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

Re: Docket No. UE-050412

Dear Ms. Washburn:

Enclosed for filing in the above proceeding are an original and 17 copies of PacifiCorp's Reply to Staff Petition for Reconsideration in this matter. An electronic copy of the filing will also be sent to the Commission's record center.

Thank you for your assistance.

Very truly yours,



James M. Van Nostrand

JMV:jlf

Enclosures

cc: Service List

Oregon
Washington
California
Utah
Idaho

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION**

In the Matter of the Petition of

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

For an Order Approving Deferral of Costs
Related to Declining Hydro Generation

Docket No. UE-050412

REPLY OF PACIFICORP TO
STAFF PETITION FOR
RECONSIDERATION

1 On April 27, 2006, Commission Staff filed a Petition for Reconsideration with respect to Order No. 03 in Docket No. UE-050412 (the “Order”), the proceeding regarding PacifiCorp’s request for deferral of power costs relating to hydro generation. In the Order, the Commission granted the Company’s request to defer costs as requested in the Company’s petition, effective as of March 18, 2005. *Order at ¶ 306.* In calculating deferred amounts, the Order rejected Staff’s proposal for a 15 percent band that would limit deferral balances. According to the Order, given Staff’s concession during the hearing “that the 15 percent band would, in these circumstances, amount to double counting when considered with the adjustment the Company agreed to in the last settled rate case,” the Commission concluded that “it would not be appropriate to apply the 15 percent band to any costs deferred pursuant to the accounting petition.” *Id. at ¶ 313.* In its Petition for Reconsideration, Staff urges either that this finding of a double counting be vacated, or that the issue be allowed to be revisited when the Company seeks rate amortization of deferred amounts. *Staff’s Petition at 4.*

2 As discussed below, the findings in paragraph 313 of the Order are correct and well-supported by the evidentiary record. The Company urges the Commission to deny Staff’s Petition for Reconsideration.

Background

3 The Company sought recovery in this case of \$8.3 million of deferred hydro-electric generation costs arising from poor water conditions for the period ending December 31, 2005. Staff did not oppose recovery of these deferred hydro-electric generation costs in principle, but proposed a series of adjustments that would reduce the recovery to \$2.1 million. Ex. 541-TC at 210-11. One of these adjustments – which is the matter at issue in Staff’s Petition – relates to Mr. Buckley’s attempt to remove from the amount recovered the “variances in water conditions” that he claimed were already included in base rates through the normalization process. Ex. 541TC at 210. Mr. Buckley’s adjustment was calculated by imposing a 15 percent band around normalized hydro generation in rates.

4 The Company demonstrated that Staff’s proposed adjustment would amount to a double counting, given the manner in which the Company calculated normalized power costs in this proceeding. In short, the starting point used by the Company for calculating deferrals already included adoption of a similar adjustment proposed by Mr. Buckley in the Company’s previous Washington general rate case, Docket No. UE-032065. The Company’s March 18, 2005 Petition for Accounting Order, which commenced this proceeding, describes the situation as follows:

In PacifiCorp’s most recent rate proceeding, Commission Staff witness Buckley proposed an adjustment to PacifiCorp’s hydro normalization methodology in recognition that hydro recovery mechanisms were in place for Washington electric utilities. According to Mr. Buckley’s testimony, “two of the three regulated electric utilities now have some form of power cost adjustment mechanism.” *Docket No. UE-032065, Ex. T-581 at 125*. With the likelihood that a hydro adjustment mechanism would also be implemented for PacifiCorp that “would address the more significant variations in water conditions throughout the region,” it would be “incorrect to include the power supply costs associated with all water year conditions in the determination of the base power supply costs.” *Id.* Mr. Buckley therefore proposed a hydro normalization methodology that excluded the “more extreme stream flow conditions” inasmuch as the Company would presumably obtain rate relief in those circumstances. *Id. at 126*. Under his proposed

methodology, 14 years with the “more extreme stream flow conditions” were excluded from the 40 years proposed to be used by the Company, resulting in a proposed reduction of \$3.0 million to the Company’s Washington-allocated net power costs. *Id. at 127*. This hydro normalization adjustment (in the amount of \$4.597 million Total Company) was adopted by Staff and the Company as part of the calculation of \$1.93 million of power cost adjustments included in the Settlement Agreement. *Docket No. UE-032065, Order No. 06, Attachment B to Appendix A*.

Docket No. UE-050412, Petition for Accounting Order, ¶ 16. The effect of including this adjustment as part of the Settlement in that proceeding “was to build into rates a *higher* level of hydro generation.” *Id. at ¶ 17 (emphasis in original)*. In other words, the starting point for calculating the deferrals was a base level of power costs that already reflected adoption of an adjustment proposed by Mr. Buckley in the last case that was intended to address *the very same issue* as his proposed adjustment in this case, *i.e.*, the use of a 15 percent band around normalized hydro generation.

5 On cross examination in this case, Mr. Buckley acknowledged that base rates had already been adjusted to remove normal variability and that his adjustment to the Company’s hydro-electric generation deferral recovery was duplicative.

Q. So aren’t you in effect making the same adjustment twice, whether you intended to or not?

A. I think there may be some duplicity of the adjustment. I don’t think it end up doubling it. I think that, one, you’re right, changing the base level, and another one you’re using the 15%.

Q. You’re doing the same thing twice?

A. Yes.

Tr. 966:1-9.

Discussion

6 Staff’s Petition for Reconsideration fails to explain how the finding in paragraph 313 of the Order – which states that Staff’s proposed “15 percent band would, in these circumstances, amount to double counting” – is erroneous. Rather, the Petition repeats the

explanation offered by Staff in its opening brief. This explanation, as the Company stated in its Reply Brief, was “neither comprehensible nor based on anything in the record.” *Reply Brief of PacifiCorp at ¶ 19*. Staff’s Petition acknowledges that the explanation offered in its Opening Brief lacks support in the record, stating that “[o]bviously, it would have been preferable for Staff to have provided that explanation during the hearing.” *Staff’s Petition at ¶ 10*. Staff’s Petition further acknowledges that Mr. Buckley’s testimony on the record conceded the inappropriateness of the proposed adjustment; the explanation offered in Staff’s Petition is that “after the hearings are complete, it is sometimes necessary for a party to clarify or explain a misstatement or misunderstanding.” *Id.*

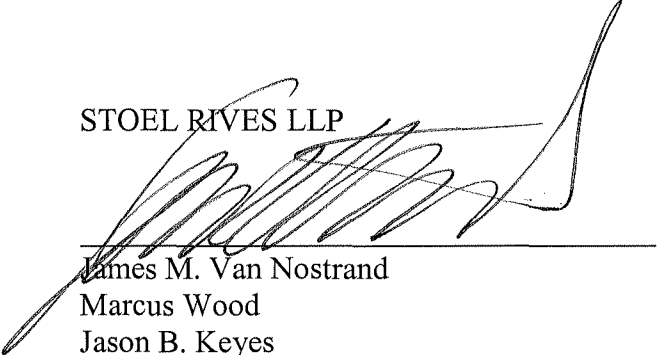
7 The Company submits that there was no misstatement or misunderstanding. The record demonstrates that Staff’s proposed adjustment would double count the adjustment already reflected in the base line power costs used for purposes of calculating the deferrals. The statement offered by Mr. Buckley appropriately conceded the inappropriateness of his adjustment, and no other explanation is either credible or supported by the record. Staff’s Petition for Reconsideration should be denied.

Conclusion

8 For the foregoing reasons, Staff’s Petition for Reconsideration of paragraph 313 of the Order should be denied.

DATED: June 16, 2006.

STOEL RIVES LLP



James M. Van Nostrand
Marcus Wood
Jason B. Keyes

Of Attorneys for PacifiCorp

CERTIFICATE OF SERVICE

I hereby certify that I served a copy of the foregoing document upon the parties of record in this proceeding by first-class mail and electronic mail, addressed to said parties/attorneys' addresses as shown below:

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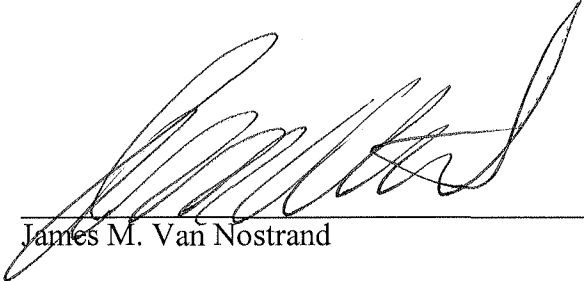
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DATED: June 16, 2006.



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