

## DECISION MEMORANDUM

**TO:** COMMISSIONER KJELLANDER  
COMMISSIONER SMITH  
COMMISSIONER HANSEN  
JEAN JEWELL  
RON LAW  
LOUANN WESTERFIELD  
BILL EASTLAKE  
TONYA CLARK  
DON HOWELL  
DAVE SCHUNKE  
RICK STERLING  
RANDY LOBB  
LYNN ANDERSON  
GENE FADNESS  
WORKING FILE

**FROM:** SCOTT WOODBURY

**DATE:** JANUARY 10, 2002

**RE:** CASE NO. PAC-E-02-01 (PacifiCorp)  
ELECTRIC SERVICE SCHEDULE NO. 34-BPA EXCHANGE CREDIT  
PROPOSED ELECTRIC SERVICE SCHEDULES (W/COST OF SERVICE)

On January 7, 2002, PacifiCorp dba Utah Power & Light Company (PacifiCorp; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting approval of the Company's proposed electric service schedules. Included in the Company's filing is a related Cost-of-Service (COS) study, a proposed Schedule 34-BPA Exchange Credit distribution, a proposed PCA surcharge (\$38M) and a proposed Rate Mitigation Adjustment (RMA).

### BACKGROUND

PacifiCorp in its Application represents that the Company's Idaho revenue requirement was last changed in Case No. UPL-E-90-1, a case in which the revenue requirement was reduced pursuant to stipulation. In that case, the Company states that class Cost-of-Service (COS) was also addressed. The Company contends that class Cost-of-Service has not been reviewed in a case in Idaho since that time.

On November 2, 2000, the Company reports that it filed an Application in Idaho for approval to defer excess net power costs incurred from November 1, 2000 through October 31, 2001. Reference Case No. PAC-E-00-05. In Order No. 28630, the Commission approved the Company's request for deferred accounting of excess net power cost. Pursuant to that authority, PacifiCorp reports that it has deferred approximately \$37 million in excess net power costs attributable to Idaho.

In May 2001 PacifiCorp reports that it entered into a Settlement Agreement with the Bonneville Power Administration (BPA Settlement) regarding the residential exchange benefits to be provided by BPA through September 30, 2006. The BPA Settlement, the Company contends, will provide approximately \$34 million in benefits to Idaho customers in 2002.

### **COMPANY PROPOSAL**

PacifiCorp's proposal in this case consists of four elements:

1. PCA surcharge

A surcharge would be added to the customers' bills to recover the \$38 million in excess power costs incurred by the Company during the deferral period. This surcharge would last over a two year period, with the level of the surcharge decreasing for the second year.

Under the Company's proposed Power Cost Adjustment (PCA), the Company will recover \$38 million in excess power costs over a two-year period in which 70%, or \$27 million, is recovered in the first year and the remaining 30%, or \$11 million is recovered in the second year. This 70/30 split, the Company contends, is designed in conjunction with the Rate Mitigation Adjustment to achieve the goal of customer classes not seeing any price increases as a result of these changes in either year.

Because the excess power costs are energy related, the Company proposes to collect them through a cents per kilowatt adjustment (PCA) based on customers service voltage levels. The PCA rates are obtained by dividing the total excess power costs by the total kilowatt hours at the generator and then adding an adjustment for voltage losses. The PCA will be applied to all customer classes and to all energy usage.

2. Cost of Service—Rate Adjustment

In addition, the proposal includes adjusting rates by class to bring them closer to the actual cost to serve each class. The adjustment, the Company contends, is a reapportionment of the existing revenues and will not result in an increase of the revenues collected in total.

One significant change in the Company's class Cost-of-Service study is a change in the status of interruptible and other large special contract customers from system allocation to state situs customers.

Based on the Cost-of-Service (COS) study presented, the Company proposes to redesign its rates so that all customer classes fall within 5% of their cost of service. The cost of service redesign will be fully implemented in the first year and has been designed, the Company contends, to be revenue neutral; that is, the Company's total revenues will be unchanged as a result of this rate design.

### 3. Schedule 34—BPA Exchange Credit

The third aspect of the Company's proposal is an increase in the Bonneville Power Administration credit to the recently settled amount. The Bonneville Power Administration (BPA) residential and irrigation exchange credit is a mechanism to provide benefits to qualifying customers of investor-owned utilities (like Utah Power) from the Federal Columbia River Hydroelectric system and satisfaction of BPA's obligations under the Northwest Power Act of 1980. The credit is available only to residential and small farm customers and is provided to the Company's customers in Idaho through electric service Schedule No. 34. In recent years the benefits have been allocated 43% to residential customers and 57% to irrigation customers. The previous exchange agreement with BPA expired in 2001, and a new agreement (the 2001 Settlement) was entered into to provide a continuation of exchange benefits. In its 2001 rate case, BPA proposed an alternative to the traditional exchange. The alternative was to provide investor-owned utilities (IOUs) the option to purchase actual power or rights to power through a subscription process. IOUs that chose subscription did so as a settlement of their exchange rights for this period. The subscription was further split between actual power and a monetary portion that was calculated as a difference between BPA's price and BPA's forecasted market price. BPA expected to need to purchase additional resources in order to serve that portion of the subscription that was delivered as actual power. Faced with the potential of very high costs for these additional resources, PacifiCorp agreed to forego its right to actual power for an overall financial settlement of its exchange benefits. The resulting financial settlement provides \$34 million in benefits to qualifying Idaho customers for the first year and \$35.2 million in the second year. This level, the Company reports, is substantially higher than historical levels. The Company proposes to allocate the settlement amounts between the residential and the irrigation

customers in the same manner as the prior exchange agreement (i.e., 43% to residential customers and 57% to irrigation customers).

PacifiCorp is requesting that the BPA credit be implemented immediately even if other aspects of the filing are suspended. BPA increased its credit effective October 1, 2001. PacifiCorp contends that it has a contractual obligation to pass the credit through to its customers in a timely manner. Consequently, the Company is proposing that Schedule 34, the BPA credit, be approved for a February 01, 2002 effective date.

PacifiCorp proposes to have the anticipated four months' worth of credit (for the period from October 1 until the new credit level is implemented in rates) for residential customers included in the first year's credit rate. In other words, the rate for the first year will be set to distribute 16 months worth of a normal year's amount for residential customers. The total amount of BPA credit the Company proposes to distribute to qualifying customers in year one is \$40.6 million. At the end of the first year, the rate will be reset to match a normal 12 months worth of credit. The Company proposes no adjustment for the four-month lag for irrigation customers. Irrigation usage, the Company contends, is largely completed by October 1. Irrigation payments, the Company also contends, fluctuate significantly year-to-year due to differences in irrigation usage during the irrigation season.

#### 4. Rate Mitigation Adjustment (RMA)

Finally, the Company is proposing a rate mitigation adjustment. The rate mitigation adjustment is a pricing mechanism that the Company proposes on a policy basis. The filing consists of several elements that will each have the effect to increase or decrease individual customer's rates. The rate mitigation adjustment assures that when summed together no customer class will receive a rate increase during the two year power cost amortization period and those that qualify for the BPA credit will see a significant decrease.

The combination of the Cost-of-Service redesign, the PCA and the BPA credit, the Company contends, results in changes to most customer prices and in some cases increases occur. The RMA is designed to offset those changes and to balance revenues so that no customer class will see a price increase in the first two years. The RMA is also designed to maintain greater price stability by minimizing price fluctuations from year to year.

The RMA is a surcharge or surcredit applied on a cents per kilowatt basis to each rate schedule. It has been designed to mitigate and moderate price impacts that may occur and to

achieve the goal that customer classes receive no price increase for the next two years. In fact, most customers will see significant price decreases in both year one and year two. In year one, residential customers will see an average price decrease of 8%. Irrigation customers on average will also see a price decrease of 8% while, overall, commercial and industrial customers will see a decrease of 3%. Lighting customers will see an overall decrease of 9%.

In year two under the Company's proposal, the residential customer class will see a decrease of 15% from prices at the end of year one. Irrigation customers will also see an average decrease of 15%, while commercial and industrial customers overall see a decrease of 4% from prices in effect at the end of year one. Lighting customers overall will see a decrease of another 15%.

In the third year, the Company contends, prices will continue to decline. Residential prices will decrease by 19%. The irrigators will see a decrease of 21% while commercial and industrial customers will see, overall, a decrease of 6%. Lighting customers will see, overall, a decrease of 17%. The following table summarizes these percentages.

<u>Customer Class</u>	<u>Year One</u>	<u>Year Two</u>	<u>Year Three</u>
Residential	(7.8%)	(14.6%)	(18.8%)
General Service			
Schedule 6	0.0%	0.0%	0.0%
Schedule 9	0.0%	0.0%	0.0%
Schedule 23	(7.1%)	(6.2%)	(5.0%)
Irrigation			
Schedule 10	(7.8%)	(14.6%)	(21.2%)
Commercial & Industrial Total	(2.8%)	(4.4%)	(5.7%)
Lighting	(8.5%)	(14.9%)	(17.3%)

### **Commission Decision**

Staff recommends that the Commission process that portion of the Company's Application with respect to the Schedule 34-BPA credit under Modified Procedure with a comment deadline of January 24<sup>th</sup>. This will enable the Commission to consider the matter at its January 28<sup>th</sup> decision meeting and if approved, would allow implementation of the credit by the Company requested February 1<sup>st</sup> date.

Regarding the remainder of the Company's Application, Staff recommends that the Commission enter an Order of suspension and establish an intervention deadline. Once the

players are determined, a pre-hearing conference can be set (if required) or notice of further scheduling including discovery and Staff/Intervenor file dates can be issued. Does the Commission agree with the proposed procedure and scheduling? If not, what is the Commission's preference?

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Scott Woodbury

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