



900 S.W. Fifth Avenue, Suite 2600
Portland, Oregon 97204
main 503.224.3380
fax 503.220.2480
www.stoel.com

July 30, 2004

STEPHEN C. HALL
Direct (503) 294-9625
schall@stoel.com

Carole J. Washburn, Secretary
Washington Utilities and Transportation Commission
1300 S Evergreen Park Drive SW
PO Box 47250
Olympia, WA 98503-7250

Re: ***PacifiCorp dba Pacific Power & Light - 2004 General Rate Case***
Docket No. UE-032065

Dear Ms. Washburn:

Enclosed for filing in the above referenced matter are the original and 16 copies of a marked-up version and a corrected version of errata page 2 to the Testimony of Larry O. Martin on behalf of PacifiCorp, and a Certificate of Service.

Very truly yours,

A handwritten signature in cursive script that reads "Stephen C. Hall".

Stephen C. Hall

SCH:hhs
Enclosures
cc: Service List

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1 PacifiCorp has been required to accrue reserves to meet tax settlements. Now that the
2 tax liability associated with these amounts has been finally determined, the Company
3 has been required to pay these amounts. Yet these amounts have not been funded by
4 Washington customers. Further, under PacifiCorp's system-wide allocation of taxes,
5 certain Washington-specific taxes -- primarily gross receipts taxes -- have been
6 allocated to other states. Mr. Dittmer's proposal would accept all of the benefits of
7 our existing Company-wide allocation and assume none of the responsibilities.

8 **Q. Mr. Dittmer argues that if Washington were to be responsible for a portion of**
9 **the current tax payments, that portion should be limited to the portion "that**
10 **would have been allocated or assigned to the Washington jurisdiction during the**
11 **period that the tax would have been paid had it been originally known that the**
12 **liability would ultimately or eventually be due when the tax return was filed."**
13 **How do you respond to this contention?**

14 A. PacifiCorp allocated the tax settlement payments by applying the average of
15 Washington's Income-Before-Tax ("IBT") divided by total Company IBT to the sum
16 of the tax settlement payments. This approach is consistent with both the Accord and
17 Modified Accord Agreements, which have been used in all filings before the
18 Washington Commission since 1993 and on which rates were based in Docket No.
19 UE-991832. ~~has been supported by the Commission since 1993.~~ Because the total
20 settlement amounts payable to the IRS are calculated on an entity-level basis, they are
21 not easily allocated on a state by state basis. Therefore, the Company believes that
22 the IBT method is a fair and reasonable approach that accurately reflects
23 Washington's share of the Company's tax settlement expense.

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