

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 NO. UE-991832

STIPULATION

This Stipulation is entered into by all parties to this proceeding for the purpose of resolving all issues in PacifiCorp's pending general rate filing in the above docket.

1. The parties to this Stipulation are PacifiCorp d/b/a Pacific Power and Light Company, ("the Company"), Staff of the Washington Utilities and Transportation Commission, the Public Counsel Section of the Office of the Attorney General, the Industrial Customers of Northwest Utilities, NW Energy Coalition and the Energy Project¹ (collectively, the "Parties").

2. On November 24, 1999, PacifiCorp filed revised tariff schedules to effect a \$25.8 million increase in its base prices to Washington electric customers. The filing was based on normalized results of operations for Washington for the test period ending December 31, 1998. The filing was suspended by the Commission at its December 29, 1999 public meeting.

3. Hearings on the Company's direct testimony were conducted on April 24-26 and June 5-7, 2000. Following discovery and cross-examination on the Company's direct case, the Parties commenced settlement discussions for purposes of resolving the contested issues in this proceeding.

4. The Parties have reached agreement on the contested issues in this proceeding 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 and to expedite the orderly disposition of this proceeding.

AGREEMENT

¹ The Energy Project includes Yakima Valley Farm Workers Clinic and Yakima Valley Opportunities Industrialization Center.

1. Rate Plan Period

a. Term. The rate plan period established in this Stipulation (“Rate Plan Period”) commences as of the date of the Commission order approving this Stipulation and continues through December 31, 2005. During the Rate Plan Period, the Parties will neither propose, nor will they recommend that the Commission approve, any change in the Company’s general base rates² in Washington.

b. Purpose. The Parties agree that the rate plan offered in this Stipulation is in the public interest and will provide rates for the Company that are just, fair, reasonable and sufficient throughout the Rate Plan Period. The rate plan is designed to achieve several objectives for the Company and its customers over the Rate Plan Period. First, the staging of rate increases over a three-year period lessens the impact on customers of the increases that the Parties have agreed are necessary. The rate plan, after taking into account the other credits³ that will be flowed through to customers, provides for relative rate stability for a period in excess of five years.

Second, the rate plan covers a period of significant transition for the Company. The rate plan recognizes the difficulty of setting rates during this transitional period, and provides the Company with an opportunity to earn reasonable returns, on balance, over the Rate Plan Period. At the same time, customers are provided predictable and relatively stable rates for the Rate Plan Period.

Third, the rate plan provides that at the end of the Rate Plan Period, the Company will submit either a filing demonstrating the reasonableness of the Company’s then-existing rates or a general rate filing. This filing will enable the Commission and the Parties to examine the Company’s performance over the Rate Plan Period, and to evaluate the reasonableness of the Company’s rates in light of the conditions that exist following the Rate Plan Period.

2. Rate Changes

Changes in the Company’s general base rates during the Rate Plan Period shall be limited to the following:

- (a) A 3.0% increase in the Company’s general base rates, to be effective as of September 1, 2000. Although effective as of September 1, 2000, implementation in customer rates shall be delayed to January 1, 2001 (to coincide with the

² For example, adoption of a System Benefits Charge or other, similar mechanism for separate recovery of DSM expenditures or low-income energy efficiency would not be included in a “base” rate change. Nor are the carve-outs provided in Section 9 of this Stipulation included as base rate changes that are limited by Section 2.

³ The merger credit and the gain from the Centralia sale, respectively, are passed through as separate credits on customer bills.

effective date of the merger credit), with the revenue for the intervening period (September 1 through December 31, 2000) deferred for recovery beginning January 1, 2001. Interest shall accrue on such deferral at 8.80% until recovered in rates. Such deferral shall be recovered during 2001.

- (b) A 3.0% increase in the Company's general base rates, to be effective as of January 1, 2002.
- (c) A 1.0% increase in the Company's general base rates, to be effective as of January 1, 2003.

These increases will be spread in accordance with the Stipulation Regarding Rate Spread approved by the Commission in this proceeding on June 6, 2000. Such rate changes are exclusive of the impact of the credit to flow through to customers the gain from the sale of Centralia, as set forth in Section 4 below, and the merger credit, which commences January 1, 2001 and continues through December 31, 2004. The amount of the merger credit is \$3.0 million per year, or approximately 1.7%, and will be passed through as a separate credit on the bill.

The Company's present revenues and billing determinants from the 12 months ending December 31, 1998 will be used in setting rate changes during the Rate Plan Period and implementing rate design changes. Consistent with the Stipulation Regarding Rate Spread, the revenue requirement change will be calculated by multiplying the percentage change of the rate changes set forth above by the total present revenues from all standard tariff customers in the test period. For purposes of calculating the percentage change for each subsequent year, present revenues from standard tariff customers for the test period will include test period revenue increases from any prior rate changes.

3. Post Rate-Plan Earnings Review

The Company shall not propose any increase in general base rates, other than as set forth in Section 2 above, to be effective earlier than January 1, 2006. Not later than July 1, 2005, the Company will file with the Commission and serve on the Parties either a filing demonstrating the reasonableness of the Company's then-existing rates or a general rate filing. The Parties reserve the right to evaluate such filing and to provide recommendations to the Commission concerning such filing. Prior to such filing, the Company shall consult with Commission Staff concerning filing requirements to ensure compliance with WAC 480-09-330, "Filing requirements - General rate increases."

4. Treatment of Centralia Gain

The Company will return to customers, as a separate credit on customers' bills, the gain from the sale of the Company's share of the Centralia plant. Such credit shall be paid during the five-year period commencing January 1, 2001 and continuing through December 31, 2005 (or until such time as the gain has been fully returned to customers). During this period, the unamortized balance of the Centralia gain shall bear a carrying charge of 8.80%. The gain to be

returned shall be the customers' share of the Washington allocated⁴ final gain resulting from the sale of the Company's share of the Centralia plant, as determined in Docket No. UE-991262 following the Company's compliance filing in that proceeding. The gain shall be allocated among the Company's Washington customers (exclusive of special contract customers) on the basis of a uniform percentage of the customer bill, exclusive of taxes.

5. Depreciation

The Parties recommend that the Company's proposed depreciation rates, based on the updated depreciation study included in Exhibit 59 and as modified by Exhibit 61, be approved, effective April 1, 2000.

6. Prudence of Resource Acquisitions

a. Process. Commencing within thirty (30) days after the Commission's order approving this Stipulation, the Parties will begin a process to examine the prudence of certain of the Company's resource acquisitions. The resources to be examined are those resources included in the Company's filing in this proceeding that have been acquired since the Company's last general rate proceeding in Washington,⁵ excluding resources that will no longer be in service at the end of the Rate Plan Period. This process will include a schedule which provides for informal discussions and discovery among the Parties and development of the information necessary for the Parties to evaluate the prudence of the resource acquisitions. The Company will cooperate in providing the Parties with requested information and documents in connection with the prudence examination, and will not dispute in any subsequent proceeding the authenticity of information it provides. Any information or documents produced in connection with the prudence examination may be included as part of discovery in the Company's next general rate proceeding, and will not preclude additional discovery being conducted as part of that proceeding. The schedule will provide for completion of the examination by October 1, 2001. The process will result in a joint report or findings ("Joint Report") from the Parties to the Commission as to the prudence of the identified resources. Such Joint Report may include a separate statement of position by any Party with respect to any issues upon which agreement is not reached. Such Joint Report will be presented to the Commission in the Company's next general rate proceeding. Prior to such proceeding, the Company, in its sole and complete discretion, may take actions in response to such Joint Report; provided, however, that such actions will not affect the rates established pursuant to this Stipulation.

⁴ For purposes of calculating the Washington share of the PacifiCorp system, the Parties agree that 15.4% is the appropriate percentage.

⁵ The Company's last general rate proceeding in Washington was Cause No. U-86-02. Notwithstanding that the costs of these resources may have been reflected in test year operating results in this proceeding, the Craig, Hayden, Cholla, Hermiston and Foote Creek generating units shall not be considered as part of rate base for Washington ratemaking purposes until their prudence has been evaluated in the Company's next general rate case.

b. Standard. The standards applied by the Commission to measure prudence are generally as follows:

[W]hat would a reasonable board of directors and company management have decided given what they know or reasonably should have known to be true at the time they made a decision. This test applies both to the question of need and the appropriateness of the expenditures. (Cause No. U-83-54, Fourth Supplemental Order, p.p. 32-33)

Each of the IOUs bears the burden of demonstrating the prudence of new resource acquisitions to the Commission. A demonstration of prudence includes a showing that (1) the selection of each resource was necessary and reasonable, (2) the costs of acquisition were appropriate based upon what a reasonable board of directors and company management decided given what they knew or reasonably should have known to be true at the time the decision was made, and (3) the costs were regularly evaluated. (*Notice of Termination of Notice of Inquiry*, Docket No. UE-940932, April 1998)

Nothing in this Stipulation prevents any Party from asserting any other consistent and applicable Commission precedent. The Company will be required to make an affirmative showing in the direct testimony and exhibits of its next general rate proceeding demonstrating the prudence of those resources acquired since its previous general rate case (Cause No. U-86-02) which it proposes to include in rates in such proceeding.

7. System Benefits Charge

Within fifteen (15) days after a Commission order accepting this Stipulation (or such later date upon agreement of all Parties), the Company will submit in a separate tariff filing its proposal for a System Benefits Charge. The proposal will provide for recovery of the Company's DSM expenditures in Washington. The filing will address the recovery of investments in energy efficiency, including low-income weatherization and regional market transformation, and will not include recovery of the above-market costs of new renewable resources, which the Company is not precluded from seeking to include within the System Benefits Charge in a subsequent filing.⁶ By July 14, 2000 (or such later date upon agreement of all Parties), the Company will convene interested stakeholders to discuss the specific characteristics of the System Benefits Charge filing, including but not limited to program design, program implementation, initial program allocation among customer classes, and level of expenditures and savings. The Parties agree that

⁶ Nothing in this Stipulation addresses the recovery by the Company, through the System Benefits Charge or otherwise, of the costs associated with its commitment to renewable resources in Appendix A, Section III.A of stipulation "(Merger Stipulation)" accepted by the Commission in its Fifth Supplemental Order in Docket No. UE-981627, the PacifiCorp/ScottishPower merger proceeding.

if a System Benefits Charge is approved by the Commission to become effective earlier than January 1, 2001, the revenues to be collected under such Charge may be deferred for recovery to commence with the first rate change on January 1, 2001. Any deferral balance shall accrue interest at 8.80% until recovered through the System Benefits Charge.

8. Service Quality

The Merger Stipulation includes service quality provisions that are effective for 5 years following the approval of the merger. These provisions include performance standards for network reliability and customer service, as well as customer service guarantees. The customer service guarantees, as set forth in Section I.C. of Appendix A to the Merger Stipulation, shall continue for the duration of the Rate Plan Period. With respect to network reliability and customer service performance standards,⁷ the Company shall continue to report its performance with respect to such standards through the end of the Rate Plan Period.⁸

9. Regulatory Actions During Rate Plan Period

The moratorium on general rate filings during the Rate Plan Period does not preclude the Company from requesting, or the Commission from approving, tariff or rate changes for the following purposes:

- a. Impact of governmental or legislative actions, such as changes in Federal tax rates or changes in environmental laws or regulations;
- b. Tariff filing pursuant to Section 7 of this Stipulation to implement a System Benefits Charge;
- c. Tariff filing pursuant to Section 14 of this Stipulation to implement low-income assistance programs;
- d. Impact of changes in transmission costs due to implementation of a regional transmission organization, or RTO, (including action on motion of the Commission or any Party in the case of a cost decrease);
- e. Revenue-neutral filings to implement intra-class cost of service changes or redesign of intra-class electric rates as necessary to accommodate market conditions; and
- f. Ongoing regulatory activities, such as: New service offerings; pursuing special contracts tailored to meet individual customer needs; participation in Commission notices of inquiry, or NOIs, on electric industry issues, including the opportunity to seek related rule or tariff changes; and tariff changes associated with pass-through of credits and surcharges, such as municipal utility taxes.

This Section 9 does not preclude the Company from submitting petitions for accounting

⁷ Sections I.A and I.B of Appendix A to the Merger Stipulation.

⁸ Any penalty payments required under the Merger Stipulation with respect to network reliability and customer service performance standards shall be in accordance with the time periods established in the Merger Stipulation.

orders, as appropriate, for treatment of revenues, investments or expenditures during the Rate Plan Period. In this regard, the Company shall ensure that items currently treated as regulatory assets under authorizations from other states that are proposed for inclusion in Washington at the end of the Rate Plan Period are supported by necessary accounting authorizations in Washington. Nor does this Section 9 preclude the Company from seeking regulatory approval of proposed transactions pursuant to Chapter 80.12 RCW, under separate filings with the Commission.

10. Benefits from BPA

The Company shall submit a tariff filing to implement the outcome of the Bonneville Power Administration (“BPA”) Subscription process to flow through to eligible customers any benefits received by the Company from BPA, whether in the form of subscription benefits or residential exchange credits. Given an anticipated BPA decision with respect to such process on October 1, 2001, any benefits received commencing as of October 1, 2001 may be deferred for payment to customers as part of the January 1, 2002 rate change, to the extent consistent with the Company’s obligations under the Pacific Northwest Electric Power Planning and Conservation Act, 16 U.S.C. § 839c(c).

11. Rate Plan Re-openers

A general rate case filing during the Rate Plan Period may be made by the Company (or on the motion of the Commission or any Party), in the event of the following:

- a. Interim rate relief is warranted under the six-part standard adopted by the Commission in *WUTC v. Pacific Northwest Bell Telephone Company*, Cause No. U-72-30 (October 1972), and the Company is requesting similar rate relief in its two largest U.S. retail jurisdictions; or
- b. Industry or corporate restructuring whereby the Company ceases to operate in Washington as a vertically-integrated utility with bundled rates. Such restructuring includes industry restructuring by legislation or Commission order or actions taken by the Company, on its own initiative or to comply with regulatory directives, including divestiture of generating or transmission assets.

12. Rate Design Issues

a. Residential Rates. The customer charge shall be increased to \$4.25 effective with the first rate change, to \$4.40 effective with the second rate change, and to \$4.50 effective with the third rate change. The balance of the rate increases each year shall be applied to the energy tail block.

b. Other than Residential Rates. The Parties accept the rate design proposed in Exhibit 232, as proportionately reduced to reflect the smaller increases recommended in this Stipulation.

13. Schedule 300 Charges

The proposed changes to the Company's Schedule 300, included as part of the Company's general rate filing in this docket, may be submitted by the Company in a separate tariff filing. The Company may make future filings from time to time during the Rate Plan Period to update the cost elements included in Schedule 300 miscellaneous charges.

14. Low-Income Matters

Not later than August 15, 2000 (or such later date upon agreement of all Parties), the Company shall convene interested stakeholders to discuss a low-income tariff proposal to implement RCW 80.28.068, which authorizes low-income assistance programs. The elements to be discussed include the costs and benefits of such a proposal and the approaches for spreading any revenue shortfall to remaining customers. Following the consultation process to examine the elements of such a filing, the Energy Project will present a specific proposal for consideration by the Company and other stakeholders. The Company will reconvene the stakeholders to evaluate the Energy Project's proposal, as well as other information provided by the Energy Project regarding possible approaches for a low-income assistance program. Other Parties may also submit proposals for consideration. The Company will use reasonable best efforts to develop and submit a tariff filing mutually acceptable to the Parties to implement RCW 80.28.068 by November 15, 2000 (or such later date upon agreement of all Parties), with an anticipated implementation date of January 1, 2001.

15. Write-Down of Trojan Investment

The Company agrees that it will write-down on its Washington books any remaining investment in the Trojan generating unit over the Rate Plan Period, and that its next general rate filing in Washington will not include any proposed recovery or amortization of this investment.

16. Stipulation Binding on Successors and Assigns

If the Company, whether by subsequent merger or otherwise, sells, transfers or otherwise disposes of any or all of its service territory in Washington during the Rate Plan Period, it shall require as a condition of the sale or transfer that the successor be bound, at a minimum, by the requirements of this Stipulation.

17. General Provisions

a. The Parties agree to support this Stipulation as a settlement of all contested issues in this proceeding. The Parties understand that this Stipulation is not binding on the Commission in ruling on the Company's rate filing. Nothing in this Stipulation binds the Parties to take any particular position with respect to filings which the Company is authorized to make under Sections 7, 9, 10, 11, 13 and 14 of this Stipulation, nor is the Commission bound to take any particular action with respect to such filings. The Company will serve the Parties with copies of any filings pursuant to those Sections at the time such filings are submitted to the Commission.

b. The parties agree that this Stipulation represents a compromise in the positions of the Parties. As such, conduct, statements and documents disclosed in the negotiation of this Stipulation shall not be admissible as evidence in this or any other proceeding.

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

d. The Parties shall cooperate in submitting this Stipulation promptly to the Commission for acceptance. 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 all or any material portion of this Stipulation, each Party reserves the right, upon written notice to the Commission and all parties to this proceeding within fifteen (15) days of the Commission's order, to withdraw from the Stipulation. In such event, the Parties will jointly request the reconvening of a prehearing conference for purposes of establishing a procedural schedule for the completion of the case (including prefiled testimony, hearings, and briefs). 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 preparing testimony, participating in hearings, and preparing briefs. The Company agrees to extension of the suspension period for such period as is reasonably necessary to accommodate the revised procedural schedule.

e. 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.

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

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

DATED: June 16, 2000.

PacifiCorp

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

By _____
Matthew R. Wright
Vice President, Regulation

By _____
Robert D. Cedarbaum
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Office of Public Counsel

Industrial Customers of Northwest Utilities

By _____
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By _____
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