

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: November 13, 2003**

**REGULAR** \_\_\_\_\_ **CONSENT**  X  **EFFECTIVE DATE** \_\_\_\_\_

**DATE:** October 30, 2003

**TO:** Lee Sparling through Marc Hellman and Rebecca Hathhorn

**FROM:** Michael Dougherty

**SUBJECT:** PACIFIC POWER & LIGHT: (Docket No. UI 220) Application for Approval of a Service Contract, including Environmental Services, with PacifiCorp Environmental Remediation Company.

**STAFF RECOMMENDATION:**

The Commission should approve Pacific Power & Light's (PacifiCorp) application to enter into a service contract with PacifiCorp Environmental Remediation Company (PERCO), an affiliated interest, subject to the following conditions:

1. PacifiCorp shall provide the Commission access to all books of account, as well as documents, data, and records of PacifiCorp and PERCO's affiliated interests that pertain to this transaction.
2. The Commission reserves the right to review, for reasonableness, all financial aspects of this transaction in any rate proceeding or alternative form of regulation.
3. PacifiCorp shall notify the Commission in advance of any substantive changes to the contract, including any material change in price. Any such change shall be submitted in an application for a supplemental order (or other appropriate format) in this docket.
4. PacifiCorp shall record clean-up costs incurred for non-regulated projects in the appropriate non-utility account.

**DISCUSSION:**

PacifiCorp filed this application on October 1, 2003, pursuant to ORS 757.490, ORS 757.495 and OAR 860-027-0040. PacifiCorp requests authorization from the

Commission to enter into a service contract (Agreement) with PERCO. As part of the Agreement, PERCO would provide environmental services to PacifiCorp. Estimated annual payment by PacifiCorp to PERCO for these services is approximately \$1,000,000. The Agreement is an ongoing agreement subject to yearly reviews during the annual budgeting process.

PacifiCorp owns 89.10% of the total outstanding stock of PERCO and therefore, PERCO is an affiliated interest of PacifiCorp as defined in ORS 757.015.

### Issues

Staff investigated the following issues:

1. Scope and Terms of the Agreement
2. Public Interest Compliance
3. Records Availability, Audit Provisions and Reporting Requirements

Scope and Terms of the Agreement – The Agreement covers both "forward services" and "reverse services." A "forward service" is when the utility is the buyer of assets, supplies, or services. A "reverse service" is when the utility is the seller of assets, supplies, or services. The "forward service" exhibit of the Agreement, Environmental Services provided by PERCO to PacifiCorp, is the section of the Agreement that requires Commission approval pursuant to ORS 757.495.

A competitive procurement process was not utilized for the Agreement. PacifiCorp represented that the performance of environmental cleanup activities by PERCO was already addressed in PacifiCorp's two previous rate case filings, UE 116 and UE 147. Staff verified that the environmental services section of the Agreement addresses the same type of cleanup activities included in the two previous rate case filings.

PacifiCorp estimates that it will pay PERCO approximately \$1,000,000 annually. This amount covers the PERCO incurred environmental cleanup costs that arise at sites other than specified sites covered by a 1996 insurance settlement<sup>1</sup>. Specific environmental services include environmental investigation, remediation activities, policy development, governance, management procedures and reporting. Approximately \$58,000 of this amount is for non-regulated cleanup projects.

The "reverse service" exhibits of the contract are for services that PacifiCorp will provide to PERCO including legal, financial, income tax, human resources, treasury, information

---

<sup>1</sup> In 1996, PacifiCorp received an insurance settlement of \$33 million to cover the cost of environmental cleanup of specified environmental sites. These funds were transferred to PERCO, which performs environmental cleanup at these specified sites.

technology support, environmental technical support, and other administrative type services. PERCO will pay PacifiCorp approximately \$460,000 annually for these services. PacifiCorp will charge fully distributed costs to PERCO, in accordance with the Commission's Transfer Pricing Policy.

Based upon my analysis of the Agreement, there appears to be no unusual or restrictive terms that will harm customers.

Public Interest Compliance – Staff compared the service fees charged by PERCO for environmental services with three local environmental engineering firms. Staff examined labor costs for environmental project managers, environmental engineers and environmental technicians. PERCO fees were equal to or lower than the lowest price from the nonaffiliated environmental firms contacted. Additionally, because PacifiCorp agreed to record costs associated with non-regulated projects in non-utility accounts, customers would not be paying for any cleanup associated with non-regulated projects.

During PacifiCorp's rate case, UE 147, Staff examined environmental costs associated with the insurance settlement. Based on this examination, Staff did not recommend any adjustments to the costs submitted by PacifiCorp in the UE 147 rate case.

Records Availability, Audit Provisions and Reporting Requirements - The proposed ordering condition No. 1 provides the necessary records access to PacifiCorp's relevant books and records.

Based on review of the application, Staff concludes the following:

1. Customers are not harmed by this transaction because PacifiCorp has met the requirements of the Commission's transfer pricing policy for affiliate transactions;
2. The Commission will have the necessary records access to PacifiCorp's books and records; and
3. The application involves an affiliated interest transaction that is fair and reasonable and not contrary to the public interest, with the inclusion of the proposed ordering conditions.

**PROPOSED COMMISSION MOTION:**

PacifiCorp's UI 220 application to enter into an affiliated transaction with PacifiCorp Environmental Remediation Company be approved, subject to the four recommended conditions.