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January 6, 2006

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VIA ELECTRONIC FILING

PUC Filing Center
Public Utility Commission of Oregon
PO Box 2148
Salem, OR 97308-2148

**Re: PacifiCorp's Application for Deferred Accounting for the Income Tax Effect of Differences in Test Year Versus Actual Net Revenue
Docket UM _____**

Enclosed for filing please find PacifiCorp's Application for Deferred Accounting for the Income Tax Effect of Differences in Test Year Versus Actual Net Revenue. A copy of this filing was served on all parties to the UE 170 proceeding as indicated in the attached certificated of service.

Very truly yours,

A handwritten signature in black ink, appearing to read "Katherine A. McDowell", written over a horizontal line.

Katherine A. McDowell

KAM:knp
Enclosure
cc: Service List

Oregon
Washington
California
Utah
Idaho

1 **BEFORE THE PUBLIC UTILITY COMMISSION**
2 **OF OREGON**

3 **UM** _____

4 In the Matter of the Application of PACIFIC
5 POWER & LIGHT (d/b/a PacifiCorp) for a
6 Deferred Accounting Order

**PACIFICORP'S APPLICATION FOR
DEFERRED ACCOUNTING FOR THE
INCOME TAX EFFECT OF
DIFFERENCES IN TEST YEAR VERSUS
ACTUAL NET REVENUE**

7
8 **I. INTRODUCTION**

9 Under ORS 756.040, ORS 757.259 and OAR 860-027-0300, PacifiCorp applies to
10 the Commission for an order authorizing the Company to defer from the date of this
11 Application forward the income tax effect, positive or negative, of the difference between
12 test year "net revenue" used to calculate "taxes authorized to be collected in rates," under
13 Senate Bill 408 (as those terms are defined in Section 3(13)(e) of that legislation), and actual
14 net revenue used to calculate taxes paid to local, state and federal governments for 2006.

15 PacifiCorp intends to propose an offset in its automatic adjustment clause ("AAC")
16 tariff to eliminate the impact of annual projected versus actual net revenue differentials from
17 the SB 408 surcredit or surcharge, the adoption of which would eliminate the need for this
18 Application. In the event that such an offset is not adopted in PacifiCorp's AAC tariff or
19 otherwise allowed by Commission rule, however, PacifiCorp seeks to recover or credit these
20 amounts in a deferred account.

21 **II. NOTICE**

22 Communications regarding this Application should be addressed to:
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900 SW Fifth Avenue, Suite 2600, Portland, OR 97204
Main (503) 224-3380 Fax (503) 220-2480

1 Christy Omohundro
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3 PacifiCorp
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5 Portland, OR 97232
6 Telephone: (503) 813-6092
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8 E-mail: christy.omohundro@pacificorp.com

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6 In addition, PacifiCorp respectfully requests that all data requests regarding this
7 matter be addressed to:

8 By email (preferred)	datarequest@pacificorp.com
9 By regular mail	Data Request Response Center PacifiCorp 825 NE Multnomah, Suite 800 Portland, OR 97232 (503) 813-6060
11 By facsimile	

12 III. DEFERRED ACCOUNTING RULE REQUIREMENTS

13 The following information is provided pursuant to the requirements set forth in OAR
14 860-027-0300(3).

15 A. Description of Utility Expense.

16 As a normal and integral part of its operation as a public utility, PacifiCorp incurs
17 expenses for state and federal income taxes. As a part of setting rates, PacifiCorp projects its
18 test year expense, including its tax expense. SB 408 is designed to align taxes in rates with
19 taxes actually paid, while minimizing unintended consequences.

20 This Application is designed to address and ameliorate one such unintended
21 consequence, the possibility that SB 408 AACs could increase utility earning volatility. It is
22 also designed to ensure that the SB 408 AAC produces rates that are “fair, just and
23 reasonable” as required by ORS 756.040.

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This deferred accounting request is designed to address a potential mismatch in the calculation of the AAC under SB 408, which requires the use of actual revenues, on the one hand, and test year formulations of the utility’s net-to-gross ratio and effective tax rate, on the other. The relationship between revenues and costs is not static as assumed by this calculation. First, many of PacifiCorp’s regulated expenses are fixed and do not change in a relation to revenues or sales. Second, those expenses which are variable do not change in a predictable and consistent manner. Third, PacifiCorp’s state apportionment factors change based upon annual changes to the levels of activity within various jurisdictions.

The effect of the SB 408 calculation mismatch may be to produce an AAC surcredit to customers when unanticipated expenses reduce utility’s earnings to less than allowed levels and to produce an AAC surcharge to customers when lower than anticipated expenses increase a utility’s earnings to higher than allowed levels. Thus, without deferred accounting, an AAC offset or some other mechanism to address and prevent such a result, SB 408 could worsen an under-earning utility’s situation and increase the earnings of an already over-earning utility. To fully address this issue, amortization of the deferred balances collected in this account should be concurrent with the operation of the AAC surcredit or surcharge.

B. Reasons for Deferral.

ORS 757.259(2)(e) allows the deferral of utility expenses or revenues where necessary to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne by and benefits received by ratepayers. This request seeks to accomplish both of these purposes. This deferral is designed to minimize the exaggerated earnings fluctuations that could result from an SB 408 AAC which, in turn, would lead to an increased need for rate cases. Additionally, this deferral matches the costs

1 borne and benefits received by ratepayers by addressing the potential mismatch between
2 actual and test year data in the SB 408 AAC calculation.

3 Moreover, deferral will allow the Commission to address the uncertainties presented
4 by SB 408 in an orderly manner and allow the Commission to use deferred accounting as a
5 potential tool to minimize the unintended consequences of SB 408. *See In re PacifiCorp*,
6 UE 170, Staff’s Post-Hearing Reply Brief at 6 (filed Aug. 12 2005) (arguing that
7 Commission should establish deferred accounting for PacifiCorp’s tax expense so that it
8 could address SB 408 in an orderly manner).¹ Therefore, the Commission should exercise its
9 discretion under ORS 757.259(2) to authorize deferred accounting in this instance. *See In re*
10 *Investigation into Deferred Accounting*, UM 1147, Order No. 05-1070 at 7 (Pub Util
11 Comm’n Oct. 5, 2005) (Commission should look at facts of each case and allow deferred
12 accounting if statutory requirements are satisfied and type and magnitude of event warrants
13 deferred accounting).

14 **C. Proposed Accounting.**

15 During the period of deferral, PacifiCorp proposes to account for the tax adjustment
16 revenue requirement reduction for regulatory purposes in the following manner: If the
17 deferral is a credit of the income tax effect to customers, PacifiCorp proposes to record the
18 deferral as a regulatory liability in Account 254 (Other Regulatory Liabilities), debiting
19 Account 456 (Other Revenue). If the deferral is a charge of the income tax effect to
20 customers, PacifiCorp proposes to record the deferral in Account 182.3, (Regulatory Assets),
21 crediting Account 456 (Other Revenue). PacifiCorp requests that in accordance with
22 ORS 757.259(3), it be allowed to accrue interest on the unamortized balance at a rate equal to

23 _____
24 ¹ Staff suggested the use of a deferred account in this case to address the handling of
25 PacifiCorp’s taxes paid and collected in 2005. PacifiCorp opposed the use of a deferred
26 account in this context because SB 408 expressly applies only to taxes paid and collected on
or after January 1, 2006. PacifiCorp’s citation to Staff’s position in UE 170 is only for the
general principle that deferred accounting is a tool for the Commission to use in
implementing SB 408 in a manner that produces “fair, just and reasonable” rates.

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1 its weighted average cost of capital most recently approved by the Commission in Docket
2 No. UE 170, Order No. 05-1050.

3 **D. Estimate of Amounts.**

4 PacifiCorp cannot currently provide an accurate estimate of the tax effect of the net
5 revenue variance described in this Application because rules implementing SB 408 have not
6 yet been established and 2006 actual net revenues are not yet known. When this information
7 becomes available, PacifiCorp will supplement this Application accordingly.

8 **E. Notice.**

9 A copy of the Notice of Application and a list of persons served with the Notice are
10 attached to this Application as Exhibit A.

11
12 **IV. CONCLUSION**

13 PacifiCorp respectfully requests that, in accordance with ORS 757.259, the
14 Commission authorize the Company to defer the costs or revenues described in this
15 Application.

16 DATED: January 6, 2006.

17 STOEL RIVES LLP

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Katherine A. McDowell
Sarah J. Adams Lien

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21 Attorneys for PacifiCorp
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BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM _____

In the Matter of the Application of PACIFIC
POWER & LIGHT (d/b/a PacifiCorp) for a
Deferred Accounting Order

NOTICE OF APPLICATION

EXHIBIT A

**NOTICE OF APPLICATION
FOR A DEFERRED ACCOUNTING ORDER**

1 **BEFORE THE PUBLIC UTILITY COMMISSION**
2 **OF OREGON**

3 **UM** _____

4 In the Matter of the Application of PACIFIC
5 POWER & LIGHT (d/b/a PacifiCorp) for a
6 Deferred Accounting Order

NOTICE OF APPLICATION

7 On January 6, 2006, Applicant PacifiCorp applied to the Public Utility Commission
8 of Oregon (the "Commission") for authorization to use deferred accounting.

9 PacifiCorp proposes to defer from the date of this Application forward the income tax
10 effect, positive or negative, of the difference between test year "net revenue" used to
11 calculate "taxes authorized to be collected in rates," under Senate Bill 408 (as those terms are
12 defined in Section 3(13)(e) of that legislation), and actual net revenue used to calculate taxes
13 paid to local, state and federal governments for 2006.

14 The granting of the Application will not authorize a change in rates, but will permit
15 the Commission to consider allowing such deferred amounts in rates in a subsequent
16 proceeding.

17 Interested persons can obtain a copy of Application by contacting:

18 Katherine A. McDowell
19 Stoel Rives LLP
20 900 SW Fifth Avenue, Suite 2600
21 Portland, OR 97204
22 Telephone: (503) 294-9602

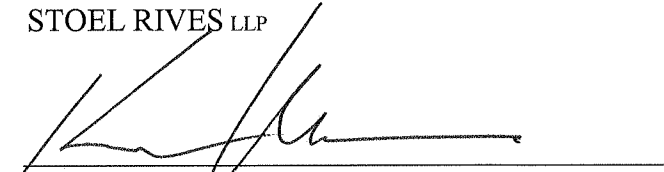
23 Any person may submit to the Commission written comment on the Application, in
24 accordance with procedures prescribed by the Commission. The deadline for comments on
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26

1 the application is February 1, 2006.

2 DATED: January 6, 2006.

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STOEL RIVES LLP



Katherine A. McDowell
Of Attorneys for PacifiCorp

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CERTIFICATE OF SERVICE

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I hereby certify that I served a true and correct copy of the foregoing document on the parties of record from PacifiCorp's last general rate case, Docket UE 170, on the date indicated below by email and first-class mail, addressed to said parties at his or her last-known address(es) indicated below.

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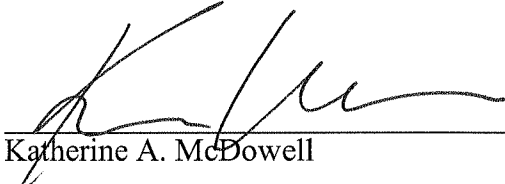
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DATED: January 6, 2006.



Katherine A. McDowell
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