

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFICORP d/b/a PACIFIC POWER
AND LIGHT COMPANY,

Respondent.

DOCKET UE-061546

SETTLEMENT STIPULATION

1 As described below, PacifiCorp d/b/a Pacific Power and Light Company ("PacifiCorp" or "the Company"), Staff of the Washington Utilities and Transportation Commission ("Staff"), and The Energy Project¹ (collectively, "Parties") have reached an agreed resolution of various issues in this docket.² Staff and Company have agreed to a resolution of revenue requirements issues ("Revenue Requirements Phase"), and an agreed process for resolving issues surrounding the implementation of a power cost adjustment mechanism ("PCAM") ("Power Cost Phase"). Consequently, this Settlement Stipulation ("Stipulation") is being filed with the Commission as a "Multiparty" "Partial Settlement"

¹ Comprising the Energy Project, Opportunity Council, Northwest Community Action Center, and Industrialization Center of Washington.

² The Energy Project takes no position on the settlement reached by Staff and the Company with respect to certain matters, as indicated in individual paragraphs in this Stipulation (e.g., where the term "Staff and Company" is used). The Energy Project does not oppose the settlement reached by the Company and Staff on such matters.

pursuant to WAC 480-07-730(3) and (2), respectively. This Stipulation is subject to Commission approval.

I. PARTIES

2 This Stipulation is entered into by the Company, Staff, and The Energy Project regarding PacifiCorp's pending general rate filing in the above docket.

II. RECITALS

3 On October 3, 2006, PacifiCorp filed revisions to its currently effective Tariff WN U-74 seeking a general rate increase of \$23.2 million, or 10.2 percent. The filing was based on normalized results of operations for Washington for the twelve-month test period ending March 31, 2006.

4 In order to expedite the processing of this case, the Company's filing included various approaches to minimize controversy. For example, the Company greatly restricted the number of adjustments in this case,³ and agreed not to re-litigate many of the issues raised in the Company's previous general rate case, Docket UE-050684 ("2005 Rate Case").⁴ Moreover, the Company accepted the return on equity ("ROE") and capital structure authorized by the Commission's order in the 2005 Rate Case,⁵ and elected to reflect only those changes to the cost of long-term debt and preferred stock which reduce the overall rate of return.⁶ The Company also accepted the stipulated interim methodology for temperature normalization filed in the 2005 Rate Case.

5 In response to the Commission's order in the Company's 2005 Rate Case, and in consultation with key Washington stakeholders, the Company formulated a west control

³ Wrigley, Exhibit ___ (PMW-1T) at 2:13-18.

⁴ *Id.*

⁵ *Id.* at 3:18-20; 2005 Rate Case, Order 04 (April 17, 2006).

⁶ Exh. ___ (PMW-1T) at 3:22-22.

area approach to allocate PacifiCorp's total costs in this case. The Company's direct testimony in this proceeding proposed adoption by the Commission of a West Control Area ("WCA") allocation methodology ("WCA Methodology") which allocates costs and benefits to Washington customers based on the costs and resources serving the Company's western control area, which includes Washington, Oregon, and California. The Company proposed that the WCA Methodology be adopted, subject to a five-year evaluation period.

6 The filing was suspended by Commission order dated October 9, 2006.⁷

7 At the prehearing conference on October 17, 2006, presiding Administrative Law Judge Dennis Moss granted petitions to intervene from Industrial Customers of Northwest Utilities ("ICNU") and The Energy Project.

8 The Company, Staff, ICNU, and the Public Counsel Section of the Office of the Attorney General ("Public Counsel") participated in technical workshops on November 1 and 16, 2006. In addition, Staff and ICNU conducted discovery on the Company's direct testimony.

9 Pursuant to the procedural schedule set forth in the Commission's prehearing conference order,⁸ two settlement conferences were held. For the settlement conference on December 14, 2006, Staff and the Company participated in person; ICNU, Public Counsel and The Energy Project participated by telephone. For the settlement conference on January 12, 2007, Staff, the Company, ICNU and Public Counsel participated in person. The Energy Project contacted the Company and indicated that it would not be available. Parties

⁷ *Utilities and Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-061546, Order 01 (Oct. 9, 2006).

⁸ *Utilities and Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-061546, Order 03 (Oct. 20, 2006).

presented proposals and counter-proposals which resulted in a partial settlement among three parties.

10 The Parties have reached agreement on contested issues in this proceeding concerning cost allocation methodology and revenue requirement issues, and wish to present their agreement for the Commission's consideration. The Parties therefore adopt the following Stipulation, which is entered into by the Parties voluntarily to resolve matters in dispute among them in the interests of expediting the orderly disposition of this proceeding.

III. AGREEMENT

A. Bifurcated Proceeding.

11 This Stipulation addresses cost allocation methodology and revenue requirement issues. The Parties recommend expeditious consideration of this Stipulation, with the remainder of the suspension period reserved for the Power Cost Phase to set the base level power supply expense, to determine the methodology for a PCAM, to consider including in the PCAM a mechanism for recovery of renewable-related expenditures, and to address the potential impacts, if any, of the implementation of a PCAM on cost of capital.

B. Cost Allocation Methodology.

12 1. **Adoption of the WCA Methodology.** Staff and the Company agree that the Commission should accept the WCA Methodology as proposed by the Company; provided, however, that the WCA Methodology will be modified to allocate fixed production costs using a Control Area Generation West factor of 75 percent demand and 25 percent energy. Variable production costs will be allocated using a Control Area Energy West factor, consistent with the Company's originally-proposed WCA Methodology.

13 Staff and the Company agree that for purposes of this docket (including the Power Cost Phase), the Commission should accept the WCA Methodology using the resources, including transmission, identified by the Company in Exhibit ___ (PMW-2), which is attached as Appendix A to this Stipulation. Staff and the Company understand that in future dockets, the Commission has discretion to amend the WCA Methodology as it deems appropriate, such as adding or subtracting resources from the WCA, consistent with the Commission's order in Docket UE-050684 *et al.*, recognizing the flexibility in the WCA Methodology to meet those requirements, as well as the dynamics of how the Company's system is operated.

14 **2. Evaluation Period and Monitoring Committee.** Staff and the Company recommend that the Commission adopt the WCA Methodology with a five-year evaluation period. In the absence of Commission action to change the WCA Methodology, such Methodology shall continue in use at least through the final PCAM rate change during the evaluation period, which would occur in the summer of 2012. The purpose of the evaluation period is to give the Commission and all interested parties a formal opportunity for evaluating the WCA Methodology for a significant period of time. The evaluation period does not limit the time period the WCA Methodology can be used in Washington.

15 Staff and the Company agree that a Monitoring Committee will be established to monitor the WCA Methodology during the five-year evaluation period. The committee will recommend to the Commission appropriate amendments to the WCA Methodology, if any, during that period. The committee will consist of Company and Staff representatives, and any interested representative(s) of Public Counsel, ICNU and the Energy Project. Participation on the committee will not limit any person's right to make proposals or

arguments directly to the Commission with respect to continuation of, or amendments to, the WCA Methodology. Nothing in this Stipulation affects the Commission's ability to require the use of a different cost allocation method.

C. Revenue Requirement Increase.

16 **1. General.** Staff and the Company agree that PacifiCorp shall be authorized to increase base revenues for its Washington customers by \$10.0 million (or 4.4 percent), to be implemented by tariff changes effective April 1, 2007. The revenue requirement increase of \$10.0 million is a negotiated settlement amount, which Staff and the Company agree will have no implications for resolving issues with respect to the Power Cost Phase of this proceeding. Staff and the Company further agree that base rates will not change as a result of establishing a base level power supply expense for implementation of the PCAM during the Power Cost Phase of this proceeding.

17 **2. Cost of Capital.** Subject to Part III.D.1 (¶ 20 below), Staff and the Company agree that the ROE and capital structure authorized by the Commission's order in the 2005 Rate Case shall remain unchanged. The cost of long-term debt and preferred stock shall be updated to reduce the overall rate of return to 8.06%, calculated as follows:

| Component | Ratio (%) | Cost (%) | Wtd. Cost (%) |
|-----------------|------------|----------|---------------|
| Equity | 46 | 10.20 | 4.6920 |
| Long-term Debt | 50 | 6.335 | 3.168 |
| Preferred | 1 | 6.455 | 0.065 |
| Short-term Debt | 3 | 4.50 | 0.1350 |
| TOTAL | 100 | | 8.06 |

18 **3. Other Revenue Requirement Adjustments.** For purposes of supporting the calculation of the agreed-upon revenue requirement recommendation, Staff and the Company have identified illustrative revenue requirement adjustments, which will be

described in testimony and exhibits supporting this Stipulation. Reference to these adjustments is not intended to establish precedent for future cases, nor is the listing of these adjustments intended to prescribe an exclusive means of supporting the reasonableness of the \$10 million recommended revenue requirement increase. In particular, the quantification included for the identified adjustments reflects the use of the SO factor for administration and general costs for this particular proceeding, but does not preclude further analysis of this issue in a future rate case. In addition, the total power costs and production rate base assumed in the calculation of the recommended revenue requirement in this Stipulation do not preclude any differing conclusions arising from continuing discussions to determine a base level power supply expense for a PCAM.

19

4. Revenue Allocation and Rate Design. Staff and the Company agree that revenue allocation and rate design will be based on the Company's proposal in this docket, as set forth in Exhibits ___(WRG-10), ___(WRG-11), and ___(WRG-12), which are attached as Appendix B to this Stipulation.

D. Power Cost Adjustment Mechanism.

20

1. Implementation of a PCAM. Staff and the Company agree to support a PCAM for PacifiCorp to be implemented by the end of the suspension period, September 1, 2007. During the Power Cost Phase of this proceeding, Staff and the Company agree to negotiate in good faith to establish: (1) the base-level power supply expense; and (2) the means for calculating deferred power costs in the PCAM. Staff and the Company agree that the negotiations shall also consider the inclusion as part of the PCAM a mechanism that would allow PacifiCorp to adjust rates to reflect (1) investment in Company-owned renewable resources, and/or (2) related transmission investment or expense. Staff and the

Company agree to address the potential impacts, if any, of such PCAM on PacifiCorp's cost of capital consistent with Commission precedent. These negotiations will be open to participation from all interested parties of record. Staff and the Company further agree that any stipulation reached on these issues shall be submitted to the Commission with sufficient time for a Commission decision on the structure of the PCAM by the end of the suspension period on September 1, 2007. If by April 15, 2007, it is evident that such a stipulation cannot be reached, then Staff and the Company agree to promptly request the Commission to convene a pre-hearing conference for purposes of scheduling testimony and hearings, to allow for a Commission decision on the structure of the PCAM by September 1, 2007.

21

2. Updated Power Cost Estimate. Staff and the Company agree there are benefits in continuing evaluation of the inputs into the WCA Methodology model for purposes of determining the base-level power supply expense for calculating deferred power costs in the PCAM. Therefore, the Company will provide the Parties with an updated estimate of its power costs by February 28, 2007. This update will include, among other things, the following items:

- (i) Market Prices;
- (ii) Actual short-term firm transactions; and
- (iii) Known and measurable changes since the initial filing.

E. System Reliability.

22

PacifiCorp commits to restore electric service as soon as possible following a reported outage. If service is not restored within 24 hours of the date of the report, barring major events or other unforeseen circumstances, any PacifiCorp customer who lost power due to an outage may claim \$50, plus \$25 for each additional 12-hour delay in restoring

service. Customers must claim their credits by contacting PacifiCorp within 30 days of the outage. PacifiCorp commits to maintain this policy at no lower than its current level through March 31, 2011.

F. Stay Out Period.

23 The Company will file its next general rate proceeding in Washington no sooner than July 1, 2008; provided, however, that in the event the Company for any reason is not authorized by the Commission to implement a PCAM in this docket, the Company shall be permitted to file its next general rate proceeding in Washington on or after January 1, 2008. "General rate proceeding" is used in the same sense as in WAC 480-07-505.

G. Low Income Issues.

24 The Parties agree that, as set forth in the Company's direct testimony in this proceeding⁹ and subject to Commission approval, the Company will increase the low-income collection rate which funds the Low Income Bill Assistance ("LIBA") Program (Schedule 91) by a percentage amount equal to the total percentage of all residential price increases from general rate cases, including the price increase ordered in this case, since the program was implemented. As a result of the increase to Schedule 91, a portion of the increase to collections will be applied to increase the credit available through LIBA Program Schedule 17.¹⁰

H. Request for Findings.

25 Staff and the Company request that the Commission include, as part of an approval order accepting this Stipulation, the following findings:

⁹ Griffith, Exh. ____ (WRG-1T) at 19:21-20:3.

¹⁰ *Id.* at 20:3-5.

26

1. Prudence of Eurus (Combine Hills), Leaning Juniper, and the Grant County Contracts. Staff and the Company agree that, based on the direct testimony and discovery responses provided in this case,¹¹ the Company has demonstrated that these resources and commitments are prudent and used and useful for service to Washington customers. These resources are included in the WCA Methodology.

27

2. Compliance with Commitments from MEHC Transaction. Staff and the Company agree that the Company's filing demonstrates compliance with the following commitments from the MEHC transaction (Docket UE-051090):

- Commitment Wa4 – Affiliate Management Fee
- Commitment Wa6 – Affiliate Cross Charges
- Commitment Wa7 – A&G Cost Reduction
- Commitment 37 – Long-term Debt Yield Reduction

I. General Provisions.

28

1. The Parties agree that this Stipulation is in the public interest and would produce rates for the Company that are fair, just, reasonable, and sufficient. The Parties agree to support this Stipulation as a settlement of all contested issues in this proceeding, except for those issues to be resolved in the Power Cost Phase. The Parties understand that this Stipulation is not binding on the Commission or any Party unless and until it is approved.

29

2. The Parties agree that this Stipulation represents a compromise in the positions of the Parties. As such, conduct, statements and documents disclosed in the

¹¹ Direct Testimony of Mark R. Tallman (Exhibit ___ (MRT-1T)) and accompanying Exhibits ___ (MRT-2C), ___ (MRT-3C), ___ (MRT-4C), and ___ (MRT-5C).

negotiation of this Stipulation shall not be admissible as evidence in this or any other proceeding.

30 **3.** The Parties have negotiated this Stipulation as an integrated document. Accordingly, the Parties recommend that the Commission adopt this Stipulation in its entirety.

31 **4.** The Parties shall cooperate in submitting this Stipulation promptly to the Commission for acceptance, and shall cooperate in developing supporting testimony as required by WAC 480-07-740(2)(b). The Parties agree to support the Stipulation throughout this proceeding, provide witnesses to sponsor such a Stipulation at a Commission hearing, and recommend that the Commission issue an order adopting the settlements contained herein. In the event the Commission rejects this Stipulation, the provisions of WAC 480-07-750(2)(a) shall apply. In the event the Commission accepts the Stipulation upon conditions not proposed herein, each Party reserves the right, upon written notice to the Commission and all parties to this proceeding within five (5) days of the Commission's order, to state its rejection of the conditions. In such event, the Parties immediately will request the prompt reconvening of a prehearing conference for purposes of establishing a procedural schedule for the completion of the case pursuant to WAC 480 07-750(2)(a). The Parties agree to cooperate in development of a schedule that concludes the proceeding on the earliest possible date, taking into account the needs of the Parties in participating in hearings and preparing briefs.

32 **5.** The Parties enter into this Stipulation to avoid further expense, inconvenience, uncertainty and delay. By executing this Stipulation, no Party shall be deemed to have approved, admitted or consented to the facts, principles, methods or theories

employed in arriving at the terms of this Stipulation, nor shall any Party be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding.

33 6. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

34 7. This Stipulation is the product of negotiation and no part shall be construed against any Party on the basis that it was the drafter.

35 8. Each Party agrees to provide all other Parties the right to review in advance of publication any and all announcements or news releases that any other Party intends to make about the Stipulation (with the right of review to include a reasonable opportunity to request changes to the text of such announcements). Each Party also agrees to include in any news release or announcement a statement to the effect that the Commission Staff's recommendation to approve the Stipulation is not binding on the Commission itself.

36 9. The effective date of this Stipulation is the date of the Commission order approving it, subject to the procedures of Part III.I.4 (¶ 31) above.

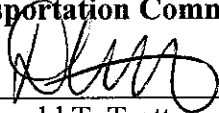
37 This STIPULATION is entered into by each Party as of the date entered below.

DATED: January 17, 2007.

PacifiCorp

By _____
Andrea L. Kelly
Vice President, Regulation

**Staff of the Washington Utilities and
Transportation Commission**

By  _____
Donald T. Trotter
Senior Assistant Attorney General

The Energy Project

By _____
Brad M. Purdy
Attorney

employed in arriving at the terms of this Stipulation, nor shall any Party be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding.

33 6. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

34 7. This Stipulation is the product of negotiation and no part shall be construed against any Party on the basis that it was the drafter.

35 8. Each Party agrees to provide all other Parties the right to review in advance of publication any and all announcements or news releases that any other Party intends to make about the Stipulation (with the right of review to include a reasonable opportunity to request changes to the text of such announcements). Each Party also agrees to include in any news release or announcement a statement to the effect that the Commission Staff's recommendation to approve the Stipulation is not binding on the Commission itself.

36 9. The effective date of this Stipulation is the date of the Commission order approving it, subject to the procedures of Part III.I.4 (¶31) above.

37 This STIPULATION is entered into by each Party as of the date entered below.

DATED: January 17, 2007.

PacifiCorp

**Staff of the Washington Utilities and
Transportation Commission**

By Andrea L. Kelly
Andrea L. Kelly
Vice President, Regulation

By _____
Donald T. Trotter
Senior Assistant Attorney General

The Energy Project

By _____
Brad M. Purdy
Attorney

employed in arriving at the terms of this Stipulation, nor shall any Party be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding.

33 6. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

34 7. This Stipulation is the product of negotiation and no part shall be construed against any Party on the basis that it was the drafter.

35 8. Each Party agrees to provide all other Parties the right to review in advance of publication any and all announcements or news releases that any other Party intends to make about the Stipulation (with the right of review to include a reasonable opportunity to request changes to the text of such announcements). Each Party also agrees to include in any news release or announcement a statement to the effect that the Commission Staff's recommendation to approve the Stipulation is not binding on the Commission itself.

36 9. The effective date of this Stipulation is the date of the Commission order approving it, subject to the procedures of Part III.I.4 (§ 31) above.

37 This STIPULATION is entered into by each Party as of the date entered below.

DATED: January 17, 2007.

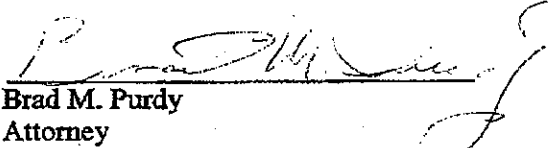
PacifiCorp

**Staff of the Washington Utilities and
Transportation Commission**

By _____
Andrea L. Kelly
Vice President, Regulation

By _____
Donald T. Trotter
Senior Assistant Attorney General

The Energy Project

By 
Brad M. Purdy
Attorney