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July 17, 2000

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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

HAND-DELIVERED

Carole J. Washburn, Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
P.O. Box 47250
Olympia, WA 98504-7250

**Re: PacifiCorp d/b/a Pacific Power & Light Company
Docket No. UE-991832**

Dear Ms. Washburn:

Enclosed for filing in the above proceeding are an original and fourteen (14) copies of the responses of PacifiCorp to the Commission's bench requests 3 through 11.

Thank you for your assistance.

Very truly yours,

Stoel Rives LLP

By 

James M. Van Nostrand
Counsel for PacifiCorp

cc: Service List
Administrative Law Judge Dennis J. Moss

JMV:jmv

CERTIFICATE OF SERVICE

Docket No. UE-991832

I hereby certify that I have this day provided PacifiCorp's Responses to Commission Bench Requests 3 through 11 to the following parties via hand delivery:

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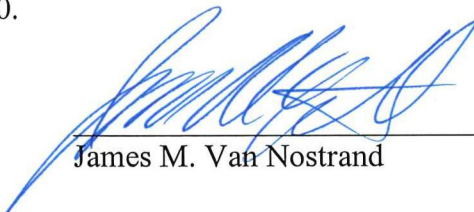
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Dated this 17th day of July, 2000.



James M. Van Nostrand

**Washington Utilities and Transportation Commission
Docket No. UE-991832**

PacifiCorp Response to Commission Bench Requests

Bench Request No. 3

Please provide a schedule identical in format to Mr. Griffith's analysis at page 5 of Exhibit No. 230T (WRG-T), assuming that both the Stipulation Re: Rate Spread filed June 6, 2000 ("Rate Spread Stipulation"), and the Stipulation filed June 20, 2000 ("Comprehensive Stipulation"), are approved as filed.

Response to Bench Request No. 3:

Please refer to Bench Request Attachment Response 3 for the requested schedule. The Attachment demonstrates the impact of the three components of the Comprehensive Stipulation that are known or can be reasonably estimated at this time. These three components are the 3%-3%-1% general rate increases in the first three years of the Rate Plan Period, the merger credit, and an estimate of the Centralia credit (which will be known once the final gain amount is available). The Attachment does not include the impact of any System Benefits Charge or Low-Income Assistance Program, or the BPA Subscription Process. The impact of any such elements will not be known until a future date.

**BENCH REQUEST
ATTACHMENT RESPONSE 3**

Pacific Power & Light Company
Proposed Impacts of Price Changes
Assuming Rate Spread and Comprehensive Stipulations Approved
In Washington

Class of Service	YEAR 2001 Proposed Price Change						
	Base Rate	Merger Credit ¹	Centralia Credit ²	Subtotal ³	SBC	Low Income	Total
Residential							
Schedule 16	4.1%	1.7%	2.8%	-0.4%	**	**	**
General Service							
Schedule 24	3.6%	1.7%	2.8%	-0.9%	**	**	**
Schedule 36	4.1%	1.7%	2.8%	-0.4%	**	**	**
Large General Service							
Schedule 48T	4.1%	1.7%	2.8%	-0.4%	**	**	**
Irrigation							
Schedule 40	4.1%	1.7%	2.8%	-0.4%	**	**	**
Lighting Schedules	3.1%	1.7%	2.8%	-1.4%	**	**	**
Total	4.0%	1.7%	2.8%	-0.5%	**	**	**

Class of Service	YEAR 2002 Proposed Price Change			
	Base Rate	Subtotal*	BPA	Total
Residential				
Schedule 16	2.1%	2.1%	**	**
General Service				
Schedule 24	1.8%	1.8%	**	**
Schedule 36	2.1%	2.1%	**	**
Large General Service				
Schedule 48T	2.1%	2.1%	**	**
Irrigation				
Schedule 40	2.1%	2.1%	**	**
Lighting Schedules	1.5%	1.5%	**	**
Total	2.0%	2.0%	**	**

Class of Service	YEAR 2003 Proposed Price Change	
	Base Rate	Total*
Residential		
Schedule 16	1.0%	1.0%
General Service		
Schedule 24	0.9%	0.9%
Schedule 36	1.0%	1.0%
Large General Service		
Schedule 48T	1.0%	1.0%
Irrigation		
Schedule 40	1.0%	1.0%
Lighting Schedules	0.8%	0.8%
Total	1.0%	1.0%

¹ Merger Credit continues through 12/31/04 or until the full amount is passed to customers. On 1/1/05, customers bills will increase by approximately 1.7%.

² Centralia Credit will continue through 12/31/05 or until the full amount is passed to customers.

³ Does not include the impact of the System Benefits Charge, Low-Income Assistance Program and BPA Subscription Process.

** To be determined at a later date through separate filings. Anticipated timing of BPA benefits is October 2001.

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PacifiCorp Response to Commission Bench Requests

Bench Request No 4

Please explain the interplay between the provisions of the Comprehensive Settlement that relate to deferral of the Commission's consideration of a Systems Benefit Charge (i.e., Section 7 of the Stipulation), and the part of the Rate Spread Stipulation (filed and approved June 6, 200) that provides:

An overall increase in annual electric revenues of 9% or more, *including any Systems Benefit Charge*, will be phased-in over two years (9% in Year 1, Residual in Year 2).

Section 2.d of the Rate Spread Stipulation (emphasis added).

Response to Bench Request No. 4:

Customers would experience an overall increase in annual electric revenues of 9% or more, including any System Benefits Charge, *only* if the System Benefits Charge is set at a level that is 6% or more of revenues. The Parties do not expect that the System Benefits Charge will approach this level. For example, the Company's original filing requested a System Benefits Charge of approximate 1.5%. Therefore, the provision in the Rate Spread Stipulation limiting a first year increase to 9% will not be triggered.

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PacifiCorp Response to Commission Bench Requests

Bench Request No. 5

Please explain the italicized portion of the following quote from Section 2 of the Comprehensive Stipulation:

“[t]he amount of the merger credit is \$3.0 million per year, or *approximately 1.7%*”

That is, how is the estimated 1.7% derived?

Response to Bench Request No. 5:

The estimate was derived by dividing (a) the \$3 million annual merger credit from the stipulation in Docket No. UE-991827 by (b) the \$171 million Washington retail revenues (excluding special contracts). To calculate this revenue figure, please refer to Exhibit 232 (WRG-2) Revised 5/9/00, and subtract line 12, column 7 from line 20, column 7. It is important to note that the 1.7% figure is an estimate and it is the \$3 million amount that will be credited to customers on an annual basis for four years beginning January 1, 2001.

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PacifiCorp Response to Commission Bench Requests

Bench Request No. 6

- A. Please clarify whether the reference in Section 11 of the Comprehensive Stipulation to *WUTC v. Pacific Northwest Bell Telephone Company*, Cause No. U-72-30 (October 1972) is to the Second Supplemental Order, or to another order in that proceeding.
- B. Please articulate the “six part standard adopted by the Commission” in the relevant order and describe the specific triggering event or events that would justify filing a general rate case under this provision of the Stipulation.
- C. Please clarify whether the Parties intend by Section 11 that PacifiCorp can be required to make a general rate case filing on motion by any Party or by the Commission, or whether some other process is contemplated. What showing, if any, would be required of a party that petitioned the Commission under this Section of the Comprehensive Stipulation? Who would bear the burden of proof in any subsequent proceedings?

Response to Bench Request No. 6:

- A. The reference is to the “Second Supplemental Order Denying Petition for Emergency Rate Relief” issued by the Commission on October 10, 1972 in Cause No. U-72-30, *WUTC v. Pacific Northwest Bell Telephone Company*.
- B. The six part standard, as described in subsequent Commission orders, is as follows:
 - 1. This Commission has the authority, in proper circumstances, to grant interim relief to a regulated utility; this should be done only after an opportunity for adequate hearing.
 - 2. An interim rate increase is an extraordinary remedy, and should be granted only where an actual emergency exists or where the relief is necessary to prevent gross hardship or gross inequity.
 - 3. The mere failure of a utility’s currently-realized rate of return to equal the rate of return previously authorized to the utility by this Commission as adequate is not sufficient, standing alone, to justify a grant of interim relief.
 - 4. The Commission should review all financial indices as they concern the applicant, including rate of return, interest coverage, earnings coverage, and the growth, stability, or deterioration of each, together with the immediate and short-term demands for new financing and whether the grant or denial of interim relief will have such an effect on financing demands as to substantially affect the public interest.

5. In the current economic climate the financial health of a utility may decline very swiftly, and interim relief stands as a useful tool in an appropriate case to stave off impending disaster. This tool, however, must be used with caution, and it must be applied only in cases where the denial of interim relief would cause clear jeopardy to the utility and detriment to its ratepayers and its stockholders. This is not to say that interim relief should be granted only after disaster has struck or is imminent, but neither should interim relief be granted in any case where full hearing can be accomplished and the case in chief resolved without clear jeopardy to the utility.
6. As in all matters before this Commission, we must reach our conclusion while keeping in mind the statutory charge to this Commission that we must “regulate in the public interest.” This is our ultimate responsibility, and a reasoned judgment must give appropriate weight to all relevant factors.

See WUTC v. Cascade Natural Gas Corporation, Cause No. U-74-20, Second Supplemental Order (1974); *WUTC v. Pacific Northwest Bell Telephone Company*, Cause No. U-75-40, Second Supplemental Order (1975); *WUTC v. The Washington Water Power Company*, Cause No. U-80-13, Second Supplemental Order (1980) (Commission “will not consider or give weight to long-range economic projections but will concern itself only with an analysis of existing and actual conditions and short-range projections, which in the main are least subject to volatile economic winds and are more conducive to credible reliability than long-range plans [I]nterim rate relief should be granted only upon a reasonable showing that an emergent condition exists and that without affirmative relief the financial integrity and ability of the company to continue to obtain financing at reasonable costs will be compromised and placed in jeopardy. The decision must be made solely upon the record and within the time frame that has close proximity to the claimed emergent conditions.”); *WUTC v. Puget Sound Power & Light Company*, Cause No. U-80-10, Second Supplemental Order (1980); *WUTC v. Washington Natural Gas Company*, Cause No. U-80-111, Second Supplemental Order (1981).

The “specific triggering event or events that would justify filing a general rate case under this provision of the Stipulation” are that (1) the Company is requesting similar rate relief in its two largest U.S. retail jurisdictions, and (2) the Company’s financial condition is such that it satisfies the criteria for interim rate relief in accordance with the above precedent (*i.e.*, the Company has immediate and short-term demands for new financing and is unable to obtain such financing at reasonable costs based on existing and actual conditions (including all financial indicators for the Company) and short-range projections at the time).

- C. If the Company proceeds on its own initiative to make a general rate filing under Section 11, the Company would bear the burden of proof. If the filing is made upon the motion of the Commission or upon the complaint of any Party, the Commission or such Party would bear the burden of proof. The required showing would be that the Company’s then-existing rates are unjust or unreasonable. RCW 80.04.110, RCW 80.28.020.

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PacifiCorp Response to Commission Bench Requests

Bench Request No. 7

Please explain what is meant by the following statements in Section 1 of the Stipulation:

“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”

Include, but do not necessarily limit your response to, an explanation of what factors make this a “period of significant transition” and an explanation of why it is more difficult to set rates during this period than in any other period. Be specific.

Response to Bench Request No. 7:

The Rate Plan Period is a “period of significant transition” for the Company due primarily to the implementation of the Transition Plan, which was prepared following the merger of PacifiCorp with ScottishPower. The Transition Plan describes the steps to be taken by the Company over the next five years to reduce costs and improve quality of service for the Company’s Washington customers. The Transition Plan, which was filed with the Commission in accordance with the merger stipulation approved by the Commission in Docket No. UE-981627, is included in this proceeding as Exhibit 146. The Transition Plan contemplates investment in people, technology and systems in the early years that are expected to lead to significant savings in operating costs and capital expenditures in the later years of the transition period.

It is difficult to set rates during the implementation of the Transition Plan because the expenditures that must be made in the early years of the transition are “lumpy,” and it is therefore challenging to identify a representative test period upon which to set rates. Moreover, these early year expenditures are “costs to achieve” that will produce savings in later years, making it difficult to match costs with savings during any particular year of the transition period. By waiting to set rates after the Rate Plan Period, when the Transition Plan is fully implemented, the test period should be more representative of expected future operations of the Company.

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PacifiCorp Response to Commission Bench Requests

Bench Request No. 8

Please clarify with respect to Section 6 of the Comprehensive Stipulation whether only PacifiCorp is allowed to “take actions in response to such Joint Report” prior to the Company’s next general rate filing.

Response to Bench Request No. 8:

Yes, only PacifiCorp can take actions in response to such Joint Report. If the Joint Report includes findings by the Parties that are adverse to the Company’s demonstration of prudence, the Company may choose to take action to address or mitigate the identified issues prior to its next general rate case.

The process proposed in the stipulation is based on the Commission’s practice of evaluating the prudence of utility resource acquisitions only in general rate cases. Any impact on rates flowing from recommendations or findings in the Joint Report would therefore not occur until the Company’s next general rate filing. Any rate impact from this process that would become effective prior to the end of the Rate Plan Period would be contrary to the terms of the rate plan.

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PacifiCorp Response to Commission Bench Requests

Bench Request No. 9

Section 12 of the Comprehensive Stipulation states that “[t]he customer charge shall be increased to \$4.25 effective with the first rate change” In view of the proposed four month deferral between implementation of the first rate change and collection of that increase through customer billings, what will be the actual customer charge that appears on customers’ bills beginning January 1, 2001?

Response to Bench Response No. 9:

The four-month deferral will not affect the level of the customer charge articulated in Section 12 of the Comprehensive Stipulation. This Section is intended to set forth the parameters when the rate change is reflected on the customers’ bills, which does not occur until January 1, 2001. On that date, therefore, the customer charge on residential customers’ bills will be increased to \$4.25.

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PacifiCorp Response to Commission Bench Requests

Bench Request No. 10

Please reconcile the statement in Section 3 of the Comprehensive Stipulation that:

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.

with Section 11 of the agreement.

Response to Bench Response No. 10:

Section 11 sets forth the circumstances, or exceptions, under which the limitations on general rate increases in Sections 2 and Section 3 do not apply. In other words, if the circumstances in Section 11 occur, the Company's general base rates may be changed during the Rate Plan Period, notwithstanding the limitations in Sections 2 and 3.

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PacifiCorp Response to Commission Bench Requests

Bench Request No. 11

Against what benchmarks (*e.g.*, capital structure, cost of capital elements, overall return) will the Parties evaluate PacifiCorp's earnings during the "Post Rate-Plan Earnings Review" described in Section 3 of the Comprehensive Settlement? What period of operations will be considered during this review (*i.e.*, will the full Rate Plan Period be evaluated, or will review be limited to the last twelve months for which actual data then are available)?

In responding to this question, please consider and explain the significance of the statement in Section 1.b. of the Comprehensive Settlement that the rate plan

Provides the Company with an opportunity to earn reasonable returns, on balance, over the Rate Plan Period. . . .

That is, do the Parties contemplate that PacifiCorp's *average earnings over the Rate Plan Period* will reflect returns on equity, or overall returns, that fall within some range of reasonableness, or is it expected that *each year's returns* will fall within some range of reasonableness?

Response to Bench Response No. 11:

It is anticipated that the filing under Section 3 of the Comprehensive Stipulation will be based upon the actual results of operations for the then-most recent twelve months for which actual data are reasonably available. The Company's filing will propose the capital structure, cost of capital elements, and overall return against which these results will be evaluated in determining whether the Company's then-existing rates are reasonable. To the extent that a change in rates is warranted, the filing will contain all the elements of a general rate filing. Section 3 also requires that prior to such filing, the Company will consult with Commission Staff concerning filing requirements.

The referenced statement from Section 1.b. of the Comprehensive Stipulation does not relate to the evaluation of the Company's rates that will occur under Section 3. Rather, that statement reflects the expectation that earnings may be at the lower end of the range of reasonableness in the early years of the Rate Plan Period and at the higher end in the later years, given that "costs to achieve" expenditures will be made in the early years under the Transition Plan to produce savings in operating costs and capital expenditures in subsequent years. See the Company's Response to Bench Request No. 7.