories. The two categories are:

- Staff findings on planning issues; and
- Staff's suggestions for further investigation during the rate case.

Staff's audit findings are listed in the Summary of Findings, starting on page 6.

Staff findings for planning issues resulted from a thorough review of the areas audited by Staff. Planning issues focused on procedures and compliance with current statutes and rules.

Staff suggestions for further investigation during the rate case resulted from observations of activities that may have a potential effect on the upcoming rate case and may require a more in-depth review by Staff assigned to the rate case.

Staff discovered five planning issues and seventeen suggestions for further investigation during the subsequent rate cases.

It is important to note that the audit was performed on a sample basis. Staff involved in the rate case may discover issues and concerns that were not encountered during the audit process or that may not agree with the Audit Staff's findings.

Additionally, these recommendations should not be considered final rate case adjustments, as each subject area will undergo further review by Staff during PacifiCorp's rate case.

Other Comments

Staff appreciates PacifiCorp's responsiveness and cooperation during the audit process.

As a result of the audit timeframe, Staff incorporated the Annual Affiliated Interest Report Review (for the calendar year 2010) into this audit.

Summary of Findings

PacifiCorp

No.	Area	Topic	Comments	Page
1	Company Background and Organization	Affiliates	Given Berkshire Hathaway's percentage of ownership in IBM, if PacifiCorp enters into a new contract or an amended contract with IBM, PacifiCorp should file all appropriate applications with the Commission. <i>(Planning Issue)</i>	19
2	Company Background and Organization	Affiliates	Given, Berkshire Hathaway's \$5 billion investment in Bank of America, once approximately 534 million of the 700 million warrants are exercised Berkshire Hathaway would have obtained a 5 percent ownership of B of A's voting securities. Once the voting shares are acquired, if PacifiCorp were then to enter into a new contract or amended an existing contract with Bank of America, PacifiCorp should file all appropriate applications with the Commission. <i>(Planning Issue)</i>	20
3	Company Background and Organization	Wages and Full-Time Equivalent	Some PacifiCorp exempt employees receive overtime. The Audit Staff is unaware of any rate orders that allowed overtime for exempt personnel and rate case staff should examine exempt overtime in more detail during a subsequent rate case. <i>(Further investigation during the rate case)</i>	22

No.	Area	Topic	Comments	Page
4	Company Background and Organization	Compensation Merit Pay, Incentive Payment, and Plan	Rate case staff should consider both the NEOs and Other Executives as officers and recommend disallowance of the two costs. In addition, non-officer bonuses should be associated directly with regulated operations and provide measurable benefits to ratepayers. Non-executive other management and non-bargaining employee incentive payments should also be reviewed against Commission policy. <i>(Further investigation during the rate case)</i>	25
5	Budget	Site Visit to Review PacifiCorp's 10-Year Plan	Rate case staff should consider submitting data requests to the Company for an explanation of any differences, between the Company's filing test period and the detailed Board approved 10-Year plan, for the same time period. <i>(Further investigation during the rate case)</i>	28
6	Utility Plant	Utility Accounts	Rate case Staff should ensure that the all projects placed in service subsequent to PacifiCorp's previous rate case (UE 217) are used and useful for inclusion into rate base. <i>(Further investigation during the rate case)</i>	32
7	Utility Plant	Hydroelectric Plant Relicensing Costs	During an upcoming rate proceeding, Staff should review, in detail, the hydroelectric relicensing costs to ensure that only prudent and necessary costs are included in rate base. <i>(Further investigation during the rate case)</i>	38
8	Operations and Maintenance (O&M)	Cost Comparison	Although, O&M costs are declining on a total Company basis, during an upcoming rate proceeding, Staff should review, Oregon allocated O&M in FERC accounts 560 through 598 to determine appropriateness and correctness. <i>(Further investigation during the rate case)</i>	41

No.	Area	Topic	Comments	Page
9	O&M	Cost Comparison	Staff should make a comparison in any general rate case proceeding, between increases/decreases in Company O&M escalation factors as compared to Global Insight's escalation factors for the same time period. <i>(Further investigation during the rate case)</i>	41
10	O&M	Cost Comparison	During any general rate case proceeding, rate case staff should closely examine test year O&M expenses to ensure that non-recurring expenses are removed. <i>(Further investigation during the rate case)</i>	41
11	Administrative and General (A&G)	Oregon Allocation	Staff did not review individual line item details for various meals and entertainment expenses as part of this audit. A review should be conducted as part of any upcoming rate proceeding in order to identify any non-utility office expenses, travel/entertainment expenses, spousal expenses, political contributions, gifts, catering, etc., which should be removed as rate case adjustments. <i>(Further investigation during the rate case)</i>	43
12	Administrative and General (A&G)	Labor Costs	Staff did not specifically analyze the annual wage increases, including the level of negotiated increases in the latest union contracts. During a general rate case it is recommended that Staff examine the wage increases by labor groups to ensure that officer and exempt personnel increases are in line with those of the other labor groups. <i>(Further investigation during the rate case)</i>	43

No.	Area	Topic	Comments	Page
13	Administrative and General (A&G)	Medical, Dental, Vision Company Contributions	Staff should review in detail, the individual bargaining unit agreements and terms of the various medical, dental, and vision benefit plans to determine the overall costs as compared to industry standards. <i>(Further investigation during the rate case)</i>	44
14	Administrative and General (A&G)	Uncollectable Accounts	Staff should review uncollectible accounts during the rate case to determine a reasonable ongoing level of expense. <i>(Further investigation during the rate case)</i>	46
15	Administrative and General (A&G)	Insurance Premiums	Staff should review in detail, individual insurance policies, during an upcoming rate case to determine an appropriate level of insurance expense that should be borne by customers. <i>(Further investigation during the rate case)</i>	48
16	Taxes	Tax Credits	In any upcoming rate proceeding, Staff should verify that the entire costs of purchased BETC's are booked to below-the-line accounts. Ratepayers do not receive any benefit from purchased BETC's and therefore should not share in any of their cost. <i>(Further investigation during rate case)</i>	52
17	Security Issuances	Competitive Issuance Costs	Staff recommends an examination of the Company's control of external legal and other costs associated with securities' issuance. Benchmarking across Commission regulated utilities will provide a framework for improved understanding. This examination should also look at the assignment of costs across multiple similar PacifiCorp issuances, and confirm if costs reflect downward price pressures and improved cost controls over time. <i>(Further investigation during rate case)</i>	57

No.	Area	Topic	Comments	Page
18	Security Issuances	Competitive Issuance Costs	Staff recommends that in subsequent securities' issuance dockets that the Company be required capture and document granular legal expenses to reflect the purposes of legal services rendered, the types of attorney or paralegal performing the work, and the billed unit and total cost to accomplish specific component tasks. <i>(Planning Issue)</i>	58
19	Security Issuances	Access to Capital	Relatively low all-in-costs in the absence of interest rate hedging and forward start costs currently make long-term debt highly attractive. Staff may find it beneficial to examine the Company's debt maturity profile (for concentrations) at a future date. Presently, there are six post-2030 years in which scheduled long-term debt maturities total more than \$300 million. <i>(Planning Issue)</i>	60
20	Security Issuances	Early Redemptions	Staff may find it beneficial to again examine early redemptions in a future period of rising interest rates, looking for adequate control of the number of securities outstanding for the same purpose. <i>(Planning Issue)</i>	61
21	Security Issuances	Investor and Other Presentations	Staff recommends that in a future rate case, Staff review information prepared by Perkins Coie and other law firms not reviewed in this proceeding. The Company should allow Staff to view this material under controlled conditions. <i>(Further investigation during rate case)</i>	61
22	Customer Service	Non-Reoccurring Transitions	In any upcoming rate proceedings, Staff should verify that the entire amount of this civil penalty and the related legal fees be removed from the base period expenses because of the non-reoccurring nature of the transaction. <i>(Further investigation during rate case)</i>	67

Company Background and Organization

PacifiCorp, which includes PacifiCorp and its subsidiaries, is a United States regulated electric company serving 1.7 million retail customers, including residential, commercial, industrial and other customers in portions of the states of Utah, Oregon, Wyoming, Washington, Idaho and California.

PacifiCorp owns, or has interests in, 78 thermal, hydroelectric, wind-powered, and geothermal generating facilities, with a net owned capacity of 10,623 megawatts (MW). PacifiCorp also owns, or has interests in, electric transmission and distribution assets, and transmits electricity through approximately 16,200 miles of transmission lines. PacifiCorp also buys and sells electricity on the wholesale market with public and private utilities, energy marketing companies, and incorporated municipalities as a result of excess electricity generation or other system balancing activities. PacifiCorp is subject to comprehensive state and federal regulation.

PacifiCorp's subsidiaries support its electric utility operations by providing coal mining and environmental remediation services. PacifiCorp is an indirect subsidiary of MidAmerican Energy Holdings Company (MEHC), a holding company based in Des Moines, Iowa, that owns subsidiaries principally engaged in energy businesses. MEHC is a consolidated subsidiary of Berkshire Hathaway Inc. (Berkshire Hathaway). MEHC controls substantially all of PacifiCorp's voting securities, which include both common and preferred stock.¹

Affiliates Interests and Subsidiaries

The following is a brief description of affiliates, which conducted business with PacifiCorp in 2011. These entities are affiliated interests of PacifiCorp, as defined by Oregon Revised Statutes (ORS) 757.015, because each has two or more officers or directors in common with PacifiCorp, or they meet the ownership requirements of 5 percent direct or indirect ownership.²

Marmon Holdings, Inc. (Marmon) – At December 31, 2010, Berkshire Hathaway held a 63.6 percent ownership interest in Marmon. Marmon is an international association of numerous manufacturing and service businesses in energy-related and other markets. Certain Marmon affiliates provide materials and equipment parts and repairs to PacifiCorp in the normal course of business.³

¹ PacifiCorp's SEC Form 10-K for the fiscal year ending December 31, 2010, page 8.

² PacifiCorp Affiliated Interest Report for the Year Ended December 31, 2010.

³ Ibid.

The Hartford Steam Boiler Inspection and Insurance Company (Hartford Steam Boiler) – At December 31, 2010, Berkshire Hathaway Held a 10.2 percent ownership interest in Munich Re, which indirectly wholly owns Hartford Steam Boiler. Hartford Steam Boiler is a specialty insurer and reinsurer and also provides inspection services and engineering consulting. Harford Steam Boiler provides PacifiCorp with transformer oil and gas analysis.⁴

Cable ONE – Cable ONE is a wholly owned subsidiary of the Washington Post Company. At January 2, 2011, Berkshire Hathaway held 1,727,765 of the 6,952,973 outstanding shares of Class B common stock of The Washington Post Company. Pursuant to an agreement, which has a termination date of February 24, 2017, Berkshire Hathaway has granted Donald Graham, Chairman of the Board and Chief Executive Officer of the Washington Post Company, a proxy to vote these Class B shares at his discretion. Class B common stock elects three of the ten directors of the board of directors; Class A common stock elects seven of the ten directors. During 2010, Warren Buffet wa on the Board of Directors of The Washington Post Company. Cable ONE is an operator of cable systems including cable television, telephone and high-speed internet service. Cable One provides PacifiCorp with cable internet-related services.⁵

Moody's Investors Service (Moody's) – At December 31, 2010, Berkshire Hathaway held a 12.1percent ownership interest in Moody's Corporation, which wholly owns Moody's. Moody's provides credit ratings and research covering debt instruments and securities. Moody's provides PacifiCorp with credit rating services. Moody's provides PacifiCorp with credit rating services.⁶

MidAmerican Energy Holdings Company– a holding company owning subsidiaries that are principally engaged in energy businesses. MEHC is a consolidated subsidiary of Berkshire Hathaway. As of January 31, 2011, Berkshire Hathaway owned approximately 89.9% of MEHC's common stock. The remainder of MEHC's common stock is owned by private investor group that includes Walter Scott, Jr., a director of MEHC (5.6% ownership interest as of January 31, 2011) and Gregory E. Abel, PacifiCorp's Chairman of the Board of Directors and Chief Executive Officer (0.8% ownership interest as of January 31, 2011). MEHC and its subsidiaries provide management and administrative services to PacifiCorp pursuant to the Intercompany Administrative Services Agreement (IASA) which are billed to PacifiCorp as a

⁴ PacifiCorp Affiliated Interest Report for the Year Ended December 31, 2010.

⁵ Ibid.

⁶ Ibid.

management fee. PacifiCorp also provides management and administrative services to MEHC and its subsidiaries pursuant to the IASA.⁷

HomeServices of America, Inc. (HomeServices) – a majority-owned subsidiary of MEHC. HomeServices is a full-service residential real estate brokerage firm that provides relocation services and traditional residential real estate brokerage services to employees of PacifiCorp and its affiliates. PacifiCorp provides services to HomeServices pursuant to the IASA.⁸

Kern River Gas Transmission Company (Kern River) – an indirect wholly owned subsidiary of MEHC, owns an interstate natural gas pipeline system that extends from supply areas in the Rocky Mountains to consuming markets in Utah, Nevada and California. Kern River's pipeline system consists of 1,700 miles of natural gas pipelines. Kern River's transportation operations are subject to a regulated tariff that is on file with the Federal Energy Regulatory Commission (FERC). Kern River provides services for the transportation of natural gas to certain of PacifiCorp's generating facilities in Utah. PacifiCorp provides services to Kern River pursuant to the IASA.⁹

MEHC Insurance Services Ltd. (MEISL) – a wholly owned subsidiary of MEHC that provides a captive insurance program to PacifiCorp. MEISL covers all or significant portions of the property damage and liability insurance deductibles in many of PacifiCorp's policies, as well as overhead distribution and transmission line property damage. Claims for distribution and transmission line property, after an aggregate deductible of \$5 million, are capped at \$10 million per annual policy coverage period. Claims for non-distribution and transmission line property, after a \$1.5 million deductible, are capped at \$6 million per occurrence. Claims for general liability, after a \$250,000 deductible, are capped at \$750,000 per occurrence. PacifiCorp has no equity interest in MEISL and has no obligation to contribute equity or loan funds to MEISL. Premium amounts were established in March 2006 based on a combination of actuarial assessments and market rates to cover loss claims, administrative expenses and appropriate reserves, but as a result of regulatory commitments were capped through December 31, 2010. Certain costs associated with the program prepaid and amortized over the policy coverage period that expired March 20, 2011. Coverage under the captive will not be renewed.¹⁰

⁷ PacifiCorp Affiliated Interest Report for the Year Ended December 31, 2010.

⁸ Ibid.

⁹ Ibid.

¹⁰ Ibid.

MidAmerican Energy Company (MEC) – an indirect wholly owned subsidiary of MEHC. MEC is principally engaged in the business of generating, transmitting, distributing and selling electricity and in distributing, selling and transporting natural gas. Additionally, MEC transports natural gas through its distribution system for a number of end-use customers who have independently secured their supply of natural gas. In addition to retail sales and natural gas transportation, MEC sells electricity and natural gas to other utilities, municipalities and energy marketing companies on a wholesale basis. MEC provides administrative services to PacifiCorp pursuant to the IASA as part of the MEHC management fee. PacifiCorp provides services to MEC pursuant to the IASA.¹¹

CalEnergy Generation Operating Company (CalEnergy Generation) – a wholly owned subsidiary of MEHC. CalEnergy Generation is organized to manage and operate independent power projects in the United States. CalEnergy Generation provides administrative services to PacifiCorp pursuant to the IASA as part of the MEHC management fee. PacifiCorp provides services to CalEnergy Generation pursuant to the IASA.¹²

Falcon Power Operating Company (Falcon Power) – an indirect wholly owned subsidiary of CE Generation, LLC, which is 50 percent owned by MEHC. CE Generation, LLC is engaged in the independent power business and owns several facilities, including three natural gas-fired cogeneration facilities operated by Falcon Power. One of Falcon Power's employees transferred to PacifiCorp during the year ended December 31, 2010.¹³

Other MEHC subsidiaries – In addition to the entities described above, MEHC's subsidiaries MidAmerican Funding, LLC, MHC Inc. and CE Electric UKI Funding Company performed administrative services for PacifiCorp pursuant to the IASA as part of MEHC management fee. MidAmerican Funding, LLC, a wholly owned subsidiary of MEHC, is a holding company owning all of the outstanding common stock of MHC Inc., which is a holding company owning all of the common stock of MEC. CE Electric UK Funding Company is an indirect wholly owned subsidiary of MEHC whose services include the distribution of electricity of Great Britain and the operation of an engineering contracting business.

PPW holdings LLC – the holding company for PacifiCorp and direct subsidiary of MEHC. PPW Holdings LLC remits income taxes to MEHC on behalf of PacifiCorp.¹⁴

¹¹ PacifiCorp Affiliated Interest Report for the Year Ended December 31, 2010.

¹² Ibid.

¹³ Ibid.

¹⁴ Ibid.

PacifiCorp Foundation – an independent non-profit foundation created by PacifiCorp in 1988. PacifiCorp Foundation supports the growth and vitality of the communities where PacifiCorp and its affiliates have operations, employees of interests. PacifiCorp Foundation operates as the Rocky Mountain Power Foundation and the Pacific Power Foundation. PacifiCorp provides administrative services to the PacifiCorp Foundation.¹⁵

Energy West Mining Company – a wholly owned subsidiary of PacifiCorp that mines coal from PacifiCorp-owned mines in Emery County, Utah to supply PacifiCorp's Huntington, Hunter and Carbon generating facilities. PacifiCorp provides administrative services to Energy West Mining Company.¹⁶

Interwest Mining Company – a wholly owned subsidiary of PacifiCorp providing technical, management and administrative services to Energy West Mining Company, Pacific Minerals Inc. and PacifiCorp. Interwest Mining Company charges a management fee to Energy West Mining Company and Pacific Minerals, Inc. that is intended to compensate it, without profit, for its cost of managing these entities. PacifiCorp provides administrative services to Interwest Mining Company.¹⁷

PacifiCorp Environmental Remediation Company (PERco) – a wholly owned subsidiary of PacifiCorp that evaluates, manages and resolves certain environmental remediation activities on behalf of PacifiCorp utilizing PacifiCorp's employees.¹⁸

Pacific Minerals, Inc (PMI) – PMI is a wholly owned subsidiary of PacifiCorp's that owns 66.67 percent of Bridger Coal Company, the coal mining joint venture with Idaho Energy Resources Company (IERC), a subsidiary of Idaho Power Company. PMI is the entity that employs the individuals that work for Bridger Coal Company.¹⁹

Bridger Coal Company (Bridger Coal) – Bridger Coal is a coal mining joint venture between PMI and IERC. PMI owns 66.67 percent and IERC owns 33.33 percent of Bridger Coal. Bridger Coal provides coal from the Bridger mine to the Jim Bridger generating facility. PacifiCorp provides

¹⁵ PacifiCorp Affiliated Interest Report for the Year Ended December 31, 2010.

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ Ibid.

administrative services to Bridger Coal.²⁰

Huntington Cleveland Irrigation Company (HCIC) – is a non-profit mutual irrigation company, which is a privately owned water stock company. PacifiCorp holds approximately 34 percent of its water shares. PacifiCorp pays annual assessment fees to HCIC to help cover its operating and maintenance costs, in exchange for receiving access to water used by PacifiCorp's Huntington generating facility. PacifiCorp also made capital investment in HCIC through December 31, 2010 to ensure a long-term, firm water supply for its Huntington generating facility.²¹

Ferron Canal & Reservoir Company (FC&RC) – is a non-profit mutually owned water stock company. PacifiCorp holds approximately 34 percent of its water shares. PacifiCorp holds approximately 37 percent of the outstanding stock in FC&RC. PacifiCorp pays annual assessment fees to FC&RC to help cover its operating and maintenance costs, in exchange for receiving access to water used by PacifiCorp's Hunter generating facility. PacifiCorp also contracts additional water from FC&RC and PacifiCorp. The agreement calls for PacifiCorp to make annual payments to FC&RC and in return, FC&RC provides PacifiCorp up to 7,000 acre-feet of water.²²

Trapper Mining (Trapper) – PacifiCorp owns a 21.4 percent interest in Trapper, which operates a mine at the Craig "mine-mouth" operation (generating station located next to the mine) located outside of Craig, CO. The remaining ownership in Trapper is as follows: Salt River Project Agricultural Improvement and Power District (32.10 percent), Tri-State Generation and Transmission Associated, Inc. (26.57 percent) and Platte River Power Authority (19.93 percent). Two of PacifiCorp's employees serve on the Trapper board of directors. PacifiCorp is compensated for this service.²³

Burlington Northern Santa Fe Railway Company (BNSF) – In February of 2010, BNSF became an indirect wholly owned subsidiary of Berkshire Hathaway. BNSF operates one of the largest railroad networks in North America. PacifiCorp has long-term coal transportation contracts with BNSF, including indirectly through a generating facility that is jointly owned by PacifiCorp and another utility, as well as right-of-way agreements.²⁴

²⁰ PacifiCorp Affiliated Interest Report for the Year Ended December 31, 2010.

²¹ Ibid.

²² Ibid.

²³ Ibid.

²⁴ Ibid.

Racom Corporation (Racom) - Racom provides two-way radio communication, broadband mobile data and wireless point-to-point solutions. Racom provides radio installation services to PacifiCorp. Racom is 17 percent owned by MHC Investment Company, an indirect, wholly-owned subsidiary of MEHC. PacifiCorp has no ownership interest in Racom. The Commission approved a contract with Racom.²⁵

Northern Natural Gas Company (Northern) - Northern owns and operates an interstate natural gas pipeline system in the United States. Northern is an indirect, wholly-owned subsidiary of MEHC. PacifiCorp has no ownership interest in Northern. Transactions with Northern occur pursuant to the Intercompany Administrative Services Agreement (IASA), approved by the Commission.²⁶

MEC Construction Services Co. (MCS) - MCS provides non-regulated utility construction services. MCS is an indirect, wholly-owned subsidiary of MEHC. PacifiCorp has no ownership interest in MCS. Transactions with MCS occur pursuant to the IASA, which the Commission approved.²⁷

Midwest Capital Group Inc. (MCG) - MCG holds a 100 percent interest in MHC Investment Company as well as interests in other operating, financing and development companies. MCG is an indirect, wholly-owned subsidiary of MEHC. PacifiCorp has no ownership interest in MCG. Transactions with MCG occur pursuant to the IASA, which the Commission approved.²⁸

Cordova Funding Corporation (CFC) - CFC is a special purpose entity that provided financing for and indirectly owns 0.1 percent of Cordova Energy Company LLC, which owns a 537 megawatt gas-fired electric generation facility in Illinois. CFC is an indirect, wholly-owned subsidiary of MEHC. PacifiCorp has no ownership interest in CFC. Transactions with CFC occur pursuant to the IASA, which the Commission approved.²⁹

Northern Powergrid Holdings Company - Effective November 1, 2011, the company formerly known as CE Electric UK Funding Company changed its name to Northern Powergrid Holdings Company. Refer to the December 31, 2010, Affiliated Interest Report filed with the Oregon Commission for a description of CE Electric UK Funding Company. Transactions with Northern Powergrid Holdings Company occur pursuant to the IASA, which the

²⁵ PacifiCorp response to Staff data request A161.

²⁶ Ibid.

²⁷ Ibid.

²⁸ Ibid.

²⁹ Ibid.

Commission approved.³⁰

CE Philippines Ltd. (CEP) - CEP holds an 85 percent interest in CE Casecan Water and Energy Company, Inc., which owns and operates a combined irrigation and 150 megawatt hydroelectric power generation project in the Philippines. CEP is an indirect, wholly-owned subsidiary of MEHC. PacifiCorp has no ownership interest in CEP. Transactions with CEP occur pursuant to the IASA, which the Commission approved.³¹

Iowa Realty Co., Inc. (Iowa Realty) - Iowa Realty provides real estate brokerage and relocation services in Iowa. Iowa Realty is 100 percent owned by HomeServices of America, Inc. HomeServices of America, Inc. is 97.78 percent owned by MEHC. PacifiCorp has no ownership interest in Iowa Realty. Transactions with Iowa Realty occur pursuant to the IASA, which the Commission approved.³²

Cottonwood Creek Consolidated Irrigation Company (CCCIC) – CCCIC is a non-profit mutual irrigation company, which is a privately owned water stock company. PacifiCorp holds approximately 26 percent of the outstanding stock in CCCIC. PacifiCorp pays annual assessment fees to CCCIC to help cover its operating and maintenance costs, in exchange for receiving access to water used by PacifiCorp's Hunter generating facility. PacifiCorp is also making capital investments in CCCIC to ensure a long-term, firm water supply for its Hunter generating facility. The Commission approved a contract between PacifiCorp and CCCIC.³³

Fossil Rock Fuels, LLC (Fossil Rock) – Fossil Rock is a wholly owned subsidiary of PacifiCorp. Fossil Rock serves as the leaseholder for certain coal supply agreements that are used to supply coal to PacifiCorp's Hunter and Huntington generation plants. The Company filed an application for approval of a contract with Fossil Rock. The Commission approved an agreement between Fossil Rock and PacifiCorp.³⁴

Wells Fargo and Company (Wells Fargo) – At December 31, 2010, Berkshire Hathaway held a 7 percent ownership interest in Wells Fargo. Wells Fargo is a financial services company providing banking, insurance, investments, mortgage banking, investment banking, retail banking, brokerage and consumer finance to consumers, businesses and institutions.

³⁰ PacifiCorp response to Staff data request A161.

³¹ Ibid.

³² Ibid.

³³ Ibid.

³⁴ Ibid.

The Commission approved an agreement that included Wells Fargo as one of three underwriters for a PacifiCorp mortgage bond issuance.³⁵

On November 14, 2011, Berkshire Hathaway's ownership interests in International Business Machines Corp. (IBM), the world's biggest computer-services provider increased to 5.5 percent. The holding of about 64 million shares was acquired mostly in the third quarter of 2011 at a cost of \$10.5 to \$10.7 billion. Given that ownership by Berkshire Hathaway of IBM exceeds the 5 percent threshold, and especially if, PacifiCorp conducts business with IBM, the Company will need to file an application for Affiliated Interest with the Commission for any new transactions with IBM.³⁶

On August 25, 2011, Berkshire Hathaway, announced plans to invest \$5 billion in Bank of America (B of A). Berkshire purchased \$5 billion of preferred stock that pay a 6 percent annual dividend, and warrants to purchase 700 million shares of B of A common stock that it can exercise over the next 10 years. The strike priced set for the warrants of \$7.14, at the time of the news report, was approximately 21.6 percent under water. B of A has the option to buy back the preferred shares at any time for a five percent premium, which would equal a \$250 million premium.³⁷ ³⁸ On September 12, 2011 Berkshire Hathaway filed a Schedule 13G pursuant to Rule 13d.1(c) with the Securities and Exchange Commission (SEC), a schedule filed to report acquisition of beneficial ownership of 5% or more of a class of equity securities.³⁹ Although, a Form 13G was filed by Berkshire Hathaway, since the preferred shares do not contain voting rights and the warrant to purchase the common shares has not been exercised, based on the ORS 757.015(1), which requires owning or holding rights in "voting" securities, an affiliated interest relationship between PacifiCorp and Bank of America does not currently exist.

Staff recommendation

1. Given Berkshire Hathaway's percentage of ownership in IBM, if PacifiCorp enters into a new contract or an amended contract with IBM, PacifiCorp should file all appropriate applications with the Commission. (*Planning Issue*)

³⁵ OPUC Commission Order 11-423 in Docket UI 315, filed 8/3/2011.

³⁶ Andrew Frye and Maryellen Tighe, "Berkshire Takes \$10.7 Billion IBM Stake, CEO Buffett Says," 2011, < <http://www.businessweek.com/news/2011-11-15/berkshire-takes-10-7-billion-ibm-stake-ceo-buffett-says.html>> (accessed November 22, 2011).

³⁷ Bank of America's Form 8K filed with the SEC on 8/25/2011.

³⁸ Ben Protess and Susanne Craig, "Buffet Invest \$5 Billion in Bank of America," 2011, < <http://dealbook.nytimes.com/2011/08/25/buffett-to-invest-5-billion-in-bank-of-america/>> (accessed November 23, 2011)

³⁹ EdgarOnline, 2011, <http://yahoo.brand.edgar-online.com/displayfilinginfo.aspx?FilingID=8143736-3683-172034&type=sect&TabIndex=2&companyid=15519&ppu=%252fdefault.aspx%253fcompanyid%253d54239> (accessed December 28, 2011)

2. Given Berkshire Hathaway’s \$5 billion investment in Bank of America, once approximately 534 million of the 700 million warrants are exercised Berkshire Hathaway would have obtained a 5 percent ownership of B of A’s voting securities. Once the voting shares are acquired, if PacifiCorp were then to enter into a new contract or an amended an existing contract with Bank of America, PacifiCorp should file all appropriate applications with the Commission. *(Planning Issue)*

Staffing

The following table, that does not include mining personnel, shows a breakdown of PacifiCorp employee headcount.

Table 1 – PacifiCorp Staffing - 2011

Organization	(Headcount)		Percent Change
	Sept. 30, 2008	July 30, 2011	
Pacific Power	1,215	1,211	-0.3%
Regulation and Legislation	44	45	2.3%
Finance	146	155	6.2%
Environmental	2	1	-50.0%
Procurement	42	44	4.8%
HR, IT, Insurance and Communications	345	315	-8.7%
PacifiCorp Energy (no mining)	1794	1719	-4.2%
Rocky Mountain Power	2181	2120	-2.8%
Total	5,769	5,610	-2.8%

As a comparison, PacifiCorp had 5,669 employees in 2007 and 5,697 employees in 2006. PacifiCorp’s full and part-time employee count has decreased by 159 or -2.8 percent compared to the staffing as of September 2008. Compared to 2006, prior to the acquisition of PacifiCorp by MEHC, the span of control maintained by the Company’s supervisors/managers has been reduced by approximately 9.5 percent.

Table 2 – Span of Control

Year	Supervisor’s/Manager’s Span of Control
2010	8.35
2009	8.55
2008	8.63
2007	8.49
2006	8.94

Wages and Full-Time Equivalents (FTE)

Table 2 shows a breakdown of PacifiCorp employees based on classification of the FTE's from 2007 through 2010. It should be noted that the average compensation per employee has risen by approximately \$3,847 per FTE, in four years.

Table 3 – PacifiCorp FTE Employees by Classification

	2007	2008	2009	2010
Non-Executive Officers (NEO)	3.5	4.0	4.0	4.1
Other Executives	6.9	4.0	4.0	4.0
Other Management (Supervisor)	692.0	448.9	452.1	452.3
Non-bargaining	1,568.2	1,904.2	1,962.2	1,912.6
Bargaining	3,340.7	3,342.9	3,316.0	3,214.8
Total FTE's	5,611.3	5,704.0	5,738.3	5,587.8
Wages/Salaries	\$518,308,732	\$536,020,637	\$543,037,396	\$537,634,062
	\$92,368	\$93,972	\$94,633	\$96,215

Table 4 shows the change in FTE from 2007.

Table 4 – Change in FTE Count

	Percentage Change 2007-2008	Percentage Change 2007-2010
NEO	14.3%	17.1%
Other Executives	-42.0%	-42.0%
Other Management (Supervisor)	-35.1%	-34.6%
Non-bargaining	21.4%	22.0%
Bargaining	0.1%	-3.8%
Total FTE's	1.7%	-0.4%
Total Wage/Salary Expense	3.4%	3.7%
Compensation per FTE	1.7%	4.2%

As can be seen from the above tables the bulk of the increase in per FTE compensation occurred between 2007 and 2008. Other observations based on Table 3 include:

- Reduced total FTE by 23.5 FTE -0.04 percent from the 2007 level.

- Reduced the number of bargaining personnel FTE by 125.9 or -3.8 percent) from the 2007 level;

Based on the above tables, it appears that PacifiCorp has controlled the number of FTE with a reduction concurrent with proposed workforce reductions as stated in UM 1263 (Commission Order No. 07-211).

Although, PacifiCorp has reduced FTEs since 2007, overall wages have increased by 4.2 percent. Overtime costs have been slightly higher by 1.4 percent, over the amount included in UE 217 in 2009.

Table 5 – PacifiCorp Overtime Costs

	2008	2009	2010	UE 217 12 month – June 09
Management/ Supervisory	\$1,242,871	\$1,299,363	\$827,566	\$1,357,706
Non-Bargaining	\$1,081,702	\$1,143,068	\$900,155	\$1,355,800
Bargaining	\$62,430,245	\$54,972,038	\$61,053,063	\$59,197,782
Total	\$64,754,818	\$57,414,469.	\$62,780,774	\$61,911,288

According to PacifiCorp, the exempt positions eligible for straight time overtime are a select set of first line supervisor positions. These personnel are predominantly in the operations area.

Staff recommendation

3. Some PacifiCorp exempt employees received overtime. The Audit Staff is unaware of any rate orders that allowed overtime for exempt personnel and rate case staff should examine exempt overtime in more detail during a subsequent rate case. (*Rate Case Issue*)

Severance Costs

The following table highlights PacifiCorp’s severance costs information for Officers, Non-bargaining and Bargaining employees.

Table 6 – PacifiCorp’s Severance Costs

	2007	2008	2009	2010
Officers	\$0	\$2,051,769	\$101,460	\$0
Non-bargaining	\$8,014,679	\$7,486,023	\$687,292	\$233,798
Bargaining	\$206,164	\$207,510	\$254,573	\$44,202
Total	\$8,220,843	\$9,745,304	\$1,043,325	\$278,001

From 2007 to 2010 the highest level of severance costs occurred in 2008 after employees that were at the level of a vice president or higher departed from the Company. As a result of the force reductions after the purchase by MEHC, severance costs reached a high of \$39 million in 2006. In comparison to the high of 2006, the Company’s severance costs in 2010 were less than 1 percent of the 2006 level.

Compensation Merit Pay, Incentive Policy, and Plans

PacifiCorp’s 2010 merit percentages differed based on the total amount of an employee’s salary. Employees earning under \$85,000 were eligible for a total of 1.75 percent of their eligible salary. Employees earning between \$85,000 and \$100,000 were eligible for a maximum of 1 percent. All employees earning in excess of \$100,000, except for high performers as recommended by business leaders, were not eligible for a merit increase. Unlike incentive “pay at risk *bonus* payments” that are one-time payments for achievement of performance goals; merit pay is accretive to individual base salaries. As can be seen in the table containing peer utility company comparable merit pay statistics, PacifiCorp’s percentage paid out in merit based salary increases are less for both 2010 and 2011 when compared to the average of their peer group.

Table 7 – PacifiCorp’s Merit and Projections

Peer Utility Companies	2010 Merit		2011 Projected Merit
	2010 Merit Paid	2010 Actual Merit	Executive, Exempt, Non-Exempt
American Electric Power	Yes	2.00%	2.60%
Consolidated Edison	Yes	2.00%	3.00%
Dominion Resources	No	0.00%	0.00%
Entergy	Yes	2.00%	2.80%
Exelon	Yes	3.00%	3.00%
FirstEnergy	Yes	3.00%	3.00%
FPL Group	Yes	2.50%	3.00%
PG&E	Yes	3.00%	3.00%
Progress Energy	Yes	3.00%	3.00%
Public Services Enterprise Group	No	0.00%	2.75%
Sempra	No	0.00%	3.00%
Southern Company	Yes	3.00%	3.00%
TXU (now Energy Future Holdings)	Yes	1.00%	2.50%
Xcel	Yes	2.75%	3.50%
Average		1.95%	2.73%
PacifiCorp	Yes	1.07%	2.25%

Market Data (2010 projections)	Non-Exempt	Exempt	Executive
Mercer	2.60%	2.60%	2.60%
WorldatWork	2.80%	2.80%	2.80%
The Conference Board	3.00%	3.00%	3.00%
Average	2.80%	2.80%	2.80%

According to the Company's Annual Incentive Plan (AIP):

PacifiCorp's Annual Incentive Plan provides performance awards based on the following: achieving the goals of PacifiCorp, Pacific Power, Rocky Mountain Power and PacifiCorp Energy; individual performance; company management of risk and safety; and success in addressing new issues and opportunities that may arise during the course of the year. Awards will be made based upon measurable achievement of results. Achievement will be measured by senior management. This approach supports the philosophy of incentive compensation as pay at risk that is earned based on the company, business unit and individual performance.

All regular, full and part-time non-represented employees of PacifiCorp are eligible to participate in the AIP. Unlike merit pay which is accretive to the employees' base pay, the AIP is considered a performance award (bonus) payment that is paid once a year to eligible employees that meet their performance goals. A participant must be employed in an incentive-eligible position on or before September 1, 2011, to be eligible to receive an award for 2011. Any employee hired after Sept. 1, 2011, is not eligible. Employees who are employed for less than the plan term due to retirement, disability, or death will be considered eligible and may receive a prorated award at the discretion of management, reflective of achievement of goals, company and individual performance, and other factors. Employees who are on a qualified leave during the plan term will be eligible for participation in the plan.

Each employee's goals are established by the employee under the direction of managers at the beginning of each year and are measured by managers through the year-end performance review process. Such goals are set at an individual level and may relate to job-specific financial or performance targets or other measurable targets identified by the Company.

The following table highlights PacifiCorp payments concerning its Annual Incentive Program.

Table 8 – PacifiCorp’s Incentive Payments

	2008	2009	2010
NEOs	\$620,000	\$642,250	\$820,000
Other Executives	\$5,713,334	\$5,741,971	\$6,346,894
Other Management	\$7,540,5686	\$7,901,712	\$7,596,228
Non-bargaining	\$15,382,052	\$14,380,773	\$13,840,805
Bargaining	\$0	\$0	\$0
Total	\$29,255,954	\$28,666,705	\$28,603,926

As can be seen on the table above, PacifiCorp’s annual incentive payments in 2010 were \$652,028 or -2.2 percent lower than the 2008 level. The Commission has not allowed regulated utilities to charge customers for bonuses paid to company executives that are based on the financial performance of the utility or its parent company. It is the Commission’s policy is to disallow 100 percent of officers’ bonuses because they are based on increased earnings. (Order 99-033 at 62; Order 97-171 at 74-76.)

In the past, the Commission’s policy has been to disallow 75 percent of performance-based bonuses to non-executives (because they are generally focused on increased earnings and, therefore, bring more benefit to shareholders). The Commission’s policy had been to disallow 50 percent of merit-based bonuses (because they equally benefit shareholders and ratepayers). As can be seen in the above table from 2008 through 2010, incentive payments were not paid out to bargaining unit employees.

According to the Company, PacifiCorp does not have a long-term incentive plan. Although MEHC does have a long-term incentive plan, PacifiCorp states that it will not seek recovery of these costs from Oregon customers.

Staff recommendation

- Rate case staff should consider both the NEOs and Other Executives as officers and recommend disallowance of the two costs. In addition, non-officer bonuses should be associated directly with regulated operations and provide measurable benefits to ratepayers. Non-executive other management and non-bargaining employee incentive payments should also be reviewed against Commission policy. (*Further investigation during the rate case*)

Budget

Operational Budget

Staff reviewed PacifiCorp's fiscal years 2008, 2009, and 2010 operational budgets. The budgets were identified as confidential, and as such, Staff did not include specific numerical information. Audit Staff has no additional comments concerning PacifiCorp's operational budgets and budgeting process. Staff did a site visit at PacifiCorp's headquarters that included an opportunity to review the Company's Board approved 10-Year Financial Planning Assumptions document. The Director of Financial Planning and Analysis walked the Staff through the project and fielded Staff's questions regarding the process and plan.

Capital Budget

According to PacifiCorp, The biennial Integrated Resource Planning (IRP) helps inform business plan development. Input assumptions for the IRP and business plan (load forecast, forward price curves, expected CO2 cost, etc.), but schedule differences and consequent planning assumptions changes may cause resource differences between the IRP and the capital budget. The Company uses the capacity expansion model (System Optimizer) to support business plan development – specifically, to determine firm resource need and resource mix and timing. Therefore, information from the IRP process are incorporated into the annual 10-year capital budget planning process along with related transmission, distribution, and infrastructure needed to maintain system reliability. The resulting levels of investment are evaluated to determine the effect on customer costs and company returns, including operations and maintenance (O&M) costs, rate increases, earnings, cash flows, as well as rating agency impacts, to determine if the investments are appropriate.

A project proposal is prepared by a project manager. PacifiCorp's engineering department conducts studies to ensure proposed recommendations and alternatives meet electrical engineering standards for safety and reliability. Capital projects are ranked from highest to lowest present value revenue requirement.

Value-added decisions are based on actual to date and estimated costs of capital compared to the next best alternative for the issue being addressed. For non-mandated, safety, obsolescence or reliability projects, PacifiCorp uses the after-tax weighted average cost of capital as a cash flow discount rate. The weighted average cost of capital includes the weighted average of the embedded costs for PacifiCorp's long-term debt, preferred stock, and common equity. According to the Company, projects are not pursued unless they provide a beneficial present value of the revenue requirement (PVRR) or are otherwise mandated by a regulatory agency.

For mandated, safety, obsolescence or reliability projects, PacifiCorp discounts the project cash flows, using the weighted average cost of capital and calculates the PVRR. The lower the calculated PVRR, the lower the costs are to customers. The project with the lowest negative PVRR is selected as the recommended project solution. The project with the second lowest negative PVRR is selected as the next best alternative.

For both mandated and non-mandated safety, obsolescence or reliability projects, PacifiCorp does not use the economic value added concept. When the capital budgeting internal analysis and review is completed, the 10-year financial plan is presented to the Company's executives and the Mid-American Holding Company's Board of Directors for approval.

According to PacifiCorp, inclusion of a project in the approved budget and 10-Year Financial Planning Key Assumptions document does not constitute project approval as specific approval for each project must be obtained based on corporate governance policy. This policy requires the review of the Chief Financial Officer for projects with total costs in excess of \$5 million. Projects submitted for funding approval that were not included in the board approved budget receive a higher level of scrutiny in the funding process to assure adherence to approved budget levels.

Staff reviewed PacifiCorp's fiscal years 2008, 2009, and 2010 capital budgets. The budgets were identified as confidential, and as such, Staff did not include specific numerical information about this budget. Audit Staff has no additional comments concerning PacifiCorp's capital budgeting process.

Site Visit to Review PacifiCorp's 10-Planning Process

On December 19, 2011, Staff was given the opportunity to visit PacifiCorp's headquarters in Portland where they reviewed the Company's most recent PacifiCorp 2012 Board of Directors approved "2012-2021 10-Year Financial Planning Key Assumptions" (10-Year Plan) document. In the presence of a PacifiCorp representative, Staff reviewed the highly confidential document in its entirety. The Company's Managing Director of Financial Planning & Analysis provided a presentation to Staff of the steps in the planning process. The Company's Manager of Planning then provided Staff with a thorough overview and real-time demonstration of the Utilities International Inc. planning software, IPlanner, which the Company uses as a consolidator in the planning process.

The Company's Board approved 10-Year Plan contains months detail forecast for the first three years and seven years of annual forecasts. Included along with the forecasted financial statements, the 10-Year Plan incorporates the Company's IRP results and includes forecasts of detail including, but not limited

to retail and wholesale loads, power costs, power purchases, rate base, retail loads, plant additions, operations and maintenance expenses, administrative and general expense. Due to the confidential nature of this information, it is not included in the Audit Report.

Staff recommendation

5. Rate case staff should consider submitting data requests to the Company for an explanation of any differences, between the Company's filing test period and the detailed Board approved 10-Year plan, for the same time period.
(Further investigation during the rate case)

Utility Plant

Utility Accounts

Staff examined PacifiCorp's utility plant including retirements, additions, and transfers. The following table highlights the changes in PacifiCorp's utility plant (system) from calendar year 2008 through calendar year 2010.

Table 9 – PacifiCorp Utility Plant (System) (\$000s)

	2008	2009	2010	Percent Change 2008 - 2010
Utility Plant	\$18,224,943	\$19,645,569	\$21,775,587	19.48%
Accumulated Depreciation	\$6,758,080	\$7,103,497	\$7,365,240	8.98%
Net Utility Plant	\$11,466,863	\$12,542,072	\$14,410,347	25.67%

The following table highlights the changes in PacifiCorp's utility plant (Oregon-allocated) from calendar year 2008 through calendar year 2010.

Table 10 – PacifiCorp Utility Plant (Oregon-allocated) (\$000s)

	2008	2009	2010	Percent Change 2008 - 2010
Utility Plant	\$5,306,048	\$5,419,139	\$5,639,741	6.29%
Accumulated Depreciation	\$2,054,333	\$2,078,249	\$2,105,449	2.49%
Net Utility Plant	\$3,251,714	\$3,340,890	\$3,534,292	8.69%

It should be noted that on a total company basis, Net Utility Plant (System) as reported in Staff's 2008-002 Audit of PacifiCorp, was \$9,745,244,000 in 2007. As a result, since 2007, the Company's rate base has increased 47.9 percent.

The following accounts (system) had significant increases (10 percent and a \$1 million or greater effect) from 2008 to 2009:

Structures and Improvements (Account 331) - Lewis River and North Umpqua hydro implementation projects and North American Energy Reliability Corporation (NERC)/Critical Infrastructure Protection.

Structures and Improvements (Account 341) - Chehalis Plant transfer clearing from account 102 Electric Plant Purchased. High Plains, Glenrock 1 and 3, McFadden Ridge, and Seven Mill Hill 1 and 2 wind plants transfer from account 343 to 341.

Prime Movers (Account 343) - High Plains, Rolling Hills, Glenrock III, McFadden Ridge wind plants placed in service. Chehalis Plant transfer clearing from account 102 Electric Plant Purchased. Offset by transfers for Chehalis and the wind plants from account 343 to 341, 344, 345, and 346.

Generators (Account 344) - Chehalis Plant transfer from account 102 Electric Plant Purchased. High Plains, Glenrock 1 and 3, McFadden Ridge, Seven Mill Hill 1 and 2, and Rolling Hills wind plants transfer from account 343 to 344.

Accessory Electric Equipment (Account 345) - Chehalis Plant transfer from account 102 Electric Plant Purchased. High Plains, Glenrock 1, Seven Mill Hill 1, and Rolling Hills wind plants transfer from account 343 to 345.

Misc. Power Plant Equipment (Account 346) - Chehalis Plant transfer from account 102 Electric Plant Purchased. High Plains, Glenrock 1, McFadden Ridge, Seven Mill Hill 1 and 2, and Rolling Hills wind plants transfer from account 343 to 346.

Station Equipment (Account 353) - Assets related to Pleasant Grove Line Conversion, Elk Horn Installation 115-12.5kV Substation, Weed Substation Increase Capacity, Herriman New Substation & Transmission, and Cozydale Build New 138-12.5kV Substation.

Land and Land Rights (Account 360) - Yew Avenue and Dowell Substations.

Office Furniture and Equipment (Account 391) - Vintage Asset Retirements.

Unclassified Plant (Account 106) - Parrish-Terminal and Oquirrh New 345-138kV Substation. This was a significant decrease of \$54.7 million (-53.4 percent).

The following Oregon-allocated accounts had significant increases (10 percent and a \$1 million or greater effect) from 2009 to 2010:

Structures and Improvements (Account 341) - Chehalis Plant transfer clearing from account 102 Electric Plant Purchased. High Plains, Glenrock 1 and 3, McFadden Ridge, and Seven Mill Hill 1 and 2 wind plants transfer from account 343 to 341.

Prime Movers (Account 343) - High Plains, Rolling Hills, Glenrock III, McFadden Ridge wind plants placed in service. Chehalis Plant transfer clearing from account 102 Electric Plant Purchased. Offset by transfers for Chehalis and the wind plants from account 343 to 341, 344, 345, and 346.

Generators (Account 344) - Chehalis Plant transfer from account 102 Electric Plant Purchased. High Plains, Glenrock 1 and 3, McFadden Ridge, Seven Mill Hill 1 and 2 and Rolling Hills wind plants transfer from account 343 to 344.

Accessory Electric Equipment (Account 345) - Chehalis Plant transfer from account 102 Electric Plant Purchased. High Plains, Glenrock 1, Seven Mill Hill 1, and Rolling Hills wind plants transfer from account 343 to 345.

Misc. Power Plant Equipment (Account 346) - Chehalis Plant transfer from account 102 Electric Plant Purchased. High Plains, Glenrock 1, McFadden Ridge, Seven Mill Hill 1 and 2, and Rolling Hills wind plants transfer from account 343 to 346.

Land and Land Rights (Account 350) - Populus -Terminal double circuit 345 kV transmission line right of way and land placed in service.

Structures and Improvements (Account 352) - Plant addition for Populus substation. Transfer from account 353 to 352 for Oquirrh, Threemile Knoll and Camp Williams substations.

Station Equipment (Account 353) - Plant additions for: Populus, Ben Lomond, Terminal, Three Peaks, 90th South, Hemingway, and Parrish

Gap substations. Transfer from account 353 to 352 for Oquirrh, Threemile Knoll, and Camp Williams substations.

Towers and Fixtures (Account 354) - Populus -Terminal double circuit 345 kV transmission line - Ben Lomond to Terminal, Parrish to Terminal, Ben Lomond to Terminal #3 and 4 and Ben Lomond to Parrish transmission lines.

Structures and Improvements (Account 361) - Snyderville, Gold Rush, Morrison Creek, and Yew Avenue substations.

Unclassified Plant (Account 106) - State Line-Honeyville, Populus-State Line, Honeyville-Ben Lomond, 90 South-Camp Williams, and St George-Red Butte transmission lines.

As reflected in the explanation, many of the increases in specific accounts were a result of account transfers. Staff examined PacifiCorp's explanations of the transfers and did not have any concerns on PacifiCorp's final cost analysis of plant in service.

Included in the above capital accounts, are improvements related to the Rolling Hills wind project. However, during 2008 (Order No. 08-548) the Commission determined that PacifiCorp failed to prove that its Rolling Hills wind project was prudently acquired and therefore disallowed the inclusion of this project in rate base.

Concerning the improvements in Account 106, *Completed construction, not classified – Electric*, this account is used for projects that have been completed and placed in service, but have not been classified for transfer to the detailed electric plant accounts. Examples of these transfers include the Parrish-Terminal and Oquirrh New 345-138kV Substation transferred 2009. Additionally, \$370 million (system) for the Populus-Terminal Energy Gateway transmission project that was in Account 106 at December 31, 2010, was transferred to plant in service during the first quarter of 2011.

It should be noted that PacifiCorp's Schedule 80, Populus to Terminal Adjustment, is currently set to return to customers the difference between the revenue requirement for this investment included in rates as approved in UE 217 and the actual costs of the investment. According to the Company, Schedule 80 will be terminated effective with the Company's next general rate case where the revenue requirement associated with the investment will be set to reflect actual costs. No other adjustment tariffs currently in effect are collecting revenues associated with rate base.

As of March 31, 2011, PacifiCorp carried a total of approximately \$1.148 billion in Construction Work in Progress (CWIP). Many of the CWIP costs (\$493.4 million) are related to environmental projects, which are discussed in detail in the Environmental Regulations section of this report.

PacifiCorp also has numerous Information Technology projects over \$500,000 that are currently in progress. These projects total approximately \$11 million, which \$1.6 million is allocated to Oregon. Staff examined the transactions summaries for these projects and did not note any concerns.

Staff Recommendation

6. Rate case Staff should ensure that the all projects placed in service subsequent to PacifiCorp’s previous rate case (UE 217) are used and useful for inclusion into rate base. (*Further investigation during the rate case*)

Capital Leases

PacifiCorp had nine capital leases in place in 2010. The net balance of all capital leases as of December 2010 totaled approximately \$57 million, which is \$8 million less than the (September 2008) \$65 million balance reported in the 2008 Pre-rate Case Audit (Audit Number 2008-002, dated March 11, 2009). Capital leases are not reflected in rate base and lease payments are charged to rent expense, fuel expense, construction work in progress, or other appropriate account as prescribed by FERC General Instructions (18 CFR Part 101). The FERC-based rent expense is reclassified to interest and depreciation for GAAP reporting. The following table summarizes PacifiCorp’s capital leases.

Table 11 – Capital Lease Assets as of December 31, 2010

	Capital Lease Balance	Accumulated Amortization	Net Capital Lease Balance	Change in Principal	Depreciation Expense	Interest Expense
One Utah Center	\$12,664,054	\$1,340,129	\$14,004,183	-\$520,864	\$520,864	\$1,676,189
Western Distribution Center	\$1,286,157	-\$856,351	\$429,806	-\$127,147	\$127,147	\$74,103
Portland Metro Op Center	\$3,370,335	-\$671,847	\$2,698,488	-\$172,627	\$172,627	\$293,961
Clatsop Service Center	\$1,225,675	-\$262,796	\$962,879	-\$87,391	\$87,391	\$131,834
Casper Power Dept	\$1,387,755	-\$709,942	\$677,813	-\$152,169	\$152,169	\$110,735

Table 11 – Capital Lease Assets as of December 31, 2010 (continued)

	Capital Lease Balance	Accumulated Amortization	Net Capital Lease Balance	Change in Principal	Depreciation Expense	Interest Expense
Current Creek Gas Lateral	\$12,411,745	-\$1,590,981	\$10,820,764	-\$257,621	\$257,621	\$1,233,189
Lake Side Gas Lateral	\$16,793,119	-\$2,198,517	\$14,594,602	-\$629,340	\$629,340	\$1,760,028
Sunnyside	\$11,714,234	-\$3,079,385	\$8,634,849	\$274,829	-\$274,829	\$724,178
Chehalis Gas Lateral	\$4,540,048	-\$110,043	\$4,430,004	-\$52,547	\$52,547	\$651,556

The Portland Metro Operation Center and Clatsop Service Center lease agreements require payments in equal quarterly installments on the last day of every calendar quarter.

The Sunnyside lease agreement is such that the monthly payments are made for 12-month increments every four years with the next 12-month increment, where payments are required, beginning in March 2009 and ending January 2022. Monthly payments during the 12-month period are \$449,349 and the January 2010 beginning balance was \$7,971,629. Although payments only occur 12 months in every 48 month period, interest accrues monthly. Concerning this lease, PacifiCorp’s net present value of the lease payments equals \$17,359,386 (actual total payments will equal \$19,998,954). This amount is favorable to customer as compared to a cost to build of \$80,332,216.

Allowance for Funds Used During Construction

Allowance for Funds Used During Construction (AFUDC) is a component of construction costs representing net cost of borrowed funds and a reasonable rate on other funds used during the period of construction. AFUDC is capitalized until the project is placed in operation by concurrent credits to the income statement and charges to utility plant, based generally on the amount expended to date on the particular project. AFUDC is a methodology for capitalizing the carrying costs of the construction that will benefit future periods.

AFUDC is a non-cash credit to income consisting of equity and debt components. This non-cash income results from construction work in progress and is expected to be converted into cash income at a future date. AFUDC serves to better match expenses with regulated revenues and/or to make financial statements better reflect the economics of rate regulation.

PacifiCorp calculates AFUDC in accordance with the FERC Uniform System of Accounts (USOA) listed in CFR 18, Part 101, Electric Plant Instructions. In addition, PacifiCorp has a stated policy and documented accounting process that was part of the Company's Sarbanes-Oxley implementation. Because the Company is under multiple state jurisdictions, PacifiCorp's regulation group calculates a weighted average return on equity according to megawatt hours provided to each state.

PacifiCorp calculates the AFUDC rate using an Excel spreadsheet and updates its AFUDC rate monthly. The rate is based on the actual-year-to-date Construction Work in Progress (CWIP) and short-term balances and rates and forecasted balances and rates for the remaining months in the year. The short-term balances are a 12 month year-to-date daily average. Prior year end balances are used for the long-term debt, preferred stock, and common equity components.

Each month, actual numbers replace forecasted numbers and the amount of AFUDC processed and the AFUDC rates are reconciled. The FERC AFUDC rate is adjusted downward to reflect an applied AFUDC rate which takes into consideration any accrued amounts in CWIP projects that receive AFUDC. AFUDC is applied to capital expenditures through a SAP (accounting system) module that is part of the project system. The amount of AFUDC applied is determined on the number of days a capital expenditure is outstanding and not in service. The following table highlights the AFUDC rate for December 2008, December 2009, and December 2010 that shows the year-end rate for each year. It is important to note that the AFUDC rate is calculated monthly.

Table 12 – AFUDC Rates

Month	Debt Rate	Equity Rate	Total AFUDC Rate
December 2008	3.6%	5.6%	9.2%
December 2009	2.65%	4.99%	7.64%
December 2010	3.05%	5.43%	8.48%

For three months in 2009, the short-term rate applied to the AFUDC debt rate was zero as PacifiCorp did not have a short-term debt balance. However, four months in 2009, PacifiCorp had extremely high short-term rates of 9.35 percent to 49.23 percent. PacifiCorp explained that the high rates were a result of the combination of low average short-term debt balances together with the fixed-cost nature of the short-term credit facility fee charged to interest expense for these periods.⁴⁰ Although this higher short-term rate raises the AFUDC rate, the actual

⁴⁰ Staff has also reviewed this issue in Idaho Power's General Rate Application, UE 233.

effect on PacifiCorp’s debt-rate was minimal.⁴¹ This is a result of the AFUDC debt rate calculation which uses the short-term debt balance, average CWIP balance, long-term debt balance, long-term debt rate, and common equity. In fact, the months with the extremely high short-term rates actually had a total AFUDC rate that was actually lower than the months with a zero percent rate.

PacifiCorp provided a thorough explanation of its controls to ensure completed projects/assets are removed from the cost of the CWIP base prior to calculating AFUDC. PacifiCorp also provided internal audit reports for 2008, 2009, and 2010 concerning Sarbanes-Oxley Testing for the Fixed Asset Transaction Cycle, which included a section on AFUDC. In all three audits, the controls for AFUDC were tested without exception. The following table compares the AFUDC amounts for 2006 through 2008 with the average CWIP.

Table 13 – AFUDC as a Percentage of Average CWIP

Year	AFUDC	Average CWIP	AFUDC Costs as a Percentage of CWIP
2008	\$80,896,937	\$1,090,041,382	7.42%
2009	\$99,141,853	\$1,478,713,677	6.70%
2010	\$123,916,696	\$1,667,419,258	7.43%
Total	\$303,955,486	\$4,236,174,317	7.18%

Staff did not note any issues concerning PacifiCorp’s AFUDC.

Environmental Regulations

On page 37 of its 2010 SEC Form 10-K as of December 31, 2010, the Company states:

PacifiCorp has significant future capital requirements. Capital expenditure needs are reviewed regularly by management and may change significantly as a result of these reviews, which may consider, among other factors, changes in rules and regulations, including environmental; changes in income tax laws; general business conditions; load projections; system reliability standards; the cost and efficiency of construction labor, equipment and materials; and the cost and availability of capital. Expenditures for compliance-related items, such as pollution-control technologies, replacement generation, hydroelectric relicensing, hydroelectric decommissioning, and associated operating costs are generally incorporated into PacifiCorp's rates.

⁴¹ Staff recalculated the October 2009 (28.87%), November 2009 (42.88%), and December 2009 (49.23%) AFUDC rates using the January 2009 to September 2009 average short-term rate. The substitution resulted in a one basis point increase in the October 2009 rate and an eight basis point increase in the December 2009 rate.

The following tables highlight PacifiCorp’s plant improvement costs that resulted from environmental regulations (county, state, federal, and other) for each coal plant operated by PacifiCorp.

Table 14 – Total Costs of Improvements (\$000s)

Plant	2008	2009	2010
Carbon	\$0	\$1,893	\$0
Dave Johnston	\$0	\$13,374	\$315,106
Hunter	\$524	\$2,384	\$0
Huntington	\$665	\$1,566	\$103,704
Jim Bridger	\$7,094	\$15,414	\$20,222
Naughton	\$0	\$2,595	\$2,019
Wyodak	\$0	\$1,091	\$0
Total	\$8,283	\$38,317	\$441,051

Plant In-Service Basis (all costs, includes CEMs, PacifiCorp share)

Table 15 - Cost per MWh Associated with Improvements

Plant	2008	2009	2010
Carbon	\$0.00	\$0.32	\$0.00
Dave Johnston	\$0.00	\$0.44	\$11.24
Hunter	\$0.01	\$0.04	\$0.00
Huntington	\$0.01	\$0.04	\$2.68
Jim Bridger	\$0.10	\$0.22	\$0.30
Naughton	\$0.00	\$0.09	\$0.06
Wyodak	\$0.00	\$0.07	\$0.00
Total	\$0.12	\$1.22	\$14.28

Costs are stated in customer revenue requirement and represent only the capital expenditures associated with the improvements.

Table 16 - Total MWh Cost for Each Coal Plant

Plant	2008	2009	2010	Percent Increase 2008 to 2010
Carbon	\$35.48	\$38.40	\$35.82	0.94%
Dave Johnston	\$23.59	\$29.24	\$42.00	78.04%
Hunter	\$28.19	\$30.09	\$34.82	23.52%
Huntington	\$26.46	\$27.19	\$37.62	42.17%
Jim Bridger	\$30.29	\$31.29	\$34.05	12.42%
Naughton	\$27.98	\$32.37	\$31.58	12.89%
Wyodak	\$25.15	\$26.40	\$28.57	13.60%

Costs are stated in customer revenue requirement and represent all costs to the plant.

As can be seen from the above tables, environmental regulations (county, state, federal, and other) resulted in significant increases in costs for all coal plants with the exception of the Carbon plant. During the time period of 2008 through 2010,

PacifiCorp provided a list of 46 environmental projects with the cost of \$500,000 or greater that were applied to PacifiCorp’s coal plants. As of March 31, 2011, there are currently 12 projects totaling \$493.4 million in CWIP that are a result of environmental regulations.

As a comparison, Staff examined the total MWh cost for PacifiCorp’s wind and natural gas plants. As can be seen in the following tables, coal costs are significantly lower than costs produced by the Company’s wind and natural gas plants.

Table 17 – Total MWh Cost for Each Natural Gas Plant

Natural Gas	2008	2009	2010
Camas Co-Gen	\$55.29	\$50.47	\$48.57
Chehalis	\$95.08	\$80.67	\$99.95
Currant Creek	\$76.12	\$83.98	\$72.83
Gadsby	\$149.23	\$169.36	\$203.97
Gadsby Peakers	\$145.27	\$143.84	\$139.78
Hermiston	\$46.87	\$52.25	\$53.17
Lake Side	\$74.32	\$83.40	\$72.91
Little Mountain	\$171.06	\$180.80	\$152.36

Costs are stated in customer revenue requirement and represent all costs to the plant (e.g. O&M, Capex, Fuel, Property Tax)

Table 18 – Total MWh Cost for Each Wind Plant

Wind	2008	2009	2010
Dunlap			\$58.96
Foote Creek	\$25.82	\$56.10	\$62.48
Glenrock I		\$95.81	\$75.53
Glenrock III		\$130.29	\$104.29
Goodnoe Hills	\$82.80	\$91.22	\$104.54
High Plains		\$119.71	\$106.56
Leaning Juniper	\$57.53	\$71.72	\$87.87
Marengo I	\$90.71	\$95.53	\$86.24
Marengo II		\$102.45	\$90.11
McFadden Ridge		\$94.38	\$85.67
Rolling Hills		\$125.26	\$92.58
Seven Mile Hill I		\$73.99	\$64.84
Seven Mile Hill II		\$74.93	\$64.48

Costs are stated in customer revenue requirement and represent all costs to the plant (e.g. O&M, Capex, Fuel, Property Tax). Wind MWhs are based on actual generation (not normalized for test periods).

These comparative amounts basically align with the PacifiCorp executive comments stated at a regional customer conference at Spring Hill Country Club

in Albany on October 12, 2011, and reported by the Albany Democratic Herald, as discussed in the Actual Returns section of this report.

Hydroelectric Plant Relicensing Costs

The only Hydroelectric relicensing project currently in CWIP is the Wallowa Falls relicensing project.

According to the Company's web-site:

The 1.1.-megawatt (mw) Wallowa Falls Hydroelectric Project, Federal Energy Regulatory Commission (FERC or Commission) Project No. 308, is located in Wallowa County in north east Oregon, on the East Fork Wallowa River, West Fork Wallowa River and Royal Purple Creek. The project is approximately 7 miles south of the town of Joseph near Wallowa Lake and is partially within the Wallowa-Whitman National Forest. The current FERC license will expire on February 28, 2016.⁴²

The following table highlights the project cost to date (August 2010 to July 2011).

Table 19 – Wallowa Falls Relicensing Costs

Expense	2010	2011	Total
Direct Expenses	\$58,435	\$124,988	\$183,422
AFUDC	\$1,072	\$6,844	\$7,916
Surcharge ⁴³	\$2,874	\$5,813	\$8,687
Total	\$62,381	\$137,644	\$200,026

Hydro relicensing costs accrue AFUDC interest up until the time that they are capitalized to plant-in-service. When relicensing is complete costs are capitalized to FERC account 302 and amortized over the life of the license to FERC account 404.

Staff Recommendation

7. During an upcoming rate proceeding, Staff should review, in detail, the hydroelectric relicensing costs to ensure that only prudent and necessary costs are included in rate base. (*Further investigation during the rate case*)

⁴² <http://www.pacificcorp.com/es/hydro/hl/wf.html>

⁴³ According to PacifiCorp, Surcharge is an overhead loading on capital projects to cover expenditures related to personnel who perform general capital functions as part of their regular work, but for which their work is not specific to individual projects.

Actual Financial Performance

Actual Returns

Staff reviewed PacifiCorp's actual Oregon returns for fiscal years 2008 through 2010. The following table compares total rate base, income, and returns for that time period. Information was provided by the Company in response to Staff Data Request No. A16.

Table 20 – Actual Oregon Returns

	2008	2009	2010
Electric Plant in Service	\$5,058,735,131	\$5,419,139,467	\$5,639,740,511
Plant Held for Future Use	\$3,967,194	\$3,819,781	\$5,107,396
Misc. Deferred Debits	\$29,978,691	\$17,868,117	\$19,861,626
Electric Plant Acq. Adjust.	\$19,472,613	\$17,482,708	\$15,665,690
Prepayments	\$11,332,926	\$12,155,650	\$10,005,108
Fuel	\$30,180,160	\$37,875,623	\$45,211,568
Materials & Supplies	\$48,069,551	\$52,069,532	\$52,932,959
	2008	2009	2010
Working Capital	\$19,286,920	\$16,170,646	\$17,669,973
Weatherization Loans	-\$722	-\$795	-\$1,234
Misc. Rate Base	\$1,273,038	\$760,166	\$265,506
Total Electric Plant	\$5,222,295,504	\$5,577,340,896	\$5,806,459,103

Table 20 – Actual Oregon Returns (continued)

	2008	2009	2010
<i>Less</i>			
Accum. Prov. for Deprec.	(\$1,905,630,510)	(\$1,954,149,322)	(\$1,979,858,659)
Accum. Prov. For Amort.	(\$123,121,447)	(\$124,100,075)	(\$126,590,332)
Accum. Def. Income Tax	(\$419,167,848)	(\$521,188,889)	(\$686,402,568)
Unamortized ITC	(\$6,347,536)	(\$5,343,583)	(\$255,967)
Customer Advances	(\$2,055,081)	(\$2,431,972)	(\$4,934,581)
Misc. Rate Base Ded.	(\$16,851,409)	(\$15,999,766)	(\$14,658,698)
Total Deductions	(\$2,473,173,830)	(\$2,623,213,607)	(\$2,815,700,805)
	2008	2009	2010
Total Rate Base	\$2,749,121,673	\$2,954,127,289	\$2,990,758,298
Operating Rev. for Return	\$213,239,182	\$208,249,963	\$208,791,545
Return on Rate Base	7.757%	7.049%	6.981%
Return on Equity	9.372%	8.226%	8.004%

Although PacifiCorp reports under earning from its authorized Rate of Return and Return on Equity (8.08 percent and 10.125 percent respectively), it should be noted that the above figures do not include normalizing adjustments and that

some of the listed accounts or components of the listed accounts would be adjusted out by the Company and Staff during a general rate hearing.

It is interesting to note that at a regional customer conference at Spring Hill Country Club in Albany on October 12, 2011, Company executives stated that its electric sales to industrial customers have dropped 30 percent since 2007. Other highlights of the Company's presentation included:⁴⁴

- Since 2006, the Company has raised rates an average of seven percent a year, but this year it did not file for a general increase, meaning that excluding power cost adjustments and renewable adjustment clauses, rates should be stable through mid-2012.
- The pressure for higher rates comes mainly from capital investments required to meet state renewable energy standards and to meet regulations, mostly by the Environmental Protection Agency. Pacific Power projects its additional costs of EPA regulations alone to be between \$2.7 and \$4.2 billion between now and 2029, which will be reflected in prices over time.
- For now, Pacific Power still considers itself a low-cost utility. Last winter its average price of electricity was 7.4 cents per kilowatt hours, compared to a statewide average of 8.2 cents and a U.S. average of 9.96 cents.
- Pacific has managed to keep expenses flat since 2008, at roughly \$250 million a year.
- Coal is projected to remain the lowest-cost energy source for the Company even with new environmental controls and a potential carbon tax. Coal costs about \$35 per megawatt hour, new natural gas \$67, energy efficiency \$71, subsidized wind \$82, and subsidized solar \$253 per megawatt hours, according to the utility.
- Pacific Power operates 49 generating plants, including 26 fired by coal.

Operations and Maintenance Expenses

The following table presents Oregon allocated O&M expenses (FERC accounts 500-598) for 2008 through 2010:

⁴⁴ Hasso Hering, "Pacific Reports a 30% Drop in Industrial Sales," 2001
<http://democratherald.com/news/local/article_d4195564-f495-11e0-8cb7-001cc4c002e0.html>

Table 21 – Oregon Allocated O&M Cost Comparison

	2008	2009	2010	Percentage Change 2010-2008
Labor	\$104,089,716	\$96,696,025	\$88,691,579	-14.79%
Non-Labor	\$624,450,075	\$523,788,308	\$504,008,541	-19.29%
Total O&M	\$728,539,791	\$620,484,333	\$592,700,120	-18.65%

Overall PacifiCorp experienced a decrease in operations and maintenance expenses. An account comparison was made and there were few instances of year-to-year variances greater than 10 percent. Staff did not examine each account to evaluate the increases.

Staff Recommendation

8. Although O&M costs are declining on a total Company basis, during an upcoming rate proceeding Staff should review Oregon allocated O&M in FERC accounts 560 through 598 to determine appropriateness and correctness. *(Further investigation during the rate case)*
9. Staff should make a comparison in any general rate case proceeding, between increases/decreases in Company O&M accounts as compared to Global Insight’s escalation factors for the same time period. *(Further investigation during the rate case)*
10. During any general rate case proceeding, rate case staff should closely examine test year operating expenses to ensure that non-reoccurring expenses are removed. *(Further investigation during the rate case)*

Administrative and General (A&G) Expenses

The following table highlights changes in the Company’s Oregon expenditures for customer account expenses FERC accounts 901-905, customer service and information expenses FERC accounts 911-916, and administrative and general operations and maintenance expenses in FERC accounts 920-935.

Table 22 – Oregon Allocated A&G Costs

<u>Acct</u>	2008	2009	2010	2008-2009 Percent Change	2009-2010 Percent Change
901	768,055	788,080	769,392	2.6%	-2.4%
902	9,190,112	9,195,750	9,874,311	0.1%	7.4%
903	17,992,965	17,206,462	16,689,677	-4.4%	-3.0%
904	6,272,907	4,220,604	4,791,897	-32.7%	13.5%
905	77,974	87,564	55,759	12.3%	-36.3%
907	77,577	88,905	81,203	14.6%	-8.7%
908	1,906,558	10,658,137	20,864,747	459.0%	95.8%
909	1,365,150	1,724,364	1,429,565	26.3%	-17.1%
910	19,976	46,577	27,745	133.2%	-40.4%
920	19,245,521	21,325,711	20,548,297	10.8%	-3.6%
921	3,657,919	3,329,625	2,837,886	-9.0%	-14.8%
922	(6,315,646)	(7,425,129)	(7,864,948)	17.6%	5.9%
923	3,485,998	3,168,695	2,612,585	-9.1%	-17.6%
924	9,348,744	6,880,745	6,469,720	-26.4%	-6.0%
925	2,778,352	2,134,046	2,353,934	-23.2%	10.3%
928	4,423,210	5,048,619	4,575,012	14.1%	-9.4%
929	(1,169,145)	(981,962)	(1,699,339)	-16.0%	73.1%
930	7,781,426	8,158,705	6,103,085	4.8%	-25.2%
931	2,512,134	2,464,324	2,473,006	-1.9%	0.4%
935	7,970,048	6,668,283	6,204,766	-16.3%	-7.0%
Total	91,389,835	94,788,105	99,198,302	3.7%	4.7%

Variance Explanation:

- FERC 904 – Decreased bad debt expense mainly due to decreased provision for doubtful accounts.
- FERC 908 – Increase Oregon Demand Side Management (DSM) spending
- FERC 920 – Higher labor and increased benefit costs.
- FERC 921 – Decreased office supplies and expenses
- FERC 922 – Increased labor related charges to capital expenditures
- FERC 923 – Centralia Mine liability release
- FERC 924 – Lower storm costs and property damages
- FERC 925 – Decreased cost for injuries and damage claims
- FERC 929 – Miscellaneous costs of settlement activity
- FERC 930 – Decrease in Oregon Regulatory Costs (Oregon Scottish Power Transition Plan Regulatory Asset Amortization)
- FERC 935 – Decrease in information technology costs associated with the maintenance of general plant

PacifiCorp's Oregon allocated expenses in FERC accounts 901-935 have increased over 8.5 percent since 2008. Since 2008, expenditures on DSM in Oregon have increased \$18,958,189.

Staff recommendation:

11. Staff did not review individual line item details for various meals and entertainment expenses as part of this audit. A review should be conducted as part of any upcoming rate proceeding in order to identify any non-utility office expenses, travel/entertainment expenses, spousal expenses, political contributions, gifts, catering, etc which should be removed as rate case adjustments. *(Further investigation during the rate case)*

Labor Costs

PacifiCorp provided a breakdown of payroll expenses for years 2008 through 2010. The following table highlights this system wide payroll breakdown:

Table 23 - Payroll Expensed and Capitalized - System

Description	2008	2009	2010	Percent 2008-2010
Payroll charged to expense	\$391,483,910	\$396,155,985	\$390,046,674	-0.4%
Payroll charged to capital accounts.	\$144,536,727	\$146,881,411	\$147,587,388	2.1%
Percent Capitalized	27.0%	27.0%	27.5%	1.8%
Total Payroll	\$536,020,637	\$543,037,396	\$537,634,062	0.3%

As shown in the above table, the percentage of labor capitalized has increased by 1.8 percent since 2008. Total payroll at PacifiCorp has increased modestly by only 0.3 percent or \$1,613,425.

PacifiCorp's pay philosophy is to target total cash (base pay plus target incentive) and related employee benefits at the average of the markets in which the Company competes for human resources. PacifiCorp provided evidence that they participated in 24 compensation surveys conducted by 8 different consulting agencies. The survey data is then submitted in MarketPay, the Company's online market pricing system. PacifiCorp uses MarketPay as its key repository and source for market data.

Staff recommendation:

12. Staff did not specifically analyze the annual wage increases, including the level of negotiated increases in the latest union contracts. During a general rate case it is recommended that Staff examine the wage increases by labor groups to ensure that officer and exempt personnel increases are in line with those of the other labor groups. *(Further investigation during the rate case)*

Labor Allocations

PacifiCorp does not use overhead loading percentage but instead accounts for overheads on an actual basis. Each month actual overheads are assigned to specific employee or labor groups and their associated cost center.

Salary/Overhead benefits include a myriad of benefits such as medical, vision, dental, life insurance, pension, post employment benefits, various administration and other assessments.

Benefit Costs

Table 24 – PacifiCorp Benefit Costs

Benefit Type	2008	2009	2010	Change 2008-2010	Percent 2008-2010
Medical	\$55,809,032	\$57,645,000	\$57,440,000	\$1,630,968	2.9%
Dental	\$2,098,926	\$1,912,000	\$1,948,000	-\$150,926	-7.2%
Vision	\$194,626	\$263,000	\$261,000	\$66,374	34.1%
Employee Assistance	\$328,368	\$319,863	\$298,191	-\$30,177	-9.2%
Long Term Disability	\$3,316,969	\$2,779,000	\$3,246,000	-\$70,969	-2.1%
401(k) savings	\$20,702,183	\$31,262,000	\$37,114,000	\$16,411,817	79.3%
Pension	\$31,822,655	\$33,717,000	\$33,565,000	\$1,742,345	5.5%
Workers' Compensation	\$3,086,525	\$1,607,000	\$1,827,000	-\$1,259,525	-40.8%
Total Benefits	\$117,359,284	\$129,504,863	\$135,699,191	\$18,339,907	15.6%

Approximately 89.5 percent of the 15.6 percent change in benefits paid to employees of the company is the result of increased payments to the Company's 401(k) savings program resulting from changes to the Company's retirement plans. Those increases were partially offset by a (40.8) percent reductions in Company's Workers' Compensation expenses.

Staff Recommendation

- Staff should review, in detail, the individual bargaining unit agreements and terms of the various medical, dental, and vision benefit plans to determine the overall costs as compared to industry standards. *(Further investigation during the rate case)*

Medical/Dental/Vision Company Contribution

The Company has seen a significant shift over the last four years whereby their employees' share in paying for the cost of their medical benefits has moved from approximately 12.5 percent to approximately 20 percent. As the table below shows, compared to 2008, in 2011 the Company has reduced the amount that they contribute toward their employees medical benefit coverage. As a result of

negotiations, the Company’s contribution to Union Local 57 employees’ medical benefits coverage has been reduced by 11 percent since 2008. Union Locals 125 and 57 represented employees negotiated no Company contribution to their dental or vision costs.

Table 25 – PacifiCorp Contribution to Medical, Dental, and Vision

PacifiCorp Contribution Levels						
Union Locals	Medical		Dental		Vision	
	2008	2011	2008	2011	2008	2011
125	87.5%	80.0%	87.5%	0.0%	87.5%	0.0%
127	87.5%	80.0%	60.0%	60.0%	50.0%	50.0%
197	87.5%	85.0%	60.0%	60.0%	50.0%	50.0%
57	90.0%	80.0%	90.0%	0.0%	90.0%	0.0%
S1978	n/a	77.0%	n/a	67.0%	n/a	50.0%
659 ¹	87.5%	85.0%	60.0%	60.0%	50.0%	50.0%
659 ²	87.5%	80.0%	60.0%	60.0%	50.0%	50.0%

Note: (1) Offered to employees making \$65,000 or greater.
(2) Offered to employees making less than \$65,000.

PacifiCorp’s non-represented employees pay 20 percent of the cost of their medical coverage, 40 percent of their dental coverage, and 50 percent of the cost of their vision coverage. Employees represented by Union Local 125 increased their contribution to the cost of medical coverage from 13.5 to 20 percent. Union Local 57 negotiated an 11 percent increase in their contribution to their medical coverage. Notably, as a result of the latest contract negotiations with both Union Locals 125 and 57, the Company is no longer contributing toward these employees dental or vision benefit. Local S1978 of the International Brotherhood of Boilermakers now represent employees at the Bridger Coal Mine.

Pension/Postretirement Costs

Table 26 – PacifiCorp’s Net Pension/Postretirement Costs

	2008	2009	2010
FAS 87 Pension	\$26,159,000	\$23,335,000	\$22,935,000
FAS 106 Postretirement	\$27,319,000	\$21,275,000	\$21,430,000
Total	\$53,478,000	\$44,610,000	\$44,365,000

Pension and postretirement net benefit costs have decreased 47.6 percent from the 2007 high of \$84,727,000. These costs have decreased due principally to changing the benefit design to a cash balance and shifting new and certain other employees to a defined contribution plan.

Uncollectible Expenses (Account 904)

PacifiCorp’s policy is to send a closing bill within twelve working days of a late payment. If full payment is not posted by the due date of the closing bill, then the account enters the inactive collection process during the next billing cycle. On the fourteenth working day after the inactive collection process is initiated, an account is turned over to a collection agency.

The table below summarizes the Company’s Oregon uncollectible accounts assigned to collection agencies as of December 31, 2010:

Table 27 - Oregon Assignment and Collections

Year	2007	2008	2009	2010	Percentage Change 2007-2010
Assigned	\$5,668,638	\$6,738,919	\$6,530,479	\$6,937,504	22.4%
Collected	\$1,210,995	\$1,782,016	\$1,662,895	\$1,502,376	24.1%
Net Write-off	\$4,457,643	\$4,789,942	\$5,180,602	\$4,274,315	-4.1%
Collection Fees	\$176,787	\$324,079	\$383,499	\$367,718	108.0%
Net Percent Collected	18.2%	21.6%	19.6%	16.4%	-10.4%
Percent Charged	14.6%	18.2%	23.1%	24.5%	67.7%

As the above table indicates, since 2007, amounts assigned to collection agencies, amounts collected and the percent of assigned that was collected, have all increased. While the table above shows that the nominal amount of fees collected have increased by 108.0 percent since 2007, the net percent collected has decreased by -10.4 percent and amount charged has increased by 67.7 percent. Comparatively, Portland General Electric in 2008 reported net collections of 17.5 percent while in 2011 Northwest Natural Gas reported collecting approximately 20.5 percent of the amounts assigned net of fees.

Staff Recommendation

- Staff should review uncollectible accounts during the rate case to determine a reasonable ongoing level of expense. (*Further investigation during the rate case*)

Insurance Services and Injuries and Damages

In total, PacifiCorp’s insurance premium costs have increased slightly since 2008 by only \$113,001 or 0.5 percent. Reductions in Worker’s Compensation Premiums since 2008 of \$284,900 or 19.8 percent helped partially offset increases of \$241,422 or 9.6 percent in Liability Insurance Premiums and \$172,619 or 1.9 percent in Property Insurance Premiums. The table below highlights PacifiCorp's insurance premium costs:

Table 28 – PacifiCorp Insurance Premium Costs

Cost	2008	2009	2010	Percent Increase/ - Decrease Since 2008
Property Insurance Premiums	\$9,132,238	\$9,637,388	\$9,304,857	1.9%
Captive Property Premium	\$5,572,797	\$5,572,797	\$5,560,493	-0.2%
Liability Insurance Premium	\$2,523,079	\$2,734,962	\$2,764,501	9.6%
Captive General Liability Premium	\$1,588,680	\$1,588,680	\$1,584,944	-0.2%
D&O Liability Premium (including excess D&O)	\$311,716	\$311,716	\$311,716	0.0%
Workers' Compensation Premiums	\$1,436,774	\$1,423,333	\$1,151,874	-19.8%
Total Premium Costs	\$20,565,284	\$21,268,876	\$20,678,385	0.5%

The Company’s captive insurance policy with MEHC expired March 21, 2011. Preliminary indicative pricing and an indication of whether the third party was willing to write a policy were provided by five separate insurance companies. Based on the responses from the insurance companies, PacifiCorp determined that equivalent levels of insurance for the respective insurance coverage are not available on commercially reasonable terms. The Company evaluated the option of self-insurance as a means of replacing the coverage previously provided by the captive insurance company MEHC Insurance Services Ltd. (MEISL).⁴⁵

Accordingly, the Company has instituted insurance reserve accruals that are based on an average of the last three-years of liability claim payments by MEISL captive insurance—from 2007 through 2009. Historically, Oregon’s allocated portion of the amount is based on the System Overhead (SO) factor, which is

⁴⁵

UE 217 direct testimony PPL/1400 Kent/6.

calculated based on Oregon’s allocated share of total company gross plant. Since the last rate case distribution costs have been situs assigned while generation and transmission costs continue to be allocated using the SO factor.

Staff Recommendation

15. Staff should review in detail, individual insurance policies, during an upcoming rate case to determine an appropriate level of insurance expense that should be borne by customers. *(Further investigation during the rate case)*

Taxes

Tax Sharing Agreement with PacifiCorp Holdings Inc

PacifiCorp is a member of a group, Berkshire Hathaway Inc. and Subsidiaries, which files a consolidated federal income tax return. Pursuant to PacifiCorp’s tax allocation agreement with Berkshire Hathaway Inc. (not PHI), PacifiCorp reports its current and deferred income taxes as if it were a separate taxpayer with exception that net operating losses and other tax attributes such as tax credits, are characterized as realized by PacifiCorp when those tax attributes are utilized in the consolidated tax return. PacifiCorp’s state and local income taxes are reported on the same basis, although the filing entity varies depending on each jurisdiction’s statutes and regulations.

Income taxes are remitted quarterly between PacifiCorp and its immediate parent company, PPW Holdings, LLC, on the same basis that PacifiCorp would remit income taxes directly to a taxing authority. Estimated tax payments are generally due on April 15, June 15, September 15, and December 15 of each year; extension payments, if any, are due by March 15 of the following year.

Income Taxes

PacifiCorp provided the following tax information for 2008 through 2010. Total Operating Revenues for Oregon decreased approximately 10 percent in 2010 from 2008.

The following table highlights the income taxes for 2008 through 2010.

Table 29 – PacifiCorp Income Taxes 2008 to 2010

	2008	2009	2010
Operating Revenue	\$1,283,578,950	\$1,193,890,559	\$1,155,602,412
Other Deductions	\$980,908,087	\$895,829,190	\$890,810,457
Interest (AFUDC)	\$23,133,775	\$27,670,837	\$33,298,703
Interest Expense	\$95,939,106	\$107,753,166	\$102,550,156
Schedule M Additions	\$219,033,033	\$234,773,974	\$240,787,176
Schedule M Deductions	\$420,483,931	\$561,357,633	\$784,176,055

	2008	2009	2010
Income Before Taxes	\$28,414,634	(\$108,604,619)	(\$347,848,327)
State Income Tax	\$926,037	(\$4,674,321)	(\$14,987,832)
Taxable Income	\$27,488,597	(\$103,930,298)	(\$332,860,495)
Federal Income Tax	\$9,621,009	(\$36,375,604)	(\$116,501,173)

In response to Staff's request that the Company explain any year to year account differences over 10 percent, the Company explained that they have not analyzed each individual book-tax difference, or Schedule M, for purposes of this audit.

However, the Company provided a general explanation regarding the primary reason for the reduction in the net Schedule M deduction and Federal Taxable Income, which according to the Company is due to an increase in the deduction for tax depreciation. The Company further states that the increase in tax depreciation is the result of the combination of significant capital investments and bonus depreciation.

Senate Bill (SB) 408 was passed in 2005 by the Oregon Legislature. The law required PacifiCorp, as well as Portland General Electric, NW Natural, and Avista to file tax reports with the Commission annually on October 15th. Taxes recovered in customers' rates beginning January 1, 2006, were to be subject to an adjustment each year. Later, Senate Bill 967 was passed in 2011 by the Oregon Legislature, this law repealing SB 408, was effective May 24, 2011.

Other Taxes

PacifiCorp provided the following information regarding taxes other than income:

Table 30 – Taxes Other than Income

	2008	2009	2010	Change from 2008 to 2010
Franchise Taxes	\$24,408,342	\$24,224,785	\$25,019,395	2.5%
Property Taxes	\$77,529,279	\$87,317,409	\$100,361,440	29.4%
Washington Public Utility Taxes	\$9,321,317	\$10,921,843	\$9,832,285	5.5%
Oregon Energy Resource Supplier Assessment	\$610,437	\$682,162	\$722,590	18.4%
Navajo Business Activity Tax	\$1,608	\$1,549	\$804	-50.0%
Montana Energy Tax	\$245,970	\$166,489	\$269,226	9.5%

Table 30 – Taxes Other than Income (continued)

	2008	2009	2010	Change from 2008 to 2010
Montana Wholesale Energy Transaction Tax	\$175,259	\$118,652	\$191,815	9.4%
Washington Gross Revenue Tax	\$6,829	\$156,529	\$31,331	358.8%
Idaho kWh Tax	\$24,418	\$32,595	\$26,822	9.8%
Wyoming Annual Corporation Tax	\$40,323	\$53,226	\$56,310	3.7%
Land Tax	\$61	\$63	\$63	3.3%
Salt Lake Law Enforcement Levy	\$0	\$0	\$648	100.0%
Other Taxes & Fees	\$238,746	\$576,313	\$367,905	5.4%
Total	\$112,602,589	\$124,251,615	\$136,880,634	21.6%

As the above table indicates, there is an overall 21.6 percent increase in other taxes from 2008 to 2010.

Through Staff data requests, Staff found that the total amount of operating property subject to assessment increased 13.3 percent from \$13.1 billion in Tax Year 2009 to \$14.8 billion in Tax Year 2010.

Oregon Property Taxes

PacifiCorp provided the following information regarding property taxes:

Table 31 – PacifiCorp Property Taxes Oregon Only

	2008	2009	2010	Percentage Change 2008 to 2010
Oregon	\$17,338,407	\$19,267,470	\$21,470,885	23.8%

The Company cited an increase in PacifiCorp investment in operating property, an increase in the level of operating income capitalized and changes in tax rates as the reasons for the increase in property taxes from 2008 to 2010.

PacifiCorp reports that its Leaning Juniper wind project located in Gilliam County, Oregon was under a three-year enterprise zone in which it is exempt from taxation. This exemption covers the 2007-2008, 2008-2009, and 2009-2010 tax years. For the 2008-2009 tax period, this exemption excludes property valued at \$117,161,000 from taxation, resulting in a \$1.2 million reduction in property taxes. According to the Company, this is the only “tax holiday” that impacted the

property tax expense during the period 2008 through 2010. Beginning in the 2010-2011 tax period, the Leaning Juniper wind project will become fully taxable.

Deferred Taxes

The table below shows PacifiCorp's accumulated deferred income taxes for Oregon for years 2008 through 2010.

Table 32 – Accumulated Deferred Income Taxes

	2008	2009	2010
Accumulated DIT	(\$419,167,848)	(\$521,188,889)	(\$686,402,568)

According to the Company, the total accumulated deferred income tax balance is a composite of several hundred book-tax differences. In response to Staff's request that they explain any year to year account differences over 10 percent, the Company states that they have not analyzed the balance associated with each individual book-tax difference.

Like income taxes, PacifiCorp has indicated that the primary reason for the net increase in accumulated deferred income taxes year-over-year is the increasing difference between book and tax depreciation, and the repairs deduction.

The repairs deduction, first taken on the Company's 2008 federal income tax return, is an accounting method for income tax purposes only that permits a taxpayer to take a tax deduction for qualifying expenditures in the taxable year paid or incurred even though the same expenditures are required to be capitalized and depreciated for book purposes.

PacifiCorp also provided Staff with variance analytics which allowed Staff to review the book-tax difference for the individual accounts.

Tax Credits

In 2010, PacifiCorp has used Oregon Business Energy Tax Credits (BETC) totaling an estimated \$819,719. In 2011, the Company's total BETC is estimated to increase by 40.8 percent due to the Lemolo Hydro project which was not eligible for the credit until 2011. In total, there are 13 qualifying projects for which PacifiCorp is claiming the Business Energy Tax Credit.

According to the Company, each BETC will be amortized into results over five years. PacifiCorp provided Staff with the BETC Final Certificate for each project showing the five year amortization breakout.

Staff Recommendation

16. In any upcoming rate proceedings, Staff should verify that the entire costs of purchased BETC's are booked to below-the-line accounts. Ratepayers do not receive any benefit from purchased BETC's and therefore should not share in any of their cost. (*Further investigation during rate case*)

Financial Records

BPA Residential Exchange Settlement Agreement

Bonneville Power Administration (BPA) is a federal agency that markets low-cost federal power to private and public agencies as well as certain large industrial customers. The Regional Power Act (Act), federal legislation passed nearly thirty years ago, authorizes BPA to provide the benefits of the low-cost federal hydroelectric system to residential and small farm customers of the Pacific Northwest privately owned utilities (IOUs).

Under the Act, an IOU has two options through which it may enter into contracts with BPA for the benefit of the IOU's residential and small farm customers. The first option is to enter into a residential exchange contract pursuant to provision 5(c) of the Regional Power Act. Under this option, the IOU sells power, equal in amount to its residential and small farm load, to BPA at the IOU's average system cost (ASC). BPA in turn sells an equal amount of power back to the IOU at BPA's priority firm (PF) exchange rate. Typically, no power is actually transferred between BPA and the IOU. Rather, cash benefits are provided to the IOU equal to the residential and small farm load multiplied by the difference between the IOU's ASC and BPA's PF exchange rate.

The second method to obtain benefits for the residential and small farm customers is to enter into a contract with BPA under the provisions of 5(b) of the Act. Under this provision, an IOU can purchase power from BPA equal to the IOU's net requirements and the power is priced at the new resource (NR) rate. A utility's net requirements are calculated as the difference between the utility's firm loads and its firm resource supply.

The balance of PacifiCorp's BPA Balancing Account was approximately negative \$0.99 million at year-end 2008, negative \$2.42 million at year-end 2009, negative \$3.18 million at year-end 2010, and positive \$1.83 million as of June 30, 2011. A negative balance on the account indicates that PacifiCorp is in a position of owing money to the customers. PacifiCorp only applies interest to the account balance when customers are owed money, not if PacifiCorp is owed money from their customers.

In August of 2007, PacifiCorp began applying interest to the BPA Balancing Account using a Fidelity Treasury Fund 695 rate. As of December 19, 2008, due

to the possibility that Fund 695 would close or restrict new investments, the Company began calculating the carrying charge based on Fidelity Fund 57, which was consistent with changes in the Company's short term investments. Fidelity Fund 57 is AAA rated and is permitted to invest in US government agency securities, treasury bills, and repurchase agreements that are backed by those securities. This method is utilized for the three states of Oregon, Washington, and Idaho.

Internal Audit

Staff reviewed PacifiCorp's Audit Program. The PacifiCorp Internal Audit Department completed 14 internal audits in 2008; 11 internal audits in 2009, 16 audits in 2010, and 9 audits through September 1, 2011. Staff reviewed five PacifiCorp Audit Reports and was favorably impressed with the quality of the reports. Resulting from the 2006 merger with MEHC, PacifiCorp no longer has an Audit Committee, this function is performed by the MEHC Board.

Affiliated Interest / Non-Regulated Cost Allocations

Affiliate Transactions

Staff reviewed the following affiliate transactions:

- Subsidiary Loan Activity/Guarantees
- Intercompany Administrative Services Agreement
- Tax Sharing Agreements with Subsidiaries
- Corporate Services/Cost Allocation Manual
- Coal Purchases from Affiliates

Subsidiary Loan Activity/Guarantees

PacifiCorp and Pacific Minerals currently participate in an intercompany loan agreement (Loan Agreement) that was approved by the Commission. MEHC is not a party to this agreement. The original Loan Agreement was approved in Commission Order No. 83-115 (UI 1). Commission Order No. 97-459 (UI 1 (10)), removed the limitation to the amount PacifiCorp could borrow from affiliates. Commission Order 06-353 (UI 1 (11)) raised the advance limitation to Pacific Minerals to \$30 million and allows PacifiCorp to make advances of \$10 million to other certain affiliates (excluding MEHC and non-PacifiCorp affiliates).

Interest on the loans is determined daily and equals PacifiCorp's least cost, external, short-term borrowings. Interest is paid for the actual number of days the loan is active. Based on Staff's review, the Company appears to follow the transfer pricing policy regulations of the Commission in its lending and borrowing arrangement.

As of December 31, 2010, Pacific Minerals' outstanding month-end-balance (owed to PacifiCorp) was \$1,981,665. Fiscal Year 2010 interest paid to PacifiCorp was \$35,855. Principal and interest payments are recorded in FERC Account 146, *Accounts receivable from associated companies*.

PacifiCorp does not guarantee the debt of its subsidiaries or any of its affiliates. Staff did not note any concerns with PacifiCorp's subsidiary loan activities.

Intercompany Administrative Services Agreement

The Intercompany Administrative Services Agreement (IASA) was approved by the Commission in Order No. 06-736 (UI 249), dated June 19, 2006. The parties to the IASA are MEHC, PPW Holdings LLC, and the other wholly owned subsidiaries of MEHC including:

- MidAmerican Energy Company (MEC);
- CalEnergy Generation;
- Kern River Gas Transmission Company;
- Northern Natural Gas Company;
- CE Electric UK Funding Plc.;
- HomeServices of America, Inc.; and
- PacifiCorp.

The administrative services provided by MEHC include:

- Services by executive, management, professional, technical, and clerical employees;
- Financial services, payroll processing services, employee benefit participation, supply chain and purchase order processing services, tax and accounting services, contract negotiation and administration services, risk management services, environmental services, and engineering and technical services;
- The use of office facilities; and
- The use of automobiles, airplanes, other vehicles, and equipment.

Services provided by MEHC to PacifiCorp are the major source of PacifiCorp's IASA payments. In connection with the acquisition of PacifiCorp by MEHC in March of 2006, MEHC committed to the Utah Public Service Commission to limit the amount of annual management fees paid by PacifiCorp to MEHC to \$9 million for a period of five years. In 2010, PacifiCorp was invoiced a total of \$15,667,977 by MEHC, but per the commitment, paid MEHC only \$9 million for services received.

In accordance with MEHC acquisition Oregon Commitment No. 9, PacifiCorp limited the amount included in rates related to corporate allocations from MEHC to \$7.3 million. That commitment expired December 31, 2010.

Tax Sharing Agreement with Subsidiaries

According to the Company's 2010 Annual Affiliated Interest Report, PacifiCorp and its subsidiaries are party to a tax-sharing agreement and remit federal and state income tax payments to their parent company, PPW Holdings LLC, a wholly owned subsidiary of MEHC. On December 31, 2010, PPW Holdings LLC owed PacifiCorp and its subsidiaries \$344,671,476 under this arrangement. However, this amount was reduced by \$164,695,101 in March of 2011, as a result of Revenue Procedure 2011-26, guidance issued by the United States Internal Revenue Service regarding the application of the 100 percent bonus depreciation provisions that were provided for in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.

At December 31, 2010, Pacific Minerals was owed by PacifiCorp \$444,155.29 related to payroll, benefits, income taxes, and other transactions. This amount, which had been reported in the Annual Affiliated Interest Report in previous years, was excluded from the 2010 report. According to the Company, the balance was removed because the balance is not a result of actual services performed by one entity for another, but rather just a balance resulting from pass-through transactions. Details of the pass-through transactions are included in another part of the Annual Affiliated Interest Report.

Corporate Services/Cost Allocation Manual

Pursuant to OAR 860-027-0048, PacifiCorp provided Staff a Cost Allocation Manual (CAM) as an attachment to its 2010 Affiliated Interest Report. Staff reviewed the content and format of the CAM and finds that PacifiCorp has adequately addressed its cost allocation methods.

Coal Purchases from Affiliates

PacifiCorp purchases coal from several affiliates, Bridger Coal Company (Bridger), Energy West Mining Company (Deer Creek), and Trapper Mining Company (Trapper). The Bridger mine provides coal to the Jim Bridger plant, which is located in Wyoming, and of which PacifiCorp owns 66.7 percent. Deer Creek provides coal for the Company's Carbon, Hunter, and Huntington Plants, which are all located in Utah. PacifiCorp is also a minority owner of Trapper (21.4 percent). Trapper provides coal to PacifiCorp's Craig Plant, which is located in Colorado.

Securities Issuances

Adequate Cooperation

Oregon Public Utility Commission Staff (Staff) submitted a large number of structured multi-part data requests regarding PacifiCorp's (Company) finance strategy, status, and experience in the past five calendar years. These data

requests were typically organized and some data requests were segmented into as many as several dozen component questions. Company responses, which were on the whole adequate, were less edifying in some cases than expected.

In addition to materials provided by the Company and responses to data requests, Staff examined public materials, including U.S. Securities and Exchange Commission (SEC) filings, and SNL Financial, LC (SNL) reports and profiles, including debt-maturity profiles for PacifiCorp, Berkshire Hathaway, Inc. (BRK), MidAmerican Energy Holdings Company (MEHC), and PPW Holdings LLC (PPW), a wholly owned subsidiary of MEHC and PacifiCorp's direct parent company,⁴⁶ to form a more complete picture of the Company's historical finance activities.

One result of Staff's review is the acquisition of a better cross referencing of PacifiCorp's outstanding long-term debt securities, including the addition of key fields like Committee on Uniform Security Identification Procedures (CUSIP) numbers for individual series of securities. This allows for quicker and more accurate association between public information and Commission authorizations and references to specific issuances. This operational audit also increased Staff familiarity with the provisions and component costs of the Company's securities issuances. The operational audit further afforded Staff an opportunity to review third party valuations including fair values and option values for PacifiCorp electric operations debt, such as: 1) First Mortgage Bonds (FMB), 2) Medium Term Notes (MTN), 3) Pollution Control Revenue Bonds (PCRB), and 4) Preferred Securities.

Sectional Audit Objectives and Scope

- Assess Company financing information to identify areas with inconsistent or incomplete data for analysis in a subsequent general rate case;
- Accumulate comprehensive financing data, strategy, and understanding to facilitate future inquiry into the Company's financing operations; and
- Evaluate the Company's ability to achieve its financing goals irrespective of current challenges, including the volatility of and access to financial markets.

Audit Areas

Staff audited the following Securities Issuance topics:

- Competitive Issuance Costs;
- Access to Capital;

⁴⁶ For example, PPW is the sole recipient of dividends on common stock paid by PacifiCorp.

- Make-Whole Spreads in Bond Early Call Provisions;
- Early Redemptions of Long-Term Debt;
- Investor and Other Presentations;
- Advice provided to the Company by Investment Banks;
- Credit Facilities and Fees;
- Trends in Weighted Average Coupon (WAC) of Long-term Debt; and
- Impact of Issuer Financial Health on Ease of Remarketing PCRBs

In many cases summary tables related to the above topics are available but this information is highly sensitive. In addition, the Company has provided documentation for securities and letters-of-credit. This information provides a useful benchmark for future Staff analysis and a means of rapidly matching a security with relevant cost information. Due to the confidential nature of this information, it is not included in the Audit Report.

Competitive Issuance Costs

The Company has not fully demonstrated to Staff's satisfaction that it has worked to control and reduce the cost of securities' issuance in the last five years by utilizing competitive processes. Company responses to data requests do not clearly depict action-by-action bidding or corporate strategy, and do not clearly reflect the Company's consistent initiative in providing benefits to ratepayers.

The Company represents that aside from the underwriter fee (which is a known amount by series per the underwriting agreement), for concurrently issued First Mortgage Bond series, trustee, legal, auditor, accounting, printing, indenture recording, regulatory agency and rating agency fees are, unless billed separately by series, allocated based on the principal amount of the series.

The Company also represents that it thoroughly reviews external fees, including legal costs, incurred in issuing securities. However, the confidential information provided has an insufficient historical data capture to trend granular cost information. It is also important to note that Staff does not yet have a comprehensive explanation for the variability of fees incurred across issuances.

Staff Recommendation

17. Staff recommends an examination, of the Company's control of external legal and other costs associated with securities' issuance. Benchmarking across Commission regulated utilities will provide a framework for improved understanding. This examination should also look at the assignment of costs across multiple similar PacifiCorp issuances, and confirm if costs reflect downward price pressures and improved cost controls over time. *(Further investigation during rate case)*

18. Staff recommends that in subsequent securities' issuance dockets that the Company be required capture and document granular legal expenses to reflect the purposes of legal services rendered, the types of attorney or paralegal performing the work, and the billed unit and total cost to accomplish specific component tasks. (*Planning Issue*)

Access to Capital

U.S. credit markets were dysfunctional in parts of 2008 and 2009. Problems in the financial markets caused many issuers including PacifiCorp to rely more heavily on credit facilities and short-term debt as bridge financing until such time when financial markets regained normal functionality. As but one example of this dysfunction, for a short period in October of 2008 there was no market for PacifiCorp's commercial paper although the Company was able to successfully issue long-term debt in early 2009 when other utilities were shut out of the market. Despite market turmoil and volatility beginning in the second half of 2008, Staff does not detect cause for broad future concern regarding the Company's access to capital for the following reasons:

1. PacifiCorp no longer has a higher than historical reliance on short-term debt, as evidenced by page 20 of PacifiCorp's Form 10-Q for the period ending September 30, 2011, which shows no short-term debt. As of 12/31/11 short-term debt outstanding was approximately \$685 million. Company short term borrowing supported by credit facilities stands at \$1.2 billion and is such that the only draw down or deployment of \$1.355 billion in existing credit facilities are letters-of-credit (LOC) totaling \$304 million to support PCRB obligations. According to the MEHC Form 8-K of November 7, 2011, PacifiCorp anticipates an early 2012 debt issuance, in part to refinance its short-term borrowing position.

Based on these indicators, PacifiCorp demonstrated the ability to issue ten-year and longer maturity FMB for the express purpose of repaying short-term debt,⁴⁷ even in times of high volatility and in all but the tightest of credit conditions.

2. Increasingly diverse participants in PacifiCorp's credit facilities reduce the chance that credit will be unavailable if called upon. The Company represents that ownership of several of the participants by non-U.S. companies does not pose currency exchange risk or incremental costs to ratepayers.

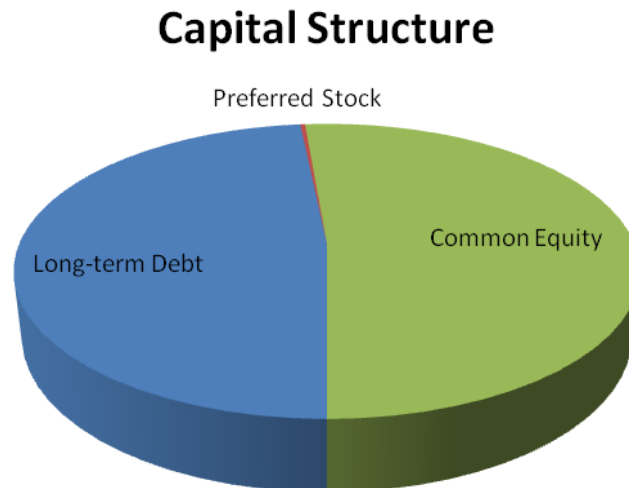
⁴⁷ As one example, PacifiCorp issued \$400 million of ten-year 3.85% FMB due June 15, 2021 specifically targeting the repayment of short-term debt among other utility purposes allowable under ORS 757.415, as noted on page 12 of PacifiCorp's 10-Q quarterly filing for the period ending September 30, 2011.

3. According to the Company, and consistent with Staff’s and MEHC’s observation (and despite an S&P’s downgrade of BRK to “negative” from stable at AA+ in August, 2011, and possible ratcheting downward over time for PacifiCorp based on that change), majority (ultimate) corporate ownership by Berkshire Hathaway (BRK) has resulted in higher PacifiCorp credit ratings from S&P⁴⁸ and Moody’s than would be merited by PacifiCorp as a stand-alone entity.⁴⁹

Please note that the Company deems contingent equity agreements and utilization parameters sensitive information. Though this information was provided to Staff, it is not summarized or reproduced herein. Staff also notes that PacifiCorp’s consolidated dividend tests incorporated Commission restrictions for Oregon as well as other jurisdictions in effect for the last five years, since the acquisition of PacifiCorp by MEH.

A general depiction and trend (using only publicly available information) of PacifiCorp’s Capital Structure is shown below:

Table- 33 Capital Structure (chart)



⁴⁸ Abbreviations and acronyms not defined herein are defined starting on page 32 of the OPUC’s standard data request webpage located at:
<http://www.puc.state.or.us/PUC/StandardDataRequests.pdf>

⁴⁹ MEHC Form 8-K filed with the SEC on November 7, 2011 states “Access to Capital from Berkshire Hathaway allows us to take advantage of market opportunities ... Access to capital even in times of industry and general market stress.”

Table- 33 Capital Structure (table)

Data Source	SNL	Gen. Rate Case	
		UE 217*	UE 210**
Year	2011	2010	2009
Long-term Debt	48.36%	48.70 %	50.20 %
Preferred Securities	0.29%	0.30 %	0.30 %
Common Equity	51.35%	51.00 %	49.80 %
Total	100.00%	100.00 %	100.00 %

* Order 10-473 and ** Order 10-064

4. As of October 7, 2011, only four years between 2011 and 2030 exceed \$300 million in total for schedules long term debt maturities. For the next 20 years, Staff detects no concerning concentration of long-term debt maturities.
5. PacifiCorp's budgetary Weighted Average Cost of Capital (WACC) is deemed sensitive by the Company. In general, 2011 Company WACC has recovered from 2008 and 2009 market volatility and more closely approximates that of the 2005 to 2006 timeframe.

Staff Recommendation

19. Relatively low all-in-costs in the absence of interest rate hedging and forward start costs currently make long-term debt highly attractive. Staff may find it beneficial to examine the Company's debt maturity profile (for concentrations) at a future date. Presently, there are six post-2030 years in which scheduled long-term debt maturities total more than \$300 million. *(Planning Issue)*

Make-Whole Spreads in Bond Early Call Provisions

PacifiCorp represents that it does not incur upfront costs for the Company to obtain optional "make-whole" call provisions for early redemption in bond issuances. Normally set when new long-term debt issuances are priced, the make-whole spread is at least 15 percent of the credit spread rounded up to the nearest five basis points, subject to a maximum of 50 basis points.

Bonds can be redeemed at a price equal to the greater of par or the sum of the present value of the remaining scheduled payments of principal and interest, discounted at the Adjusted Treasury Rate, plus the additional basis points for the "make whole" spread.

PacifiCorp's fixed-rate long-term debt trades infrequently in the secondary market. However, the Company's variable-rate long-term PCR B debt is regularly

remarketed at the lowest coupon interest rate necessary to remarket the PCRBs at par or 100 percent of the original amount.

In general, the Company does not now use make-whole calls to manage interest expense. Rather this feature allows issuers with excess cash or issuers facing a corporate restructuring to retire debt at a determinable cost without the risk of being obstructed by bondholders.

Early Redemptions

The Company walked Staff through several of the Company's benefit-cost analyses associated with early redemptions of bonds. These analyses examined redemption premiums, the resulting all-in rate of the refinanced debt, and the impacts on annual debt service cost.

For example, Company analysis shows no benefit of an early redemption through the make whole call of the 7.1 percent first mortgage bonds due November 15, 2031. Staff detects no error in the Company's approach or calculations.

Staff Recommendation

20. Staff may find it beneficial to again examine early redemptions in a future period of rising interest rates, looking for adequate control of the number of securities outstanding for the same purpose. (*Planning Issue*)

Investor and Other Presentations

Staff appreciates the Company's providing some presentation and other materials, which the Company deems highly sensitive as well as providing legal information to the extent it was not protected by the attorney-client privilege.

Staff Recommendation

21. Staff recommends that in a future rate case, Staff review information prepared by Perkins Coie and other law firms not reviewed in this proceeding. The Company should allow Staff to view this material under controlled conditions. (*Further investigation during rate case*)

Credit Facilities and Fees

Staff reviewed available bank commitments, facility borrowings and related LOC activity, usage, facilities fees, and upfront costs. The Company borrowed under one credit agreement in lieu of issuing Commercial Paper in October, 2008. Additionally, PacifiCorp has used its credit facilities to issue letters-of-credit to enhance and provide liquidity for its variable-rate tax-exempt PCRB.

Decrease in WAC of Long-term Debt

The Company has achieved a trend of reductions in the average Coupon interest rates of mortgage backed securities weighted by remaining balance over the last five years based on SNL data and SEC filings. The Company represents that it did not use swaps or other financial hedging mechanisms from January 1, 2005 through December 31, 2010

Note that Staff reviewing this topic did not examine Company hedging practices and did not address costs of any forward start or interest rate swaps.

Impact of Issuer Financial Health on Ease of Remarketing PCRBs

Recent bankruptcies by municipalities and counties from Harrisburg, Pennsylvania to Jefferson County, Alabama prompted Staff to seek to clarify Company and ratepayer exposure in PCRb remarketing. PCRBs in this context are generally issued by counties and other local government entities. Debt service is secured by payments from the Company employing pollution control equipment financed by the bond. PacifiCorp has not detected any adverse impact on its remarketing of PCRb's over the last five years due to changes in issuer's credit ratings. For PacifiCorp PCRBs, no issuer has experienced a bankruptcy or a super-downgrade of its credit ratings (multiple notch reductions) by S&P or Moody's in this time period.

PacifiCorp's PCRb obligations are 1) separately rated (typically based on the ratings of the letter of credit provider and not the issuer), 2) are payable solely from PacifiCorp or the Company's letter of credit (and not the issuer), and 3) are not general obligations of the issuer. In the Company's responses to Staff data requests A162 to A166, PacifiCorp notes that this separation may be (in certain instances) inadequate to assure ease of remarketing PCRBs in the event that the issuing entity filed for bankruptcy or suffered a super-downgrade. For example in 2008, the Company experienced difficulty remarketing six series of PCRBs due to market concerns about the insurance provider.

PacifiCorp has provided Staff with detail on each of its PCRb bonds. Were an issuer to be associated with bankruptcy or to suffer a super-downgrade of its credit rating, there is some risk that investors would prefer other like financial instruments not associated with that county or municipality. In that case, the Company might need to reacquire PCRBs associated with that issuer and initiate an alternate financing solution.

Rating Agency Reports, Ratings, and Calculations

Staff reviewed over 50 S&P, Moody's and Fitch's rating agency reports, as well as additional Company presentations to rating agencies and to investors so as to

better understand agency concerns regarding the Company and the calculation of inputs into rating agency decisions.

The Company considers its presentations to rating agencies and its analysis of ratios and other information used by credit rating agencies to be highly sensitive. This information is not reproduced herein. The Company demonstrated to Staff that it actively pursues high credit ratings as part of a foundational corporate strategy. Generally, ratios important to rating agencies were maintained or improved within target parameters over the last five years.

PacifiCorp represents that recent rating changes are largely reflective of broad utility trends and changes of approach in rating agency analysis thereof, rather than due to Company specific actions. Staff respectfully asserts that Company-specific actions and results have an impact. While Staff has reviewed rating agency reports discussing changes in their methodology for analyzing utilities and the Company specifically, Staff has also seen the upgrades by S&P of both the Company's Secured Debt and Unsecured Debt as at least partially driven by Company performance.

Conversely, Staff believes a downgrade in Fitch ratings coincident with similar downgrades of the debt of other utilities (which treatment was divergent from those by S&P and Moody's) should be noted, but not viewed as indicative of a change in the Company's financial risk or performance. Staff's position is consistent with the sentiment expressed on page 10 of MEHC's Form 8-K of November 7, 2011, which states that MEHC is "committed to holding company and subsidiary credit profiles," implying that MidAmerican Energy Holding Company component companies are expected to actively manage finance and risk to achieve stable positive ratings.

Commercial paper and other short-term borrowings supported by credit facilities were found by Staff to generally be lower-cost than drawing on the Company's credit facilities. Staff examined commercial paper as an indicator of the efficacy of PacifiCorp credit facilities. Here the ratings indicate that these credit rating agencies apparently have no issue with the Company's credit facilities used to support the issuance of commercial paper. Moreover, in 2008 and 2009 as credit was most strained, S&P upgraded PacifiCorp commercial paper, designating it as more attractive in difficult conditions than that of previously like-rated peer utilities. As credit conditions eased, S&P lowered the rating to its prior level.

Topical Conclusion

PacifiCorp provided adequate responses to a diverse set of data requests regarding the Company's methods and performance in issuing securities. Staff drew more heavily on publicly available data than was the case in similar recent audits. Compilation from public sources was confirmed and, where necessary,

corrected by PacifiCorp. Staff detected no material errors within the scope of this portion of the 2011 operational audit. However, Staff did identify several areas in the body of this summary that merit further investigation in a future general rate case.

At Staff's request, PacifiCorp scheduled a meeting at the Company's offices on December 19, 2011, to review and discuss PacifiCorp's 10-year financial planning model (10-Year Plan). The Company provided an overview in this meeting of how the Company's 10-Year Plan supported analysis and single best recommendations regarding capital structure, management of credit ratios and key rating metrics, as well as myriad other factors. This in-person meeting format proved less burdensome to the Company than data requests. Additionally, Staff's on-site visit ameliorated PacifiCorp's concerns related to the commercially and competitively sensitive nature of information examined.

The site visit permitted Staff to verify: key planning assumptions; 10-year trend data; plan-on-plan course corrections; risk concentrations and drivers; shifts in financing intensity and management focus; and how events and regulatory changes impacted PacifiCorp's perception of its operating environment. Respecting the Company's restrictions, these insights are not summarized here, but should allow for more effective data requests in the next rate case drawing on a common understanding of Company terms and process.

Customer Service

Customer Count, Complaints and Service Levels

The company stated that there is a ten-year technology improvement plan. Four to six customer services' system releases are delivered each year to improve core customer service processes, meet customer expectations and improve the level of service provided to customers. Projects that were delivered in 2011 included the following:

1. Improved online payment programs;
2. A mobile outage web application;
3. Web site improvements; and
4. Improvements to the Company's pay-by-phone application and an online tool for use by business customers.

The following are four current customer service improvement initiatives:

1. Customer care training for call center agents;
2. Increased Web-based customer self-service options;
3. Increased customer communications on demand side management programs; and

4. Increased customer communications on ways to conserve/manage their energy usage.

Table 34 - Average Customer Counts by Class

	Commercial	Industrial	Irrigation	Street Lighting	Residential	Total
2006	72,841	1,941	7,992	591	452,207	535,572
2007	74,086	1,912	7,975	579	460,347	544,900
2008	75,878	1,871	7,991	544	466,709	552,993
2009	76,538	1,831	7,957	534	468,209	555,069
2010	77,618	1,815	7,898	525	469,923	557,779
2011 *	78,069	1,804	7,848	506	469,949	558,176

*Forecasted through December 2011.

Over the above period, the Industrial, Irrigation, and Public Street and Lighting classes had respective percentage decreases of 7.1 percent, 1.8 percent, and 14.4 percent, while the Commercial and Residential classes had respective percentage increases of 7.2 and 3.9. The customer total growth was 4.2 percent.

Table 35 - Customer Complaints by Class

	2008	2009	2010	2009/2010 Change
Billing	13	12	18	+6
Collections	28	20	20	same
Customer Guarantees	0	0	1	+1
Customer Service	1	6	2	-4
Damage Claims	3	2	2	same
Direct Access	0	0	0	same
Disconnect	7	3	10	+7
High Bill	18	8	10	+2
Line Extension	18	17	8	-9
Meter Reading	5	5	4	-1
Miscellaneous	2	1	1	same
Operations	9	3	11	+8
Outage	23	10	13	+3
Personnel Issue	0	0	0	same
Power Quality	1	0	3	+3
Rates	7	40	8	-32
Tree Trim	0	4	0	-4
Total	135	131	111	-20

The year-to-year decrease of 20 complaints is largely attributable to reductions in the Rates, Line Extension and Tree Trimming categories that were partially offset by increases in Disconnect, Operations and Billing categories.

Staff also reviewed the Customer call totals for by month and annually for the period 2008 through 2010. As the table below illustrates, while the number of Customer calls have increased by 328,289 or 6 percent since 2008, 94 percent of the increase in calls has been handled through automated technology solutions instead of degrading answer times or adding staff.

Table 36 – Customers Calls Answered by Agents and Technology

	Agent	Percent of Total	Technology	Percent of Total	Combined
2008	3,162,180	60%	2,078,675	40%	5,240,855
2009	3,231,747	60%	2,172,289	40%	5,404,036
2010	3,180,241	57%	2,388,903	43%	5,569,144
2008/2010 Change	18,061	6%	310,228	94%	328,289
2008/2010 Change	1%		15%		6%

The Company’s service level goal is to answer 80 percent of the calls within 30 seconds. Wait times and solution times are tracked and reported for each agent received call type. These experiences have resulted in process changes to improve customer satisfaction. The agents only below-the-line charged behavior pertains to the provision of information on the Blue Sky renewable energy program.

Table 37- Ratio of Meter Personnel to Customers

Year	Meter Reader Per 1,000 Customers	Meter Men Per 1,000 Customers
2007	.24	.05
2008	.24	.05
2009	.24	.05
2010	.24	.04

As can be seen above, there has been little variation in the ratios of the number of meter readers and meter men per 1000 customers.

System Reliability Violations and Improvement Measures

As a result of a disturbance on February 14, in the Western Interconnection that originated at PacifiCorp’s Huntington coal fire plant, the Federal Energy Reliability Commission (FERC) ordered and PacifiCorp agreed to pay, a civil penalty of \$3,925,000. The civil penalty was assessed by FERC under the Federal Power Act, 16 U.S.C. § 792. The disturbance was the result of a faulty circuit board that activated a fire suppression system that improperly operated

flooding water over an up-take transformer at Huntington Unit #1 which caused a line-to ground fault. The fault triggered an immediate loss of approximately 2,800 MW of generation across PacifiCorp East and PacifiCorp's shedding of approximately 183 MW of firm load in Utah affecting approximately 74,000 customers in the service area of Rocky Mountain Power, with an average outage of 25 minutes. PacifiCorp did not admit or deny that its actions constituted violations of the Reliability Standards or that it committed any violations of the Reliability Standards.⁵⁰

As a result of the disturbance to the Western Interconnection and the subsequent measures taken by PacifiCorp's personnel, it was determined through investigations that 23 requirements of 15 reliability standard had been violated related to balancing, transmission operations, emergency procedures, protection and control and personnel performance.⁵¹ Subsequent to the disturbance event, PacifiCorp had undertaken substantial improvement measures in training of personnel to address concerns identified during its own internal review following the event in addition to those concerns identified by NERC during the course of the investigations. As part of the stipulation with FERC, PacifiCorp has to file semi-annual compliance reports with FERC for up to two years. FERC approved the PacifiCorp consent agreement December 1, 2011. Payments of the fines to NERC and FERC were due within 10 days of FERC issuance of the order approving the agreement without modification or condition.⁵²

Staff Recommendation

22. In any upcoming rate proceedings, Staff should verify that the entire amount of this civil penalty and the related legal fees be removed from the base period expenses because of the non-reoccurring nature of the transaction. (*Further investigation during rate case*)

Conclusion

Staff appreciates the cooperation received from PacifiCorp during the audit process and the site visit. PacifiCorp's professionalism and willingness to schedule a planning process site around their busy schedules, allowed Staff to complete this report in a timely and qualitative manner.

Copy to: Marc Hellman
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⁵⁰ Commission order in Docket No. IN11-6-000, page 1.

⁵¹ Energy NewsData Corporation's "Clearing Up," December 19, 2011, No. 1523, page 5.

⁵² Commission order in Docket No. IN11-6-000, "Stipulation and Consent Agreement", page 15.

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