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Attorney for the Commission Staff

## BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE INVESTIGATION	)	
OF INTER-JURISDICTIONAL ISSUES	)	CASE NO. PAC-E-02-3
AFFECTING PACIFICORP DBA UTAH POWER	)	
& LIGHT COMPANY	)	
	)	COMMENTS OF THE
	)	COMMISSION STAFF
	)	

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**COMES NOW** the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Stipulation and Agreement, Notice of Joint Motion for Acceptance of Settlement, Notice of Modified Procedure and Notice of Comment/Protest Deadline issued on November 9, 2004, submits the following comments.

### BACKGROUND

The PacifiCorp Inter-jurisdictional Task Force on Allocations (PITA) was formed as a result of the merger of Utah Power and Light Company and Pacific Power and Light Company. The PITA process began in 1987 with the intent to develop an agreed upon allocation methodology and included representatives from the various states and the Company. Several allocation methods were agreed upon for interim use and modified when unfair results occurred. As different allocation methods were adopted for ratemaking purposes in various states,

PacifiCorp no longer had the opportunity to fully recover its costs. The largest shortfall was created when the two largest state jurisdictions, Utah and Oregon, adopted different methodologies. The Utah order in 1998 moved to a fully Rolled-In allocation method (Rolled-In) that was different than the methodology adopted in Oregon. The collaborative PITA process was no longer working.

On March 5, 2002, PacifiCorp dba Utah Power & Light Company (PacifiCorp; Company) petitioned the Idaho Public Utilities Commission (Commission) to initiate an investigation of inter-jurisdictional issues affecting the Company as a consequence of its status as a multi-jurisdictional utility subject to the jurisdiction of six state regulatory Commissions. By Order No. 28978 in Case No. PAC-E-02-3, the Commission established a docket for investigation, established an intervention deadline and approved a joint Multi-State Process (MSP) for analyzing PacifiCorp inter-jurisdictional issues (*Idaho Code* § 61-505) and established initial MSP scheduling (*Idaho Code* § 61-501).

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.

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.

## **REVISED PROTOCOL ANALYSIS**

The Revised Protocol is the allocation method proposed for adoption in all state jurisdictions to allocate and assign generation, transmission and distribution costs to PacifiCorp's six retail state jurisdictions. PacifiCorp will continue to plan and operate its system on a six-state integrated basis to achieve a least cost, least risk resource portfolio for its customers. The

Revised Protocol does not prejudice issues of prudence, rate spread, rate design or cost recovery. Each state Commission continues to establish fair, just and reasonable rates.

The method is essentially a dynamic allocation method incorporating the majority of components of a Rolled-In methodology with a few key exceptions: treatment of seasonal resources, treatment of Company-owned hydro resources, treatment of the Mid-Columbia hydro contracts, and treatment of Qualifying Facilities (QFs).

The classification of all resource fixed costs, wholesale contracts and short-term purchases and sales will continue to be classified as 75% demand-related and 25% energy-related. All non-firm purchases and sales will be classified as 100% energy-related.

The allocations of resources consist of four categories: seasonal resources, regional resources, state resources and system resources. Seasonal resources are defined as SCCTs, seasonal contracts and Cholla/APS. The cost of seasonal resources primarily used during high load peak seasons will be more heavily allocated to the jurisdictions using the resource in those peak months by matching the seasonal generation patterns to the seasonal load patterns in each state.

Regional resources consist of Company-owned hydro and Mid-Columbia contracts. These costs will be assigned and allocated using an embedded cost differential adjustment calculated as the difference between the cost per kilowatt-hour on hydroelectric resources and the cost per kilowatt-hour for other resources. The Hydro Endowment was designed to assign the majority of Company-owned hydro resources, originally owned primarily by the former Pacific Power and Light (PP&L) territory (i.e., Oregon, Washington, California and part of Wyoming), to those jurisdictions. The embedded cost differential adjustment adopted by the Revised Protocol is based upon full (i.e., fixed plus variable) costs, not just the fuel costs. This is different from the Modified Accord allocation approach (the previous consensus method adopted by various states), which utilized a fuel adjustment mechanism to allocate hydro resources to the PP&L states. Also, unlike Modified Accord, this "endowment" has no predetermined time frame and will continue beyond the time when hydro re-licensing costs exceed the fuel cost savings. For Mid-Columbia contracts, the embedded cost differential is allocated system wide using factors that provide a larger share to Oregon and Washington than would otherwise be provided under system allocation factors.

State resources currently include demand side management (DSM) programs, state portfolio standards, and PURPA qualifying facility (QF) contracts. DSM costs will be assigned

on a situs basis to the state where the investment is made. Benefits from these programs will accrue to the respective states in the form of reduced consumption and load based dynamic allocation factors. Costs associated with resources acquired under a state portfolio standard that exceed the costs that otherwise would have been incurred by PacifiCorp will be assigned to the state adopting the standard. Existing QF contracts will be assigned using the embedded cost differential adjustment. The differential is the annual cost of existing QF contracts for each state less the annual embedded costs. The differential will be assigned on a situs basis with the remainder allocated on the system generation (SG) factor. New QF contracts will be treated like state portfolio standard resources with any excess costs assigned to the respective states.

System resources are all the remaining resources not categorized as seasonal, regional or state resources. The majority of all resources are system resources. Generally, all fixed costs associated with system resources will be allocated on the SG factor, variable costs will be allocated on the system energy (SE) factor, and any revenues will be allocated on the SG factor.

Costs associated with transmission assets, firm wheeling expenses and revenues will be classified as 75% demand-related and 25% energy-related. They will be allocated among the states based on the SE factor. This allocation is consistent with Rolled-In where all plant is allocated system wide but differs from Modified Accord where pre-merger plant is assigned divisionally and post-merger plant is allocated system wide.

Distribution related expenses and investments that can be directly assigned would be assigned to the state where they are located. Costs that cannot be directly assigned will be allocated among the states. The majority of all distribution costs will be directly assigned.

Special Contracts will be treated differently from the prior allocation method for Monsanto in Idaho where Monsanto was accounted for on a system basis. Appendix D of the Revised Protocol discusses Special Contracts in greater detail. Revenues associated with the Special Contract will be included in the state revenues and loads of the Special Contract customers will be included in all load-based dynamic allocation factors to allocate costs. Any rate discounts allowed for Special Contract customer-provided ancillary services, including reserves provided by interruptibility, would be allocated to the system to match the system benefits received from the ancillary services. An issue that could be heard in a rate case is the potential cost shifts to Idaho customers other than Monsanto when Monsanto rates are fixed during the contract period. If the cost studies utilized for any rate case and Monsanto's contract negotiations are the same, there will be no cost shift concerns. If the cost studies are not the

same, any shortfall that would ordinarily be allocated to Monsanto but left uncovered by contract could become an issue. This shortfall due to the timing difference could be absorbed by PacifiCorp or requested for recovery from other customers in a subsequent rate case.

To facilitate ongoing communications between the various states regulating PacifiCorp and to address any unreasonable results produced from allocations using the Revised Protocol allocation methodology, an MSP Standing Committee will be formed. The Standing Committee will consist of one member or delegate from each Commission. The members will elect the chair of the MSP Standing Committee each year. A Standing Neutral will be hired at the Company's expense to facilitate discussions among States, monitor issues and assist the MSP Standing Committee. Any proposed amendments to the Revised Protocol will be evaluated by the MSP Standing Committee and presented to the State Commissions for ratification of any proposed changes. If concerns and proposed amendments to the Revised Protocol cannot receive consensus with resolution of the concerns, the matter may be presented to the various Commissions. The MSP Standing Committee is not a decision making body, it will focus on fact finding and issue identification with recommendations and results to be made available for state Commissioners to make any necessary decisions. The first course of action for the Standing Committee will be for workgroups to further evaluate the impacts of Seasonal classifications and other load growth issues to verify that costs from growing loads are appropriately charged to the growing state(s).

Final ratification of the Revised Protocol is conditioned upon ratification by the other states without material change. In the event of change, the Commissions who have previously conditionally adopted the Revised Protocol can initiate proceedings to determine whether the prior ratification will be reaffirmed. Stipulations have been filed in all states (except California) accepting the use of the Revised Protocol as the allocation methodology for accounting purposes and for the results of operations. In those states where it has not been formally adopted by order, the process is underway with the decisions to be forthcoming. A verbal update on the status in other states will be provided when this matter comes before the Commission for decision.

## **STIPULATION ANALYSIS**

The Stipulation negotiated and signed by PacifiCorp, Commission Staff, Monsanto and AARP recommends adoption of the Revised Protocol in Idaho. The Stipulation also addresses

concerns specific to Idaho and establishes rate mitigation measures to protect Idaho customers from drastic rate impacts from the implementation of the Revised Protocol.

The Stipulation supports use of the Revised Protocol in the calculation of revenue requirement in all future PacifiCorp rate filings. PacifiCorp indicates it intends to file a rate case around January 2005. To mitigate the rate impacts, the parties have agreed to support implementation of the Revised Protocol now with a cap of 1.67% to be applied to revenue requirement calculations for filings through March 31, 2009. The rate mitigation cap is calculated as the lesser of PacifiCorp's Idaho revenue requirement calculated under the Rolled-In allocation method multiplied by 101.67% or the Idaho revenue requirement resulting from the Revised Protocol allocation methodology. Absent the cap, rate increases could be greater in various years where Revised Protocol has more costs allocated to Idaho than under the Rolled-In or Modified Accord allocation methods. The cap level of 1.67% allows Idaho to adopt the Revised Protocol, reflect the impact in the next rate case at 1.67% above Rolled-In and see no further percentage increases due to the change in allocation methodology.

Reporting requirements have been established to allow Idaho parties to evaluate the ongoing reasonableness of the Revised Protocol allocation methodology. For 10 years following the Idaho Commission's ratification of the Revised Protocol: a) the Company's general rate case filings with the Idaho Commission shall include calculations of the Company's Idaho revenue requirement under both the Revised Protocol and the Rolled-In methods, and b) the Company shall file annual results of operations with the Idaho Commission which shall include calculations of the Company's Idaho allocated results of operations under both the Revised Protocol and the Rolled-In methods. All such submittals shall include and adequately explain all adjustments, assumptions, work papers and spreadsheet models used by the Company in making such calculations. The Company will notify parties to this Stipulation in a timely manner of such submittals and will provide a copy of such submittals to the undersigned parties upon request.

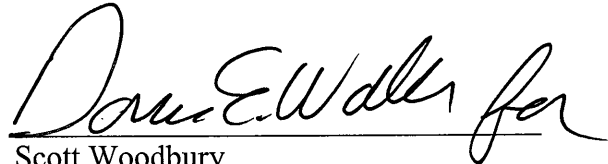
## **RECOMMENDATION**

Staff recommends adoption of the Revised Protocol allocation methodology and acceptance of the Stipulation terms as filed. Acceptance and adoption of both resolves the inter-jurisdictional allocation issues. Such resolution is important to PacifiCorp and its customers. Customers will benefit by eliminating or at least reducing the potential for negative decision

making by the Company or negative impacts on PacifiCorp. Potential impacts of inconsistent allocation methodologies adopted in various states could have included:

- loss of PacifiCorp's financial integrity with associated cost of capital impacts;
- loss of efficiencies or reliability if investments and operation and maintenance expenditures are reduced;
- limitation of individual State's ability to implement policy goals;
- potential loss of states' jurisdiction to FERC or the SEC for inter-jurisdictional allocation decisions;
- potential reluctance to make generation plant capital investments but to instead rely on the spot market for power purchases;
- proposed changes to PacifiCorp's structure that may have caused costs to be higher than they otherwise would have been;
- ability for PacifiCorp, State regulators and parties in each state to focus on other important issues including but not limited to transmission issues, resource adequacy and service quality.

Respectfully submitted this 23rd day of November 2004.

  
Scott Woodbury  
Deputy Attorney General

Technical Staff: Terri Carlock

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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 23<sup>RD</sup> DAY OF NOVEMBER 2004, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. PAC-E-02-3, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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