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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF PACIFICORP DBA ROCKY MOUNTAIN POWER FOR APPROVAL OF AMENDMENTS TO REVISED PROTOCOL ALLOCATION METHODOLOGY	**CASE NO. PAC-E-10-09** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Neil Price, Deputy Attorney General, and in response to the Notice of Modified Procedure, Notice of Comment/Protest Deadline and Notice of Reply Deadline issued on January 12, 2011 in Case No. PAC-E-10-09, submits the following comments.

BACKGROUND

On September 15, 2010, PacifiCorp dba Rocky Mountain Power (RMP; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting approval of amendments to the Revised Protocol allocation methodology previously approved by the Commission in Order No. 29708, Case No. PAC-E-02-03. Rocky Mountain Power is a division of PacifiCorp. The Revised Protocol is the method used by the Company to allocate generation, transmission and other costs to its six jurisdictional states for purposes of establishing retail rates.

STAFF ANALYSIS

The Revised Protocol is the allocation method currently used to allocate and assign generation, transmission and distribution costs to PacifiCorp's six retail state jurisdictions. The proposed amendments to Revised Protocol, hereafter in these comments and commonly referred to as "2010 Protocol", will be the new allocation methodology if approved by the states of Idaho, Oregon, Utah and Wyoming. 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 2010 Protocol like 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 Idaho Commission when approving and thereby ratifying the Revised Protocol in Order No. 29708 established a guideline of review. Staff believes the guidelines and observations established in Order No. 29708 continue to be relevant and accurate in the review of the amendments proposed for the 2010 Protocol.

> The Commission notes that sooner or later a merged company should be treated as one integrated company and not six separate jurisdictional entities. We note of significance that the Company dispatches resources on a company or system-wide basis. This method of resource utilization, we believe seemingly argues for a Rolled-In approach as to allocation of costs. Recognizing, however, that there are some perceived inequities of this approach on the west side of the Company's system, we find the Revised Protocol methodology to be a reasonable and acceptable methodology.

Order No. 29708, p. 10.

A consistent allocation method is important. The following concerns remain relevant if a base methodology is not adopted:

> Potential impacts of inconsistent allocation methodologies adopted in various states Staff contends, 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 Federal Energy Regulatory Commission (FERC) or the Securities Exchange Commission (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...

Order No. 29708, p. 7.

The Standing Committee and other participants to the Multi-State Process (MSP) developed an agreement in principle that was presented on July 26, 2010 at a Commissioners' Forum check-in conference call. The statement provided by the Standing Committee at that meeting stated:

> Standing Committee participants of the MSP process have tentatively reached an agreement in principle changing the Revised Protocol cost allocation methodology. The initial premise for this new agreement is a Rolled-In cost allocation methodology. The changed methodology continues to identify State Resources based on cost responsibility and Regional Resources for the Hydro Endowment calculation. Besides using Rolled-In as the starting point, a significant change relates to the Hydro Endowment quantified under the Embedded Cost Differential (ECD). The ECD will be reduced and limited using a comparison based on Pre-2005 Resources. It is proposed that for 2011 through 2016, the ECD calculation will be projected and a fixed dollar amount per year deviation from Rolled-In analysis would be applied. The deviation is composed of two parts; (1) a situs adjustment charge for the Klamath Surcharge to Oregon and California, with a corresponding credit to the other states, and (2) an adjustment to reflect the Hydro Endowment ECD.

The amendments in the 2010 Protocol are intended to allow for greater movement to a Rolled-In allocation methodology, while retaining a Hydro Endowment for the former Pacific Power & Light states of Oregon, California, Washington and part of Wyoming. The 2010 Protocol continues to identify state resources based on cost responsibility and regional resources for the Hydro Endowment calculation. Besides using a Rolled-In allocation methodology as the starting point, a significant change relates to the Embedded Cost Differential (ECD). The scope of the ECD has been reduced and limited, using a comparison of embedded costs based on resources in place on the Company's system prior to 2005. The ECD calculation has been based on projected pre-2005 resource costs and the value allocated to each state is fixed and levelized over the term of the 2010 Protocol. For the duration of the 2010 Protocol a fixed dollar amount per year deviation would be applied to each state's revenue requirement under the Rolled-In allocation methodology. The deviation is composed of two parts; a situs adjustment associated with the surcharge imposed under the Klamath Hydroelectric Settlement Agreement to Oregon and California with a corresponding credit to the other states, and the fixed levelized ECD.

The single most important element conceptually is limiting the application of the hydro ECD under the 2010 protocol to a comparison with the costs connected to other production resources that were in place with the Company prior to the year 2005. *See* McDougal Exhibit

No. 6 for a list of those resources. Limiting the ECD adjustment is an important provision for Idaho customers. The impact of the ECD was growing. When the Revised Protocol was adopted, Staff expected the EDC to decline over time as hydro relicensing costs were incurred. Actual events allowed the EDC to grow, resulting in greater benefits to the states of Oregon, Wyoming, California and Washington. The states of Idaho and Utah therefore did not see the expected reductions in the ECD level. Staff does not believe Idaho customers have been harmed to date due to the various caps for ratemaking purposes. However, these caps were expiring and without a change Staff believes Idaho and Utah customers would be harmed in future rate setting proceedings. Staff believes the changes in the 2010 Protocol correct this inequity, so Idaho customers will remain unharmed.

Basic regulatory objectives should be and were considered by Staff when reviewing PacifiCorp's Application to adopt the 2010 Protocol. They are as follows:

- The protocol should lead to allocations that are fair to PacifiCorp's Idaho ratepayers and to the Company's ratepayers in each of the other states served by PacifiCorp.
- The protocol, when followed, should provide PacifiCorp with the opportunity to recover all of its prudently incurred costs.
- Explicit jurisdictional allocation methodologies predominately based on a consensus methodology, is preferred to foster investor confidence and thus the ability to attract capital at a reasonable cost.
- Administration of the allocations protocol should be reasonably transparent, simple to understand, and not be overly burdensome to administer.
- The allocations should lead neither to undue revenue requirement volatility nor gross unpredictability.
- The method should allow for states to independently pursue their energy policies.

Rolled-in methodologies have production, transmission, and selected other system-defined non-production costs being allocated to jurisdictions as a function of their shares of the system loads. Accordingly, their expanded loads causes the high growth states to pick up an expanded share of the transmission and other system-non production costs, which are assumed to be fixed. This translates directly to a reduced percentage share of the fixed system-non-production costs borne by the slower-growth states. That reduction for the slower-growth states makes up for their increased dollar allocation of production costs that resulted from the addition of the high-cost new plants needed to accommodate the high-growth states' loads.

To remove some of the instability in the allocations results the Company is proposing to project the hydro ECD adjustment over the entire six-year 2010 Protocol formal duration interval and then levelize that discounted series to produce the flat annual allocation inputs. *See* McDougal Exhibits No. 7 and 8 for a comparison of levelized versus unlevelized results. Levelized numbers are also shown for the Klamath surcharge. There will be a monetary benefit to Idaho customers with the move toward Rolled-In as reflected in the 2010 Protocol. McDougal Exhibit No. 9 is a graph showing the 2010 Protocol difference from Revised Protocol on a percentage basis. In all but one year Idaho will benefit and on an annualized basis the benefit will be received in each year.

All Class 1 DSM, including the Idaho Irrigation Load Control Program, are treated as situs in the 2010 Protocol. A MSP workgroup continues to evaluate Idaho's request for an amendment to the 2010 Protocol to reflect the Idaho Irrigation Load Control Program as a system cost. Agreement has not yet been reached. To be consistent with Order No. 32196 in Case No. PAC-E-10-07, Staff recommends a deviation be included in the Idaho Order for the system allocation of these cost. Staff believes any approval of the 2010 Protocol must have this condition. The full positions of the parties will not be repeated in these comments as they are fully documented in PAC-E-10-07.

Impact Studies

At the request of the Multi-State Process Standing Committee, the Company used the baseline study to complete several alternative studies illustrating the impact of going from Revised Protocol to a more rolled-in 2010 Protocol. The alternative studies included a structural separation study, go-it-alone study, market price sensitivity study, and growth impact study. Although the Company fulfilled the basic requirements set forth by the Standing Committee, Staff believes a more consistent and thorough analysis in some areas would provide Idaho with better information to evaluate the full impact of future changes.

Baseline Study

The baseline study was designed as an analytical tool that is used by the MSP participants' to compare the revenue requirement given varying allocation methods. The revenue requirement is calculated based on expectations of what will occur in calendar years 2010 through 2019, and then jurisdictionally allocated according to Revised Protocol, Rolled-In, and Modified Accord. Staff believes the baseline study is useful for comparing alternative scenarios. The Integrated Resource Plan load growth forecast is the Company's planning document for determining its future resource portfolio. This portfolio becomes the benchmark for making resource assumptions in the structural separation, go-it-alone, and load growth study comparisons.

Structural Separation and Go-It-Alone Analysis

The Structural Separation and Go-It-Alone Analysis were designed to estimate the cost savings from continuing to plan and operate as a single integrated system. Structural Separation assumes that PacifiCorp and Rocky Mountain Power would become separate entities and operate on a balancing area basis, and the Go-It-Alone study assumes that each state jurisdiction would become a separate entity. Staff believes there is value to the Structural Separation study because the balancing area assumptions are quantifiable and realistic. However, Staff recognizes how difficult it is to try measuring the outcome of the Go-It-Alone study without assumptions about each jurisdiction's transmission alignment, ability to dispatch resources, and access to wholesale markets. Even though in the Company's view, "creating a set of assumptions on these issues that would prove reasonably acceptable to all jurisdictions would be impractical at this time," lack of an approved allocation methodology could result in the need for the Standing Committee to decide whether the results of a Go-It-Alone study are worth creating an agreed upon set of assumptions. (Duvall Di., p. 8, l. 6-8)

Market Price Sensitivity Study

The Market Price Sensitivity Study was designed to evaluate the impact of volatile power and gas prices on the Revised Protocol methodology. In order to measure the impact higher and lower prices would have on each jurisdictions revenue requirement, the Net Power Costs (NPC) were increased and decreased across the system by 20%. Staff supports the Company's Market Price Sensitivity Study as a way to show how Revised Protocol is impacted by price volatility, but believes in the future it should consider incorporating this analysis into all of its alternative studies. Evaluating each balancing area and jurisdiction's potential sensitivity to volatile market prices will more accurately measure the impact of load growth changes to Revised Protocol, and more accurately value operating as a single integrated system. The Go-It-Alone analysis simply values additional resource capacity at the cost of a new combined cycle combustion turbine outlined in the 2008 IRP. A stochastic GRID model that incorporates IRP assumptions would more accurately estimate the long term cost of additional resource capacity by balancing area and jurisdiction. By not evaluating each jurisdictions resource portfolio and potential long term price sensitivity, the Company's $270 million dollar benefit value of operating as a single integrated system is only a high level evaluation and should not be used for other rate setting purposes.

Load Growth Study

The load growth study was designed to estimate the impact of load growth on the various jurisdictions. Utah and Wyoming are projected to be the fastest growing states, so for the purpose of this study, load growth from calendar year 2010 through calendar year 2019 was adjusted to match the average growth rate of load in the other states. Next, using the 2008 IRP as a base, several resources that were necessary to meet Utah and Wyoming's projected load growth were removed to reflect the downward adjustment. Staff believes the Load Growth Study is necessary as a way to show the slower growing states are not subsidizing the faster growing states.

STAFF RECOMMENDATION

Staff recommends the 2010 Protocol be adopted with the modification for the Idaho Irrigation Load Control Program. Costs associated with this program should be allocated on a system basis.

Reporting requirements were established to allow Idaho parties to evaluate the ongoing reasonableness of the Revised Protocol allocation methodology. Similar reporting should be required under the 2010 Protocol. The Embedded Cost Differential (ECD) is calculated by comparing the cost of pre-2005 hydro resources to the cost of "All Other" resources, therefore it is important to closely evaluate the impact escalating prices might have on its resource decisions and future ECD calculation. Staff recommends that a) the Company's general rate case filings with the Idaho Commission include calculations of the Company's Idaho revenue requirement under the 2010 Protocol, Revised Protocol, and the Rolled-In methods, and b) the Company shall file annual results of operations with the Idaho Commission including calculations of the Company's Idaho allocated results of operations under the 2010 Protocol, 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.

Respectfully submitted this 30th day of March 2011.

Neil Price
Deputy Attorney General

Technical Staff: Terri Carlock
Matt Elam

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 30TH DAY OF MARCH 2011, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. PAC-E-10-09, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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