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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 94

In The Matter of PacifiCorp, d.b.a. Pacific)
Power and Light Company's 1999)
Alternative Form of Regulation (AFOR))
Earnings Review.)

ORDER

**DISPOSITION: EARNINGS REVIEW ACCEPTED;
NO RATE CHANGE**

On June 30, 2000, PacifiCorp, d.b.a. Pacific Power and Light Company filed its 1999 Earnings Report.

At its public meeting on August 8, 2000, the Commission adopted Staff's recommendation to accept that PacifiCorp's 1999 earnings fall within the earnings band designated in this docket and there will be no rate change. Staff's recommendation is attached as Appendix A and is incorporated by reference.

ORDER

IT IS ORDERED THAT PacifiCorp's 1999 earnings review is accepted and there will be no rate change, as described in Appendix A.

Made, entered and effective

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ORDER NO.00-470

BY THE COMMISSION:

Vikie Bailey-Goggins
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order to a court pursuant to ORS 756.580.

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 8, 2000**

REGULAR AGENDA__ CONSENT AGENDA_ X EFFECTIVE DATE_ N/A__

DATE: July 27, 2000
TO: Bill Warren through Lee Sparling and Ed Busch
FROM: Judy Johnson
SUBJECT: PacifiCorp, AFOR Earnings Review

SUMMARY RECOMMENDATION:

I recommend that the Commission accept Staff's finding that PacifiCorp's 1999 earnings fall within the earnings band designated in UE 94 and there will be no rate change for the current filing.

DISCUSSION:

In Order No. 98-191 (issued May 5, 1998), the Commission approved a distribution-only alternative form of regulation (AFOR) for PacifiCorp (PP&L, Pacific, or company), which the company accepted on May 12, 1998. The main features of the distribution-only AFOR are:

- Annual distribution index-related price change.
- Revenue cap for distribution revenues (decoupling).
- System benefits charge that allows PacifiCorp to recover its investments in energy efficiency and renewable resources as well as potential incentives to encourage investment in renewable resources.
- Revenue sharing between customers and PacifiCorp for all earnings outside a predetermined earnings range.

On April 28, 2000, PacifiCorp filed Advice No. 00-008 to implement rate changes in accordance with the company's approved AFOR. The rate changes were comprised of the following three elements: 1) Distribution index-related change; 2) Decoupling; and 3) System Benefits Charge. On June 20, 2000, the Commission accepted Staff's recommendation to approve tariffs which would increase PacifiCorp's Oregon revenues by \$13.66 million or 1.8 percent.

On April 26, 2000, the PacifiCorp filed a petition to amend Order No. 98-191 to allow a one-month extension of time to May 31, 2000, to file the company's earning report. The Commission granted the extension. On June 13, 2000, PacifiCorp filed a second petition to amend Order No. 98-191 to allow a further extension of time to June 30, 2000. On June 30, 2000, PacifiCorp filed its 1999 Earnings Report.

Earnings Band

Order No. 98-191 states that beginning July 1, 1999, the AFOR will include an annual earnings review and potential rate adjustment based on overall company earnings in its Oregon jurisdiction for the prior calendar year. If PacifiCorp's earnings are within 250 basis points above or below a return on equity (ROE) benchmark there would be no earnings band adjustment. If earnings are 251-350 basis points higher (lower) than the ROE benchmark, the company would have a price decrease (increase) equal to one-quarter of the adjustment needed to reach 250 basis points. If earnings are more than 350 basis points higher (lower) than the ROE benchmark, the company would have a price decrease (increase) equal to the sum of one-half of the price decrease (increase) needed to reach 350 basis points plus one-quarter of the adjustment needed to reach 250 basis points.

Staff calculated a benchmark ROE of 9.15 percent. PacifiCorp filed an earnings report, including Type 1 adjustments and the stipulated capital structure, which shows an ROE of 6.79 percent. Staff examined the company's filed earnings report and made several data requests. After examining the company's responses, Staff removed some adjustments it did not agree with and modified others. When Staff makes these changes, PacifiCorp's ROE moves to 7.60 percent. This ROE is within the earnings band of 6.7 to 11.7 percent (9.2% plus or minus 2.5%). Therefore, there will be no rate change associated with the earnings band.

STAFF RECOMMENDATION:

I recommend that the Commission accept Staff's finding that PacifiCorp's 1999 earnings fall within the earnings band designated in UE 94 and there will be no rate change for the current filing.