

Decision 06-12-011 December 14, 2006

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

In the Matter of the Application of PACIFICORP (U 901-E) for an Order Authorizing a General Rate Increase and Implementation of an Energy Cost Adjustment Clause and a Post Test-Year Adjustment Mechanism.

Application 05-11-022  
(Filed November 29, 2005)

Order Instituting Investigation on the Commission's Own Motion into the Rates, Operations, Practices, Service and Facilities of PacifiCorp. (U 901-E).

Investigation 06-03-002  
(Filed March 2, 2006)

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Diana L. Lee, Attorney at Law, for the Division of Ratepayer Advocates.

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## **FINAL OPINION RESOLVING GENERAL RATE CASE**

### **I. Summary**

By this decision, we adopt an unopposed settlement of a 2007 test year revenue requirement for PacifiCorp. We also adopt a revenue allocation and rate design settlement, disputed only as it relates to irrigation rates for the Klamath Water Users Association (KWUA).<sup>1</sup>

For the 2007 test year, PacifiCorp is authorized to increase its revenue by \$7.3 million. This revenue increase is designed to provide PacifiCorp an opportunity to earn a 10.6% return on a 50.0% equity ratio, which results in a 8.531% return on rate base. PacifiCorp is also authorized to implement an energy cost adjustment clause (ECAC) balancing account and a post-test year adjustment mechanism (PTAM).

As a result of the revenue increase granted by this decision, the monthly bill for residential customer using 926 kilowatt-hour (kWh) of energy would increase by \$10.43 or 13.3% to \$ 88.77 for the year 2007.

### **II. Application**

On November 29, 2005, PacifiCorp filed a 2007 test year general rate case (GRC) application seeking an overall revenue requirement increase of \$11.0 million to provide it with an opportunity to earn an 11.8% return on equity.

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<sup>1</sup> KWUA is a nonprofit corporation comprised of approximately 20 public agencies, most of which are irrigation districts, and many family farms and ranches and other agricultural-based businesses located in and around the Upper Klamath River Basin. Many KWUA members receive water for irrigation through facilities constructed or improved by the United States Department of Interior as part of a federal reclamation project located within the vicinity of Klamath Falls, Oregon and encompasses reclamation and irrigation lands in the States of California and Oregon.

That requested increase represents an overall 15.6% increase to PacifiCorp's California customers. PacifiCorp subsequently updated its request to reflect the impacts of Decision (D.) 06-04-034 and D.06-02-033. The former decision approved an irrigation transition rate for Klamath Basin irrigation customers and the latter decision required offsetting adjustments from the acquisition of PacifiCorp by MidAmerican Energy Holding Company. Details of those adjustments are set forth in Exhibit 22. That update resulted in a \$1.8 million increase in its requested revenue requirement to \$12.8 million from \$11.0 million and represented an overall increase to its California customers of 18.8% from 15.6%.

As part of its application, PacifiCorp requested authority to implement an ECAC and a PTAM. It requested an ECAC so that it could recover its volatile energy cost in a timely and efficient manner. It requested a PTAM so that it could timely recover prudently incurred cost increases related to inflation, new plant, general operating cost increases, unforeseen events, and changes in its capital structure without filing a GRC.

Protests to the application were filed by the Division of Ratepayer Advocates (DRA) and the KWUA. In addition, appearances were entered by several interested parties including the Bureau of Reclamation and United States Fish and Wildlife Service of the United States Department of Interior (Interior), the County of Siskiyou, the California Farm Bureau Federation (CFBF), the Western Manufactured Housing Community Association, Roseburg Forest Products, the Hoopa Valley Tribe, the Pacific Coast Federation of Fishermen's Association (PCFFA), and the Oregon Natural Resources Council (ONRC).

On March 2, 2006, Investigation (I.) 06-03-002 was opened as a companion to, and consolidated with, PacifiCorp's GRC application for the purpose of

taking evidence and entering orders within the jurisdiction of this Commission in connection with PacifiCorp's revenue requirement, rates, service, practices, maintenance and facilities.

### **III. The System**

PacifiCorp is an investor-owned public utility engaged in the business of generating, transmitting, and distributing electric energy in portions of Northern California and in the states of Oregon, Utah, Washington, Idaho and Wyoming.

PacifiCorp provides retail electric service to approximately 47,000 customers in the Northern California counties of Siskiyou, Del Norte, Modoc and Shasta.

### **IV. Issues**

The majority of issues in this proceeding have been proposed for resolution by two separate settlement agreements. The first settlement, addressing revenue requirement, is discussed in Section VI of this decision. The other settlement, addressing revenue allocation and rate design, is discussed in Section VII of this decision.

The sole issue that resulted in three days of evidentiary hearings (July 26 through July 28, 2006) is whether KWUA irrigation customers located within a federal reclamation project (Project customers) are entitled to a rate credit. KWUA and Interior are in favor of a rate credit for providing a perceived benefit to PacifiCorp. PacifiCorp, DRA, PCFFA, and Siskiyou County are opposed to a rate credit.

### **V. Rate Credit**

In D.06-04-034 a four-year transition plan was adopted to bring Klamath Irrigation Project customers that no longer qualified for substantially discounted fixed rates (of approximately \$0.006 kWh under a 1956 Contract

between PacifiCorp and the Interior) up to full PA-20 Irrigation tariff rates of \$0.07928 kWh being charged to all other PacifiCorp irrigation customers.<sup>2</sup> The history of that substantial rate differential, which has existed since 1917, is discussed in numerous exhibits and briefs in this proceeding, including interim D.06-04-034, and will not be repeated in this order.

As part of the authorized transition plan, KWUA and Interior were authorized to challenge the proposed level of generally applicable PA-20 Irrigation tariff rates for Project irrigation customers in this proceeding and to present proposals for a separate tariff classification.

#### **A. Proposal**

KWUA and Interior seek compensation to Project customers through a form of rate credit for providing a benefit to PacifiCorp and its other customers. KWUA identified that benefit as providing additional water flow to the Klamath River, which allows PacifiCorp to generate more inexpensive hydro power from its Klamath facilities. Although no specific rate was proposed, KWUA and Interior want the Commission, as a matter of policy, to determine a fair allocation of the benefits PacifiCorp receives between Project customers and PacifiCorp's remaining customers and provide Project customers a rate credit based on kWh usage or direct payments for Project customers' share of benefits received from PacifiCorp.<sup>3</sup>

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<sup>2</sup> The discounted rate of \$0.006kWh has essentially remained unchanged for nearly 90 years, since 1917.

<sup>3</sup> Exhibit 35, p. 8.

To assist the Commission in determining the perceived benefit that PacifiCorp receives from the additional water flow, a KWUA witness calculated that Project customers provide approximately 228,700 to 261,000 acre feet annually for the benefit of PacifiCorp, which enables PacifiCorp to generate, on average, an additional 116,190 to 136,441 megawatt-hours of energy. That witness used a hydrogeneration incremental generation model to determine that this additional water flow has a useful value of \$5.3 to \$6.1 million to PacifiCorp and that if the entire value was allocated to Project customers, the result would be a credit against its PA-20 Irrigation tariff rate of 5.67 to 6.50 cents per kWh.<sup>4</sup>

### **B. Source of Benefit**

In 1957, California and Oregon entered into the Klamath River Compact, which was approved by the United States Congress. That Compact, codified into the California Water Code (Section 5900 et seq.), facilitates and promotes the orderly, integrated and comprehensive development, use, conservation and control of the Klamath River for various purposes including the use of water for domestic purposes; the development of lands by irrigation and other means; the protection and enhancement of fish, wildlife and recreational resources; the use of water for industrial purposes and hydroelectric power production; and the use and control of water for navigation and flood prevention.<sup>5</sup> The Compact specifically notes that its intent is to remove causes of present and future controversies by providing for the preferential rights to the use of water after the effective date of the compact for the anticipated ultimate requirements for

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<sup>4</sup> Id., p. 9.

<sup>5</sup> Water Code Section 5901, Article I.A.

domestic and irrigation purposes in the Upper Klamath River Basin in Oregon and California.<sup>6</sup>

There is no free flowing of Klamath River water through Oregon and California because of specific water right claims for use of the natural flow and storage of Klamath River water. Although no party identified the specific water rights or order of each party having rights to the Klamath River water flow, it appears that PacifiCorp is at the bottom of the list. We do know that Interior Project customers have senior water rights to PacifiCorp; Irrigation Project customers have senior water rights to Interior and PacifiCorp; Indian Tribal rights are senior to Irrigation Project customers, Interior Project customers, and PacifiCorp; and endangered species act water rights are senior to Indian Tribal, Irrigation Project customers, Interior Project customers and PacifiCorp.<sup>7</sup> Those parties having the most senior water rights have a right to all of their individually authorized water needs prior to the remaining senior right holders taking water for their individual authorized uses. In other words, Project customers have a right to satisfy all of their authorized water needs from the Klamath River before PacifiCorp is entitled to any of that water.<sup>8</sup> Because of weather and droughts, and senior water rights, there is no certainty that the Klamath River water flow will be sufficient to meet the water requirements of all senior water rights holders. For example, in four of the last 15 years, the Lower

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<sup>6</sup> Id., Section 5901, Article I.B.(2).

<sup>7</sup> Reporter's Transcript Vol. 5, p. 772.

<sup>8</sup> Exhibit 11, p. 15.

Klamath National Wildlife Refuge did not receive its fully allotted water deliveries.<sup>9</sup>

KWUA perceived that PacifiCorp benefits from Project customers providing additional water flow to the Klamath River, which allows PacifiCorp to generate more inexpensive hydro power from its Klamath facilities. The sources of that additional water flow are water storage, the Lost River diversion channel (tributary), and return of diverted water.

### **1. Water Storage**

Klamath water is diverted for storage in the Upper Klamath Lake during high run-off periods for later use. Since storage captures water during relatively high flow periods, water is being conserved that would or could otherwise spill at PacifiCorp's generation facilities.<sup>10</sup> Stored water is released in late spring and summer when natural flows are reduced.<sup>11</sup> The released water is used by Project customers for authorized irrigation and wildlife purposes. The natural water flow and released water not recaptured by Project customers for reuse is available to PacifiCorp for generating incremental hydro power downstream.

### **2. Lost River Tributary**

The Lost River tributary was constructed to divert floodwaters and excess irrigation flows from the Lost River to the Klamath River to reduce flooding in

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<sup>9</sup> Reporter's Transcript Vol. 5, p. 768.

<sup>10</sup> Spill refers to water that is released past hydro facilities without generating any power with that water.

<sup>11</sup> Exhibit 33, p. 4 and 5.

the Tule Lake area.<sup>12</sup> Water flowing from this tributary is from an entirely different river basin. It is not a natural tributary of the Klamath River.

Flow from the Lost River tributary to the Klamath River occurs most significantly outside the irrigation season.<sup>13</sup> This period includes times of high precipitation and runoff. Hence, the additional flow at times of high precipitation and runoff would more likely be spilled than used for incremental hydro power. During the irrigation season, minimal flow enters the Klamath River from the Lost River tributary due to a variety of hydrological and hydraulic conditions.<sup>14</sup>

### **3. Return of Diverted Water**

Water diverted from the Klamath River for Project customers' use is used, recaptured and reused by Project customers. Return flows and operational spills from one project area become the source of supply to other project areas. Project customers pump water back to the Klamath River to prevent low elevation lands in the Klamath Irrigation Project from flooding, which, if allowed to occur, would reduce the amount of acreage available for agricultural production.<sup>15</sup> Unused water returned to the Klamath River is available for the generation of incremental hydro power downstream.

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<sup>12</sup> Exhibit 41, p. 4 and 5.

<sup>13</sup> Exhibit 33, p. 5.

<sup>14</sup> Exhibit 34, p. 2.

<sup>15</sup> Reporter's Transcript Vol. 4, page 545 and 546. Also Exhibit 41, p. 5.

### **C. Discussion**

Project customers do not compensate, and there is no known requirement for Project customers to compensate, holders with water rights senior to theirs for Project customers' use of those senior holder rights surplus water or benefits that Project customers may receive from those senior water holders. Irrespective of this, Project customers seek a rate credit for perceived benefits that PacifiCorp receives from Project customers for providing additional water flow to the Klamath River that allows PacifiCorp to generate incremental hydro power from its downstream Klamath facilities.

There is no dispute that Project customers' Klamath River water rights are senior to those of PacifiCorp. Absent a detailed explanation of the rights Project customers have over water that Project customers return to the Klamath River, we look to the California Water Code for guidance. Section 100 of that Code provides that the right to water or to the use of flow of water in or from any natural stream in this State is and shall be limited to such water as shall be reasonably required for the beneficial use to be served; and such right does not and shall not extend to the waste or unreasonable use or unreasonable method of use or unreasonable method of diversion of water. As testified to by various parties, Project customers' beneficial use of water is for irrigation and reclamation purposes. It was held in the *City of Pasadena v. City of Alhambra* (1949) 207 P.2d 17, 33 Cal.2d 908 that any water not needed for reasonable or beneficial uses of those having prior rights is excess or surplus water. Section 1202(d) of that same Code, defines water having been appropriated or used that flows back to a river to be unappropriated water. The Court held in *Stevenson Water Dist. V. Roduner*, 36 Cal. 2d 264, 270, 23 P.2d 209 (1950) that surplus water may be used without compensation. Hence, it appears from the

water code that Project customers' have no claim to water flow that they return to the Klamath River or to receive any benefit from the returned water flow.

Irrespective of what the Water Code says or may say, we look to who benefited from the Project customers' water rights. Clearly, Project customers benefited through their ability to irrigate farm lands and to reclaim land for wildlife and other purposes. They were also the primary beneficiary of water storage, the Lost River tributary, and returning of diverted water to the Klamath River. That returning of water to the Klamath River serves a necessary purpose for Project customers, to avoid flooding and to preserve farm land.<sup>16</sup> Project customers drain their lands to prevent flooding and to maintain their land for farming.<sup>17</sup>

There is insufficient evidence to substantiate that PacifiCorp benefited from the additional water flow of the Klamath River. In part, this is because the return water flow has been volatile, unpredictable, unmanaged and often occurred during high-water periods.<sup>18</sup> In such instances, PacifiCorp can not use that flow to generate electricity and it often results in spillage. Further, there is no evidence of the quantity, if any, of the increased flow that PacifiCorp has been able to take advantage of to generate incremental hydro power. Project customers have not substantiated the need to establish a rate credit. The rate credit request is denied.

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<sup>16</sup> Reporter's Transcript Vol. 5, p. 743.

<sup>17</sup> Reporter's Transcript Vol. 4, p. 546; and, Exhibit 41, p. 5.

<sup>18</sup> Exhibit 23.

That Project customers failed to meet their burden of proof in proffering their unique proposal for using a discount rate as an inducement for water reclamation does not *per se* mean that a novel approach to conservation has been summarily rejected by this Commission. It may be that there is ultimate merit in the approach suggested. Because it entails reconsideration of existing notions of how water rights and rates are administered, and because, if it were to be done fairly and correctly, it would involve substantial evidentiary and analytical endeavor, such a notion is more appropriately addressed in a generic rulemaking proceeding, with adequate notice to the myriad interests that such a substantial policy revision would affect. Such a rulemaking would permit adequate expert opinion and systemic analysis, with sufficient rigor to assure that many differing perspectives are considered. This ratemaking proceeding is not, and was not intended to be, the vehicle for such an inquiry.

## **VI. Revenue Requirement**

DRA is the only party that submitted results of operations and revenue requirement testimony in response to PacifiCorp's 2007 test year revenue requirement request. DRA recommended that PacifiCorp be authorized an increase in its revenue requirement of \$3.4 million for its 2007 test year. The DRA proposal was \$9.4 million, or 75.8% lower than PacifiCorp's 2007 test year request.

### **A. Proposed Settlement**

This large revenue requirement difference between PacifiCorp and DRA resulted in meetings between the two parties in an attempt to resolve their differences. On June 29, 2006, PacifiCorp and DRA reached a verbal agreement resolving all revenue requirement issues, including test year revenues, expenses,

ratebase, capital structure, return on equity, multi-state cost allocations and attrition year mechanisms.

An all party settlement conference was held on July 7, 2006. Parties participating in that conference included PacifiCorp, DRA, CFBF, County of Siskiyou, KWUA and the Western Manufactured Housing Community Association. Following that settlement conference, PacifiCorp and DRA finalized and signed a Revenue Requirement Settlement Agreement. That agreement was filed with the Commission on July 7, 2006 as a PacifiCorp and DRA joint motion seeking adoption of their settlement agreement on revenue requirement issues. A copy of that agreement, excluding supporting schedules and attachments is attached to this order as Attachment A.<sup>19</sup>

The proposed agreement provides for a revenue requirement increase of \$7.3 million for the 2007 test year, approximately 57.0% of PacifiCorp's \$12.8 million request.

## **B. Discussion**

Rule 12.1(d) of the Commission's Rules of Practice and Procedure holds that the Commission will not approve settlements, whether contested or uncontested, unless they are reasonable in light of the whole record, consistent with law, and in the public interest. In *San Diego Gas & Electric Company (1992)* 46 CPUC 2d 538, the Commission held that as a precondition to approval of an all party settlement the Commission must be satisfied that: the settlement commands the sponsorship of the active parties; the sponsoring parties are fairly reflective of the affected interests; the terms of the settlement do not contravene

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<sup>19</sup> A signed copy of the agreement was filed as part of the joint motion.

statutory provisions or prior Commission decisions; and, sufficient information exists to assess the reasonableness of the agreement and permit the Commission to discharge its future regulatory obligation with respect to the parties and their interests.

Although the settlement is not the result of an all party settlement, it was between the active parties interested in the revenue requirement. There was no opposition to the proposed revenue requirement agreement.<sup>20</sup> Hence, the settlement commands the sponsorship of the active parties. The settlement also fairly reflects the affected interest of shareholders through PacifiCorp and PacifiCorp's ratepayers through DRA. A review of the revenue requirement settlement enables us to conclude that no term of the settlement contravenes any statutory provision or any Commission decision.

Finally, we address whether sufficient information exists to assess the reasonableness of the agreement. For that, we review PacifiCorp's and DRA's individual test year results of operations, positions, and agreed upon position.

The single largest adjustment agreed to by PacifiCorp and DRA is the rate of return, which reflects a decrease from PacifiCorp's requested 11.8% return on a 52.8% equity ratio to a 10.6% return on a 50.0% equity ratio. That adjustment reduces PacifiCorp's requested revenue requirement by \$2.7 million, which is approximately 60.0% of the adjustment initially proposed by DRA. The agreed upon capital structure is 50.0% common equity, 1.0% preferred stock and 49.0% long term debt. That capital structure approximates PacifiCorp's actual capital structure. Those agreements bring PacifiCorp's return on equity and capital

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<sup>20</sup> Reporter's Transcript Vol. 3, page 275 through 277.

structure in line with the most recent authorized returns on equity and capital structure for California's major energy utilities' (Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company) returns on equity and capital structure approved in D.05-12-043.

Another large adjustment, \$800,000, results from a compromise on reductions to electric plant in service. The total plant-in-service adjustment initially proposed by DRA was based on a removal of PacifiCorp's Lakeside power plant. However, with the understanding that the power plant is under construction and scheduled to go into commercial operation in the spring of 2007, PacifiCorp and DRA agreed to adjust plant-in-service by \$800,000.

The following table summarizes the revenue requirement positions of DRA, PacifiCorp and the settlement proposal in thousand of dollars. A more detail comparison is set forth in Appendix A to the agreement, submitted as part of its motion to adopt the revenue requirement, settlement agreement.

<b>Category</b>	<b>DRA</b>	<b>PacifiCorp</b>	<b>Agreement</b>
<b>Operating Revenue</b>	<b>\$ 92,262</b>	<b>\$101,753</b>	<b>\$ 96,243</b>
<b>Operating Expenses</b>			
Operating & Maintenance	53,916	54,587	54,428
Administrative & General	4,258	5,464	3,811
Depreciation & Taxes	19,731	23,101	21,384
<b>Total Operating Expenses</b>	<b>77,905</b>	<b>83,152</b>	<b>79,623</b>
<b>Net Operating Income</b>	<b>14,357</b>	<b>18,601</b>	<b>16,620</b>
<b>Rate Base</b>			
Gross Rate Base	380,181	403,370	396,941
Rate Base Deductions	200,797	202,237	202,113

<b>Net Rate Base</b>	<b>179,384</b>	<b>201,133</b>	<b>194,828</b>
<b>Return on Rate Base</b>	<b>8.003%</b>	<b>9.248%</b>	<b>8.531%</b>

Other DRA proposed adjustments were accepted by PacifiCorp as appropriate, or, in several cases, accepted, in whole or in part, in order to reach a compromise on the revenue requirement. Those adjustments included a \$200,000 adjustment attributed to a PacifiCorp rebasing initiative, a \$132,000 adjustment to corporate overhead costs; a \$127,000 adjustment to pension and benefit expenses; a \$99,000 adjustment to miscellaneous distribution and transmission costs; a \$49,000 adjustment to the weatherization programs; a \$47,000 adjustment due to a change in the treatment of fuel stock cost; and a \$29,000 adjustment due to the capitalization of Lakeside overhead expenses. PacifiCorp also agreed to a \$1.2 million revenue requirement reduction as an incentive for it to identify and implement efficiency improvements.

Finally, PacifiCorp and DRA agreed that PacifiCorp should be permitted to implement an ECAC mechanism, PTAM, and a method for recovery of the shortfall in PacifiCorp's revenue requirement that will result from the transition of Klamath Project Customers to generally-applicable rates approved by D.06-04-034, as detailed in the attached agreement. This agreement puts PacifiCorp on equal footing with California's other regulated energy utilities which were each authorized an ECAC mechanism and PTAM several years ago.

When reviewed as a total product, the agreement represents significant compromises on behalf of their respective constituents. The agreement is reasonable in light of the record, consistent with law, and in the public interest.

**VII. Revenue Allocation and Rate Design**

Excluding addressing a proposal of KWUA and Interior to establish a rate credit for upper Klamath River Basin customers, DRA and CFBF were the only interested parties submitting revenue allocation and rate design testimony.

PacifiCorp proposed a revenue allocation method that would establish a cost increase cap for all customer classes equal to 1.33 times the overall percentage increase in rates. DRA proposed an alternative rate cap, limiting rate class revenue increases to 2.5% above the system average increase in rates. The following table summarizes the differences between PacifiCorp and DRA’s revenue allocation methodology for residential, major commercial and industrial, and public street lighting.

<b>Schedule</b>	<b>Classification</b>	<b>DRA</b>	<b>PacifiCorp</b>
	Residential	13.3%	14.4%
	<u>Commercial &amp; Industrial</u>		
A-25	Small General Service	7.7	6.4
A-32	Small General Service	7.8	6.5
A-36 & AT-48	Large General Service	7.7	6.5
PA-20	Agricultural Pumping Service	12.9	12.9
	Total Commercial & Industrial	8.4%	7.4%
	Total Public Street Lighting	8.6%	7.2%
	<b>Total Sales to Customers</b>	<b>10.8%</b>	<b>10.8%</b>

In the area of rate design, DRA recommends the use of a composite tier differential method to set residential commodity rates. DRA also took exception to several of PacifiCorp’s proposed fee increases and tariff changes. CFBF

opposed PacifiCorp's request to change its rate structure for Schedule PA-20 Agricultural Pumping Service's annual load size charges to a declining block structure from the current composition.

#### **A. Proposed Settlement**

After PacifiCorp issued its revenue allocation and rate design rebuttal testimony, PacifiCorp conferred with both DRA and CFBF individually to address those revenue allocation and rate design differences. Subsequent to those discussions, PacifiCorp, DRA and CFBF reached a verbal agreement that resolved their revenue allocation and rate design issues, as well as all service fee and tariff provision issues.

All interested parties were invited to a July 18, 2006 revenue allocation and rate design settlement conference. Interested parties participating in that conference included: PacifiCorp, DRA, County of Siskiyou, KWUA, PCFFA and ONRC. Following that conference, PacifiCorp, CFBF and DRA finalized and signed a settlement agreement that resolved all revenue allocation and rate design issues except the KWUA irrigation customers rate credit. On July 21, 2006, subsequent to that settlement conference, PacifiCorp, DRA and CFBF filed a joint motion for adoption on their revenue allocation and rate design settlement agreement<sup>21</sup>

The proposed revenue allocation and rate design agreement provides for the capping of all customer classes rate increases as proposed by DRA, to 2.5%

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<sup>21</sup> Although CFBF is an active party and signatory to the settlement agreement, it limited its participation in the agreement to the appropriate rates under the PA-20 tariff. CFBF expressed no opinion on the rates of other customer classes.

above the system average increase in rates.<sup>22</sup> A copy of that agreement, excluding supporting schedules and attachments is attached to this order as Attachment B.

## **B. Discussion**

As in our analysis of the proposed revenue requirement settlement agreement we find that the revenue allocation and rate design settlement agreement was between the active parties interested in the revenue allocation and rate design issues, and we find that there was no opposition to the proposed settlement agreement. Hence, the settlement commands the sponsorship of the active parties. The settlement also fairly reflects the affected interests of shareholders through PacifiCorp, PacifiCorp's general ratepayers through DRA, and PacifiCorp's irrigation customers through CFBF. Also, a review of the revenue allocation and rate design settlement agreement enables us to conclude that no term of the settlement contravenes any statutory provision or any Commission decision.

Finally, we address whether sufficient information exists to assess the reasonableness of the agreement. To that, we review the agreement and exhibits which detail the specific rates and fees resulting from the Settlement.<sup>23</sup> The

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<sup>22</sup> An exception to that agreement is the transition rate paid by the Klamath Irrigators pursuant to D.06-04-034.

<sup>23</sup> Exhibits attached to the Joint Motion by PacifiCorp, DRA, and CFBF for adoption of settlement agreement were filed as part of the joint motion and are not attached to this order due to the voluminous and detailed spread sheets. Exhibit 1 sets forth the present and proposed revenue distributed by rate schedule; Exhibit 2 proposed rate design; Exhibit 3 present revenues and billing determinants for present prices; and, Exhibit 4 contains tariff language containing revised service fees and tariff provisions.

limiting of rate class revenue increases to 2.5% above the system average increase in rates is appropriate because, among other matters, it retains consistency with revenue allocation in the most recent rate cases of other California utilities.

With regard to Schedule PA-20 Agricultural Pumping Service, the annual load size distribution demand charges for single and three phase customers shall be flat across all demand levels and equal to \$13.20 per distribution demand/kW for all applicable load sizes. This eliminates an incentive that customers of this class would have to request multiple service drops and install a number of smaller, less efficient irrigation pumps to obtain a lower demand charge where larger pumps with fewer service connections would be more efficient, while retaining a reasonably low demand charge for customers with lower demand. With regard to agreed upon moderate increases in service fees, gradual increases were warranted to prevent too large an increase at one time.

The settled revenue allocation and rate design falls well within the range of possible outcomes if litigation had occurred, as both DRA and PacifiCorp's proposals resulted in rates that were very similar and are low relative to other California investor-owned electric utilities. Similarly, the PacifiCorp and CFBF compromise results in a reasonable demand charge and is well within the range of similar charges approved in other proceedings. The agreement is reasonable in light of the record, consistent with law, and in the public interest.

The basic charge remains the same for all PacifiCorp services except for Large General Services Schedule A-36 and Commercial Schedule OL-42. The basic charge for Schedule A-36 increases to \$180.00 from \$160.00. Basic charge for single phase Schedule OL-42 increases to \$8.90 from \$8.00 and three phase to \$12.20 from \$11.00. However, there is an increase in the energy charge for each category as summarized in the following table. Details of the adopted rate

charges are set forth in Attachment C of this order. The following tabulation summarizes the new rates due to the settlement agreement.

CATEGORY	BASELINE		NON-BASELINE	
(ALL AMOUNTS ARE IN CENTS PER kWh)				
	Present	Adopted	Present	Adopted
Residential	7.575	8.641	8.881	10.131
Residential-CARE	5.994	6.847	7.039	8.039
Small General A-25			9.538	10.364
Commercial H2O Heating			7.811	8.877
Small General A-32			7.300	8.336
Large General A-36			5.408	6.119
Large General AT-48			4.296	5.197
Agricultural PA-20			6.318	7.564
Commercial OL-42			11.106	11.890

**VIII. Comments on the Proposed Decision**

The proposed decision of the Administrative Law Judge in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and Rule 14.2(a) of the Commission’s Rules of Practice and Procedure. Comments were filed on December 4, 2006 and reply comments were filed on December 11, 2006. Minor changes were incorporated in the body of this order as a result of the filed comments.

**IX. Categorization and Need for Hearing**

PacifiCorp requested that this matter be categorized as ratesetting. By Resolution ALJ 176-3164, dated December 12, 2005, the Commission preliminarily determined that this was a ratesetting proceeding and that

hearings may be necessary. There was no objection to the ratesetting categorization.

Notice of the application appeared in the Commission's Daily Calendar of December 2, 2005. An evidentiary hearing was held on July 26, 27, and 28, 2006 on the issue of whether KWUA irrigation customers should receive a rate credit. This proceeding was submitted upon the receipt of closing briefs on September 18, 2006.

#### **X. Assignment of Proceeding**

Geoffrey F. Brown is the Assigned Commissioner and Michael J. Galvin is the assigned ALJ in this proceeding.

#### **Findings of Fact**

1. Rule 12.1(d) of the Commission's Rules of Practice and Procedure holds that the Commission will not approve settlements, whether contested or uncontested, unless they are reasonable in light of the whole record, consistent with law, and in the public interest.
2. The Klamath River water used to generate electricity by PacifiCorp is surplus water to those with higher priority than PacifiCorp.
3. The revenue requirement settlement adopts a revenue requirement increase that is approximately 57% of PacifiCorp's \$12.8 million request.
4. The revenue requirement settlement is a reasonable compromise between ratepayer and shareholder interests, and grants PacificCorp needed rate relief while mitigating the impact on ratepayers.
5. The parties sponsoring the revenue requirement settlement fairly represent the affected interests.
6. No term of the revenue requirement settlement contravenes statutory provisions or prior Commission decisions.

7. The revenue requirement settlement conveys to the Commission sufficient information to permit it to discharge its future regulatory obligations with respect to the parties and their interests.

8. The revenue allocation and rate design settlement adopts DRA's recommendation that the revenue requirement allocation to any customer class be limited to 2.5% above the system average increase in rates.

9. The revenue allocation and rate design settlement is a reasonable compromise between ratepayer and shareholder interests.

10. The revenue allocation and rate design settlement commands the sponsorship of active parties to the proceeding and is not opposed.

11. The parties sponsoring the revenue allocation and rate design settlement are fairly representative of the affected interests.

12. No term of the revenue allocation and rate design settlement contravenes statutory provisions or prior Commission decisions.

13. The revenue allocation and rate design settlement conveys to the Commission sufficient information to permit it to discharge its future regulatory obligations with respect to the parties and their interests.

### **Conclusions of Law**

1. Project customers have no rights or interest in the surplus water that flows to PacifiCorp's downstream hydro facilities.
2. The settlement agreement on revenue requirements issues is reasonable in light of the whole record, consistent with law, and in the public interest.
3. The settlement agreement on revenue allocation and rate design issues, service fees and tariff rules is reasonable in light of the whole record, consistent with law, and in the public interest.
4. The uncontested rule changes proposed by PacifiCorp in its testimony should be adopted.
5. The decision should be effective immediately so that the rates adopted herein can be put into effect as soon as possible.

### **FINAL ORDER**

#### **IT IS ORDERED** that:

1. The joint motion by PacifiCorp and the Division of Ratepayer Advocates (DRA) to adopt a settlement agreement on revenue requirement issues, filed on July 7, 2006, is approved to the extent specified therein. The revenue requirement settlement is included as Attachment A to this decision and supporting exhibits to the settlement are included in the joint motion.
2. PacifiCorp is authorized to earn a 10.6% return on a 50.0% common equity ratio based on an authorized capital structure of 50.0% common equity, 1.0% preferred stock and 49.0% long term debt for the 2007 test year.
3. The joint motion by PacifiCorp, DRA and California Farm Bureau Federation to adopt a settlement agreement on revenue allocation and rate design issues, service fees and tariff rules, filed on July 21, 2006 is approved to

the extent specified therein. The revenue allocation and rate design, service fees and tariff rules settlement is included as Attachment B to this decision and supporting exhibits to the settlement is included in the joint motion.

4. The request for a rate credit is denied.

5. Except to the extent specified in the settlements adopted above, the application is denied.

6. Within 10 days of today's date, PacifiCorp shall file an advice letter with tariffs to implement the new rates and tariff changes approved by this Order. These tariffs shall become effective on the first day of the month following the date the advice letter is filed subject to Energy Division determining that they are in compliance with this Order.

7. Application 05-11-022 and Investigation 06-03-002 are closed.

This order is effective today.

Dated December 14, 2006, at San Francisco, California.

MICHAEL R. PEEVEY  
President  
GEOFFREY F. BROWN  
DIAN M. GRUENEICH  
JOHN A. BOHN  
RACHELLE B. CHONG  
Commissioners

**ATTACHMENT A**  
**BEFORE THE PUBLIC UTILITIES COMMISSION**  
**OF THE STATE OF CALIFORNIA**

In the Matter of Application of PacifiCorp (U-901-E) for an Order Authorizing a General Rate Increase and Implementation of an Energy Cost Adjustment Clause and a Post Test-Year Adjustment Mechanism.

Application 05-11-022  
(Filed November 29, 2005)

Order Instituting Investigation on the Commission's Own Motion into the Rates, Operations, Practices, Service, and Facilities of PacifiCorp (U-901-E).

Investigation 06-03-002  
(Filed March 2, 2006)

**SETTLEMENT AGREEMENT BETWEEN PACIFICORP AND DIVISION OF RATEPAYER ADVOCATES ON REVENUE REQUIREMENT ISSUES**

**1. General**

**1.1.** The parties to this Settlement Agreement before the California Public Utilities Commission ("Commission") are PacifiCorp and the Division of Ratepayer Advocates ("DRA"), collectively, the "Settling Parties." The Settling Parties, desiring to avoid the expense, inconvenience, and uncertainty attendant to litigation of various issues in this proceeding, have entered into this Settlement Agreement, which they now submit for approval by the Commission.

**1.2.** As this Settlement Agreement represents a compromise by them, the Settling Parties have entered into this Settlement Agreement on the basis that its approval by the Commission not be construed as an admission or concession by any of the Settling Parties regarding any fact or matter of law in dispute in this proceeding or in any other

proceeding before the Commission. Furthermore, the Settling Parties intend that the approval of this Settlement Agreement by the Commission not be construed as a precedent or statement of policy of any kind except as it relates to the current and future proceedings addressed in this Settlement Agreement.

**1.3.** The Parties agree that this Settlement Agreement is an integrated agreement, so that, if the Commission rejects or modifies any portion of this Settlement Agreement, each of the Settling Parties has the right to withdraw, renegotiate this Settlement Agreement, and request other relief pursuant to Commission Rule 51.7.

## **2. Settlement Terms**

The Settling Parties agree that all issues in this proceeding relating to test year revenues, expenses, ratebase, capital structure, return on equity, multi-state cost allocations, and attrition year mechanisms shall be as follows:

### **2.1. Revenue Requirement**

In its application, PacifiCorp requested an increase of approximately \$11.0 million to its overall revenue requirement based on a 2007 Test Year. In “Supplemental Testimony and Exhibits” submitted by PacifiCorp in May 2006, this request was increased to approximately \$12.8 million in order to reflect the Commission’s approval, by D.06-04-034, of a transitional rate increase for Klamath Basin irrigation customers and also to reflect certain adjustments relating to the acquisition of PacifiCorp by MidAmerican Energy Holdings Company (“MEHC”), which was approved, subject to conditions, by D.06-02-033. In response to the application (as so supplemented), DRA submitted, in June 2006, its Report on Results of Examination and Report on the Results of Operations, in which DRA recommended a revenue requirement of \$3.4 million based on a number of adjustments to PacifiCorp’s requested revenue requirement. No other

party filed testimony in the revenue requirement phase of this case.

2.1.1. The Settling Parties agree that PacifiCorp's requested 2007 Test Year revenue requirement for its California jurisdiction shall be adjusted as follows (the headings and descriptions of the adjustments shall not be construed as reflecting any agreement or commitment by either of the Settling Parties with respect to the stated rationale for, or propriety of, any such adjustment for any purpose other than reaching a compromise on PacifiCorp's overall revenue requirement in this proceeding):

2.1.1.1. Rate of Return Adjustment – PacifiCorp's requested revenue requirement shall be reduced by \$2.7 million to reflect changes in capital structure. For purposes of settlement, the rate of return on ratebase shall be maintained at its currently-approved level of 8.53%. This rate of return is based on an adopted return on equity of 10.6%, with preferred stock and long-term debt costs of 6.30% and 6.46%, respectively, and an assumed capital structure composed of 50% common equity, 1% preferred stock, and 49% long-term debt.

2.1.1.2. Generation Overhaul Expense Adjustment – PacifiCorp's requested revenue requirement shall be reduced by \$29,000 to reflect the capitalization of overhaul costs related to the Lakeside plant, which had been expensed by PacifiCorp in its original filing.

2.1.1.3. Power Delivery Programs Adjustment – PacifiCorp's requested revenue requirement shall be reduced by \$99,000 to reflect adjustments to certain miscellaneous distribution and transmission costs.

- 2.1.1.4. Pension Adjustment – PacifiCorp’s requested revenue requirement shall be reduced by \$112,000 to reflect adjustments to pension costs, which recover its revised forecast of 2007 FAS 87 pension expense.
- 2.1.1.5. Benefits Adjustment – PacifiCorp’s requested revenue requirement shall be reduced by \$15,000 to reflect adjustments to medical benefits expense.
- 2.1.1.6. Electric Plant in Service Adjustment – PacifiCorp’s requested revenue requirement shall be reduced by \$800,000 to reflect adjustments to forecasted California distribution electric plant in service. However the Settling Parties agree that all other forecasted additions included in PacifiCorp’s original filing, including the portion of the Lakeside plant included in that filing, shall be included in ratebase.
- 2.1.1.7. Plant Held for Future Use Adjustment – PacifiCorp’s requested revenue requirement shall be reduced by \$18,000 to reflect adjustments to plant held for future use.
- 2.1.1.8. Fuel Stock Adjustment – PacifiCorp’s requested revenue requirement shall be reduced by \$47,000 to reflect an adjustment to exclude fuel stock inventories from the general ratebase and recover the estimated carrying costs of fuel stock through Net Power costs. The actual carrying costs shall be eligible for recovery in the ECAC, which is defined below in section 2.3.1.

- 2.1.1.9. Weatherization Program Adjustment – PacifiCorp’s requested revenue requirement shall be reduced by \$49,000 to reflect the removal from ratebase of California-specific Weatherization Program costs.
- 2.1.1.10. MEHC Corporate Overhead Charge Adjustment – PacifiCorp’s requested revenue requirement shall be reduced by \$132,000 to reflect the reductions of corporate overhead costs as specified in Commitment C11 in the Commission’s approval of the acquisition of PacifiCorp by MEHC.
- 2.1.1.11. Capital Stock Expense Adjustment – PacifiCorp’s requested revenue requirement shall be reduced by \$53,000 to reflect the reversal of PacifiCorp’s adjustment to capital stock expense as shown on page 4.5 of PPL Exhibit 601.
- 2.1.1.12. Rebasing Initiative Adjustment – PacifiCorp’s requested revenue requirement shall be reduced by \$197,000 to reflect an adjustment relating to labor-related savings associated with PacifiCorp’s rebasing initiative.
- 2.1.1.13. Miscellaneous Regulatory Asset Rebasing Initiative Adjustment – PacifiCorp’s requested revenue requirement shall be reduced by \$3,000 to reflect adjustments for unamortized costs relating to PacifiCorp’s rebasing initiative.
- 2.1.1.14. Efficiency Improvement Adjustment – PacifiCorp’s requested revenue requirement shall be reduced by \$1.2 million to provide PacifiCorp with the incentive to identify and implement efficiency improvements.

2.1.2. Based on the foregoing adjustments, the adopted increase to PacifiCorp's 2007 Test Year revenue requirement shall be \$7.3 million. This amount shall be utilized for purposes of rate design and rate spread in this case. A comparison of PacifiCorp's and DRA's original revenue requirement proposals and the settlement revenue requirement is set forth in Appendix A.

2.1.3. The Settling Parties agree to support a schedule that would allow PacifiCorp to recover the adopted increase to its revenue requirement commencing on January 1, 2007.

## **2.2. Multi-State Allocations**

All elements of this rate case, including the settlement of revenue requirement, ECAC and PTAM (see 2.3.2), shall be based on the Revised Protocol allocation methodology. In its next general rate case, PacifiCorp shall apply the same approach ordered by the Public Utility Commission of Oregon in Order No. 05-021 (January 12, 2005) with respect to the requirement that the filing include the Hybrid model allocation methodology as a comparison to the Revised Protocol allocation methodology.

## **2.3. Attrition Year Mechanisms**

### **2.3.1. Energy Cost Adjustment Clause**

The Settling Parties agree that PacifiCorp's proposed Energy Cost Adjustment Clause ("ECAC") mechanism shall be adopted as proposed by PacifiCorp in its application Exhibit PPL/500, Direct Testimony of Mark T. Widmer, and Exhibit PPL/1300, Direct Testimony of Michael B. Reid, but subject to the changes proposed by DRA in Chapter 4 of its Report on the Results of Operations. The relevant portions of the testimony are provided in Appendix B.

2.3.2. Post Test Year Adjustment Mechanism

The Settling Parties agree that DRA's alternative Post Test Year Adjustment Mechanism ("PTAM") proposed in Chapter 11 of its Report on the Results of Operations shall be adopted, but subject to the following changes: (i) the attrition factor for 2008 (filed October 15, 2007, effective January 1, 2008) shall be based on the September 2007 Global Insight "U.S. Economic Outlook" forecast of CPI for 2008 with an off-setting productivity factor of 0.5%; (ii) the attrition factor for 2009 (filed October 15, 2008, effective January 1, 2009) shall be based on the September 2008 Global Insight "U.S. Economic Outlook" forecast of CPI for 2009 with an off-setting productivity factor of 0.5%; and (iii) PacifiCorp shall be entitled to adjust its rates through the PTAM to recover the California-allocable portion of all reasonable costs related to any major plant addition made after January 1, 2008. For purposes of the PTAM, a "major plant addition" shall be deemed to include any capital addition to plant-in-service that exceeds \$50.0 million on a total-company basis. All rate changes under the PTAM shall be implemented by applying the overall PTAM percentage change as a uniform percentage change to all tariff rate elements of all rate schedules, excluding Schedules S-99, S-100, and proposed Schedule S-191.

2.3.3. Klamath Irrigation Shortfall Recovery

The Settling Parties agree that no adjustments shall be made to the generally-applicable tariff rates for any of PacifiCorp's established classes of service in order to off-set the transitional increases approved by D.06-04-034 to rates paid by "Project Customers," as defined in Appendix A of that decision. As part of

this settlement, based on the condition that Klamath irrigators continue to be served on Schedule PA-20 rates, the Settling Parties agree that the shortfall recovery method shall be in lieu of the recovery of the Memorandum Account authorized in D.06-04-034 and that PacifiCorp shall bear the full risk or benefit of any such under- or over-recovery of revenues. (A comparison of the amount in the Memorandum Account and its recovery through the transitional increases approved by D.06-04-034 is set forth in Appendix C.) Notwithstanding the foregoing, PacifiCorp shall be entitled to request recovery, through its generally-applicable tariff rates, of the amount of any credits related to its California jurisdiction that are approved by the Commission to reflect alleged benefits resulting from the operations of Project Customers.

**2.4. Other**

The Settling Parties agree that, except as set forth herein, PacifiCorp's proposals in its application (as supplemented) relating to test year revenues, expenses, ratebase, capital structure, return on equity, multi-state cost allocations, and attrition year mechanisms shall be adopted without change.

**3. Miscellaneous**

**3.1.** The Settling Parties agree that this Settlement Agreement is reasonable in light of the whole record, consistent with law, and in the public interest.

**3.2.** The Settling Parties agree to execute, or cause to be executed, any other documents and to take any other action as may be necessary, to effectively consummate this Settlement Agreement, and neither of the Settling Parties shall take any action in opposition to this Settlement Agreement.

**3.3.** The Settling Parties agree that no signatory to this Settlement Agreement or any member of DRA assumes any personal liability as a result of their agreement. The Settling Parties agree that no legal action may be brought by any Settling Party in any state or federal court, or any other forum, against any individual signatory representing the interests of DRA, attorneys representing DRA, or DRA itself related to this Settlement Agreement. All rights and remedies of the Settling Parties are limited to those available before the Commission.

IN WITNESS WHEREOF, the Settling Parties have executed this Settlement Agreement as of July 7, 2006.

**DIVISION OF RATEPAYER ADVOCATES**

By: \_\_\_\_\_

R. Mark Pocta  
Division of Ratepayer Advocates  
California Public Utilities Commission  
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**PACIFICORP**

By: \_\_\_\_\_

Andrea Kelly  
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**(END OF ATTACHMENT A)**

**ATTACHMENT B**  
**BEFORE THE PUBLIC UTILITIES COMMISSION**  
**OF THE STATE OF CALIFORNIA**

In the Matter of Application of PacifiCorp (U-901-E) for an Order Authorizing a General Rate Increase and Implementation of an Energy Cost Adjustment Clause and a Post Test-Year Adjustment Mechanism.

Application 05-11-022  
(Filed November 29, 2005)

Order Instituting Investigation on the Commission's Own Motion into the Rates, Operations, Practices, Service, and Facilities of PacifiCorp (U-901-E).

Investigation 06-03-002  
(Filed March 2, 2006)

**SETTLEMENT AGREEMENT BETWEEN PACIFICORP, THE DIVISION OF RATEPAYER ADVOCATES, AND THE CALIFORNIA FARM BUREAU FEDERATION ON REVENUE ALLOCATION AND RATE DESIGN ISSUES AND SERVICE FEES AND TARIFF RULES**

**1. General**

**1.1.** The parties to this Settlement Agreement before the California Public Utilities Commission ("Commission") are PacifiCorp ("the Applicant"), the California Farm Bureau Federation ("CFBF"), and the Division of Ratepayer Advocates, ("DRA"), collectively, the "Settling Parties." The Settling Parties, desiring to avoid the expense, inconvenience, and uncertainty attendant to litigation of various issues in

this proceeding, have entered into this Settlement Agreement, which they now submit for approval by the Commission.<sup>1</sup>

**1.2.** As this Settlement Agreement represents a compromise by them, the Settling Parties have entered into this Settlement Agreement on the basis that its approval by the Commission not be construed as an admission or concession by any of the Settling Parties regarding any fact or matter of law in dispute in this proceeding or in any other proceeding before the Commission. Furthermore, the Settling Parties intend that the approval of this Settlement Agreement by the Commission not be construed as a precedent or statement of policy of any kind except as it relates to the current and future proceedings addressed in this Settlement Agreement.

**1.3.** The Parties agree that this Settlement Agreement is an integrated agreement, so that, if the Commission rejects or modifies any portion of this Settlement Agreement, each of the Settling Parties has the right to withdraw, renegotiate this Settlement Agreement, and request other relief pursuant to Commission Rule 51.7.

## **2. Settlement Terms**

**2.0** The Settling Parties have reached agreement on a number of revenue allocation and rate design issues and also agreed on changes to certain service fees and tariff rules, each of which is set forth and described below:

**2.1** In its “Direct Testimony and Exhibits”, submitted by PacifiCorp in November 2005, the Applicant proposed a revenue allocation methodology which would establish a cost

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<sup>1</sup> Although CFBF is a Settling Party and a signatory to this settlement, CFBF limits its participation to the appropriate rates under the PA-20 tariff, and expresses no opinion on the rates of other customer classes.

increase cap for all customer classes equal to 1.33 times the overall percentage increase in rates. (See Exhibit PPL 1300, p. 2) DRA proposed an alternative rate cap, limiting rate class revenue increases to 2.5% above the system average increase in rates. (See Exhibit DRA-\_\_\_\_, Report on Marginal Cost, Revenue Allocation and Rate Design, at pp. 5-6.) No other party served testimony on this issue. The Settling Parties agree that the rate increases for all customer classes in this proceeding shall be capped as proposed by DRA, namely that all rate class revenue increases shall be limited to 2.5% above the system average increase in rates.<sup>2</sup>

**2.2.** In “Supplemental Testimony and Exhibits” submitted by PacifiCorp in May 2006, PacifiCorp requested a change to the rate structure for annual load size charges for Schedule PA-20 Agricultural Pumping Service. In this request, PacifiCorp requested to change the rates for annual load size charges from the current composition to a declining block structure. In response to this request, CFBF filed testimony on June 23, 2006 opposing this change. CFBF did not submit testimony relative to any other issue in this case. No other party served testimony on this issue in this phase of the case. The Settling Parties agree that the approved revenue requirement allocated to Schedule PA-20 Agricultural Pumping Service shall be applied to rates as follows:

**2.2.1** The Annual Load Size Charge for single and three phase customers shall be set to the rates proposed in Exhibit PP&L 1302, as shown on Proposed Revised Cal. P.U.C. Sheet No. 2786-E except that Annual Load Size Distribution Demand Charges

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<sup>2</sup>. An exception to this requirement is the transition rte paid by the Klamath Irrigators pursuant to D.06-04-034.

for single and three phase customers shall be flat across all demand levels and shall equal \$13.20 per Distribution Demand/kW for all applicable load sizes.

**2.2.2** All other Schedule PA-20 rates shall be set according to the methodology set forth in PacifiCorp's application, as delineated in Exhibit PP&L 1300.

**2.3** In its "Direct Testimony and Exhibits", submitted by PacifiCorp in November 2005, the Applicant proposed to increase residential Baseline and Non-Baseline Energy Charges on an equal percentage basis based on changes to the total proposed residential functionalized revenue requirement. (See Exhibit PPL 1300 at p. 4) DRA served testimony in this proceeding on June 23, 2006 in which it recommended that residential energy charges be calculated using a "composite tier method" by which the Tier II rate is calculated using customer charge revenue as well as the Tier I commodity rate. (See Exhibit DRA-\_\_\_, Report on Marginal Cost, Revenue Allocation and Rate Design, at pp. 8-9) No other party served testimony on this issue. The Settling Parties agree that the rate design for residential commodity rates shall be determined as set forth in the PacifiCorp Direct Testimony, namely that residential Baseline and Non-Baseline Energy Charges shall be increased on an equal percentage basis.

**2.4** In its "Direct Testimony and Exhibits" submitted by PacifiCorp in November 2005, the Applicant proposed certain changes to specific Service Fees and provisions of its Tariff Rules. In particular, the Applicant proposed the following changes:

**2.4.1** The Applicant proposed requiring alternative information to be provided by new customers on the Application for Service form, including both a customer's Social Security Number and their California Driver's License Number and date of birth, or alternatively an original or certified birth certificate, school or employer ID with photograph, or a reference to verify the prospective customer's

identity. (See Exhibit PPL 1400, p. 5)

**2.4.2** The Applicant proposed revising the Reconnection Charge for reestablishing service after a Disconnection, when performed after normal business hours. Specifically, the Applicant proposed a charge of \$75 for reconnection occurring between 5:00 pm and 8:00 pm on weekdays, and a charge of \$175 for reconnections occurring after 8:00 pm on weekdays and on weekends and

holidays. (See Exhibit PPL 1400 at p. 20)

**2.4.3** The Applicant proposed changing the Trouble Call charge to reflect the actual costs of the work performed and proposed to eliminate the separate mileage fees from this charge. (See Exhibit PPL 1400 at p. 24)

**2.4.4** The Applicant proposed increasing the returned payment charge to \$20 per returned payment. (See Exhibit PPL 1400 at p. 25)

**2.4.5** DRA recommended retention of the existing information and identification requirements for the Application for Service form. (See Exhibit DRA-\_\_\_\_, Report on Marginal Cost, Revenue Allocation and Rate Design, at pp. 12-13)

**2.4.6** DRA recommended Reconnection Fees be limited to \$30 for reconnections during business hours and \$45 for reconnections after business hours and on weekends or holidays. (See Exhibit DRA-\_\_\_\_, Report on Marginal Cost, Revenue Allocation and Rate Design, at pp. 10-11)

**2.4.7** DRA recommended that the Trouble Call Fee be limited to \$25. (See Exhibit DRA-\_\_\_\_, Report on Marginal Cost, Revenue Allocation and Rate Design, at p. 12)

**2.4.8** DRA recommended that the Returned Payment Fee be limited to \$10. (See

Exhibit DRA-\_\_\_\_, Report on Marginal Cost, Revenue Allocation and Rate Design, at p. 11)

**2.4.9** No other party served any testimony on these Service Fee and Tariff Rule issues. The Settling Parties agree that the Service Fees and Tariff Rule issues should be resolved as follows:

**2.4.9.1** The current identification requirements for a customer to submit with an Application for Service in the Applicant's Tariff Rule 4 shall be retained.

**2.4.9.2** The Reconnection Fee to be charged for reconnections during business hours shall be increased to \$30, and the fees for after hours service shall be modified to charge \$60 for reconnections between 5:00 pm and 8:00 pm weekdays, and \$75 for reconnections between 8:00 am and 5:00 pm on weekends and holidays. The Applicant shall not be required to offer the service at other times after normal business hours.

**2.4.9.3** The Trouble Call Fee shall be set at \$30 during business hours and \$60 after normal business hours.

**2.4.9.4** The Returned Payment Fee shall be set at \$12 per returned payment.

**2.4.9.5.** With respect to the Fees agreed to by the Settling Parties in Sections 2.4.9.2, 2.4.9.3, and 2.4.9.4 herein, the Settling Parties agree that the increases in the level of such fees was limited by an intention to increase rates and fees gradually. The Applicant may revisit the level of these rates in the next subsequent General Rate Case it files, and present

evidence of the cost of providing the service related to such fees, and the fees permitted in other jurisdictions it serves, in order to support further increases in some or all of these fees.

**2.5** Attached to this Settlement are four exhibits which detail the specific rates and fees resulting from the Settlement. Exhibit 1 is a Table entitled “Determination of Present and Proposed Revenues Distributed by Rate Schedule”. Exhibit 2 is a Table entitled “Settlement Agreement – Proposed Rate Design”. Exhibit 3 is a Table entitled “Present Revenues, Pacific Power & Light Company, State of California, Billing Determinants for Present Prices”. Exhibit 4 contains two revised pages from Schedule 300 of the PacificCorp tariff, containing revised service fees and tariff provisions.

### **3. Miscellaneous**

**3.1** The Settling Parties agree that this Settlement Agreement is reasonable in light of the whole record, consistent with law, and in the public interest.

**3.2** The Settling Parties agree to execute, or cause to be executed, any other documents and to take any other action as may be necessary, to effectively consummate this Settlement Agreement, and none of the Settling Parties shall take any action in opposition to this Settlement Agreement.

**3.3** The Settling Parties agree that no signatory to this Settlement Agreement or any member of CFBF assumes any personal liability as a result of their agreement. The Settling Parties agree that no legal action may be brought by any Settling Party in any state or federal court, or any other forum, against any individual signatory representing the interests of CFBF, attorneys representing CFBF, or CFBF itself related to this Settlement Agreement. All rights and remedies of the Settling Parties are limited to those available before the Commission.

IN WITNESS WHEREOF, the Settling Parties have executed this Settlement Agreement as of July 18, 2006.

**PACIFICORP**

By: /s/Andrea L. Kelly  
Andrea L. Kelly  
Vice President, Regulation  
PacifiCorp  
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Portland, OR 97232  
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**DIVISION OF RATEPAYER ADVOCATES**

By: /s/R. Mark Pocta  
R. Mark Pocta  
Program Manager  
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**CALIFORNIA FARM BUREAU  
FEDERATION**

By: /s/ Karen Norene Mills  
Karen Norene Mills  
Attorney  
California Farm Bureau Federation  
2300 River Plaza Drive  
Sacramento, CA 95833  
Tel: 916-561-5655

**(END OF ATTACHMENT B)**



**ATTACHMENT C**  
**Appendix B**

**Settlement Agreement - Proposed Rate Design**  
**Pacific Power & Light Company**  
**State of California**  
**Present vs. Proposed Prices**

<u>Description</u> (1)	<u>Present Prices</u> <u>Including</u> <u>Interim</u> <u>Surcharge</u> (2)	<u>Proposed</u> <u>Prices</u> (3)
<b><u>Residential - Schedule D, DS-8 &amp; DM-9</u></b>		
Basic Charge	\$5.30	\$5.30
Baseline Energy	7.575 ¢	8.641 ¢
Non-Baseline Energy	8.881 ¢	10.131 ¢
<b><u>Residential - CARE Schedule DL-6 &amp; DS-8</u></b>		
Basic Charge	\$4.24	\$4.24
Baseline Energy	5.994 ¢	6.847 ¢
Non-Baseline Energy	7.039 ¢	8.039 ¢
<b><u>General Service &lt;20kW - Schedule 25 &amp; 25F</u></b>		
Basic Charge - Single Phase	\$10.00	\$10.00
- Three Phase	\$13.75	\$13.75
Energy Charge	9.538 ¢	10.364 ¢
<b><u>Commercial Water Heating - Schedule AWH-31</u></b>		
Basic Charge - Single Phase	\$7.00	\$7.00
- Three Phase	\$9.50	\$9.50
All Energy	7.811 ¢	8.877 ¢
<b><u>General Service &gt; 20kW - Schedule A-32</u></b>		
Basic Charge - Single Phase	\$10.00	\$10.00
- Three Phase	\$13.75	\$13.75
Distribution Demand	\$1.60	\$1.25
Generation & Transmission Demand	\$1.10	\$0.80
Energy Charge	7.300 ¢	8.336 ¢