

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of
PacifiCorp for Approval of its
Proposed Electric Service Schedules
and Electric Service Regulations

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DOCKET NO. 04-035-42

REPORT AND ORDER

ISSUED: February 25, 2005

SHORT TITLE

PacifiCorp 2004 General Rate Case

SYNOPSIS

The Commission approves a Stipulation regarding Revenue Requirement, Revenue Spread and Rate Design increasing Pacificorp's annual revenue requirement by \$51 million, effective March 1, 2005, based on a projected April 2005 - March 2006 test year and an allowed rate of return on equity of 10.5 percent.

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I. PROCEDURAL HISTORY

On July 30, 2004, PacifiCorp (“Company”) filed a procedural stipulation that set the Company’s August 4, 2004 direct testimony filing date as the starting point for the 240 day limit for the Commission’s order, even though cost of service, rate spread and rate design testimony would be filed later. Parties to the procedural stipulation are: the Company, Division of Public Utilities (“Division”), Committee of Consumer Services (“Committee”), Utah Industrial Energy Users (“UIEC”), Federal Executive Agencies (“FEA”), Utah Farm Bureau (“Farm Bureau”), Crossroads Urban Center (“Crossroads”) and AARP.

On August 4, 2004, the Company filed an application for a rate increase of \$111 million based on a future test period beginning April 1, 2005 and ending March 31, 2006. The application includes direct testimony on cost of capital; capital structure; revenue requirement; loads; interjurisdictional cost allocation; net power costs; distribution expenses; pension and employee benefit costs; the West Valley lease; the Gadsby Project; and the Currant Creek Project.

On August 13, 2004, the Company filed direct testimony on class cost of service. Following a scheduling conference, the Commission, on August 19, 2004, issued an order setting the schedule for this case. At a hearing on August 20, 2004, the Commission approved from the bench the July 30, 2004 procedural stipulation. On August 27, 2004, the Company filed direct testimony on rate spread and rate design.

In response to a request by the Company, the Commission issued a Protective Order on September 1, 2004.

On October 8, 2004, a Test Period Stipulation was filed with the Commission. Parties to this stipulation are: PacifiCorp, Division, Committee, FEA, UAE Intervention Group, and AARP. Following an October 12, 2004 hearing, the Commission, on October 20, 2004, issued an order approving the Test Period Stipulation providing for the use of a test period consisting of normalized, forecasted results for PacifiCorp’s 2006 Fiscal Year, April 1, 2005 through March 31, 2006 for setting rates in this case effective April 1, 2005.

On November 16, 2004, the UAE Intervention Group filed a motion to compel discovery from the Company. On November 22,

2004, the Company filed a response to the motion to compel. A hearing on the motion to compel was held December 2, 2004.

On December 3, 2004, direct revenue requirement testimony was filed by the Division, Committee, UAE Intervention Group, AARP and UIEC. Additional direct revenue requirement testimony was filed on December 6, 2004 by the Committee and the Division. On December 17, 2004, the Division filed supplemental direct revenue requirement testimony.

On January 4, 2005, the Commission issued an Amended Scheduling Order setting hearings on revenue requirement and cost of service to begin on February 17, 2005 and March 3, 2005 respectively. Following agreement by parties, the Commission on February 3, 2005, issued an Amended Scheduling Notice delaying the dates for testimony filing and hearing commencement by five days.

On February 14, 2005, PacifiCorp filed its Motion for Approval of a Stipulation Regarding Revenue Requirement, Rate Spread and Rate Design ("Stipulation"). Parties to the Stipulation are PacifiCorp, Division, Committee, UIEC, FEA, AARP, and the Kroger Co. On February 15, 2005, the Commission issued a notice setting the date for the hearing on the motion and vacated all other hearing dates.

The Stipulation was presented to the Commission at a hearing on February 23, 2005. At the hearing, Douglas Larson and William Griffith, for PacifiCorp, William Powell, for the Division, and Dan Gimble for the Committee, presented testimony in support of this Stipulation. No party presented any testimony in opposition to the Stipulation. Representatives of Salt Lake Community Action Program, Crossroads Urban Center and UAE Intervention Group stated they participated in the settlement process and did not oppose the Stipulation even though they did not sign. The Commission questioned the parties and witnesses regarding various aspects of the Stipulation and the evidence presented. One individual provided public witness testimony, but did not specifically address the Stipulation.

Parties to this case are the Company, Division, Committee, Salt Lake Community Action Program, Crossroads Urban Center, Nucor Steel, a Division of Nucor Corporation ("Nucor"), Farm Bureau, Comcast Cable Communications ("Comcast"), FEA, AARP, Kroger, International Brotherhood of Electrical Workers - Local 57 ("IBEW"), Salt Lake City and Million Solar Roofs Partnership ("SLC/MSR"), UIEC (Critical Care, Fairchild Semiconductor, Holcim, Inc., Kennecott Utah Copper Corporation, Kimberly-Clark Corporation, Malt-O-Meal, Micron Technology, Inc., Praxair, Inc., and Western Zirconium) and UAE Intervention Group (Alliant Techsystems, Central Valley Water Reclamation District, Chevron U.S.A., ConocoPhillips, Hexcel Corporation, IHC Health Services, Simplot Phosphates, Swift & Company - Utah, Utah Association of Energy Users and Western Electrochemical Company).

II. STIPULATION

Without modifying its terms in any way, the following is a brief summary of the Stipulation included as an Appendix.

A. REVENUE REQUIREMENT

The parties to this Stipulation agree that, effective March 1, 2005, PacifiCorp should be authorized to increase its Utah

jurisdictional revenue requirement by \$51 million. The parties agree that PacifiCorp's authorized rate of return on common equity (ROE) will be 10.5 percent and its overall authorized return on Utah rate base will be 8.365 percent. The capital structure used for the purposes of this Stipulation is comprised of 51 percent long-term debt, with a cost of 6.405 percent, 1.2 percent preferred stock, with a cost of 6.635 percent, and 47.8 percent common stock. The parties agree that the Stipulation does not alter or impair the recovery of regulatory assets previously deferred by Utah Commission orders.

B. REVENUE SPREAD

The \$51 million increase to \$1,159.535 million in forecast revenue requirement yields \$1,210.537 million in adjusted test year revenues. Excluding four special contract customers (with revenues of \$63.799 million, because their price changes are subject to the terms and conditions of each contract), three lighting contract customer revenues of \$0.04 million, and the Annual Guarantee Adjustment (line extension contract payments) of \$1.603 million, yields \$1,094.043 in forecast revenue requirement and \$1,145.095 million in adjusted test year revenues. Spread of the \$1,145.093 million adjusted revenue requirement to customers on schedules for which forecast test year revenues are \$1,094.093 million, amounts to a 4.66 percent increase, termed the "overall average jurisdictional increase."

The average jurisdictional increase of 4.66 percent is applied to: commercial Electric Service Rate Schedule No. 8 "General Service-Distribution Voltage, 1,000 kW and Over" for customers greater than one megawatt in size plus those customers taking energy service under Electric Service Rate Schedule No. 31 at Schedule No. 8 rates, a combined increase of \$4.528 million; irrigation Electric Service Rate Schedule No. 10, "Irrigation and Soil Drainage Pumping Power Service," with its time-of-day program option, for an increase of \$0.436 million; and, Electric Service Rate Schedule No. 31, "Back-up, Maintenance, & Supplementary Power," for an increase of \$0.009 million. Schedule No. 8 is a new commercial service schedule for those customers, formerly on Schedule No. 6, whose loads in the preceding 18-months have registered 1,000 kilowatts ("kW") or more. This schedule comprises about one-quarter of the larger customers formerly served on Schedule No. 6.

A less than average jurisdictional increase of between 3.8 percent and 3.88 percent is applied to: residential Electric Service Rate Schedules No. 1, "Residential Service," No. 2, "Optional Time-of-Day Residential Service," No. 3, "Low Income Lifeline Program-Residential Service Optional for Qualifying Customers," No. 25, "Mobile Home and House Trailer Park Service - Existing Customers Only," for an increase of \$16.807 million; industrial Electric Service Rate Schedules No. 9, "General Service - High Voltage" and 9A, "General Service - High Voltage - Energy Time-of-Day Option" for an increase of \$5.216 million; Electric Service Rate Schedule No. 12, "Traffic & Other Signal System Service" for an increase of \$0.028 million; and, small commercial Electric Service Rate Schedule No. 23, "General Service - Distribution Voltage - Small Customer," for an increase of \$3.064 million.

A greater than average jurisdictional increase is applied to the following rate schedules: 6.24 percent for commercial Electric Service Rate Schedules No. 6, "General Service - Distribution Voltage," No. 6A, "General Service - Energy Time-of-Day Option," and 6B,

“General Service - Demand Time-of-Day Option,” for an increase of \$19.683 million; about 11.4 percent for lighting Electric Service Rate Schedules No. 7, “Security Area Lighting - Closed to New Service,” No. 11, “Street Lighting - Company-Owned Overhead System,” No. 12, “Street Lighting,” and No. 13, “Decorative Street Lighting,” for an increase of \$1.231 million.

There is no revenue increase for Electric Service Rate Schedule No. 12 “Metered Outdoor Nighttime Lighting Service” or for Electric Service Rate Schedule No. 21 “Electric Furnace Operations - Limited Service”, which remains frozen to additional customers. As noted above, no revenue increase is proposed in the Stipulation for Special Contract customers. The details of the revenue spread to rate schedules are presented in Exhibit 1 of the Stipulation.

C. RATE DESIGN

The changes in the rates of the following schedules account for 95 percent of the \$51 million revenue requirement change in this docket.

Schedule 1 “Residential Service” rates consist of a customer charge, minimum monthly charges, a single energy rate during the winter season, October through April, and a three-block energy rate during the summer season, May through September, with the first block for usage up to 400 kiloWatt hours (kWh), the second block for all usage above 400 kWh up to 1,000 kWh, and the third block for usage above 1,000 kWh. The customer charge, currently \$0.98 per month, remains unchanged, the minimum charge for single-phase service is increased from \$3.54 per month to \$3.67 per month, and the minimum charge for three-phase service is increased from \$10.62 per month to \$11.01 per month. All of the energy rates increase by a uniform cents per kWh, about 0.272 cents per kWh. The energy rate for all usage during the winter season and for the first block of the summer season, for usage up to 400 kWh, is 6.936 cents per kWh. The energy rate for the second block of the summer season, for usage between 400 and 1,000 kWh, is 7.872 cents per kWh, and the energy rate for all summer usage above 1,000 kWh is 9.272 cents per kWh.

Schedule 6 “General Service-Distribution Voltage (under 1,000 kW)” rates consist of a customer charge, an optional minimum seasonal service payment, a voltage discount, seasonal demand rates, and an energy rate. The customer charge increases from \$14.74 to \$15.00 per month, the minimum seasonal payment increases from \$176.88 to \$180, and the voltage discount increases from \$0.54 to \$0.66 per kW. The demand rate for the summer season, May through September, increases from \$10.66 to \$12.76 per kW, the demand rate for the winter season, October through April, increases from \$8.56 to \$10.24 per kW, and the energy rate decreases from 2.7737 cents per kWh to 2.574 cents per kWh. This represents almost a 20 percent increase in revenues collected from demand rates and a 7 percent decrease in the revenues collected from energy rates.

Schedule 8 “General Service-Distribution Voltage, 1,000 kW and Over”, is a new rate schedule, consisting of a customer charge, a facilities charge, a voltage discount, seasonal on-peak demand rates, seasonal on-peak energy rates, and an off-peak energy rate. The customer

charge is \$15.00 per month, the facilities charge is \$3.15 per kW, and the voltage discount is \$0.75 per kW. The on-peak period is defined for the winter months of October through April to be the hours from 7 a.m. to 11 p.m., Monday through Friday except holidays, and for the summer months of May through September to be the hours of 1 p.m. to 9 p.m., Monday through Friday except holidays. The on-peak demand rate for the summer season is \$10.29 per kW and for the winter season is \$7.42 per kW. There is no demand rate for off-peak periods. The summer on-peak energy rate is 3.2776 cents per kWh, the winter on-peak energy rate is 2.5776 cents per kWh, and the off-peak energy rate is 2.2776 per kWh.

Schedule 9 "General Service-High Voltage" rates consist of a customer charge, a facilities charge, seasonal on-peak demand rates, seasonal on-peak energy rates, and an off-peak energy rate. The customer charge is \$100.00 per month and the facilities charge is \$1.40 per kW. This schedule introduces mandatory time-of-day pricing. The on-peak demand rate for the summer season is \$8.78 per kW and for the winter season is \$5.95 per kW. There is no demand rate for off-peak periods. The summer on-peak energy rate is 2.8634 cents per kWh, the winter on-peak energy rate is 2.1634 cents per kWh, and the off-peak energy rate is 1.8634 cents per kWh.

Schedule 23 "General Service-Distribution Voltage-Small Customer" rates consist of a customer charge, an optional seasonal minimum payment, a facilities charge, seasonal demand rates for loads in excess of 15 kW, and seasonal two-block energy rates, with the first block for usage up to 1,500 kWh. The customer charge increases from \$3.93 to \$4.00 per month, the seasonal minimum payment is \$48.00, and the voltage discount is \$0.35 per kW. The demand rate for the summer season is \$6.27 per kW, and the demand rate for winter season is \$6.32 per kW. The summer energy rate for usage up to 1,500 kWh is 8.4999 cents per kWh, and the rate for summer usage above 1,500 kWh is 4.7654 cents per kWh. The winter energy rate for usage up to 1,500 kWh is 7.8236 cents per kWh, and the rate for winter usage above 1,500 kWh is 4.3864 cents per kWh.

Schedule 10 "Irrigation and Soil Drainage Pumping Power Service" rates consist of customer service charges, a voltage discount, a demand rate during the irrigation season defined to be May 25 to September 15 each year, two-block energy rates, and a post-season energy rate. The annual customer service charge is \$80 for primary service and \$25 for secondary service. The monthly customer service charge is \$10 per month and the voltage discount is \$1.33 per kW. The demand rate for the irrigation season is \$4.75 per kW, the energy rate for seasonal usage up to 30,000 kWh is 4.7265 cents per kWh, the energy rate for seasonal usage in excess of 30,000 kWh is 3.4935 cents per kWh, and the energy rate for post-season usage is 3.2375 cents per kWh.

D. OTHER PROVISIONS

The following is a brief summary of the Stipulation with respect to other provisions.

Reporting. The parties agree that Paragraph 9 of the Test Year Stipulation should be deleted and replaced with revised reporting requirements as detailed in the Stipulation (Appendix) which includes the filing of a revised forecast of FY06 results of operations, actual data for the first six months of FY06, a comparison of the forecast with actual results, and an explanation of any variances that exceed 10%.

Next Rate Case. PacifiCorp agrees that its next Utah general rate case will be filed no earlier than March 1, 2006.

Adjustment Mechanisms. The Division, the Committee and PacifiCorp agree to meet by March 3, 2005 to explore power cost adjustment mechanisms and other mechanisms to protect against uncontrollable costs and unforeseen, volatile expenses.

Service Quality Review Group. The parties agree to the establishment of a Service Quality Review Group to review PacifiCorp's Utah system performance, appropriate service quality standards and discuss ongoing investment and maintenance plans. The group will submit a report to the Commission by January 15, 2006.

Cost of Service and Rate Design Task Force. The parties agree to the formation of a task force to discuss generation-related cost of service and cost allocation issues and customer charge and rate design issues. The task force is to submit a report to the Commission by November 15, 2005.

Forecasting Task Force. The parties agree to the formation of a task force to discuss methods for forecasting revenues, expenses, rate base, and customer loads and to discuss escalation factors and indices. The task force is to submit a report to the Commission by November 30, 2005.

Discovery Task Force. The parties agree to the formation of a task force to discuss ideas to improve the efficiency of the exchange of information and discovery in cases before the Commission. The task force is to submit a report to the Commission by November 30, 2005.

III. DISCUSSION, FINDINGS AND CONCLUSIONS

Seven parties representing a diversity of interests signed the Stipulation. These parties agree the Stipulation is in the public interest and all of its terms and conditions, considered together as a whole, will produce fair, just and reasonable results. PacifiCorp, the Division and the Committee provide testimony recommending the Commission approve the Stipulation. No party of record provides testimony in opposition to the Stipulation. The Company testifies the need for a \$51 million increase was the informed consensus of parties representing the full spectrum of PacifiCorp's Utah retail customers. PacifiCorp testifies the use of a future test period was the first for the Company in Utah in two decades and together with new consultants and witnesses for intervenors resulted in an unprecedented level of discovery. The Division testifies it did an extensive review and analysis of the Company's proposed rate increase including discovery composed of 30 sets of data requests with over 300 questions. The Division also hired an outside consultant to review power costs. The Division testifies its position is consistent with past Commission orders on revenue requirement adjustments and the Stipulation is a reasonable compromise between the parties' positions and is in the public interest. From its original position of a \$39 million decrease, the Committee testifies the additional information obtained from the Company's rebuttal testimony, data responses and a series of lengthy discussions with the Company resulted in the ability of the Committee to support the \$51 million increase as a component of the overall Stipulation.

Parties testify settlement conferences were open to all parties and that all parties were notified by the Division of meetings and the availability of phone conference participation. The Division testifies that initially settlement discussions were conducted in two groups, one for revenue requirement issues and one for spread and rate design issues. Later these groups were consolidated for the final settlement discussions leading to the Stipulation. Parties testify that all rate schedules were represented in the settlement discussions.

The Company testifies the key factor driving its need for the rate increase is the increased investment needed to serve growth in demand for electricity. The need to maintain adequate supply has required the Company to make large investments in new electric generation and to expand and upgrade its Utah distribution system. The Company testifies that the stipulated cost of capital is adequate for the Company to finance the need for increased investment. The Company testifies the stipulated \$51 million increase will provide it a reasonable opportunity to earn its allowed rate of return and to continue to provide safe and reliable service to its Utah customers.

The Committee testifies that the two-month “stay-out” extension (delaying the earliest date the Company can file a new general rate case) should be viewed as compensation to customers in return for the Company obtaining early implementation of the rate increase (March 1st instead of April 1st). The “stay-out” provision provides customers with an extended period of rate stability as it requires the Company to defer the implementation of its next rate increase two months beyond the requirement in the previously approved Test Period Stipulation.

Parties testify that the spread of the stipulated revenue requirement increase among customer classes is supported by cost of service study results and is fair, just and reasonable and in the public interest. PacifiCorp, Division, Committee and UIEC testify cost of service study analysis supports the deviation from a uniform rate increase to customers. The witnesses testify residential, small commercial, and industrial customers show greater than average return in some studies and this justifies the less than average jurisdictional rate increase in the Stipulation. Similarly, the witnesses testify cost of service analysis supports greater than average rate increases for Electric Service Rate Schedule Nos. 6, 6A and 6B and the Lighting rate schedules. The witnesses also explained the basis for applying the jurisdictional average increase of 4.66 percent to the irrigation rate schedule. It is based on the recommendations of the Load Research Work Group, established in Docket No. 01-035-01, in the “Load Research Working Group Report to the Utah Public Service Commission, 1 July, 2002.” Since load data for this class is very dated and the value of updating the data questionable, the working group recommended not developing a new load research sample for this group of customers and to apply the jurisdictional average rate change in subsequent rate cases. Witnesses further testify that representatives for all customer groups were invited to, participated in, and were contributors to the stipulated rate changes. The Committee emphasized its position that the stipulated agreement of a \$51 million increase in revenue requirement is inextricably linked to the stipulated agreement regarding allocation of the increase among customer classes. We find the stipulated revenue spread as supported in testimony is based both on witnesses’ analyses and on their compromise of differences in opinion regarding class cost of service analysis and

is therefore just and reasonable, while at the same time does not set precedent for future proceedings.

The Company testifies the proposed movement from optional to mandatory time-of-use demand and energy pricing for Rate Schedule 8 and 9 customers is consistent with recommendations in the July 2004 Rate Design Task Force report from Docket No. 03-2035-02. With the Schedule 8 and 9 changes, all Utah tariff customers over 1,000 kW will be on time-of-day pricing. The Company also testifies the larger increase to the Rate Schedule 6 demand charge than the energy charge is supported by cost of service study results.

The Company testifies the Stipulation addresses problems of administering a forecast test year that became apparent in this case by establishing the Forecasting Task Force and the Discovery Task Force. Both of these groups will complement the work already being done by the Test Period Task Force previously established by the Commission. The Company expects the work of these three task forces will facilitate the appropriate use of forecast test periods in future rate cases. The Company testifies that the Service Quality Review Group will provide an opportunity for interested parties to keep informed about PacifiCorp's investment and maintenance plans and to monitor the Company's service quality and performance. It will also provide a forum for parties to express their concerns about service quality-related issues and to receive feedback from the Company. The Cost of Service and Rate Design Task Force will provide an opportunity to discuss and analyze key issues, including impacts of peak load growth in Utah.

Our consideration of the Stipulation is directed by Utah statutory provisions in 54-7-1 that encourages informal resolution of matters brought before the Commission. After examining the Stipulation and the evidence contained in the record, the Commission concludes that its terms are just and reasonable and it is just and reasonable in result. Based upon the foregoing, the Commission approves the Stipulation.

The Commission's approval of this Stipulation, as in similar cases, is not intended to alter any existing Commission policy nor to establish any precedent by the Commission.

IV. ORDER

Wherefore, pursuant to our discussion, findings and conclusions made herein, we order:

1. The Stipulation Regarding Revenue Requirement, Rate Spread, and Rate Design is approved.
2. PacifiCorp shall file appropriate tariff revisions increasing Utah jurisdictional revenues by \$51 million.
3. The tariff revisions shall reflect the determinations regarding rate increases, charges and other rate design aspects for service schedules and other changes in rates, fees or charges designated and discussed in the Stipulation Regarding Revenue Requirement, Rate Spread and Rate Design. The Division shall review the tariff revisions for compliance with the terms of the Stipulation. The tariff revisions are effective March 1, 2005.

4. Task forces and study groups shall be established, with reporting requirements, as specified in the Stipulation.
5. Reporting requirements in the Stipulation do not alter previous Commission requirements for filing Semi-Annual Results of Operations.

This Report and Order constitutes final agency action on PacifiCorp's August 4, 2004, Application. Pursuant to U.C.A. §63-46b-12, an aggrieved party may file, within 30 days after the date of this Report and Order, a written request for rehearing/reconsideration by the Commission. Pursuant to U.C.A. §54-7-15, failure to file such a request precludes judicial review of the Report and Order. If the Commission fails to issue an order within 20 days after the filing of such request, the request shall be considered denied. Judicial review of this Report and Order may be sought pursuant to the Utah Administrative Procedures Act (U.C.A. §§63-46b-1 et seq.).

DATED at Salt Lake City, Utah, this 25th day of February, 2005.

/s / Ric Campbell, Chairman

/s / Constance B. White, Commissioner

/s / Ted Boyer, Commissioner

Attest:

/s / Julie Orchard

Commission Secretary

G#42998

APPENDIX: STIPULATION REGARDING REVENUE REQUIREMENT, RATE SPREAD AND RATE DESIGN

BEFORE THE
PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF PACIFICORP FOR APPROVAL OF ITS PROPOSED ELECTRIC RATE SCHEDULES & ELECTRIC SERVICE REGULATIONS	DOCKET NO. 04-035-42 STIPULATION REGARDING REVENUE REQUIREMENT, RATE SPREAD AND RATE DESIGN
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1. This Stipulation (“Stipulation”) is entered into by and among the parties whose signatures appear on the signature pages hereof (collectively referred to herein as the “Parties”).

I. INTRODUCTION

2. The terms and conditions of this Stipulation are set forth herein. The Parties represent that this Stipulation is in the public interest and recommend that the Public Service Commission (the “Commission”) approve the Stipulation and all of its terms and conditions.

II. BACKGROUND

3. On August 4, 2004, PacifiCorp filed an application, including direct revenue requirement testimony, for a rate increase of \$111 million based on a future test period beginning April 1, 2005 and ending March 31, 2006 in this docket. PacifiCorp filed direct cost of service testimony on August 13, 2004. PacifiCorp filed direct rate design testimony on August 27, 2004. On December 3 and 6, 2004, other Parties filed direct testimony in the revenue requirement phase of this proceeding. On January 7, 2005, other Parties filed direct and rebuttal testimony in the cost of service and rate design phase of this proceeding. In the Company’s rebuttal testimony, filed on January 14, 2005, the Company reduced its requested rate relief to \$96.3 million.

4. On July 30, 2004, certain parties to this proceeding filed a Stipulation which resolved certain scheduling issues and filing dates in this proceeding (“Procedural Stipulation”). The Commission approved the Procedural Stipulation in a bench ruling at a hearing on August 20, 2004. 5. On October 8, 2004, certain parties to this proceeding filed a Test Period Stipulation (“Test Period Stipulation”) that established the test period to be used for purposes of determining the Utah revenue requirement in this case and included other terms and conditions. The Commission issued an order approving the Test Period Stipulation on October 20, 2004.

6. Since this general rate case filing, the Parties have engaged in settlement discussions on revenue requirement, rate spread and rate design issues. The settlement conferences were open to all parties.

7. As a result of the settlement conferences, the Parties to this Stipulation have agreed to the revenue requirement, rate spread, rate design and other matters specified herein. The Parties submit this Stipulation to the Commission and request that the Commission approve the

Stipulation as presented.

III. TERMS OF STIPULATION

8. **Revenue Requirement.** The Parties agree that PacifiCorp will be authorized to increase its Utah jurisdictional revenue requirement by \$51 million. The Parties have not agreed on specific revenue requirement adjustments to comprise the \$51 million stipulated amount.

9. **Regulatory Assets.** Certain expenses incurred by the Company have been deferred as regulatory assets on the Company's balance sheet. This Commission has previously issued orders allowing the deferral and amortization of these regulatory assets and subsequent recovery in rate proceedings. This Stipulation does not alter or impair the recovery of these regulatory assets previously deferred by Utah Commission orders under FAS 71.

10. **Cost of Capital.** The Parties agree that PacifiCorp's authorized return on common equity for purposes of this Stipulation will be 10.5%, and its overall authorized return on Utah rate base will be 8.365%. The capital structure used for the purposes of this Stipulation is comprised of 51% long-term debt, with a cost of 6.405%, 1.20% preferred stock, with a cost of 6.635%, and 47.80% common stock. The Parties' agreement to use, for the purposes of this Stipulation, this cost of equity and capital structure does not in any way affect or limit the rights of any party to argue in a future proceeding for a different cost of equity or capital structure.

11. **Effective Date.** The Parties agree that the \$51 million rate increase will become effective for service on and after March 1, 2005.

12. **Revisions to Test Period Stipulation.** The Parties recognize that PacifiCorp will need to exercise its managerial discretion to revise the forecasted revenues, expenses and capital investment levels included in its original filing. As a result, Parties' agreement to the terms of this Stipulation is specifically conditioned upon the Commission's approval of the two revisions to the Test Period Stipulation specified below. All Parties to the Test Period Stipulation and all Parties to this Stipulation agree that the two revisions are just, reasonable and in the public interest and should be approved by this Commission. All other provisions of the Test Period Stipulation remain unchanged and in effect.

a. **Reporting.** The Parties agree that Paragraph 9 of the Test Period Stipulation should be deleted and the following reporting requirement should apply:

Reporting. PacifiCorp agrees to file with the Parties by no later than May 1, 2005, a revised forecast of Utah FY06 Results of Operations for the following functional categories: steam, hydro, other production, power supply, transmission, distribution, customer service, customer accounting and administrative and general expenses. PacifiCorp further agrees to file by January 31, 2006, actual FY2006 revenue, expense, capital, customer loads and net power cost information with and without normalizing, annualizing and Commission ordered adjustments for the first six months of FY 2006 (April 1, 2005 to September 30, 2005); which information will be provided to the Parties on both a total company and Utah-allocated basis. PacifiCorp also agrees to file with all Parties by February 14, 2006, a report for the following functional categories: steam, hydro, other production, power supply, transmission, distribution, customer service, customer accounting and administrative and general expenses. The report will compare PacifiCorp's 6 months actual results (April through September 2005) and revised 6 month forecast (October 2005 through March 2006) with the revised forecasted Utah FY06 Results of Operation. Each of these six month periods (actual and forecast) will be provided separately and on a 12-month combined basis. The report will also provide an explanation of any variances that exceed 10% between the data provided and

PacifiCorp's revised forecasted Utah FY06 Results of Operation. PacifiCorp agrees to meet with the Parties to discuss and explain these filings and answer questions relating to the same in February 2006.

b. Next Rate Case. Notwithstanding the provisions of Paragraph 10 of the Test Period Stipulation, PacifiCorp agrees that its next Utah general rate case will be filed no earlier than March 1, 2006.

13. Adjustment Mechanisms. The Division, the Committee and PacifiCorp agree to meet by no later than March 3, 2005 to explore power cost adjustment mechanisms and other mechanisms to protect against uncontrollable costs and unforeseen, volatile expenses. Other interested parties may also participate in this and subsequent meetings.

14. Standards for Service. The Parties agree to the establishment of a Service Quality Review Group, which will be comprised of representatives from the Division, Committee and PacifiCorp. Other interested parties may also participate in the Service Quality Review Group. The Service Quality Review Group will review PacifiCorp's Utah system performance and support as well as appropriate service quality standards and discuss ongoing investment and maintenance plans. The Parties recommend that the chair of this Review Group be appointed from the Division of Public Utilities. The Service Quality Review Group will meet no less than quarterly between now and the filing of PacifiCorp's next general rate case. The Service Quality Review Group should be directed to submit a report to the Commission explaining information obtained and analyzed, consensus positions, and any issues still in dispute no later than January 15, 2006.

15. Rate Spread and Rate Design. The Parties agree that the allocation of revenues to customer classes and rate designs to recover PacifiCorp's increased revenue requirement should be in accordance with the schedules attached to this Stipulation as Exhibit 1.

16. Cost of Service and Rate Design. The Parties stipulate and agree to the formation of a task force to discuss generation-related cost of service and cost allocation issues, customer charge and rate design issues raised but not resolved in this case, and other related issues determined by the task force to be appropriate. The Parties recommend that the chair of this task force be PacifiCorp Principal Consultant, Regulation, David Taylor. The initial meeting of the task force will be no later than April 15, 2005. Other interested parties may also participate in this task force. PacifiCorp will file with the Parties no later than March 23, 2005 an initial list of issues to be addressed by the task force. The task force should be directed to submit a report to the Commission explaining information obtained and analyzed, consensus positions, and issues still in dispute no later than November 15, 2005. Any interested party may file comments or position statements relating to the task force report by November 30, 2005.

17. Forecasting. The Parties stipulate and agree to the formation of a task force to discuss methods for forecasting revenues, expenses, rate base, and customer loads and to discuss escalation factors and indices. This task force will be comprised of representatives from the Division, Committee and PacifiCorp. Other interested parties may also participate in the task force. The Parties recommend that the chair of this task force be a representative from the Committee. The initial meeting of the task force will be no later than April 15, 2005. PacifiCorp will file with the Parties no later than March 25, 2005 an initial list of issues to be addressed by the task force. The task force should be directed to submit a report to the Commission explaining the information obtained and analyzed, consensus positions, and issues still in dispute no later than November 30, 2005.

18. Discovery. The Parties stipulate and agree to the formation of a task force to discuss ideas to improve the efficiency of the exchange of information and discovery in cases before the Commission. This task force will be comprised of representatives from the Division, Committee and PacifiCorp. Other interested parties may also participate in the task force. The Parties recommend that the chair of this task force be PacifiCorp Director of Regulation, Rodger Weaver. The task force will work

collaboratively with a filing requirement subgroup to be established as part of the Test Period Task Force established by this Commission in Docket No. 04-999-05. The initial meeting of the task force will be no later than April 15, 2005. The task force should be directed to submit a report to the Commission explaining consensus positions and issues still in dispute no later than November 30, 2005.

19. Obligations of the Parties. The Parties agree that their obligations under this Stipulation are subject to the Commission's approval of this Stipulation.

20. Recommendation and Support. The Parties recommend that the Commission approve and adopt this Stipulation in its entirety. If this Stipulation is approved by the Commission in its entirety, no Party shall appeal any portion of this Stipulation and no Party shall oppose the adoption of this Stipulation in any appeal filed by any person not a party to the Stipulation. The Company, the Division and the Committee shall make witnesses available to testify in support of this Stipulation and other parties may make such witnesses available. In the event other parties introduce witnesses opposing approval of the Stipulation, the Parties agree to cooperate in cross-examination and in providing testimony as necessary to rebut the testimony of opposing witnesses.

21. Reservation of Right to Withdraw from Stipulation. In the event the Commission rejects any or all of this Stipulation, or imposes any additional material conditions on approval of this Stipulation, or in the event the Commission's approval of this Stipulation is rejected or conditioned in whole or in part by an appellate court, each Party reserves the right, upon written notice to the Commission and the other Parties to this proceeding delivered no later than five (5) business days after the issuance date of the applicable Commission or court order, to withdraw from this Stipulation. Prior to that election, Parties agree to meet and discuss the Commission's order or court's decision. In the event that no new agreement is reached, no Party shall be bound or prejudiced by the terms of this Stipulation, and each Party shall be entitled to undertake any steps it deems appropriate.

22. Public Interest. The Parties agree that this Stipulation is in the public interest and that all of its terms and conditions, considered together as a whole, will produce fair, just and reasonable results.

23. Waiver. No Party is bound by any position asserted in the negotiation of this Stipulation, except to the extent expressly stated herein, nor shall this Stipulation be construed as a waiver of the rights of any Party unless such rights are expressly waived herein. Execution of this Stipulation shall not be deemed to constitute an acknowledgement by any Party of the validity or invalidity of any particular method, theory or principle of regulation or cost recovery, and no Party shall be deemed to have agreed that any method, theory or principle of regulation or cost recovery employed in arriving at this Stipulation is appropriate for resolving any issues in any other proceeding in the future and shall not be deemed to constitute precedent nor prejudice the rights of any party in future proceedings. No findings of fact or conclusions of law other than those stated herein shall be deemed to be implicit in this Stipulation.

Dated this 14th day of February, 2005.

PACIFICORP
/s/ D. Douglas Larson
Vice President, Regulation
PacifiCorp

UTAH DIVISION OF PUBLIC UTILITIES
/s/ Michael Ginsberg
Assistant Attorney General

UTAH COMMITTEE OF CONSUMER SERVICES

/s/ Reed Warnick

Assistant Attorney General

UTAH INDUSTRIAL ENERGY CONSUMERS

/s/ F. Robert Reeder

Attorneys for UIEC, an Intervention Group

FEDERAL EXECUTIVE AGENCIES

/s/ Craig Paulson

Major, USAF

Utility Litigation and Negotiation Attorney

AARP

/s/ Dale Gardiner

THE KROGER CO.

/s/ Michael L. Kurtz

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