

BEFORE THE WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION

Complainant,

vs.

PACIFICORP dba Pacific Power & Light  
Company,

Respondent.

DOCKET NO. UE-06\_\_\_\_\_

APPLICATION

1 Pursuant to RCW 80.28.050, RCW 80.28.060 and in accordance with WAC 480-07-510, PacifiCorp dba Pacific Power & Light Company ("PacifiCorp" or "the Company") hereby files a general rate increase to revise its tariff schedules to adjust prices for its Washington electric customers. Included in this filing is a proposal for inter-jurisdictional cost allocation, upon which the Company's revenue requirement calculations are based.

2 PacifiCorp is an electrical company and public service company in the State of Washington within the meaning of RCW 80.04.010, and is subject to the Commission's jurisdiction with respect to its prices and terms of electric service to retail customers in Washington. PacifiCorp provides electric service to approximately 123,000 retail customers in the State of Washington and approximately 1.6 million total retail customers in Washington, California, Idaho, Oregon, Utah and Wyoming. The Company's principal place of business is Portland, Oregon.

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Communications regarding this filing should be addressed to:

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Communications regarding discovery matters, including data requests issued to PacifiCorp, should be addressed to:

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PacifiCorp is currently earning a normalized return on equity ("ROE") of approximately 4.54 percent in Washington. In order to achieve the 10.2 percent ROE authorized by the Commission in PacifiCorp's last general rate case (Docket No. UE-050684) ("2005 Rate Case"), an increase of \$23.2 million, or 10.2 percent, would be necessary. The revised tariff schedules submitted with this filing reflect an increase in this amount. However, PacifiCorp would agree to limit its overall price increase to a lower amount if the Commission adopts an expedited schedule for this proceeding. If a schedule is adopted that allows the Commission to issue a decision that would permit rates to become effective no later than six months after the date of filing, the Company would voluntarily limit its overall price increase to \$10 million, or 4.4 percent. PacifiCorp is willing to limit its request in recognition of the value of having the base rate increase become effective sooner than the maximum period allowed under Washington law. PacifiCorp also recognizes that the

development of an acceptable allocation method is a necessary pre-requisite for implementation of a power cost adjustment mechanism.

5           In the 2005 Rate Case, the Company sought an increase of \$39.2 million, or 17.9%, which was later reduced to \$32.6 million. In its Order 04 issued April 17, 2006, the Commission denied the rate request in its entirety inasmuch as the rate request was based on an inter-jurisdictional cost allocation method that the Commission rejected. As discussed below, this filing uses a new method for allocating costs to Washington which the Company believes addresses the deficiencies identified by the Commission in the 2005 Rate Case. By this filing, the Company also seeks limited rate relief on an expedited schedule.

6           There is Commission precedent for expedited rate relief following an adverse rate decision for a utility. In July 1992, Washington Natural Gas Company ("WNG") filed for a general rate increase of \$41.4 million, which was later reduced to \$14.8 million on rebuttal. In its order issued September 27, 1993, the Commission rejected the requested rate increase and instead ordered a rate reduction of \$17 million, or 5%. *Docket No. UG-920840, Fourth Supplemental Order*. Within 2 months, on November 19, 1993, WNG filed a "make whole" case to increase rates by about \$24.5 million. Staff's direct case, filed in April 1994, recommended an increase of \$19.15 million. Shortly thereafter, the parties submitted a settlement agreement recommending an increase of \$19.0 million, to be placed into effect no later than June 10, 1994, or about 4 months before the end of the statutory suspension period. The Commission approved the settlement agreement in its May 27, 1994 order, and the rate increase went into effect in June 1994. *Docket No. UG-931405, Fourth Supplemental Order*. The Company's proposal in this proceeding similarly seeks limited rate relief on an expedited

schedule to address the revenue deficiency that remains following the rejection of its rate request in the 2005 Rate Case.

7           The tariff sheets reflect a proposed effective date of November 2, 2006, which allows the required thirty (30) days notice under RCW 80.28.060 following the submittal of a tariff filing.

8           The proposed price increases are based upon normalized Results of Operations for Washington for the test period (the twelve months ended March 31, 2006).

9           The Company is proposing to allocate the proposed revenue increase across customer classes by applying a uniform increase to most customer classes, including residential, Schedule 48T Large General Service, and Schedule 40 Agricultural Pumping customers. The Company proposes two exceptions to the uniform allocation proposal. For Schedule 24, Small General Service the Company proposes an increase equal to 75 percent of the average increase, and for Schedule 36, Large General Service, the Company proposes that the overall jurisdictional average percentage increase be applied.

10           In the 2005 Rate Case, the Commission rejected PacifiCorp's proposed methodology for allocating costs across its six jurisdictions, the Revised Protocol. In doing so, the Commission stated that "PacifiCorp [had] not met its burden of proof to show that resources allocated to Washington in the Revised Protocol are 'used and useful for service in this state' or that the Revised Protocol [met] statutory standards." *Order 04, ¶ 49*. The Commission required that the Company "demonstrate tangible and quantifiable benefits to Washington of resources in the system" before the resources will be included in rates. *Order 04, ¶ 68*. In

response to this direction, PacifiCorp, in consultation with key Washington stakeholders, created a west control area approach to allocate PacifiCorp's total costs in this case. The West Control Area ("WCA") allocation method used in the filing is based on the costs and resources serving PacifiCorp's west control area. The west control area includes the states of California, Oregon and Washington, but also includes some generation resources located outside of those states having sufficient transmission intertie capacity to serve west control area customers. The production and transmission assets and markets assigned under the method include all that are located or have delivery points in the three states. PacifiCorp respectfully submits that the WCA allocation method will satisfy the Commission's concerns relating to the Revised Protocol method, and makes the necessary showing to allow the underlying resources to be included in rates in Washington.

11           The Company is proposing to implement the new allocation method for a five year pilot period. During this period, PacifiCorp will use the WCA method to file rate cases, report its results of operations, file adjustments under its proposed Power Cost Adjustment Mechanism, and make routine regulatory filings. The WCA method may need to be refined over time, and the five-year pilot period would allow for this.

12           The Company is also seeking in this filing to implement a Power Cost Adjustment Mechanism, or PCAM, which will allow changes in net power costs to be reflected in rates between general rate cases.

13           PacifiCorp's direct case consists of the testimony and exhibits of six witnesses:

(a) **Andrea L. Kelly**, Vice President, Regulation, provides an overview of the Company's rate request, including a description of the policy basis for the proposed cost allocation methodology and the PCAM. Ms. Kelly also describes how the Company has narrowed the issues in this proceeding by not re-litigating many issues from the 2005 Rate Case and by foregoing adjustments that would otherwise be offered in a typical general rate case filing.

(b) **Bruce N. Williams**, Treasurer, will discuss changes in interest rates that result in reductions in the cost of debt and preferred stock. Mr. Williams will also present studies that show that PacifiCorp's incremental cost of long-term debt is below its similarly rated peers, in fulfillment of a commitment made by the Company and MidAmerican Energy Holdings Company in Docket No. UE-051090.

(c) **Mark T. Widmer**, Director, Net Power Costs, will present the net power costs for the test period, and will describe the Company's production cost model including a summary of model changes necessary to implement the new allocation method. Mr. Widmer will also provide a detailed description of the Company's proposed PCAM.

(d) **Mark R. Tallman**, Managing Director of Renewable Resource Development, will describe the Company's recent supply-side resource acquisitions for the west control area since 2000. These include the lease agreement for Eurus Oregon Wind Power Development LLC, the purchase of Leaning Juniper Wind Power, LLC, and the Grant County power purchase agreement.

(e) **Paul M. Wrigley**, Director of Regulatory Affairs, will present the Company's overall revenue requirement based on the test period (twelve months ending March 31, 2006), and known and measurable adjustments through the rate-effective period. Mr. Wrigley will present the normalizing adjustments to actual test period results related to revenue, operation and maintenance expense, net power costs, depreciation and amortization, taxes and rate base. Mr. Wrigley will describe the West Control Area allocation method that was used to allocate the revenue requirement to Washington.

(f) **William R. Griffith**, Director, Pricing, Cost of Service and Regulatory Operations, will present testimony on the Company's cost of service study, proposed rate spread and changes in price design for the affected rate schedules. Mr. Griffith will also present the company's proposed rate design for the PCAM.

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Pursuant to WAC 480-07-510(4), attached as Exhibit A is the Summary Document setting forth the information required to be filed in connection with applications for general price increases.

DATED: October 3, 2006.

Respectfully submitted,

**PERKINS COIE LLP**

By 

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Attorneys for PacifiCorp