

## DECISION MEMORANDUM

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

**FROM:** SCOTT WOODBURY

**DATE:** DECEMBER 17, 2004

**SUBJECT:** CASE NO. PAC-E-02-3 (PacifiCorp)  
INTER-JURISDICTIONAL COST ALLOCATION METHODOLOGY  
STIPULATION, AGREEMENT AND PROPOSED SETTLEMENT

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 September 30, 2003, PacifiCorp filed a Motion, direct testimony and exhibits in Case No. PAC-E-02-3 seeking Commission ratification of an Inter-jurisdictional Cost Allocation Protocol (Protocol).

On July 14, 2004, PacifiCorp filed a Revised Protocol and Supplemental Testimony in Case No. PAC-E-02-3. 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.

The Revised Protocol filed by PacifiCorp is the Company's "MSP solution." The Revised Protocol describes how PacifiCorp's generation, transmission and distribution costs will be allocated or assigned to PacifiCorp's six retail jurisdictions. The Revised Protocol also describes mechanisms for ensuring continued dialogue among interested parties regarding PacifiCorp inter-jurisdictional cost allocation issues and procedures, and for resolving concerns and inconsistent policies that may arise among the Company's state jurisdictions in the future.

PacifiCorp anticipates that ratification of the Revised Protocol will resolve current differences among PacifiCorp's retail jurisdictions concerning needed new resources and cost allocation methods. PacifiCorp contends that ratification will provide the Company assurance that it will have a reasonable opportunity to recover prudent investments in new generation and transmission facilities and required improvements to existing facilities. This, in turn, it states, will ensure that the Company's customers continue to receive safe and reliable electricity service at reasonable prices.

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.

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.

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 higher revenue requirement of 2% or more 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 Stipulation limits the increase to 1.67% in the next rate case with no further percentage increase through March 31, 2009. 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.

On November 9, 2004, the Commission issued a Notice of Stipulation and Agreement, Joint Motion for Acceptance of Settlement and Modified Procedure in Case No. PAC-E-02-3. The comment deadline for stipulating parties and parties of record was November 23, 2004. The comment deadline for the public was December 6, 2004. The Commission Staff and PacifiCorp were the only parties to file comments. (See attached.)

PacifiCorp recommends that the Commission find the Stipulation to be in the public interest, accept the Settlement of the parties and ratify the Revised Protocol. Staff recommends adoption of the Revised Protocol allocation methodology and acceptance of the Stipulation terms as filed. The analyses of Staff and PacifiCorp are set forth in their respective comments.

### **COMMISSION DECISION**

The Stipulation and Agreement and proposed Settlement of inter-jurisdictional cost allocation issues in this case were entered into only after extensive MSP meetings and opportunity for public input. The Commission is advised that the Revised Protocol under consideration has already been approved by the Utah and Wyoming Commissions. The parties to the proposed Settlement recommend acceptance of the Revised Protocol allocation methodology and Stipulation terms. The stipulating parties contend that the Settlement is reasonable, in the public interest and otherwise in accordance with law or regulatory policy. (IDAPA 31.01.01.275.) This matter was processed pursuant to Modified Procedure, i.e., by written submission rather than by hearing. Does the Commission in its consideration of the proposed Settlement continue to find Modified Procedure to be appropriate? (IDAPA 31.01.01.274; 31.01.01.204.) Does the Commission find it reasonable to approve the Revised Protocol allocation methodology and Stipulation terms as filed?

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Scott D. Woodbury

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Of Attorneys for PacifiCorp d/b/a  
Utah Power & Light Company

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

In the Matter of the Investigation of )  
Inter-Jurisdictional Issues Affecting )  
PacifiCorp d/b/a Utah Power & Light )  
Company )  
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 )  
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**CASE NO. PAC-E-02-3**

**PACIFICORP COMMENTS IN  
SUPPORT OF JOINT MOTION FOR  
ACCEPTANCE OF SETTLEMENT**

PacifiCorp (or the "Company"), the Staff of the Idaho Public Utilities Commission (the "Commission"), Monsanto Company, and AARP have entered into a stipulation and agreement (the "Stipulation") pursuant to which they agreed, subject to the terms of the Stipulation, to support Commission ratification of the Revised PacifiCorp Inter-Jurisdictional Allocation Protocol (the "Revised Protocol") in this docket. The Stipulation and the Joint Motion of PacifiCorp and Staff for Acceptance of Settlement were filed with the Commission on November 4, 2004. A copy of the Revised Protocol was included as Exhibit A to the Stipulation.

Through these Comments, PacifiCorp urges the Commission to accept the Stipulation and ratify the Revised Protocol.

**BACKGROUND OF MSP**

The Stipulation represents the culmination of PacifiCorp's four-year quest to resolve a number of longstanding issues arising from its status as a multi-state utility subject to the jurisdiction of six regulatory commissions.

**PACIFICORP COMMENTS IN SUPPORT OF JOINT MOTION FOR ACCEPTANCE OF  
SETTLEMENT - 1**

In December 2000, through a series of “SRP” filings, the Company proposed to reorganize itself into six state distribution companies, a generation company and service company. The SRP filings proved controversial—in large measure because of a concern that the proposed restructuring would result in a loss of jurisdiction from state regulatory commissions to the Federal Energy Regulatory Commission and the Securities and Exchange Commission. Ultimately, a number of parties and some state commissioners suggested that the Company seek other means of resolving inter-jurisdictional issues that did not require a legal restructuring of the Company. The Company was strongly encouraged to initiate an informal process aimed at achieving consensus among interested parties regarding these issues. To that end, in March 2002, the Company made an additional set of filings requesting that the Company’s state commissions initiate investigations and endorse a collaborative process to address inter-jurisdictional issues facing PacifiCorp. These filings were broadly supported by the Company’s state commissions, including the Idaho Commission in opening this docket, and gave rise to what became known as the Multi-State Process or “MSP.”

The Company had three fundamental objectives with respect to the MSP:

1. To establish inter-jurisdictional cost allocation mechanisms that would permit it to continue to plan and operate its generation and transmission system on an integrated basis,
2. To establish uniform inter-jurisdictional cost allocation methods among its six jurisdictions that would provide it with a reasonable opportunity to earn a return on future investments in generation and transmission facilities and
3. To preserve the ability of each of its jurisdictions to implement individual state energy policies in a manner that does not unreasonably burden customers in other jurisdictions.

A number of MSP meetings were held commencing in April 2002. All of the major meetings were attended in person by in excess of 50 individuals representing some 18 entities from the states of Oregon, Utah, Wyoming, Washington, and Idaho. Participants included representatives of state policy staffs, advocacy staffs, industrial customers and consumer groups.

A number of other people participated by telephone. Additionally, the Company participated in a number of separate meetings with representatives from individual states or groups of states and conducted various technical workshops. More formal hearings were conducted in some states to review MSP progress. There were weekly telephone conferences and e-mail exchanges. There was a dedicated website for information sharing. Throughout the process, the Company responded to a large number of formal and informal data requests from the parties.

The last large-group MSP meeting occurred in July 2003. At that time, the Company was encouraged to take the analytical results of the MSP and all of the parties' views into consideration and develop a proposal that was most responsive. Accordingly, in September 2003, the Company filed a proposed PacifiCorp Inter-Jurisdictional Cost Allocation Protocol (the "Protocol") with the Oregon, Wyoming, and Idaho Commissions. These filings were supported by substantial testimony and analyses.

Following those filings, additional discussions ensued with parties in Oregon and Utah, resulting in the Revised Protocol, which was filed with the Commission on July 15, 2004.

Since the filing of the Revised Protocol, in addition to the Idaho Stipulation, "all party" stipulations have been entered into in Utah and Wyoming and a stipulation has been entered into with all parties to the Oregon proceedings other than the Industrial Customers of Northwest Utilities. The Company is awaiting decisions from the Oregon and Utah Commissions. The Wyoming Commission issued an order on October 19, 2004 accepting the Wyoming stipulation and ratifying the Revised Protocol.

### **THE STIPULATION IS IN THE PUBLIC INTEREST**

Idaho parties were active and highly constructive participants in the MSP. Idaho parties recognized from the beginning of the MSP that reaching a resolution to the inter-jurisdictional cost allocation issues confronting PacifiCorp was important for both the Company and its customers. Absent a resolution of those issues, there was a significant risk that the Company's

concerns about its ability to recover its prudently-incurred costs associated with new generation resources would cause it to refrain from making long-term resource investments that would minimize costs to customers. Also, absent a resolution of those issues, there was a risk that policy initiatives undertaken in one state (for example, direct access legislation in Oregon) could unreasonably burden PacifiCorp's customers in other states.

The Revised Protocol, if ratified by all of PacifiCorp's state commissions, will establish uniform policies in respect to a number of critical issues. These include:

1. How the costs of new resources will be allocated among states.
2. How the costs of resources built to serve seasonal load will be allocated.
3. How the costs of Qualifying Facilities will be assigned.
4. How the consequences of direct access will be isolated to the state adopting the program.
5. How the costs and benefits of special contracts with large industrial customers will be allocated among states.
6. How the Northwest states' claim to a special entitlement to hydroelectric resources will be recognized.

In addition, the Revised Protocol provides for the establishment of an "MSP Standing Committee" consisting of state commissioners or their delegates. The MSP Standing Committee will oversee continuing analytical efforts associated with inter-jurisdictional issues (such as the consequences of disproportionate load growth among states) and serve as a forum for the parties to discuss and hopefully resolve emerging inter-jurisdictional issues. Meetings of the MSP Standing Committee are to be open to all interested parties. Those meetings are expected to assist in maintaining an ongoing consensus among PacifiCorp's states regarding inter-jurisdictional issues, thereby preserving the accomplishments of the MSP.

Idaho parties concluded that the provisions of the Revised Protocol represented a reasonable balance of the concerns raised by MSP participants and were generally supportive of it. However, they observed that an unintended consequence of the Revised Protocol was that it

appeared to result in a higher Idaho revenue requirement in the early years of its operation compared to the use of other allocation methods. Although the Revised Protocol is expected to result in a lower Idaho revenue requirement in later years, Idaho parties nonetheless concluded that it was critical that the expected near-term Idaho customer impacts be mitigated. To that end, the Stipulation provides that until March 31, 2009, the Company's use of the Revised Protocol will not result in rates in Idaho that exceed 101.67 percent of the amount that would result from use of the "Rolled-in" method.

Therefore, as a result of the Stipulation, Idaho customers obtain the benefits arising from the resolution of MSP issues, while being insulated from any major near-term rate impacts associated with it.

Idaho parties also recognized that circumstances might change such that it might not be sensible for them to continue to support the Revised Protocol. Accordingly, the Stipulation provides that if the results of using the Revised Protocol materially depart from PacifiCorp's current projections, or otherwise produce results that are not just, reasonable and in the public interest, any party may propose amendments to the Revised Protocol or propose that the Commission depart from its terms.

For the foregoing reasons, the Commission should find that the Stipulation is in the public interest, accept the settlement of the parties and ratify the Revised Protocol.

Respectfully submitted this 17th day of November 2004.

STOEL RIVES LLP

  
James F. Fell

Of Attorneys for PacifiCorp

**CERTIFICATE OF SERVICE**

I hereby certify that I served the foregoing **PacifiCorp Comments in Support of Joint Motion for Acceptance of Settlement** on the following named person(s) on the date indicated below by

- mailing with postage prepaid
- hand delivery
- facsimile transmission
- overnight delivery

to said person(s) a true copy thereof, contained in a sealed envelope, addressed to said person(s) at his or her last-known address(es) indicated below.

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DATED: November 17, 2004.

  
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James F. Fell

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**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 prejudge 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

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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

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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.

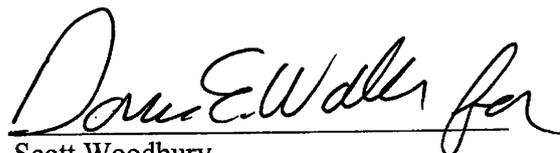
#### **RECOMMENDATION**

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 23<sup>rd</sup> 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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