

DECISION MEMORANDUM

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FROM: SCOTT WOODBURY

DATE: JANUARY 25, 2002

**RE: CASE NO. PAC-E-02-01 (PacifiCorp)
ELECTRIC SERVICE SCHEDULE NO. 34—BPA EXCHANGE CREDIT**

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 proposed Schedule 34-BPA Exchange Credit distribution. The BPA Credit is being processed under Modified Procedure, i.e., by written submission rather than by hearing. Reference Commission Rules of Procedure, IDAPA 31.01.01.201-204. the remainder of the Company's filing (Cost of Service (COS) study, proposed Power Cost Surcharge (\$38 million) and a proposed Rate Mitigation Adjustment (RMA)) is to be processed and handled separately.

Schedule 34—BPA Exchange Credit

In May 2001, PacifiCorp reports that it entered into a Settlement Agreement with the Bonneville Power Administration (BPA Settlement) regarding the exchange benefits to be provided by BPA through September 30, 2006 to qualifying residential and small farm

customers. The BPA Settlement, the Company contends, will provide approximately \$34 million in benefits to Idaho customers in 2002.

The Company in this case proposes an increase in the Bonneville Power Administration credit to the recently settled amount. The Bonneville Power Administration (BPA) residential and small farm 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 Company's 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, the Company reports that 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 that it would be required 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 BPA 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 qualifying residential and small farm (or irrigation) customers in the same manner as the prior exchange agreement (i.e., 43% to residential customers and 57% to irrigation customers).

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 the Schedule 34 BPA credit, be approved for a February 1, 2002 effective date.

PacifiCorp proposes to have the anticipated four months' worth of accrued credit (for the period from October 1, 2001 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.

On January 16, 2002, the Commission issued Notices of Application and Modified Procedure in Case No. PAC-E-02-01 with respect to the proposed Schedule 34-BPA Exchange Credit. The deadline for filing written comments was Thursday, January 24, 2002. The Commission Staff was the only party to file comments. Staff recommends that the BPA Credit be approved for the requested effective date of February 1, 2002. Staff sees the BPA Credit as a great benefit to residential and irrigation customers. The Credit will reduce residential customers' rates by an average of 44% and irrigation rates by 63%. Staff submits the following schedule showing the estimated effect of the proposed BPA Credit on revenues from electric sales to ultimate consumers by rate schedules in Idaho for year one.

UTAH POWER										
ESTIMATED EFFECT OF PROPOSED BPA CREDIT										
ON REVENUES FROM ELECTRIC SALES TO ULTIMATE CONSUMERS										
BY RATE SCHEDULES IN IDAHO - Year 1										
Line No.	Acct No.	Description	Sch. No.	Average No. of Customers	MWh	Current Revenues (\$000)			Proposed Sch. 34	
						Base Rev	Sch. 34 Credit	Net Rev	Credit (\$000)	Percent %
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(19)	(20)
								(6)+(7)		(19)/(6)
	440	Residential Sales								
1		Residential Service	1	28,524	257,880	\$ 22,056	(\$951)	\$21,105	(\$8,619)	-39.08%
2		Residential Optional TOD	36	15,933	303,528	\$ 20,383	(\$1,039)	\$19,344	(\$10,132)	-49.71%

3		Total Residential		44,457	561,408	\$ 42,439	(\$1,990)	\$40,449	(\$18,751)	-44.18%
	442	Commercial & Industrial								
4		General Svc - Lrg Power (R&F)	6A	222	28,149	\$ 1,761	(\$93)	\$ 1,668	(\$929)	-52.75%
5		Irrigation Rate	10	1,876	615,632	\$ 32,327	(\$5,578)	\$26,749	(\$20,344)	-62.93%
6		General Svc (R&F)	23A	1,310	16,388	\$ 1,468	(\$53)	\$ 1,415	(\$540)	-36.78%
7		Security Area Lighting (R&F)	7A	181	141	\$38	(\$1)	\$37	(\$5)	-13.16%
8		Total Sales to Ultimate Consumers		54,387	3,152,295	\$151,751	(\$7,715)	\$144,036	(\$40,569)	-26.73%

Commission Decision

PacifiCorp requests approval of proposed Schedule 34-BPA Credit Refund for an effective date of February 1, 2002. Does the Commission find it reasonable to approve the Company's request? If not, what is the Commission's preference?

Scott Woodbury

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