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BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON

UE 170/UM 1229

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

**AMENDMENT TO PACIFICORP'S  
APPLICATION FOR DEFERRED  
ACCOUNTING/REQUEST FOR  
CLARIFICATION OF ORDER NO. 06-379**

**I. INTRODUCTION**

In response to the Commission's Order on Reconsideration issued in these dockets, Order 06-379 (the "Reconsideration Order"), PacifiCorp amends its request for deferred accounting in UM 1229. In the Reconsideration Order, the Commission granted PacifiCorp's request for deferred accounting for the revenue requirement effect of the Order's reduction in the tax adjustment. Order 06-379 at 15. The Order did not address the balance of PacifiCorp's deferred accounting request, instead indicating that PacifiCorp could seek further proceedings in this docket. *Id.* at 15, n.3.

Through this filing, PacifiCorp now seeks resolution of the balance of its deferred accounting request, as updated to take into account the Reconsideration Order. Alternatively, PacifiCorp seeks clarification of the Reconsideration Order and an order allowing adjustments to PacifiCorp's SB 408 automatic adjustment clause as necessary to effectuate the Reconsideration Order. Finally, PacifiCorp requests that the Commission hold a hearing on this Amended Application under ORS 757.759(2).

**II. BACKGROUND**

On September 28, 2005, the Commission issued a final rate order, Order 05-1050, in Docket UE 170 (the "Rate Order"). The Rate Order included a \$26.6 million revenue requirement reduction based on the provisions of SB 408. The stated purpose of this reduction was to "align the estimated taxes included in PacifiCorp's rates with the amount that PacifiCorp (or its affiliated group) will eventually pay," and "reduce, to the extent

1 possible, the amount that flows through the automatic adjustment clause.” Order 05-1050  
2 at 19.

3 On October 28, 2005, PacifiCorp filed a request for reconsideration and rehearing of  
4 the Rate Order. On that same date, PacifiCorp filed an application seeking authorization to  
5 defer the revenue shortfall related to the disputed tax expense adjustment.

6 On July 10, 2006, the Commission issued the Reconsideration Order, which reduced  
7 the tax adjustment by \$3.67 million, or \$6.1 million on a grossed-up basis, but retained a tax  
8 disallowance of \$12.4 million, or \$20.5 million on a grossed-up basis. Order 06-379 at 14.

9 The Order granted PacifiCorp’s request for deferred accounting for the revenue requirement  
10 effect of this reduction. *Id.* at 15. The Order did not address other aspects of the deferred  
11 accounting application, instead indicating that “PacifiCorp may ask for further proceedings in  
12 UM 1229 following the issuance of the Order.” *Id.* at 15, n. 3. On August 31, 2006,  
13 PacifiCorp filed Advice 06-016 to amortize the amounts expressly authorized for deferral in  
14 the Reconsideration Order.

15 In the Reconsideration Order, the Commission explained that the tax adjustment  
16 responded to the unique circumstance presented by SB 408’s application to PacifiCorp’s  
17 general rate case, which was pending resolution after the enactment of SB 408 but before  
18 the effective date of the first SB 408 automatic adjustment clause. *Id.* at 6. In the context of  
19 this unique circumstance, the Commission determined that it must do its best to adjust  
20 PacifiCorp’s 2005 rates to reflect actual taxes paid.

21 For the period after 2005, however, the Commission recognized that the  
22 disallowance would cause a mismatch between the tax expense reflected in rates (which  
23 had been lowered to take into account the PHI interest adjustment but did not reflect SB 408  
24 add-backs or credits) and taxes actually paid. *See, e.g., id.* at 13 (the “change in  
25 PacifiCorp’s ownership has eliminated the basis for the tax adjustment”) and at 12-13  
26

1 (adjustment did not consider taxes paid, taxes collected or taxes paid and properly  
2 attributed; nor did the adjustment take into account significant tax add-backs).

3 The Commission concluded that PacifiCorp would not be harmed by this mismatch  
4 between taxes collected pursuant to the Rate Order and Reconsideration Order and taxes  
5 actually paid because PacifiCorp could recover the difference through its SB 408 automatic  
6 adjustment clause. *Id.* at 16 (“Through [the SB 408] true-up mechanism, PacifiCorp will  
7 have the opportunity to recover tax payments made after [December 31, 2005] that exceed  
8 the allowable tax expense in rates. Consequently, the company’s actual financial exposure  
9 is limited to a three-month period, that is, from the October 4, 2005, effective date for the  
10 new rates through December 31, 2005.”). The Commission also left UM 1229 open,  
11 permitting PacifiCorp to seek recovery of any additional revenue shortfall through deferred  
12 accounting. *Id.* at 15, n. 3 (“PacifiCorp may ask for further proceedings in UM 1229  
13 following the issuance of this order.”).

### 14 III. AMENDMENT

15 PacifiCorp requests that the Commission allow the Company to defer the revenue  
16 shortfall related to its tax expense in rates in 2006 caused by the disallowance in the Rate  
17 Order, as modified by the Reconsideration Order, to the extent any such revenue shortfall is  
18 not recovered through the SB 408 automatic adjustment clause for the 2006 tax year.

19 As explained in PacifiCorp’s application for deferred accounting, PacifiCorp seeks  
20 deferral of the shortfall related to the tax disallowance in order to accurately track and  
21 preserve such costs for later incorporation in rates through an amortization schedule.  
22 PacifiCorp requests that the deferral cover the time period from January 1, 2006 until new  
23 rates go into effect on January 1, 2007, and that this deferred account remain pending until  
24 the deferral amount becomes known after PacifiCorp’s 2007 tax report filing under SB 408.  
25 This request is provisional in nature because the actual deferral of these amounts would not  
26 occur until after the calculation of the automatic adjustment clause for the 2006 tax year and

1 would occur only if the automatic adjustment clause does not operate to permit PacifiCorp to  
2 recover its full tax expense for 2006.

3 If the SB 408 automatic adjustment clause does not recover the actual difference  
4 between the tax expense collected in rates and taxes paid, deferred accounting is  
5 necessary for PacifiCorp to receive the meaningful relief described in the Reconsideration  
6 Order. Order 06-379 at 15 (“A deferral is appropriate to provide PacifiCorp meaningful relief  
7 of these adjustments, thereby matching appropriately the costs borne by and benefits  
8 received by ratepayers.”)

9 No harm will inure to ratepayers from this amendment to PacifiCorp’s Application  
10 because deferral and amortization would not occur until it is known whether, and to what  
11 extent, the SB 408 automatic adjustment clause actually provides PacifiCorp with “the  
12 opportunity to recover tax payments made after [December 31, 2005] that exceed the  
13 allowable tax expense in rates.” *Id.* at 16.

14 **A. The Reconsideration Order Contemplates That PacifiCorp Will Be Fully**  
15 **Compensated for Its Under Recovery of Taxes in Rates Through the SB 408**  
**Automatic Adjustment Clause.**

16 In the Reconsideration Order, the Commission made clear that the change in  
17 PacifiCorp’s base rates was designed to cover only the approximately three-month period  
18 between the rate effective date, October 4, 2005, and the implementation of the new law’s  
19 specific provisions, January 1, 2006. See Order 06-379 at 6 (Due to the timing issues  
20 created by the rate case and the enactment of SB 408, “an approximate four-month period  
21 existed during which the legislature had mandated that rates reflect taxes paid to  
22 government units but did not yet allow the use of the true-up mechanism to accomplish that  
23 mandate.”), and at 7 (“Our decision here is limited to the application of SB 408 during that  
24 four-month interim period while SB 408 was in effect, but prior to our ability to use the  
25 automatic adjustment clause to help align taxes collected and taxes paid.”).

26

1 Recognizing that its decision would nevertheless reduce base rates in 2006, the  
2 Commission observed that PacifiCorp would have an opportunity to recover its full tax  
3 expense incurred starting January 1, 2006 through its SB 408 automatic adjustment clause:

4 [We] emphasize the limited time period the tax adjustment will  
5 impact PacifiCorp. As detailed above, the SB 408 automatic  
6 adjustment clause will begin aligning taxes collected in rates with  
7 taxes actually paid on January 1, 2006. Through this true-up  
mechanism, PacifiCorp will have the opportunity to recover tax  
payments made after that date that exceed the allowable tax  
expense in rates.

8 *Id.* at 16. Consequently, the Commission concluded that “the company’s actual financial  
9 exposure is limited to a three-month period, that is, from the October 4, 2005, effective date  
10 for the new rates through December 31, 2005.” *Id.*

11 However, without this deferral or adjustments to the SB 408 automatic adjustment  
12 clause mechanism, the Company’s actual financial exposure under the UE 170 Orders may  
13 go beyond the contemplated three-month period in 2005 and deprive PacifiCorp of its  
14 opportunity to recover its full 2006 tax expense. PacifiCorp has identified and described  
15 three areas where it could experience a shortfall in recovery through the automatic  
16 adjustment clause. Because rules in AR 499 are not yet final and because PacifiCorp has  
17 not yet been through an automatic adjustment clause proceeding, other potential areas of  
18 shortfall may emerge.

19 **1. Under PacifiCorp’s SB 408 Automatic Adjustment Clause, PacifiCorp**  
20 **May Not Have an Opportunity to Recover the Grossed-Up Amount of the**  
**Revenue Shortfall.**

21 Under the UE 170 Orders, the Commission disallowed \$12.4 million of PacifiCorp’s  
22 tax expense and grossed-up the adjustment for revenue requirement purposes to  
23 \$20.5 million. However, the draft rules in Docket AR 499 are silent on whether the SB 408  
24 automatic adjustment clause amount will be grossed-up. Thus, even if PacifiCorp were to  
25 have the opportunity to recover its full tax expense through its SB 408 automatic adjustment  
26 clause for the 2006 tax year, it may not be made whole without recovery of the grossed-up

1 portion of the disallowed expense through deferred accounting or an adjustment to the  
2 automatic adjustment clause.

3           **2. Under PacifiCorp's SB 408 Automatic Adjustment Clause, PacifiCorp**  
4           **May Not Have an Opportunity to Recover Interest on the Revenue**  
5           **Shortfall for the Period from January 1 through December 31, 2006,**  
6           **Despite the Fact that PacifiCorp Will Incur the Expense.**

7           PacifiCorp will not recover through an SB 408 automatic adjustment clause any  
8 amount of the revenue shortfall related to its 2006 tax expense until April 2008. This is  
9 because SB 408 requires utilities to file a tax report each October 15. The tax report must  
10 contain data for the 3 tax years that ended before the date of the tax report. Consequently,  
11 PacifiCorp will not file a tax report containing its 2006 tax information until October 15, 2007.  
12 According to the schedule contemplated in Docket AR 499, the automatic adjustment clause  
13 that will surcharge or refund customers for differences between taxes paid and collected in  
14 2006 will become effective in Spring 2008.

15           The draft rules proposed in Docket AR 499 provide for the accrual of interest on  
16 differences between taxes paid and collected as of January 1 of the year in which the tax  
17 report is filed. Thus, pursuant to the automatic adjustment clause, PacifiCorp will likely be  
18 able to recover some portion of the lost revenue plus interest as of January 1, 2007, but will  
19 not recover interest on this lost revenue for the period January 1 through December 31,  
20 2006. Additionally, PacifiCorp will recover no interest expense (whether accruing from 2006  
21 or later) on that portion of the revenue shortfall that will not be recovered through its SB 408  
22 automatic adjustment clause.

23           **3. Under PacifiCorp's SB 408 Automatic Adjustment Clause, PacifiCorp**  
24           **May Not Have an Opportunity to Recover the Difference Between Its**  
25           **Actual Tax Expense and the Tax Expense Actually Collected in Rates.**

26           While SB 408 purports to provide a true-up mechanism for aligning the tax expense  
collected through rates with taxes actually paid to government by a utility or its affiliated  
group, SB 408 in fact aligns taxes paid and properly attributed to the regulated operations of

1 the utility with “taxes authorized to be collected in rates.” Under SB 408, the “taxes paid”  
2 side of the calculation reflects taxes paid to government and properly attributed to the utility.  
3 The “taxes collected” side of the calculation, however, disregards the utility’s actual taxes  
4 collected and instead considers only those assumed in the utility’s last Oregon general rate  
5 case. Because “taxes collected” are based on assumed costs as estimated in the utility’s  
6 last Oregon general rate case, the assumed “taxes collected” amount may be more or less  
7 than the amount the utility actually collected in rates, depending on whether the utility  
8 experienced higher or lower costs than those anticipated in its last general rate case.

9 PacifiCorp’s 2006 “taxes paid” will decrease if PacifiCorp experiences unexpected  
10 increases in costs (e.g., higher fuel prices). However, its “taxes collected” will remain the  
11 same despite this reduction in revenue because the increased costs will not be reflected in  
12 the taxes collected calculation. In other words, under SB 408, if the taxes that PacifiCorp  
13 actually pays in 2006 are lower as a result of reduced profitability, this lower amount will be  
14 compared to taxes assumed in rates which will appear artificially high as they will not reflect  
15 the lower profitability. Thus, to the extent that PacifiCorp experiences higher than  
16 anticipated costs in 2006, the SB 408 automatic adjustment clause for the 2006 tax year will  
17 not provide PacifiCorp with meaningful relief.

18 **B. Deferral of the 2006 Revenue Shortfall Related to the Tax Disallowance Is**  
19 **Necessary to Match Appropriately the Costs Borne by and Benefits Received**  
20 **by Ratepayers.**

21 Because the SB 408 automatic adjustment clause for the 2006 tax year may not  
22 provide complete recovery to PacifiCorp of its 2006 tax expense, deferral of the 2006  
23 revenue shortfall related to the tax disallowance is necessary to match appropriately the  
24 costs borne by and benefits received by ratepayers as required by ORS 757.259(2)(e). See  
25 Order 06-379 at 15 (deferral in this case appropriately matches costs borne and benefits  
26 received by ratepayers).

1 The amount of the deferral should be calculated as: (1) the difference between tax  
2 costs incurred in 2006 (calculated as taxes paid and properly attributed according to the  
3 rules issued in Docket AR 499) and tax expense collected for 2006 (calculated based on  
4 PacifiCorp's results of operations reports), grossed-up, plus interest for the period January 1  
5 through December 31, 2006, minus (2) the SB 408 automatic adjustment clause amount for  
6 the 2006 tax year plus interest from January 1, 2007. This amount reflects the actual 2006  
7 tax cost, adjusted to reflect the Commission's approach to "properly attributed" under SB  
8 408, that PacifiCorp will experience and that it may not recover through an SB 408  
9 automatic adjustment clause.

10 **C. Accounting for the Amended Deferral.**

11 During the period of deferral, PacifiCorp proposes to account for the tax adjustment  
12 revenue shortfall for regulatory purposes in the following manner: The additional revenues  
13 related to the disallowed tax expense will be credited to Account 400, Operating Revenue  
14 and debited to Account 182.3. The amortization of the balance would be accomplished by  
15 crediting Account 182.3 and debiting Account 400 coincident with the inclusion in rates.  
16 PacifiCorp requests that in accordance with ORS 757.259(3), it be allowed to accrue interest  
17 as of January 1, 2006, on the unamortized balance (with the exception, during 2006, of the  
18 balance related to 2006 interest) at a rate equal to its weighted average cost of capital most  
19 recently approved by the Commission in Docket No. UE 170, Order No. 05-1050.

20 **IV. ALTERNATIVE MOTION FOR CLARIFICATION**

21 In the alternative to its amended request for deferred accounting, PacifiCorp  
22 requests that the Commission issue an order confirming that PacifiCorp's SB 408 automatic  
23 adjustment clause for the 2006 tax year should function in a manner that effectuates the  
24 Reconsideration Order. PacifiCorp requests that the Commission clarify that PacifiCorp may  
25 include in its 2007 tax report filing (relating to 2006 taxes collected and paid) adjustments to  
26 the automatic adjustment clause amount necessary to allow PacifiCorp the "opportunity to



1 recover tax payments made after that date that exceed the allowable tax expense in rates.”

2 Order 06-379 at 16.

3

**V. CONCLUSION**

4 In response to the Reconsideration Order, PacifiCorp respectfully amends its  
5 Application for Deferred Accounting filed in this docket, to request deferral of the revenue  
6 shortfall related to differences between PacifiCorp’s actual 2006 tax expense, adjusted to  
7 reflect the Commission’s approach to “properly attributed” under SB 408, and actual taxes  
8 collected in rates in 2006, to the extent PacifiCorp does not have an opportunity to recover  
9 those differences through the SB 408 automatic adjustment clause for the 2006 tax year. In  
10 the alternative, PacifiCorp requests that the Commission issue an order clarifying its  
11 Reconsideration Order, as described above.

12 In addition, pursuant to ORS 757.259(2), PacifiCorp requests a hearing on its  
13 Amended Application for Deferred Accounting.

14 DATED: September 8, 2006.

MCDOWELL & ASSOCIATES PC

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Katherine A. McDowell  
Sarah J. Adams Lien

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Attorneys for PacifiCorp

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# McDowell & Associates PC



KATHERINE A. MCDOWELL  
Direct (503) 595-3924  
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September 8, 2006

## VIA ELECTRONIC FILING

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

**Re: Docket No. UE 170/UM 1229**

Enclosed for filing in the above-referenced docket is an Amendment to PacifiCorp's Application for Deferred Accounting/Request for Clarification of Order No. 06-379. A copy of this filing has been served on all parties to these proceedings as indicated on the attached certificate of service.

Very truly yours,



Katherine A. McDowell

Enclosures  
cc: Service List

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**I. INTRODUCTION**

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**II. BACKGROUND**

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1 possible, the amount that flows through the automatic adjustment clause.” Order 05-1050  
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4 the Rate Order. On that same date, PacifiCorp filed an application seeking authorization to  
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7 the tax adjustment by \$3.67 million, or \$6.1 million on a grossed-up basis, but retained a tax  
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16 responded to the unique circumstance presented by SB 408’s application to PacifiCorp’s  
17 general rate case, which was pending resolution after the enactment of SB 408 but before  
18 the effective date of the first SB 408 automatic adjustment clause. *Id.* at 6. In the context of  
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21 For the period after 2005, however, the Commission recognized that the  
22 disallowance would cause a mismatch between the tax expense reflected in rates (which  
23 had been lowered to take into account the PHI interest adjustment but did not reflect SB 408  
24 add-backs or credits) and taxes actually paid. *See, e.g., id.* at 13 (the “change in  
25 PacifiCorp’s ownership has eliminated the basis for the tax adjustment”) and at 12-13

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1 (adjustment did not consider taxes paid, taxes collected or taxes paid and properly  
2 attributed; nor did the adjustment take into account significant tax add-backs).

3 The Commission concluded that PacifiCorp would not be harmed by this mismatch  
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9 is limited to a three-month period, that is, from the October 4, 2005, effective date for the  
10 new rates through December 31, 2005."). The Commission also left UM 1229 open,  
11 permitting PacifiCorp to seek recovery of any additional revenue shortfall through deferred  
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19 As explained in PacifiCorp's application for deferred accounting, PacifiCorp seeks  
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25 This request is provisional in nature because the actual deferral of these amounts would not  
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3 If the SB 408 automatic adjustment clause does not recover the actual difference  
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5 necessary for PacifiCorp to receive the meaningful relief described in the Reconsideration  
6 Order. Order 06-379 at 15 ("A deferral is appropriate to provide PacifiCorp meaningful relief  
7 of these adjustments, thereby matching appropriately the costs borne by and benefits  
8 received by ratepayers.")

9 No harm will inure to ratepayers from this amendment to PacifiCorp's Application  
10 because deferral and amortization would not occur until it is known whether, and to what  
11 extent, the SB 408 automatic adjustment clause actually provides PacifiCorp with "the  
12 opportunity to recover tax payments made after [December 31, 2005] that exceed the  
13 allowable tax expense in rates." *Id.* at 16.

14 **A. The Reconsideration Order Contemplates That PacifiCorp Will Be Fully**  
15 **Compensated for Its Under Recovery of Taxes in Rates Through the SB 408**  
16 **Automatic Adjustment Clause.**

17 In the Reconsideration Order, the Commission made clear that the change in  
18 PacifiCorp's base rates was designed to cover only the approximately three-month period  
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23 government units but did not yet allow the use of the true-up mechanism to accomplish that  
24 mandate."), and at 7 ("Our decision here is limited to the application of SB 408 during that  
25 four-month interim period while SB 408 was in effect, but prior to our ability to use the  
26 automatic adjustment clause to help align taxes collected and taxes paid.").

1 Recognizing that its decision would nevertheless reduce base rates in 2006, the  
2 Commission observed that PacifiCorp would have an opportunity to recover its full tax  
3 expense incurred starting January 1, 2006 through its SB 408 automatic adjustment clause:

4 [We] emphasize the limited time period the tax adjustment will  
5 impact PacifiCorp. As detailed above, the SB 408 automatic  
6 adjustment clause will begin aligning taxes collected in rates with  
7 taxes actually paid on January 1, 2006. Through this true-up  
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9 exposure is limited to a three-month period, that is, from the October 4, 2005, effective date  
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11 However, without this deferral or adjustments to the SB 408 automatic adjustment  
12 clause mechanism, the Company’s actual financial exposure under the UE 170 Orders may  
13 go beyond the contemplated three-month period in 2005 and deprive PacifiCorp of its  
14 opportunity to recover its full 2006 tax expense. PacifiCorp has identified and described  
15 three areas where it could experience a shortfall in recovery through the automatic  
16 adjustment clause. Because rules in AR 499 are not yet final and because PacifiCorp has  
17 not yet been through an automatic adjustment clause proceeding, other potential areas of  
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19 **1. Under PacifiCorp’s SB 408 Automatic Adjustment Clause, PacifiCorp**  
20 **May Not Have an Opportunity to Recover the Grossed-Up Amount of the**  
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21 Under the UE 170 Orders, the Commission disallowed \$12.4 million of PacifiCorp’s  
22 tax expense and grossed-up the adjustment for revenue requirement purposes to  
23 \$20.5 million. However, the draft rules in Docket AR 499 are silent on whether the SB 408  
24 automatic adjustment clause amount will be grossed-up. Thus, even if PacifiCorp were to  
25 have the opportunity to recover its full tax expense through its SB 408 automatic adjustment  
26 clause for the 2006 tax year, it may not be made whole without recovery of the grossed-up

1 portion of the disallowed expense through deferred accounting or an adjustment to the  
2 automatic adjustment clause.

3           **2. Under PacifiCorp's SB 408 Automatic Adjustment Clause, PacifiCorp**  
4           **May Not Have an Opportunity to Recover Interest on the Revenue**  
5           **Shortfall for the Period from January 1 through December 31, 2006,**  
6           **Despite the Fact that PacifiCorp Will Incur the Expense.**

7           PacifiCorp will not recover through an SB 408 automatic adjustment clause any  
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9 because SB 408 requires utilities to file a tax report each October 15. The tax report must  
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23           **3. Under PacifiCorp's SB 408 Automatic Adjustment Clause, PacifiCorp**  
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25           **Actual Tax Expense and the Tax Expense Actually Collected in Rates.**

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collected through rates with taxes actually paid to government by a utility or its affiliated  
group, SB 408 in fact aligns taxes paid and properly attributed to the regulated operations of



1 the utility with "taxes authorized to be collected in rates." Under SB 408, the "taxes paid"  
2 side of the calculation reflects taxes paid to government and properly attributed to the utility.  
3 The "taxes collected" side of the calculation, however, disregards the utility's actual taxes  
4 collected and instead considers only those assumed in the utility's last Oregon general rate  
5 case. Because "taxes collected" are based on assumed costs as estimated in the utility's  
6 last Oregon general rate case, the assumed "taxes collected" amount may be more or less  
7 than the amount the utility actually collected in rates, depending on whether the utility  
8 experienced higher or lower costs than those anticipated in its last general rate case.

9 PacifiCorp's 2006 "taxes paid" will decrease if PacifiCorp experiences unexpected  
10 increases in costs (e.g., higher fuel prices). However, its "taxes collected" will remain the  
11 same despite this reduction in revenue because the increased costs will not be reflected in  
12 the taxes collected calculation. In other words, under SB 408, if the taxes that PacifiCorp  
13 actually pays in 2006 are lower as a result of reduced profitability, this lower amount will be  
14 compared to taxes assumed in rates which will appear artificially high as they will not reflect  
15 the lower profitability. Thus, to the extent that PacifiCorp experiences higher than  
16 anticipated costs in 2006, the SB 408 automatic adjustment clause for the 2006 tax year will  
17 not provide PacifiCorp with meaningful relief.

18 **B. Deferral of the 2006 Revenue Shortfall Related to the Tax Disallowance Is**  
19 **Necessary to Match Appropriately the Costs Borne by and Benefits Received**  
20 **by Ratepayers.**

21 Because the SB 408 automatic adjustment clause for the 2006 tax year may not  
22 provide complete recovery to PacifiCorp of its 2006 tax expense, deferral of the 2006  
23 revenue shortfall related to the tax disallowance is necessary to match appropriately the  
24 costs borne by and benefits received by ratepayers as required by ORS 757.259(2)(e). See  
25 Order 06-379 at 15 (deferral in this case appropriately matches costs borne and benefits  
received by ratepayers).

26

1 The amount of the deferral should be calculated as: (1) the difference between tax  
2 costs incurred in 2006 (calculated as taxes paid and properly attributed according to the  
3 rules issued in Docket AR 499) and tax expense collected for 2006 (calculated based on  
4 PacifiCorp's results of operations reports), grossed-up, plus interest for the period January 1  
5 through December 31, 2006, minus (2) the SB 408 automatic adjustment clause amount for  
6 the 2006 tax year plus interest from January 1, 2007. This amount reflects the actual 2006  
7 tax cost, adjusted to reflect the Commission's approach to "properly attributed" under SB  
8 408, that PacifiCorp will experience and that it may not recover through an SB 408  
9 automatic adjustment clause.

10 **C. Accounting for the Amended Deferral.**

11 During the period of deferral, PacifiCorp proposes to account for the tax adjustment  
12 revenue shortfall for regulatory purposes in the following manner: The additional revenues  
13 related to the disallowed tax expense will be credited to Account 400, Operating Revenue  
14 and debited to Account 182.3. The amortization of the balance would be accomplished by  
15 crediting Account 182.3 and debiting Account 400 coincident with the inclusion in rates.  
16 PacifiCorp requests that in accordance with ORS 757.259(3), it be allowed to accrue interest  
17 as of January 1, 2006, on the unamortized balance (with the exception, during 2006, of the  
18 balance related to 2006 interest) at a rate equal to its weighted average cost of capital most  
19 recently approved by the Commission in Docket No. UE 170, Order No. 05-1050.

20 **IV. ALTERNATIVE MOTION FOR CLARIFICATION**

21 In the alternative to its amended request for deferred accounting, PacifiCorp  
22 requests that the Commission issue an order confirming that PacifiCorp's SB 408 automatic  
23 adjustment clause for the 2006 tax year should function in a manner that effectuates the  
24 Reconsideration Order. PacifiCorp requests that the Commission clarify that PacifiCorp may  
25 include in its 2007 tax report filing (relating to 2006 taxes collected and paid) adjustments to  
26 the automatic adjustment clause amount necessary to allow PacifiCorp the "opportunity to

1 recover tax payments made after that date that exceed the allowable tax expense in rates.”  
2 Order 06-379 at 16.

3  
4 **V. CONCLUSION**

5 In response to the Reconsideration Order, PacifiCorp respectfully amends its  
6 Application for Deferred Accounting filed in this docket, to request deferral of the revenue  
7 shortfall related to differences between PacifiCorp’s actual 2006 tax expense, adjusted to  
8 reflect the Commission’s approach to “properly attributed” under SB 408, and actual taxes  
9 collected in rates in 2006, to the extent PacifiCorp does not have an opportunity to recover  
10 those differences through the SB 408 automatic adjustment clause for the 2006 tax year. In  
11 the alternative, PacifiCorp requests that the Commission issue an order clarifying its  
12 Reconsideration Order, as described above.

13 In addition, pursuant to ORS 757.259(2), PacifiCorp requests a hearing on its  
14 Amended Application for Deferred Accounting.

15 DATED: September 8, 2006.

16 MCDOWELL & ASSOCIATES PC

17   
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19 Attorneys for PacifiCorp  
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1 **CERTIFICATE OF SERVICE**

2 I hereby certify that I served a true and correct copy of the foregoing document on  
3 the following named person(s) on the date indicated below by email and first-class mail  
4 addressed to said person(s) at his or her last-known address(es) indicated below.

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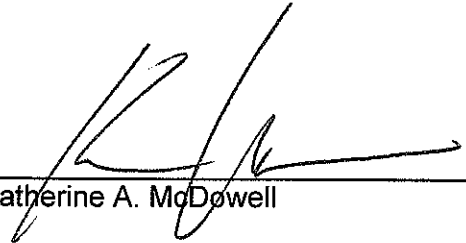
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