

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UE 134  
UM 1047

In the Matter of )  
)  
PACIFICORP )  
)  
Application for Approval of Revised Tariffs )  
to Reflect New Net Power Costs. **(UE 134)** )  
\_\_\_\_\_ )

ORDER

In the Matter of )  
)  
PACIFICORP )  
)  
Application for an Accounting Order )  
Regarding Deferral of Trail Mountain Mine )  
Unrecovered Costs. **(UM 1047)** )

**DISPOSITION: STIPULATION ADOPTED**

On December 31, 2001, PacifiCorp filed Advice No. 01-031, which contained revisions to more than 20 current tariffs. In the filing, PacifiCorp asked the Public Utility Commission of Oregon (Commission) to approve a revenue requirement increase of \$34.3 million (Oregon basis) for an average overall price increase of 4.2 percent, based on a July 2002-June 2003 test year. PacifiCorp also requested approval of a power cost adjustment mechanism. This filing was docketed as UE 134.

On January 11, 2002, PacifiCorp filed an application for an accounting order authorizing PacifiCorp to record and defer for a five-year period unrecovered costs associated with the closure of the Trail Mountain Mine. This filing was docketed as UM 1047.

On January 29, 2002, the Commission found good and sufficient cause to investigate the propriety and reasonableness of the tariff sheets filed in Advice No. 01-031, pursuant to ORS 757.210 and 757.215. The Commission ordered the rates to be suspended for a period of time not to exceed six months from February 1, 2002. See, Order No. 02-063.

On February 1, 2002, a prehearing conference was held in UE 134. During the conference, the Commission Staff (Staff) indicated that it would be filing a motion to add issues to the docket and to consolidate dockets UE 134 and UM 1047.

On February 4, 2002, Staff filed its motion. In addition to asking for the dockets to be consolidated, Staff requested that the Commission: (1) determine the rate base and revenue requirement effects of PacifiCorp's sale and transfer of electric properties and transfer of service territory to the City of Hermiston, and (2) examine issues related to interjurisdictional allocation of fixed generation costs, including special retail contracts, as part of the consolidated dockets. Staff's motion was granted.

The Citizens' Utility Board (CUB) filed a notice of intervention in the consolidated cases, and the Industrial Customers of Northwest Utilities (ICNU) filed a petition to intervene, which was granted.

On March 29, 2002, the Commission issued Order No. 02-224, approving the accounting treatment of the Trail Mountain Mine costs.

The parties filed a stipulation (Stipulation) resolving all issues in these dockets on March 29, 2002. This Stipulation is attached as Appendix A. On April 8, 2002, joint testimony and Staff's supplemental testimony were filed in support of the Stipulation.

Under OAR 860-014-0085, parties have 20 days to file objections to a stipulation or request a hearing. On April 12, 2002, CUB filed a letter, objecting to a portion of the Stipulation, but supporting the Stipulation and settlement as a whole as the overall result is reasonable. No other objections were received.

## **Stipulation**

As part of PacifiCorp's last general rate case (UE 116), PacifiCorp, Staff, ICNU and CUB (known together as "the Parties"), entered into a stipulation (Bridge Stipulation) that resolved issues regarding PacifiCorp's net power costs. The Commission approved the Bridge Stipulation in Order No. 01-787. Under the Bridge Stipulation, PacifiCorp agreed to develop a new hourly power cost model in collaboration with the stakeholders. PacifiCorp also agreed to file a power cost rate case, which was docketed as UE 134, using the new model.

The Parties met throughout March 2002, and reached agreement on all issues in these consolidated dockets, resulting in the filing of this Stipulation (Stipulation). In the Stipulation, the Parties agreed to reset the amount of PacifiCorp's net power costs and to resolve non-power costs issues related to Trail Mountain and Hermiston. The Parties have also agreed to the ratemaking treatment for PacifiCorp's

West Valley Combustion Turbines.<sup>1</sup> Additionally, Staff, ICNU and PacifiCorp agreed to a one-year amortization of the above-market costs associated with PacifiCorp's power purchases for Summer 2002. The net effect of the Stipulation is an average overall revenue requirement increase of \$14.2 million, or 1.74 percent.

#### Net Power Costs

Under the Stipulation, PacifiCorp's annual net power costs will be set at \$589.3 million on a total company basis. As the Bridge Stipulation established a \$595 million baseline for annual net power costs on a total company basis, this reduction lowers PacifiCorp's Oregon rates by \$1.9 million. The \$589.3 million represents a global settlement and establishes PacifiCorp's normalized net power costs for the test period.

Staff's supplemental testimony provides additional information for accepting the global net power cost figure of \$589.3 million as reasonable. According to Staff, PacifiCorp corrected and updated its power cost assumptions and inputs from the December 2001 filing. These changes reduced the net power cost estimate from \$710.4 million to \$674.6 million. Staff then proposed adjustments totaling \$54.1 million, which resulted in Staff's estimate of \$620.6 million for PacifiCorp's net power costs.

Staff then agreed to change its \$620.6 million estimate. Staff: (1) added \$12 million, or one-half of Staff's wholesale margin adjustment; (2) added \$11.5 million to remove the impact of the West Valley Combustion Turbines; (3) added \$1.4 million for uncollectibles; and (4) subtracted \$56 million for the above-market cost of forward summer power purchases.

Staff explained that the wholesale margin adjustment change was made as part of the compromise.<sup>2</sup> Staff further explained that it added \$11.5 million to the net power costs to maintain an appropriate matching of benefits and costs. Staff did not want to include lease costs in the calculation, as it did not want to prejudice the affiliated interest application in UI 196. The adjustment agreed to represents the removal of the variable cost impact of the West Valley Combustion Turbines and a substitution of market purchases for the generation of the West Valley Combustion Turbines.

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<sup>1</sup> On March 6, 2002, PacifiCorp filed an affiliated interest application regarding these combustion turbines, docketed as UI 196. If the application is approved, the ratemaking treatment of the turbines is resolved by the Stipulation. This agreement on ratemaking treatment is not intended to indicate that the affiliated interest application is appropriate, and none of the parties waive their rights to contest the application.

<sup>2</sup> In his testimony, Senior Economist Bill Wordley stated, "[f]undamental differences remain regarding the calculation of the adjustment." Staff 100, Wordley 2, lines 23-24.

Hermiston

In Order No. 01-787, the Commission ordered PacifiCorp to maintain a balancing account to reflect the gains and losses on property sales for later refund to or collection from customers in a supplemental tariff. In Order No. 01-830, the Commission ordered PacifiCorp to allocate to customers 95 percent of its after-tax net gain from the sale of PacifiCorp's electric properties to Hermiston. To be consistent with those orders, Parties agreed that the gain associated with the sale should be put into a balancing account once PacifiCorp receives the revenues. Interest on 95 percent of the gain should be calculated at PacifiCorp's authorized rate of return (8.62 percent) from the date of receipt and continue until the balance is fully amortized on May 31, 2003. The amount to be amortized (Oregon share) will be no more than \$3,372,257. Finally, PacifiCorp will permanently remove the electric assets sold to Hermiston from its base rates on June 1, 2002, resulting in a revenue requirement decrease of \$675,575.

Trail Mountain Mine

The Stipulation allows PacifiCorp to recover 85 percent of the closure costs of the Trail Mountain Mine. The amortization in Oregon rates is \$2,636,005 annually over approximately five years. Finally, PacifiCorp will permanently remove Trail Mountain Mine from its base rates on June 1, 2002, resulting in a revenue requirement decrease of \$1,075,210.

Amortization of Above Market Costs of Summer Forward Purchases

PacifiCorp, Staff and ICNU agree that PacifiCorp will establish a non-interest bearing balancing account in the amount of \$18.7 million for the above-market costs associated with the forward purchases for Summer 2002. These costs will be amortized for one year until the balancing account is zero. For purposes of the Stipulation, PacifiCorp, Staff and ICNU agree that the summer forward purchases were prudent, but are not to be included when setting normalized rates.

Interjurisdictional Allocation of Special Retail Contracts

For this proceeding, the Parties determined that interjurisdictional allocation issues associated with special retail contracts have a negligible impact. Therefore, no allocation related adjustment is necessary. For future proceedings, the Parties agree to allocate costs and revenue for special retail contracts on a "situs-basis." However, this portion of the Stipulation could be superceded by an ultimate resolution of allocation issues in future Commission dockets.

Other Matters

PacifiCorp agrees to withdraw its power cost adjustment request without prejudice, and will not refile a power cost adjustment application in 2002.

PacifiCorp also agrees to file a single-issue power cost rate application by October 1, 2003, for rates effective June 1, 2004, if asked to do so by the Commission on or before July 31, 2003. This application could be filed in conjunction with a general rate filing. PacifiCorp bears the burden of proof in the proceeding if such filing is made.

PacifiCorp will provide copies of the monthly actual net power cost report, a special Annual Results of Operation Report for calendar year 2002, and a marginal cost study to the other parties.

PacifiCorp previously supplied Staff, CUB and ICNU with computers and software to run the new hourly power cost model, known as the Generation and Regulation Initiatives Decision Tools (GRID) model. Staff, CUB and ICNU may now keep these computers and software, and use them solely for the purpose of analyzing current and potential PacifiCorp filings. The confidentiality of the information related to the GRID model and inputs remain subject to the protective order in this case even after the entry of a final order. Updates will be provided to all three entities every six months from the effective date of this order.

The Parties request that the effective date of the Stipulation, except for the rate change discussed in Paragraph 9, be June 1, 2002.

**Commission Discussion**

The Stipulation is an outgrowth of the Bridge Stipulation we approved in Order No. 01-787. The Stipulation represents a compromise by the parties, as shown by Paragraph 22 of the Stipulation, supplemental testimony of Staff and the April 12, 2002 letter by CUB. Except for the one-year amortization of costs for Summer 2002, all parties agree to all components of the stipulation.

After reviewing the Stipulation and supporting testimony, we conclude that the Stipulation should be adopted.

**ORDER**

IT IS ORDERED that:

1. Advice No. 01-031 is permanently suspended.
2. The Stipulation, attached as Appendix A, is adopted in its entirety.
3. PacifiCorp may file revised rate schedules consistent with this Order, to be effective no earlier than June 1, 2002.

Made, entered, and effective \_\_\_\_\_.

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**Roy Hemmingway**  
Chairman

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**Lee Beyer**  
Commissioner

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**Joan H. Smith**  
Commissioner

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.