

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-032065

SETTLEMENT AGREEMENT

PARTIES

1. This Settlement Agreement is entered into by PacifiCorp d/b/a Pacific Power and Light Company (“the Company”), Staff of the Washington Utilities and Transportation Commission (“Staff”), and Natural Resources Defense Council (“NRDC”) (collectively, the “Parties”) regarding PacifiCorp’s pending general rate filing in the above docket.

RECITALS

2. On December 16, 2003, PacifiCorp filed revised tariff schedules to effect a \$26.7 million (13.5%) 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 March 31, 2003. The filing was suspended by the Commission at its January 14, 2004 public meeting.

3. At the prehearing conference on January 26, 2004, the Public Counsel Section of the Office of Attorney General (“Public Counsel”), Industrial Customers of Northwest Utilities

(“ICNU”), Citizens’ Utility Alliance, the Energy Project,¹ and NRDC were granted intervention in the proceeding.

4. Following discovery by Staff and the other parties on the Company’s direct testimony, Staff, Public Counsel, ICNU, the Citizens’ Utility Alliance and NRDC filed opposing testimony on June 30, 2004. Staff, for its part, recommended a revenue requirement increase of \$7.1 million in its testimony. (Braden, Exhibit No. ____ (RAB-1T) at 15.)

5. In the Company’s rebuttal testimony filed July 28, 2004, the Company reduced its requested rate relief to \$25.7 million.

6. Staff and other parties to the case conducted discovery on the Company’s rebuttal testimony. After analysis of the discovery responses, the Parties commenced settlement discussions for purposes of resolving or narrowing the contested issues in this proceeding.

7. 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 Settlement Agreement, 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. The Settlement Agreement is being filed with the Commission as a “Multiparty Settlement” pursuant to WAC 480-07-730(3).

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

AGREEMENT

8. Inter-Jurisdictional Cost Allocation.

a. Background. The Company's direct testimony in this proceeding proposed adoption by the Commission of the "Protocol" as the basis for inter-jurisdictional cost allocation. Since the filing of the Company's direct case, the Company as part of the Multi-State Process, or MSP, developed revisions to the Protocol. The Revised Protocol, which was filed in Oregon, Utah, Idaho and Wyoming, incorporates these revisions. Although the Company included the Revised Protocol as an exhibit in its rebuttal testimony, the Company proposed, as an interim solution, that this case be decided on the basis of the Protocol. Staff, for its part, calculated its revenue requirement recommendation on the basis of a Control Area methodology, which Staff also proposed as an interim solution pending the development of a Washington-only approach that would be developed through a collaborative process involving Staff, the Company and other parties. The Parties thus lacked agreement on a common basis for evaluating the Company's case. The Protocol represents the only common basis upon which the Parties could evaluate each other's proposed adjustments. Moreover, both Staff and the Company were proposing a solution that would be interim in nature.

b. Recommendation. The Parties agree that PacifiCorp's revenue requirement in this proceeding will be calculated on the basis of the Protocol. Use of the Protocol method is for purposes of this proceeding only. Following the conclusion of this proceeding, the Parties agree to jointly discuss development of a mutually acceptable cost allocation proposal applicable to Washington. Until such time as a mutually acceptable cost allocation proposal is agreed upon by the Parties and presented to the Commission for approval in a subsequent proceeding, the Parties agree that the Company will use the Revised Protocol as

the basis for its routine regulatory filings with the Commission, including filing requirements pursuant to Chapters 480-100 WAC and 480-146 WAC and successor provisions. Neither the use of the Protocol for settlement in this proceeding, nor the use of the Revised Protocol for future reporting periods, shall be considered an agreement by any Party that such inter-jurisdictional allocation methodologies are sufficient or proper for use in any future proceedings before the Commission. The Company agrees to maintain its books and records and the existing capability of its power cost and allocation models to permit the recalculation of the Company's Washington cost of service as reasonably requested by Staff or other interested persons. To the extent a cost study is requested, the provisions of WAC 480-07-400(1)(c)(iii) shall apply to such request.

c. Other Procedural Issues. On August 19, 2004, Staff filed a Motion to Strike certain portions of the Company's rebuttal testimony relating to the Revised Protocol. Consistent with the proposed resolution of the inter-jurisdictional cost allocation issues in subparagraph 8(b) above, the Parties agree for purposes of this settlement that the Motion should be granted, and the Company will not offer those portions of the testimony and exhibits set forth in Attachment A to Staff's Motion; provided, however, that Exhibit Nos. ____ (ALK-5) and ____ (DLT-16) shall be admitted for the limited purpose of defining the Revised Protocol for the Company's routine regulatory filings with the Commission in accordance with subparagraph 8(b) above. In the event the Commission rejects this Settlement Agreement or accepts the Settlement Agreement upon conditions not proposed herein, the Company reserves the right to oppose the Motion to Strike and to propose to offer such testimony in any subsequent hearings conducted pursuant to WAC 480-07-750(2)(a).

9. Revenue Requirement. The Parties agree that PacifiCorp will reduce its revenue requirement request to reflect the adjustments listed on Attachment A to this Settlement Agreement. PacifiCorp's rebuttal testimony supported a revenue requirement increase of \$25.7 million. The adjustments listed on Attachment A reduce this amount by approximately \$10.2 million, resulting in a recommended revenue requirement increase of \$15.5 million.

10. Individual Revenue Requirement Issues.

a. Cost of Capital. A number of issues were in dispute among the Parties with respect to cost of capital, including return on equity, common equity ratio, and whether short-term debt should be included in the capital structure. Although the Parties were unable to reach agreement on each of the components of the cost of capital, they agree upon an adjustment of \$3.5 million to the revenue requirement proposed in the Company's rebuttal case which, when considered along with the other adjustments in this Settlement Agreement, produces an overall rate of return of 8.39%. With respect to the individual cost of capital components at issue upon which the Parties were unable to reach agreement, the Parties agree not to (1) represent that the overall cost of capital adjustment represents any particular outcome on any particular issue, or (2) characterize this settlement as reflecting a particular result on any individual issue.

b. Net Power Costs. The Parties agree that the Company's filed net power costs should be reduced from \$555 million on a Total Company basis (as stated in the Company's rebuttal case) to \$534.1 million. The individual adjustments adopted for purposes of this Settlement Agreement are listed in Attachment B. Washington's share of these adjustments to Net Power Costs, based upon the Protocol allocation method, is approximately \$1.93 million, which is the amount shown on Attachment A.

c. Prudence of Resource Acquisitions. The recommended revenue requirement reflects, for purposes of this proceeding only, the inclusion in rates of the resources acquired by the Company since its last litigated general rate proceeding in Washington, Cause No. U-86-02. These resources include those described in the Joint Report in the Prudence Review of Generating Resources Acquired Since 1986, Exhibit No. ____ (MTW-4) (“Joint Report”), as well as West Valley and Gadsby. Due to Staff’s use of a Control Area approach as the basis for cost allocations in its revenue requirement recommendation, Staff does not take a position with respect to the prudence for purposes of Washington rates of those resources acquired since 1986 located in the Company’s Eastern Control Area (West Valley, Gadsby, Craig, Hayden, Foote Creek, and Cholla). The prudence of those resources will be examined in a subsequent proceeding if and when it is determined that the inter-jurisdictional cost allocation methodology requires their prudence to be evaluated for purposes of setting Washington rates. With respect to the resources described in the Joint Report that are located in the Company’s Western Control Area (Hermiston and James River), Staff agrees that these resources were prudently acquired for purposes of serving Washington customers, and are properly included in the Company’s rate base for purposes of this case and subsequent proceedings.

d. Recovery of RTO-Related Costs. The revenue requirement recommendation excludes recovery of costs incurred by the Company in connection with formation of a Regional Transmission Organization in the Northwest. The Parties agree that the Company may seek an accounting order from the Commission authorizing the deferral of such costs for consideration in future rate proceedings. Staff will evaluate any such petition for an accounting order on its merits.

11. Rate Spread and Rate Design. The Parties agree to adopt the recommendations regarding rate spread and rate design set forth in the Joint Testimony of Jim Lazar, Don Schoenbeck and Joelle Steward, Exhibit No. __ (JT-1T).

12. Regulatory Assets and Deferred Debits.

a. FAS 87. The Parties agree and request confirmation by the Commission that the Company's actuarially determined FAS 87 pension expense is a recoverable cost. Staff agrees that it will expedite the processing of the Company's Request for an Accounting Order Regarding Treatment of Pension Liability filed in October 2003.

b. Trail Mountain. The Parties recommend that the Commission issue an accounting order authorizing the Company to accumulate the \$46.3 million reflecting the Company's unrecovered investment in Trail Mountain Mine and related mine closure costs and to record such investment in Account 182.3. The Parties request that the Commission approve deferral of these costs as of April 1, 2001. In addition, the Parties ask that the Commission authorize five years as a reasonable period over which to amortize the costs associated with the Trail Mountain Mine closure, with amortization commencing with the establishment of the deferral, April 1, 2001, and ending March 2006.

c. Environmental Remediation. The Parties recommend that the Commission issue an accounting order authorizing the Company to record and defer costs prudently incurred in connection with its environmental remediation program, on an ongoing basis. Costs eligible for such accounting treatment shall include only those amounts relating to work of outside vendors and contractors for investigation and feasibility studies, sampling, evaluation, monitoring, materials, remediation, removal, disposal and post-remediation work, and do not include costs related to Company personnel or legal costs. In addition, the Parties

request the Commission find that ten years is a reasonable period over which to amortize these environmental remediation costs.

d. Other Regulatory Assets. Except as specifically set forth in the adjustments, all remaining regulatory assets and liabilities are recognized in rates for purposes of this settlement.

13. Removing Disincentives to Demand-Side Initiatives. The Parties recommend that the Commission's Order in this proceeding address the issue of whether it is in the public interest to investigate a true-up mechanism designed to eliminate financial disincentives associated with the Company's demand-side initiatives, based on a review of NRDC's testimony and other information in the record. Upon such a finding, the Company will initiate discussions with Staff and interested parties to review the effects of demand-side investments on the recovery of fixed costs and other potential disincentives to such investments by the Company, and to address the potential structure of a true-up mechanism that would make recovery of these costs independent of retail electricity sales. After such discussions, the Company may propose a true-up mechanism for consideration by the Commission at the earliest practicable time.

14. General Provisions.

a. The Parties agree that this Settlement Agreement 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 Settlement Agreement as a settlement of all contested issues in this proceeding. The Parties understand that this Settlement Agreement is not binding on the Commission in ruling on the Company's rate filing.

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

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

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

d. The Parties shall cooperate in submitting this Settlement Agreement 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 Settlement Agreement throughout this proceeding, provide witnesses to sponsor such a Settlement Agreement at a Commission hearing, and recommend that the Commission issue an order adopting the settlements contained herein. In the event the Commission rejects this Settlement Agreement, the provisions of WAC 480-07-750(2)(a) shall apply. In the event the Commission accepts the Settlement Agreement upon conditions not proposed herein, or approves a revenue requirement increase which is different in amount than recommended in this Settlement Agreement (“Revised Rate Increase”), 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. If necessary, the Company will consider extending the suspension period for such period as is reasonably necessary to accommodate the revised procedural schedule; provided, however, that

the Parties recommend that the Company be authorized to implement as of the end of the current suspension period an increase in the amount of the Revised Rate Increase, subject to refund, pending issuance of a final order by the Commission.

e. The Parties enter into this Settlement Agreement to avoid further expense, inconvenience, uncertainty and delay. By executing this Settlement Agreement, 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 Settlement Agreement, nor shall any Party be deemed to have agreed that any provision of this Settlement Agreement is appropriate for resolving issues in any other proceeding.

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

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

DATED: August 27, 2004.

PacifiCorp

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

By _____
Christy A. Omohundro
Vice President, Regulation

By _____
Roger A. Braden
Assistant Director Energy

Natural Resources Defense Council

By _____
Ralph Cavanagh
Energy Program Director

REVENUE REQUIREMENT ADJUSTMENTS

PacifiCorp Revenue Requirement per Rebuttal Case	\$25,659,000
Adjustments	<u>10,158,000</u>
Annual Revenue Requirement for settlement purposes	\$15,501,000

Individual Adjustments:

Adjustment	Amount (\$)	Comment
Net power costs	(1,932,000)	Per Attachment B
Temperature normalization	(615,000)	Staff adjustment (revised)
Working capital	(622,000)	Staff, Public Counsel adjustment
Incentive pay-out	(697,000)	Staff adjustment
International assignee costs	(2,000)	Staff adjustment
IRS settlement	(1,311,000)	Staff, Public Counsel adjustment
Property insurance	(630,000)	Staff adjustment
Environmental costs	(32,000)	Staff adjustment
Severance normalization	(177,000)	Staff adjustment
Property tax adjustment	156,000	Update
RTO Costs	(340,000)	ICNU, Staff adjustment; subject to deferred accounting
Cost of capital	(3,500,000)	Reflects 8.39% overall rate of return
Unspecified ICNU/Public Counsel adjustments	(600,000)	
Interest expense true-up of adjustments	144,000	
Total Adjustments	(10,158,000)	
Adjusted Rate Increase	15,501,000	

ATTACHMENT B

ADJUSTMENTS TO NET POWER COSTS

Annual Net Power Costs, Rebuttal Case	\$555,013,679
Adjustments	<u>20,876,709</u>
Annual Net Power Costs for settlement purposes	\$534,136,970

Individual Adjustments:

Adjustment	Amount (\$)	Comment
Remove Swift	(8,815,259)	Remove near-term reserve impact on Swift 1
Aquila hydro hedge	(1,750,000)	Staff, ICNU adjustment (any payments also excluded)
J. Aron temperature hedge	(2,100,000)	Staff, ICNU adjustment (any payments also excluded)
Morgan Stanley temperature hedge	(1,800,000)	Staff, ICNU adjustment (any payments also excluded)
Hydro normalization	(4,597,658)	Staff adjustment to exclude “extraordinary” years
Mid-C Market caps	(1,585,793)	Staff adjustment to increase Bridger generation
CT dispatch	(228,000)	ICNU adjustment
TOTAL	(20,876,709)	
Washington Allocated Share	(1.93 million)	

NOTE: The Company included several updates, corrections, or adjustments to Net Power Costs in its Rebuttal Case. The Company’s Rebuttal Case adopted the following adjustments proposed by ICNU in the following amounts (stated on a Total Company basis):

Adjustment	Amount (\$)	Reference in Rebuttal Testimony
West Valley heat rates	(1,574,536)	Widmer at 3, 44
Wyodak capacity	(1,626,984)	Widmer at 29-29
Fort James cogeneration	(401,733)	Widmer at 28
Market caps	(2,931,927)	Widmer at 3
Quick start benefits	<u>(1,000,000)</u>	Widmer at 40
TOTAL	(7,535,180)	