



June 26, 2006

***VIA ELECTRONIC FILING
AND OVERNIGHT DELIVERY***

Ms. Carole J. Washburn
Executive Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
Olympia, WA 98504-7250

RE: Docket No. UE-060669
Application of PacifiCorp d/b/a Pacific Power & Light Company

Dear Ms. Washburn:

Enclosed for filing are an original and seventeen (17) copies of PacifiCorp's response to the Commission's Notice of Opportunity to Submit Responsive Comments on the 2.99 Percent Tariff Filing. An electronic copy of the filing will also be sent to the Commission's record center.

Communications regarding this petition should be addressed to:

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In addition, PacifiCorp requests that all data requests regarding this petition be addressed to:

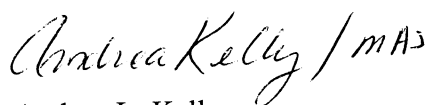
By E-mail (preferred): datarequest@pacificorp.com

By Facsimile: (503) 813-6060

By Regular Mail: Data Request Response Center
PacifiCorp
825 NE Multnomah, Suite 300
Portland, OR 97232

Please direct any informal questions to Melissa Seymour at (503) 813-6711. Thank you.

Respectfully,

Handwritten signature of Andrea L. Kelly in cursive script, including the initials "MAJ" at the end.

Andrea L. Kelly
Vice President, Regulation

Enclosures
cc: Parties

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION**

In the Matter of the Application of

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

To Adjust Prices by an Amount Not to Exceed
2.99 Percent for Each Customer Class

DOCKET NO. UE-060669

PACIFICORP'S REPLY COMMENTS

INTRODUCTION

1 In the Commission's Notice dated June 16, 2006, PacifiCorp d/b/a Pacific Power and Light Company ("PacifiCorp" or "the Company") was authorized to submit reply comments in response to the comments submitted by other parties with respect to the Company's tariff filing in this docket, which is scheduled to be discussed at the Commission's open meeting on June 28, 2006. The Company appreciates the opportunity to address the comments filed by other parties in this docket for consideration by the Commission. Comments were submitted by Commission Staff ("Staff"), the Public Counsel Section of the Office of the Attorney General ("Public Counsel"), and the Industrial Customers of Northwest Utilities ("ICNU").

BACKGROUND

2 On April 27, 2006, the Company submitted its Petition for Reconsideration of Order No. 04 ("Rate Case Order") in the Company's recent general rate proceeding, Docket No. UE-050684. The Rate Case Order denied PacifiCorp's request for a general rate increase in its entirety. Parties were authorized to, and did, submit replies to the Petition, and it is under consideration by the Commission, which has indicated it will issue a ruling on July 12, 2006.

3 Simultaneously with the filing of the Petition for Reconsideration, the Company submitted Advice No. 06-002 to commence this docket (Docket No. UE-060669), and a Motion to Consolidate this docket with the general rate case proceeding, Docket No. UE-050684. The tariff sheets submitted in this proceeding (“Tariff Proceeding”) sought to increase rates by no more than 2.99%, or \$7.009 million; in accordance with WAC 480-07-505(1)(a), the Tariff Proceeding was not submitted as a “general rate proceeding” because it requests an increase of less than three percent. The tariff sheets reflected a proposed effective date of May 27, 2006, which was subsequently extended to July 1, 2006. By various Notices, the Commission invited responses to the Petition for Reconsideration and to the filing in the Tariff Proceeding. The Commission postponed the date for filing responses to the Petition for Reconsideration to allow the parties to pursue settlement discussions.

4 The parties convened a settlement conference on May 19, 2006 in Olympia, with Administrative Law Judge Robert Wallis observing in anticipation of a possible role as a settlement judge. The parties had a subsequent meeting on May 31 in Olympia, followed by telephone conferences on June 5, June 8 and June 12. The parties failed to reach agreement on the contested issues, and therefore await the Commission’s ruling on the Petition for Reconsideration.

REPLY COMMENTS

1. **The Company Agrees with Staff’s Comments that the Tariff Proceeding Should Not be Rejected, But Should Be Suspended and Consolidated with the General Rate Case Docket.**

5 In its comments filed on June 21, Staff recommended that the Tariff Proceeding should not be rejected, and should be suspended. In its earlier reply to the Company’s Motion

for Consolidation, Staff also supported consolidation of the Tariff Proceeding with the general rate case docket, stating that consolidation “provide benefits to the Commission and to ratepayers.” *Staff Reply to Motion to Consolidate* at ¶ 8. The Company agrees with these comments, for the reasons discussed below.

2. Suspending the Tariff Proceeding and Consolidating It with the General Rate Case Docket Provides the Commission and the Parties with Flexibility to Address the Contested Issues.

6 Given the Company’s pending filings before the Commission, the options available include the following:

- The Commission can grant rate relief to the Company in response to the Petition for Reconsideration in the general rate case docket. The Company respectfully submits that rate relief is warranted for the reasons stated in its Petition for Reconsideration, which will not be re-argued here. In the event relief is granted in that docket, the level of the increase would not be limited to 2.99%. Upon granting appropriate relief in the general rate case docket, the Tariff Proceeding could either be withdrawn by the Company or dismissed.
- The Commission can deny relief in the reconsideration process in the general rate case docket. If the Tariff Proceeding is suspended and consolidated with the general rate case docket, the Commission would retain the ability to grant rate relief in the Tariff Proceeding. In such a situation, the evidentiary record from the general rate case would still be available to provide evidentiary support for granting relief in the Tariff Proceeding. Moreover, the Commission would have the opportunity in its order on reconsideration to provide guidance to the parties that would facilitate an orderly and productive processing of the Tariff Proceeding.

7 Granting the Company some rate relief in either the general rate case docket or the Tariff Proceeding would be a reasonable outcome and would produce a number of benefits for the Commission and the parties, including the following:

- Providing some rate relief would ease the current financial pressure on the Company and avoid the need for the Company to immediately submit a new general rate filing.
- If rate relief at least at the level requested in the Tariff Proceeding is granted on an expedited schedule, the Company would agree not to file a general rate case any earlier than January 1, 2007. This would provide a window of opportunity for the Company to work with the parties to develop an inter-jurisdictional cost allocation methodology that meets the requirements from the general rate case order. Moreover, granting rate relief would allow the A&G rate credits from the transaction commitments to be reflected in rates (rather than continuing to defer them for later implementation). *Commitment Wa 7, Docket No. UE-051090, Order 08, Appendix A.*
- Granting rate relief would also help to eliminate the incentive that other parties currently have to be uncooperative in discussions regarding the development of a reasonable allocation methodology. If the Rate Case Order effectively precludes PacifiCorp from obtaining any rate relief as long as there is no agreement on the appropriate allocation method, customers have a disincentive to agree to anything and are “rewarded” with no rate increases for not agreeing to a methodology. As discussed below, the Company faces the same cost pressures as other electric utilities. While the absence of an agreed-upon inter-jurisdictional cost allocation

methodology may be opportunistically used by some to prevent cost increases from being passed through to customers, there should be no doubt that the cost increases are, in fact, occurring.

8 On the other hand, in the absence of granting some rate relief, whether on reconsideration or in the Tariff Proceeding, the two options available to the Company – both of which could be pursued simultaneously – are far more contentious and far less likely to lead to a durable long-term solution on an inter-jurisdictional cost allocation methodology:

- The Company would immediately file another general rate case in Washington. In this situation, the Company would have no opportunity to work with the parties to develop a mutually acceptable inter-jurisdictional cost allocation methodology. The financial consequences of no rate relief would make it infeasible to devote significant time and resources toward those collaborative discussions. The Company is facing the same cost pressures as other electric utilities, and would be compelled to seek timely rate relief to address these higher operating costs. These cost increases include the following:
 - Higher natural gas prices: In January 2002, natural gas traded at \$2.30 per MmBtu. The current price for the 2007-2007 winter strip is \$9.68 per MmBtu.
 - Higher coal prices: In 2000, Powder River Basin coal traded at \$4 per ton. In early 2006, it traded at \$20 per ton.
 - Higher wind turbine costs: A wind turbine that cost \$1 million in 2003 costs \$1.6 million today due to increased steel costs and a shortage in the supply of turbines.

- Higher electrical equipment costs: The price of copper wire has increased 248% since 2002.

In the face of these cost increases, the Company has received no rate relief in Washington since November 2004. According to the most recently available data (2004) from the Energy Information Administration, Pacific Power's average rate of 4.59 cents per kWh in Washington is below the statewide average of 5.89 cents per kWh and below most of the other utilities serving the state, including municipal utilities, rural electric cooperatives, and other investor-owned utilities. More recent data prepared by the Commission and posted in October 2005 on its website under "Compare electricity costs for 2005" shows that Pacific Power has the lowest residential rates of all Washington utilities compared. Pacific Power's residential rates are 12 percent lower than the next lowest cost utility and over 38 percent lower than the highest cost utility.

- The Company could pursue judicial appeal, and seek to implement a rate increase immediately under the supersedeas authority of RCW 80.04.180. As Staff notes in its comments, "[a]ny request by the Company for higher rates during the appeal would properly be analyzed under the supersedeas statute (RCW 80.04.180), and the decision would be made by the court rather than by the Commission." *Staff Comments at 3-4*. It would be preferable to have the Commission set rates in an orderly process than to turn the ratemaking process over to the courts.

The objective under either option, however, would be for the Company to obtain necessary rate relief promptly, and the Company can be expected to pursue its available remedies to do so.

3. Public Counsel's and ICNU's Comments Misinterpret the Purpose of the Tariff Proceeding.

9 The comments submitted by Public Counsel and ICNU illustrate the unhealthy dynamic created by the Rate Case Order with respect to lack of cooperation in developing an acceptable inter-jurisdictional cost allocation methodology and an opportunistic interjection of the cost allocation issue as a complete bar to the Company's legitimate need for rate relief. Their comments misinterpret the purpose of the Tariff Proceeding in a number of respects:

- PacifiCorp's Tariff Proceeding is not seeking "interim or extraordinary rate relief." *ICNU's Comments at 4.* Rather, the Tariff Proceeding, if suspended and consolidated with the general rate proceeding, provides an opportunity for the parties to take advantage of the considerable evidentiary record already developed in the general rate proceeding. The modest rate relief requested in the Tariff Proceeding is far less than PacifiCorp would seek in a new general rate case filing.
- The Tariff Proceeding is not a collateral attack on the Commission's order in the general rate case. *Public Counsel's Comments at 3; ICNU's Comments at 2.* There is nothing in the Tariff Proceeding that re-asserts the points argued by the Company in its Petition for Reconsideration. Rather, the Tariff Proceeding provides the Commission with greater flexibility in addressing the Company's need for rate relief with the benefit of the evidentiary record already developed in the general rate case docket. Moreover, the combination of the filings provides the Commission with an opportunity in its reconsideration order to provide guidance to the parties on development of an acceptable inter-jurisdictional cost allocation

methodology that would facilitate an orderly and productive processing of the Tariff Proceeding.


- The Tariff Proceeding need not be treated as a general rate case. *ICNU's Comments at 5*. The Commission's rule expressly provides that filings seeking the level of rate relief sought by the Company do not require the same process or documentation as is required for general rate filings. *WAC 480-07-505(1)(a)*. ICNU's position essentially strips that rule of any validity or usefulness. Moreover, given the evidentiary record that would be available through consolidation, any relief granted in the Tariff Proceeding would have considerable evidentiary support.

CONCLUSION

10 For the reasons stated in these responsive comments and in the Company's Petition for Reconsideration in Docket No. UE-050684, the Commission should grant additional rate relief to the Company, either in the Tariff Proceeding or on reconsideration in the general rate proceeding. To provide flexibility in effecting this rate relief, the Commission should suspend the Tariff Proceeding and consolidate it with the general rate case docket.

Respectfully submitted this 26th day of June, 2006.

PacifiCorp

By 
Andrea Kelly
Vice President, Regulation

CERTIFICATE OF SERVICE

I hereby certify that on this 26th day of June, 2006, I caused to be served, via E-Mail and over night delivery, a true and correct copy of PacifiCorp's Response to the Commission's Notice of Opportunity to Submit Responsive Comments on the 2.99 Percent Tariff filing in Docket No. UE-060669.

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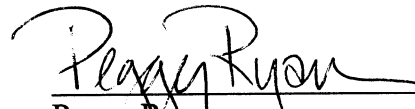
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