

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
 COMMISSIONER SMITH
 COMMISSIONER HANSEN
 COMMISSION SECRETARY
 COMMISSION STAFF
 LEGAL**

FROM: SCOTT WOODBURY

DATE: NOVEMBER 4, 2004

**RE: CASE NO. PAC-E-02-3 (PacifiCorp)
 INVESTIGATION OF INTER-JURISDICTIONAL ALLOCATION ISSUES
 JOINT MOTION FOR ACCEPTANCE OF SETTLEMENT**

On November 4, 2004, PacifiCorp and Commission Staff filed a Joint Motion in Case No. PAC-E-02-3 requesting acceptance and Commission approval of a Stipulation and Agreement (Stipulation) negotiated by PacifiCorp, Staff, Monsanto Company, and AARP as full settlement of the inter-jurisdictional cost allocation issues affecting PacifiCorp as a consequence of its status as a multi-jurisdictional utility subject to the jurisdiction of six state regulatory Commissions. The stipulating parties request Commission approval of the inter-jurisdictional cost allocation methods embodied in the Revised Protocol filed with the Commission on July 14, 2004, as a means of achieving consistent allocation methods in the jurisdictional states served by PacifiCorp.

As reflected in the Stipulation, the Revised Protocol is the culmination of an extended series of joint multi-state process (MSP) meetings, technical workshops and telephone conferences for analyzing PacifiCorp's inter-jurisdictional cost allocation issues. MSP meetings were attended by representatives of some 18 entities from the states of Utah, Oregon, Wyoming, Washington and Idaho. Participants included representatives of state commission policy staffs, advocacy staffs, individual customers and consumer groups. The Company's filing in Idaho is identical to contemporaneous filings made with the regulatory commissions in Utah, Oregon and Wyoming. In Washington, PacifiCorp filed the Revised Protocol as part of the Company's rate case in that state.

Public workshops for PacifiCorp customers in eastern Idaho were held in Preston on October 4, 2004 and in Rexburg on October 5, 2004. At the workshops, Commission Staff presented a summary of the Company's Petition, MSP, Revised Protocol and discussed its participation in settlement negotiations.

Key elements of the Revised Protocol are: a hydro endowment reflecting the cost difference of hydro-electric resources and certain contracts attributed to the former Pacific Power and Light states; an assignment recognizing the cost difference of state-specific qualifying facilities; and an allocation for seasonally specific resources. All other resources will continue to be allocated based on the peak and energy requirements of each state on the integrated system.

In addition, the Revised Protocol addresses treatment of a number of items and potential situations including: (i) refunctionalization and allocation of transmission costs and revenues, (ii) treatment of the costs of special contracts, (iii) means of accounting for and accommodating state specific policies, such as direct access, and (iv) the process and infrastructure for resolving issues in order to further secure the sustainability of the allocation methodology in the future.

Included in the Stipulation are rate mitigation measures intended to apply to calculations of the Company's Idaho revenue requirement for any PacifiCorp rate filing made through March 31, 2009. In the near term through 2008, the Revised Protocol methodology results in a 2% higher revenue requirement to Idaho than under Rolled-In, an alternate allocation methodology that Idaho Staff would favor in the absence of agreement to the Revised Protocol. The results to Idaho beyond 2008 are more favorable because future hydro relicensing costs will be assigned directly to the Pacific Power & Light states, primarily Washington and Oregon. In addition, Idaho customers will continue to benefit from the efficiencies of PacifiCorp's integrated six state system while PacifiCorp will be provided greater certainty for a recovery of its prudently incurred costs.

The stipulating parties agree that the Stipulation and rate mitigation mechanism is in the public interest and that all of the terms of the Stipulation are fair, just and reasonable. The parties recommend that the Commission approve use in Idaho by PacifiCorp of the Revised Protocol methodology and rate mitigation mechanism for purposes of inter-jurisdictional allocation of the Company's costs and Idaho results of operations in future regulatory proceedings.

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COMMISSION DECISION

PacifiCorp and Staff request that the Commission process the Joint Motion for Acceptance of Settlement pursuant to Modified Procedure, i.e., by written submission rather than by hearing. Reference Commission Rules of Procedure, IDAPA 31.01.01.201-204. If the Commission desires testimony in support of this Motion and the Settlement between the parties, the parties are willing to provide such testimony on very short notice. Commission Orders approving the Revised Protocol are expected by November 15 in both Utah and Oregon. The State of Wyoming has approved by bench ruling the Revised Protocol and an Order is pending.

Staff recommends by way of scheduling for Modified Procedure that the stipulating parties and parties of record, including PacifiCorp, file comments on or prior to Tuesday, November 23. A public comment deadline of Monday, December 6 is also proposed. It is Staff's intention following comments to place this matter on the Commission's decision agenda for December 20, 2004. Does the Commission agree with the proposed procedure?

Scott Woodbury

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