BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 170

In the Matter of
PACIFIC POWER & LIGHT (dba PacifiCorp)
Request for a General Rate Increase in the
Company's Oregon Annual Revenues
(Klamath River Basin Irrigator Rates).

ORDER

DISPOSITION: RATE STANDARD ESTABLISHED

In this investigation, the Commission must determine electric rates to be charged to irrigators located within the Klamath River Basin. For almost 50 years, Pacific Power & Light, dba PacifiCorp (PacifiCorp) has served these irrigators under historic contracts that provide rates significantly below those paid by other irrigators. PacifiCorp seeks to terminate these contract rates and move these irrigators to standard tariff rates, effective April 16, 2006.

In Order No 05-726, we determined that this Commission has the authority and obligation to examine the rates paid by the Klamath River Basin irrigators and, upon a proper showing, modify the rates accordingly. We concluded that further investigation should proceed and identified three primary issues for resolution. ¹ The first issue, which is the subject of this order, focuses on the statutory standard applicable to the setting of rates for these irrigators. The parties present two possibilities: (1) the customary “just and reasonable” standard set forth in ORS Chapters 756 and 757; or (2) a new standard derived from the phrase “lowest power rates which may be reasonable,” which is found in the inter-jurisdictional Klamath River Basin Compact and codified in ORS 542.620.

We conclude that the statutory rate standard applicable to irrigators located within the Klamath River Basin is the same “just and reasonable” standard applicable to rates set for all other customers in Oregon. As further explained below, this conclusion is supported by the unambiguous text and context of the statute, and is consistent with legislative history and rules of statutory construction.

Request for Oral Argument

Before turning to the merits of the rate standard, we must address a preliminary procedural issue. The Klamath Off-Project Water Users (KOPWU) and the

¹ See Order No. 05-726 at 4, 5.
Klamath Water Users Association (KWUA) submitted a joint motion requesting that the Commission hold oral argument on the statutory standard applicable to setting electric rates for irrigators in the Klamath River Basin. The request is made pursuant to ORS 756.518(2), which provides that, in a “major proceeding,” the Commission must hold oral argument, upon the request of any party, before it issues a final order. A “major proceeding” is defined in OAR 860-014-0023 as “a proceeding that has, or is expected to have, a full procedural schedule with written testimony or written comments” and, as applicable here, has a substantial impact on utility rates or service for energy utilities with over 50,000 customers, or a significant impact on the customers or operations of an energy utility with more than 50,000 customers.

Establishing new rates for the Klamath River Basin irrigators qualifies this case as a major proceeding under ORS 756.518(2). Determining the applicable rate standard, however, is a preliminary issue that does not merit oral argument. This decision will not determine the actual rates to be paid by the irrigators, but rather clarify the statutory framework under which the parties must present evidence and argument as to the appropriate rates. Further proceedings, including the filing of testimony and hearings, will be held prior to the Commission’s issuance of the final order in this docket. Accordingly, while the Commission has the discretion to hold oral arguments at this preliminary stage of the proceeding, we are not required to do so.

The Commission may hold oral arguments during the later stage of these proceedings, either at the parties’ request or upon our own initiative. As to the resolution of this preliminary issue, however, we find that the matter has sufficiently been briefed and decline KWUA’s and KOPWU’s request for oral argument.2

Proposed Rate Standards

“Just and Reasonable” – ORS Chapters 756 and 757

The Oregon Legislative Assembly has delegated to this Commission broad rate-making authority to protect utility customers. American Can Company v. Lobdell, 55 Or App 451 (1982); Cascade Natural Gas Corporation v. Davis, 28 Or App 621 (1977). In the exercise of this authority, the Commission requires utility rates to be fair, just and reasonable. See e.g., In the Matter of PacifiCorp, UE 170, Order No. 05-1050 at 4; In the Matter of PacifiCorp, UE 116, Order No. 01-787 at 5.

This standard, commonly referred to as the “just and reasonable standard,” is derived from numerous statutory provisions. ORS 756.040 provides that the Commission is obligated to protect utility customers from “unjust and unreasonable exactions and practices and to obtain for them adequate service at fair and reasonable rates.” Similarly, ORS 757.210(1) provides that the Commission may conduct a hearing

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2 We also note that KWUA and KOPWU previously presented argument on the applicable rate standard during oral arguments on PacifiCorp’s motion for summary judgment. See, e.g., Docket UE 171, Transcript of Proceedings, Oral Argument, May 19, 2005 at 49.
on any rate request to determine whether “the rate or schedule” is “fair, just and reasonable.” The statute further provides that, at such a hearing, the utility bears the burden of showing that the proposed rate “is fair, just and reasonable,” and that the Commission “may not authorize a rate or schedule of rates that is not fair, just and reasonable.”

As PacifiCorp notes, the “just and reasonable” standard established by these statutes has been recognized and enforced in numerous court decisions. For example, in *Multnomah County v. Davis*, 35 Or App 521, 526 (1978), the court recognized the Commission’s broad regulatory powers and clarified that “[t]he only legislative standards for exercising that authority are that rates be ‘fair and reasonable.’” (citing ORS 756.040). In *American Can*, 28 Or App at 224, the court declared that the Commission has the right and duty “to set just and reasonable rates[.]”

“Lowest Power Rates Which May Be Reasonable” – ORS 542.620

The statutory provisions governing the management of the state’s water resources are contained in ORS Chapter 542. Among other things, this chapter codifies the terms of several interstate compacts intended to promote inter-governmental cooperation with respect to water resources. ORS 542.610 and ORS 542.620 set forth the terms of the Klamath River Basin Compact (Compact). The Compact, enacted in 1957, is a law of the State of Oregon and a legally enforceable agreement between Oregon, California, and the United States. *See* ORS 542.610(1); 39 Op Atty Gen 748 (1979).

The Compact is intended to fulfill two major purposes with respect to the water resources of the Klamath River Basin. First, the Compact is intended to “facilitate and promote the orderly, integrated and comprehensive development, use, conservation and control” of the Klamath River for various uses. These uses include the protection of fish and wildlife, hydroelectric development, irrigation, and flood control. Second, the Compact is designed to “to remove causes of present and future controversies” between competing interests by, among other things, providing for the “equitable distribution and use of water among the two states and the Federal Government.” *See* ORS 542.620(1).

Article IV of the Compact specifically addresses hydroelectric development. That section provides, in its entirety:

**HYDROELECTRIC POWER**

It shall be the objective of each state, in the formulation and the execution and the granting of authority for the formulation and execution of plans for the distribution and use of the water of the Klamath River Basin, to provide for the most efficient use of available power head and its economic integration with the distribution of water for other beneficial uses in order to secure
Applicable Law

The determination of the rate standard applicable to the Klamath River Basin irrigators is an issue of statutory interpretation. We begin with the text and context of the statutes. See PGE v. Bureau of Labor and Industries (PGE v. BOLI), 317 Or 606 (1993). In this first level of analysis, we give words of common usage their plain, natural, and ordinary meaning. If the legislature’s intent is unclear after a review of the text and context, we examine the legislative history of the statutes considered. If that also fails, we then resort to general maxims of statutory construction. See Id. at 612.

Positions of the Parties

A total of ten parties filed briefs on the applicable statutory rate standard. The majority of them—PacifiCorp, the Commission Staff (Staff), WaterWatch of Oregon (WaterWatch), Oregon Natural Resources Council (ONRC), Pacific Coast Federation of Fisherman’s Associations (PCFFA), Hoopa Valley Tribe (Hoopa), and Yurok Tribe (Yurok)—contend that this issue is resolved under PGE v. BOLI’s first level of analysis. These parties contend that the plain, natural, and ordinary meaning of ORS 756.040 and ORS 757.210 et seq. requires that the Commission establish “just and reasonable” rates in all ratemaking proceedings. WaterWatch, ONRC, and PCFFA point out that even rates found in special contracts and alternative forms of regulation are reviewed under the “just and reasonable” standard. See OAR 860-022-0035; ORS 757.210(b). These parties conclude that nothing in the Compact requires the Commission to deviate from this well established and universally recognized rate standard.

KWUA and KOPWU contend that the rate standard applicable to Klamath River Basin irrigators is found in the Compact. The two groups contend that the text and context of ORS 542.620 indicate that the Klamath River Basin irrigators have a statutory entitlement to electric rates at the lowest reasonable cost of generating that power using the waters of the Klamath River. KWUA and KOPWU acknowledge this rate standard is unique under Oregon law, but claim that the linking of specific end users to particular generating resources is consistent with numerous federal “preference” laws. They also assert that this specific standard is consistent with the legislative history of the Compact, which confirms the Klamath River Basin irrigators’ statutory right to the lowest power rates reasonable using the Klamath River.

KWUA and KOPWU contend that the use of this different rate standard to set rates for the Klamath River Basin irrigators is consistent with the rules of statutory construction. First, KWUA and KOPWU point out that the Oregon Legislative Assembly specifically chose to adopt the phrase “lowest power rate which may be reasonable” to describe power service to Klamath River Basin irrigators. Because the legislature chose
different words for ORS 542.620 than those used in ORS 756.040, the parties argue that
the law presumes they intended to adopt a different rate standard. See, e.g., Premier West

Second, KWUA and KOPWU contend that Oregon law does not permit
any interpretation of ORS 542.620 that would either render it superfluous or fail to give
meaning to all of its provisions. See e.g., Keller v. SAIF, 175 Or App 78 (2001); State v.
Simpson, 11 Or App 271 (1972). Thus, according to the parties, the Commission must
give ORS 542.620 some meaning separate and distinct from ORS 756.040. Third,
KWUA and KOPWU contend that any inconsistency between the two rate standards
must be resolved in favor of ORS 542.620, which both parties characterize as a particular
provision that controls over the generally applicable provision of ORS 756.040. See
ORS 174.020(2); In re Allen, 326 Or 107 (1997).

KOWPU also raises an alternative argument. If the Commission
determines that the Compact is inapplicable to setting rates for Klamath River Basin
irrigators, KOPWU contends that the unique facts and circumstances surrounding the
agricultural irrigation and pumping in the Klamath River Basin justify a different rate
than PacifiCorp’s standard irrigation tariff. KOPWU asserts that the Commission must
establish rates that take into consideration the value of the water provided by these
irrigators to PacifiCorp’s hydro projects.

Finally, the United States Bureau of Reclamation and the Fish and
Wildlife Service (collectively the Bureau) also assert that the Compact establishes
separate rate treatment for the Klamath River Basin irrigators, but presents a different
theory. The Bureau agrees with the majority of the parties that the Commission must
apply a “just and reasonable” rate standard in all rate proceedings, including this one.
However, the Bureau argues that the Compact identifies the Klamath River Basin
irrigators as a separate class of customers that are entitled to a different rate than that
charged to PacifiCorp’s other irrigation customers.

Discussion

The primary arguments raised by KWUA and KOPWU begin with the
premise that Article IV of the Compact establishes a separate statutory standard for
Commission rate making. They promote this idea with references to history underlying
the Compact and reclamation of the Klamath River Basin, and contend that their premise
is supported by maxims of statutory interpretation. In the end, KWUA and KOPWU
essentially redraft the language of the Compact to conclude that Klamath River Basin
irrigators have a statutory right to purchase power from PacifiCorp at a preferential rate.

We disagree with KWUA’s and KOPWU’s opening premise and,
consequently, reject the arguments that follow. Both parties misconstrue and ignore the
plain language of the Compact. Article IV sets forth a generalized “objective” that
Oregon and California must consider in “the formulation and execution of plans for the
distribution and use of the water of the Klamath River Basin.” The desired result of this
objective is “to secure the most economical distribution and use of water and lowest power rates which may be reasonable.” This provision, by its own unambiguous terms, does not create new, or modify existing, Commission ratemaking authority. Rather, it merely identifies an objective of the state when formulating and executing plans for the distribution and use of these water resources.

The context of ORS 542.620 supports this conclusion. The Compact is an agreement between Oregon, California, and the federal government aimed at protecting regional water resources and minimizing disputes between competing interests. Article IX of the Compact creates the Klamath River Basin Compact Commission to administer the agreement, and appoints the Oregon Water Resources Commission as Oregon’s representative to that body. The Oregon Legislative Assembly added ORS 542.630 to further clarify that the Water Resources Director shall be the “only representative of this state in administering the Klamath River Basin Compact.” Thus, while Article IV has full force of law in Oregon, and governs the Water Resources Director and the state in the management of the waters of the Klamath River Basin, the Compact’s statutory framework makes clear that Article IV does not apply to or constrain this Commission’s wholly separate exercise of its ratemaking obligations under ORS Chapters 756 and 757.

Even if we were to assume that the Compact’s reference to power rates speaks to this Commission’s ratemaking authority, the language does not establish a distinct ratemaking standard. KWUA and KOPWU focus on the initial word “lowest,” while failing to give meaning to the remaining phrase “rates which may be reasonable.” Thus, the operative portion of this provision is nearly identical to the “just and reasonable” standard. To conclude that the Compact establishes a new rate standard, we would be required to apply one interpretation of “reasonable” in ORS 756.040 and a different interpretation in ORS 542.620.

KWUA’s and KOPWU’s reliance on matters outside the terms of the Compact is misplaced. As PGE v. BOLI makes clear, a court may look outside a statute to legislative history and cannons of statutory construction only if the statutory language is unclear. 317 Or at 610. Neither KWUA nor KOPWU claim that Article IV is ambiguous. Accordingly, further inquiry is not necessary. “[C]ourts must presume that a legislature says in a statute what it means and means in a statute what it says. When the works of a statute are unambiguous, then, this first cannon is also the last: ‘judicial inquiry is complete.’” Connecticut Nat’l Bank v Germain, 503 U.S. 249, 253 (1992).

Assuming, arguendo, that ORS 542.620 is unclear and requires additional analysis under PGE v. BOLI, we are not persuaded by KWUA’s and KOPWU’s arguments that Article IV establishes a separate rate standard for Klamath River Basin irrigators. Contrary to the parties’ assertions, the “lowest power rate which may be reasonable” language is not analogous to federal power preference clauses. Unlike the Compact, the federal preference clauses cited by KWUA contain express language that (1) identify an entity that (2) must grant a preference to (3) a specified group or entity
(4) with regard to electric service. For example, the Bonneville Project Act of 1937 provides that:

the administrator shall at all times, in disposing of electric energy generated at [the Bonneville] project, give preference and priority to public bodies and cooperatives. 16 U.S.C. §832(c).

Similarly, the Niagara Power Act provides that:

the licensee in disposing of 50 per centum of the project power shall give preference and priority to public bodies and non-profit cooperatives within economic transmission distance. 16 U.S.C. §836(b)(1)

The Compact contains no such directive requiring the operator of a hydroelectric project to provide preferential rates for electric service to Klamath River Basin irrigators.

Much of the extrinsic evidence cited by KWUA and KOPWU to support their interpretation of ORS 542.620 is not based on legislative history, but rather historical information related to the development of PacifiCorp’s hydroelectric projects on the Klamath River Basin. While these events help explain the basis for the historic contracts between PacifiCorp and the Bureau that established the historic rates for the Klamath River Basin irrigators, such actions were not linked to the drafting of the Compact and are not even mentioned in the agreement. Consequently, they provide no assistance to the interpretation of ORS 542.620.

The relevant legislative history provided by KWUA, detailing the drafting of the Compact, also provides no support for the irrigators’ arguments. The input and involvement of JC Boyle, the president of what is now PacifiCorp, in drafting the agreement does not, as KWUA claims, make the Compact an “electricity law.” KWUA Reply Brief at 9 (September 16, 2005). As KWUA acknowledges, the Compact is intended to establish a long-term equilibrium between various interests seeking to use the waters of the Klamath River Basin. See KWUA Opening Brief at 3 (August 29, 2005). Because these competing interests include hydroelectric development, it is not surprising that the president of the only hydroelectric project on the river participated in the drafting of the Compact. KWUA fails to cite any evidence from the Compact Commission notes indicating that Article IV was intended to establish a special rate standard for Klamath River Basin irrigators. To the contrary, KWUA’s cited excerpts indicate that the
Compact Commission knew that the setting of electric rates was a matter solely to be determined by this Commission.3

Recent activity by the Oregon Legislative Assembly also confirms the application of the just and reasonable standard to the Klamath River Basin irrigators. During the 2005 Legislative Session, the legislature passed Senate Bill 81 to require the Commission to mitigate rate increases in certain circumstances. This rate mitigation measure is directed at the Klamath River Basin irrigators. See SB 81, §3; Minutes of House Committee on Business, Labor, and Consumer Affairs, May 23, 2005. The mitigation requirement applies only if two elements are met, the first of which is relevant here: The rate increase must result from “a transition to an electric company’s generally applicable cost-based rate” from rates provided under the historic contracts. SB 81, §2(a). Because the “generally applicable cost-based rate” is based on the Commission’s generally applicable ratemaking standards, SB 81 is premised on the Klamath River Basin irrigators transition to rates set under the “just and reasonable” standard, not some alleged preferential standard under the Compact.

In addition, while KWUA and KOPWU correctly state the various rules of statutory interpretation, both parties misapply them. First, while Oregon law presumes that related statutes having different terms also have different meanings, ORS 756.040 and ORS 542.620 are not related statutes. They are placed in separate chapters of the revised statutes and not linked to each other. One statute provides the appropriate standard for setting utility rates, while the other identifies objectives related to water use in the Klamath River Basin. Because these two statutes are neither comparable nor related, the court’s holding in Premier West Bank is not applicable.

Second, contrary to KWUA’s and KOWPU’s assertions, applying the “just and reasonable” rate standard found in ORS 756.040 does not render Article IV of the Compact superfluous or fail to give meaning to its provision. As detailed above, Article IV does not apply to Commission ratemaking, but rather identifies an objective of the state when formulating and executing plans for the distribution and use of water of the Klamath River Basin. The “lowest power rates which may be reasonable” language has meaning in the context of the stated objective—that is, providing for the most efficient utilization of power to assist in achieving the lowest reasonable rates.

Third, KWUA and KOPWU erroneously conclude that ORS 542.620 is a specific statutory provision that is paramount to ORS 756.040. A plain reading of the two statutory provisions shows that the Commission’s ratemaking authority contained in ORS 756.040 is far more specific than the generalized water planning management

3 In an October 14, 1955 letter, JC Boyle updated the Compact Commission on the negotiations of the Link River Dam project. Mr. Boyle indicated that a proposal to reduce power rates for off-project irrigators was discussed at a recent meeting. While indicating that the company would consider the proposal, Mr. Boyle made clear that such a decision was a “matter [that] could only be determined by the Public Utility Commissions of Oregon and California in a regular proceeding in which the Public Utility Commissions would determine whether or not any special rates were proper and legal.” KWUA Reply Brief, Exhibit A at 43 (September 16, 2005).
objective contained in Article IV of the Compact. Consequently, KWUA and KOPWU have it backwards—any inconsistency between the two provisions must be read in favor of ORS 756.040.

In making this interpretation, we agree that, like a treaty, the Compact must “be given liberal interpretation to carry out the intended objectives of the contracting parties.” Atty Gen Letter of Advice dated March 12, 1984 (OP-5559). However, a broad reading cannot change Article IV into something it is not. As WaterWatch, ONRC, and PCFFA explain, the single mention of power rates:

in a non-binding objective statement in Article IV, embedded deep within an interstate water dispute resolution agreement, in turn placed in Oregon Water Resources Code (Title 45) and not its Utilities Code, is far too shaky a scaffold on which to construct a whole new power rate standard and rate setting process, particularly since this would fly in the face of other far more specific, intentionally comprehensive and definite mandatory language in ORS 756.040, 757.210 and numerous other provisions of ORS Title 57, Chapters 756 and 757. WaterWatch, et al Reply Brief at 7 (September 16, 2005) (Emphasis in original).

Finally, we acknowledge KOPWU’s alternative argument, as well as the Bureau’s interpretation of the Compact, which seek to establish the Klamath River Basin irrigators as a separate class of customers. Both assertions are premature, and any speculation as to their merit improper. The sole issue in this phase of the proceeding is to determine the appropriate rate standard for these irrigators, not whether different rate classifications are justified under ORS 757.230. Issues relating to whether there is a substantial and reasonable basis for establishing a separate and distinct class of irrigation customers in the Klamath River Basin, for purposes of service and rates, will be addressed in future phases of this proceeding.

ORDER

IT IS ORDERED that the statutory rate standard applicable to irrigators located within the Klamath River Basin is the “just and reasonable” standard set forth in ORS Chapters 756 and 757. Further proceedings shall be scheduled to determine the appropriate rate to be charged under this standard.

Made, entered, and effective ____________________________.

John Savage
Commissioner

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Commissioner Baum, concurring.

I join Commissioner Savage in concluding that the statutory rate standard applicable to irrigators located within the Klamath River Basin is the same "just and reasonable" standard applicable to rates set for all other customers in Oregon. However, what is ultimately determined to be "just and reasonable" rates for Klamath River Basin irrigators will be dictated by the unique circumstances of this case. These unique circumstances include, but are not limited to, the terms of the compact, including the "lowest power rates which may be reasonable" language and the historical factors and legal issues surrounding the contracts between the parties, the construction, operation and relicensing of the dams, the use of water rights, and the costs and benefits related thereto.

The exploration of these unique circumstances in future phases of this proceeding will be determinative of whether there is a substantial and reasonable basis for establishing a separate and distinct class of irrigation customers in the Klamath River Basin for purposes of service and rates. The full development of these issues will provide the Commission with the evidence necessary to determine whether the Klamath River Basin irrigation customers qualify for the rates that are less than those charged other irrigators in the PacificCorp system. The dissent of Chairman Beyer raises issues surrounding the language and implications of the compact which I believe are relevant to the issue of whether there should be a separate and distinct class of irrigation customers for the Klamath River Basin.

Ray Baum
Commissioner

Chairman Beyer, dissenting in part; concurring in part.

In this order the majority determines that the standard for setting rates for Klamath River Basin Irrigators (Klamath Irrigators) is the same as for other customers whose rates this Commission sets. Specifically, the majority concludes that ORS 542.620, which provides for "the lowest power rates which may be reasonable" for Klamath Irrigators, does not establish a different standard than we use for all other customers.

I am not ready to conclude that the rate setting standard of ORS 542.620 is the same as the "fair and reasonable" rate setting standard found in ORS 756.040, the statute that describes this Commission's general powers. I, therefore, dissent from the majority opinion insofar as it reaches that conclusion.

The majority opinion points out that the Legislative Assembly has given this Commission, in statutes found in ORS chapters 756 and 757, both general authority to set rates, and specific instructions for some aspects of rate setting. It then argues these Commission statutes trump ORS 542.620.
I disagree. I think the Commission must consider all laws passed by the Assembly. It must attempt to determine if ORS 542.620 applies to Commission rate setting, and if it does, it must harmonize that statute with those in ORS chapters 756 and 757.

I also disagree with the discussion in the majority opinion regarding the “general” language of Klamath Compact. In relevant part, Article IV of the compact provides:

It shall be the objective . . . to provide for the most efficient use of available powerhead . . . in order to secure the most economical distribution and use of water and lowest power rates which may be reasonable for irrigation and drainage pumping, including pumping from wells. (Emphasis added.)

Clearly, the Assembly had irrigators in mind. And clearly, it had electricity rates in mind and was thinking about the economic use of water for agricultural purposes. Therefore, I cannot conclude, as the majority opinion does, that the rate setting language of the Compact is “just an objective.”

Another issue I want to cover in the second phase of UE 170 is whether there may be another basis for authorizing a lower rate for the Klamath Irrigators than for other irrigators. With respect to this question, I support the language of the concurring opinion of Commissioner Baum, in which he states that, under the “fair and reasonable” standard, “rate(s) for Klamath River Basin Irrigators will be dictated by the unique circumstances of this case.”

One of the unique circumstances that I wish to explore in the second phase is whether the Klamath Irrigators provide benefits to PacifiCorp's system, and therefore, to its core customers, that may give this Commission a basis for setting rates for these irrigators that are lower than those of other irrigators on the utility's system. If, for example, the Klamath Irrigators provide PacifiCorp some flexibility in how the company operates the Klamath hydroelectric projects, that may be a reason for the Commission to conclude, using its authority to establish rate classes under ORS 757.230, that the
irrigators are entitled to rates that reflect the value of the benefits they provide to PacifiCorp.

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