BEFORE THE PUBLIC UTILITY COMMISSION OF THE STATE OF OREGON

PACIFICORP

Case UE-119

Resource Plan

December, 2000

inter-jurisdictional allocation methods allocate costs of providing service among the Company's customers. They do not allocate generation resources. Thus, the share of asset costs allocated to Oregon does not establish a universally-accepted claim on those assets. The assets are in rate base in all states served by the Company. As a result, the Company cannot dispose of the "slice" of each asset established as Oregon resources in this plan on the basis of approval by the Oregon Commission alone. Any sale or other transfer of ownership or removal from rate base requires approval of all commissions that regulate the Company. Therefore, PacifiCorp expressly conditions its willingness to implement this Resource Plan on acceptance of the Plan by PacifiCorp's regulators in all states it serves.

B. Analytical Framework.

PacifiCorp proposes a nine-step process for its Resource Plan :

- Step One: Prepare load forecasts
- Step Two: Allocate generating resources to Oregon and between customer groups
- Step Three: Develop market price forecasts
- Step Four: Inventory generating resources
- Step Five: Decide on key analytical assumptions
- Step Six: Identify scenarios for analysis
- Step Seven: Calculate fair market valuation of generating resources
- Step Eight: Estimate transition charges/credits
- Step Nine: Estimate multi-state generation revenue requirement and generation rates

Prepare load forecasts. The Company prepared load forecasts using the same methods that have been used for least-cost planning purposes in the Company's RAMPP studies and in the Company's rate filings using future test periods, such as UE 116. These load forecasts are a key factor in determining the percentage of generating resources that are assigned to Oregon customers. Section 3 includes a description of the load forecasts for retail sales in each of the Company's jurisdictions and the methodology for developing these forecasts. Given the importance of load forecasts to the resource plan, PacifiCorp intends to examine other load forecast sensitivities during the resource plan process.

Allocate generating resources to Oregon and between customer groups. As discussed in Section 2, allocating generating costs among PacifiCorp's states is a complex and potentially divisive subject. The implementation of SB 1149 is the latest in a series of developments that provide an impetus to consider new approaches to the Company's interstate cost allocation. In recognition of the importance of this issue, the Company developed three different allocation methods for the its Resource Plan: "Base Case" (using the current, dynamic allocation method for Oregon, Modified Accord),

"Fixed Modified Accord" and "Fair Share". Allocation methods are also described in Section 7 and Section 8.

The Company determined the "entitlement" of each customer group to Oregon allocated generating resources using the twelve months ending September 30, 2001. As discussed in Sections 7 and 8, the Company created resource stacks for cost-of-service customers composed of Oregon's share of specific generating resources including hydro, wind, and thermal resources. The remaining Oregon resources in both cases were assigned to the direct access customers.

Develop market price forecasts. The Company relied on its market clearing price model to develop two long-term market price forecasts. The Company also included a third-party forecast of long-term market prices developed by the Northwest Power Planning Council in response to input from the public process. These forecasts are discussed in Section 4.

Inventory generation resources. Section 5 describes PacifiCorp's extensive generation portfolio. This portfolio is comprised of full or partial ownership in thermal plants, hydro plants, wind and geothermal plants, and a variety of wholesale purchase and sale contracts. Appendix A also includes detailed descriptions of each of the Company-owned resources.

Decide on key analytical assumptions. The plan's valuation and revenue requirement analyses are based on several key analytical assumptions. Section 6 provides an overview of the assumptions and the underlying rationale for such items as discount rate, plant life, future capital expenditures, ongoing operations and maintenance expense.

Identify scenarios for analysis. The Company identified two factors that have the most significant impact on the results of the plan. The first relates to the long-term forecast of wholesale electric market prices. The second relates to the assignment of resources to Oregon through the application of inter-jurisdictional cost allocation methods. The Company designed four scenarios to test the impact of assignment of resources to Oregon under three market price forecasts. The scenarios analyzed in this Plan are:

- Base Case - This scenario is a forecast of what could be expected in the absence of SB 1149 for purposes of generation rate impact comparison and will be included in the supplemental filing. This scenario is based on the generation revenue requirement in PacifiCorp's UE-116 filing. It relies on the ongoing application of the recognized cost allocation method, the Modified Accord, and assumes that all customers remain on cost-of-service rates.

- Fixed Modified Accord Plan - This scenario applies a one-time snapshot of the results of the Modified Accord in 2005 to permanently fix Oregon's allocation of generation costs. To prevent any shift in that allocation, the analysis must isolate Oregon's cost-of-service customers from the rest of the system. PacifiCorp expects that the permanent segregation of Oregon's allocation from PacifiCorp's integrated resource system will change the current economic dynamics for customers in all states, creating significant implementation challenges. In addition, by relying upon the Modified Accord method, this scenario employs an allocation method that lacks support in some PacifiCorp jurisdictions and is currently exposing PacifiCorp to significant cost under-recovery. For these reasons, the Company does not recommend this plan. The Fixed Modified Accord Plan is discussed in Section 7.

- Recommended Plan One - This scenario uses a new cost-allocation method, the Fair Share. This method attempts to find a middle ground between the two different allocation methods now in use among PacifiCorp's jurisdictions, Modified Accord and Rolled-in. This method also addresses the Company's cost under-recovery under the Modified Accord. As in the Fixed Modified Accord Plan, however, this Plan isolates Oregon's cost-of-service customers from the rest of PacifiCorp's integrated resource system, creating the same potentially negative economic and political consequences as under the Fixed Modified Accord Plan. While this issue remains problematic, this Plan is nonetheless preferable to the Fixed Modified Accord Plan. Recommended Plan One is discussed in Section 8.

- Recommended Plan Two – To meet the dual objectives of facilitating SB 1149's implementation and retaining the benefits of PacifiCorp's integrated resource system for customers in all states, the Company is proposing a Recommended Plan Two using the same Fair Share allocation method used in Recommended Plan One. Under this scenario, the Company would restructure into separate state electric companies and a generation company. The state electric companies would contract with the generation company to serve cost-of-service retail customers. The Company believes that the parties can design the contract to allocate the benefits of PacifiCorp's generating resources among the states in a manner that captures the benefits of continued unified operation. Because Recommended Plan Two offers real opportunity for resolving the potential economic and political shortcomings of the other Plans and for providing shareholders with the opportunity for full cost recovery, PacifiCorp endorses this Plan over the other two presented. PacifiCorp has included a conceptual description of its Recommended Plan Two in Section 9. PacifiCorp has also presented these concepts in greater detail in a separate but simultaneous filing with the Oregon Commission and the Company's other state commissions. As discussed in that filing, this approach offers wide ranging benefits to the Company and its customers.

<u>Calculate fair market valuation of generating resources.</u> Using a discounted cash flow analysis, the Company developed a range of indicative values for PacifiCorp's generating resources as of January 1, 2003. Section 10 provides a discussion of this analysis and the range of indicative results. Although the ultimate valuation of each resource will be determined in a contested valuation proceeding that follows the Resource Plan proceeding, this range of values can advise the decisions in the proceeding.

<u>Estimate transition charges/credits.</u> The Company applied the results of its valuation analysis to the Oregon "slice" of the Company's generation resources to calculate stranded benefits and costs. The Company then calculated the payment of transition charges/credits between customer classes by analyzing the impacts of the allocation of Oregon resources between cost-of-service and direct access customers. Detailed descriptions of these calculations are provided in Section 11.

<u>Estimate multi-state generation revenue requirement and rates.</u> The last step in the resource plan analysis is the calculation of estimated generation-related rates under each proposed scenario. Because the purpose of such an exercise is to evaluate the relative attractiveness of each scenario and because none of the scenarios can be evaluated in a single-state vacuum, PacifiCorp has decided to model the rate impacts of each scenario on a multi-state basis, rather than on an Oregon-only basis. Given the magnitude of this analytical task, PacifiCorp will not have this modeling completed for approximately 60 days. PacifiCorp intends to file a supplement to its Resource Plan when this analysis is completed.

C. Resource Plan Objectives.

The implementation of SB 1149 requires decision-making about electric company generation resources that harmonizes the Act's mandate for continuing cost-of-service rates for small customers with its mandate for promoting the development of a competitive retail energy market in Oregon. The vehicle for that balanced decision-making is a resource plan, as described in OAR 860-038-0080.

The requirements of the resource plan cast the Company and its diverse stakeholders into uncharted territory. In recognition of Oregon's traditional public-process approach to resource decision making, from August 17th through November 2nd, the Company convened a series of public meetings. As in the Company's least-cost planning process, the public process included representatives from Oregon and other PacifiCorp states. Members of the group included representatives from: Oregon Commission Staff; Wyoming Public Service Commission Staff; Idaho Public Utility Commission Staff; Utah Division of Public Utilities; Washington Utilities and Transportation Commission Staff; Citizen's Utility Board; Utah Committee of Consumer Services; Industrial Customers of Northwest Utilities; Association of Oregon Industries; Northwest Energy

Coalition; Portland Energy Office, Oregon Energy Coordinators Association, Oregon Power User's Alliance and Renewables Northwest Project.

Recognizing that actions in one PacifiCorp state could have significant impacts on another state, the parties to the public process helped PacifiCorp develop a set of five objectives for its Resource Plan. These objectives are:

1. The Resource Plan should promote peaceful co-existence; each state should control its own destiny, but do so in a manner that creates no harm to other states or PacifiCorp.

2. The Resource Plan should be durable, simple, fair and efficient.

3. The Resource Plan's interstate allocation methodology should permit an opportunity for PacifiCorp to recover all of its costs.

4. The Resource Plan must maintain reliability.

5. The Resource Plan must adhere to or acknowledge all applicable legal requirements.

D. Recommended Timeline.

PacifiCorp understands the complexity of these issues and recognizes the Commission-endorsed goal of honoring Oregon's traditional public-process approach to resource decision making. For these reasons, PacifiCorp does not intend this Resource Plan to be the end of the dialogue on resource decision-making, but rather hopes that it will be the beginning of the next stage of the dialogue.

PacifiCorp anticipates that the parties will begin to develop the process and timeline for discussion, adoption and implementation of PacifiCorp's Resource Plan at the pre-hearing conference on December 6, 2000. It is possible that the Oregon Commission and other parties may wish to adhere to the April 1, 2001 adoption date specified in the rule and decide all of the issues that can be decided at that point. It is also possible that parties may decide that another schedule makes sense, one that incorporates the supplemental information that PacifiCorp intends to file on multi-state rate impacts, as well as other revisions that PacifiCorp will file in response to new developments in the Oregon restructuring rules, permits development of PacifiCorp's corporate restructuring proposal and acknowledges the need for involvement of other states.

860-038-0080
Resource Policies and Plans

(1) The Commission adopts the following policies with respect to the Oregon share of generating resources (generating assets and power purchase contracts with a duration of at least one year) of each electric company:

(a) Each electric company will retain in its Oregon revenue requirement costs associated with a level of generating resources that is not greater than that necessary to meet the current and reasonably expected future loads of its Oregon residential and small nonresidential consumers. In determining whether an electric company has excess generating resources, the Commission will consider the projected useful lives and mix of fuels of the electric company's generating resources. To encourage the development of a competitive retail energy market, it is the policy of the Commission to release to the competitive market generating resources in excess of such reasonably expected future loads. It is also the policy of the Commission to determine a one-time valuation for the Oregon large nonresidential consumers' share of an electric company's generating resources;

(b) The Commission will not require an electric company to acquire new generating resources except as provided in ORS 757.663. Major capital improvements to existing generating resources will continue to be subject to least cost planning processes and analyses and the Oregon share of their prudently-incurred costs will be included in an electric company's Oregon revenue requirement, which for a multi-state electric company shall be consistent with Commission decisions pursuant to subsection (3)(a)(G) of this rule. Electric companies must include new generating resources in revenue requirement at market prices, and not at cost, and such new generating resources will not be added to an electric company's rate base even if owned by the electric company;

(c) The Oregon share of the costs of each generating resource may be either completely in, completely out, or "mixed" with respect to inclusion in an electric company's Oregon revenue requirement. The Commission will permit mixed status unless it finds that mixed status will:

(A) Reduce the generating resource's operating efficiency;

(B) Harm the development of a competitive market; and

(C) Prevent the owners from making economic decisions about the operation of the generating resource.

(d) For a multi-state electric company for which the Commission adopts a fixed-allocated Oregon share amount, and a Resource Plan is implemented, such generating allocation amount will be used for developing cost-of-service rates, transition charges and credits, and Operations and Maintenance allocations as well as other allocations that use generation-based factors.

(2) For purposes of this rule and OARs 860-038-0100 and 860-038-0140, the Oregon large nonresidential share of the total Oregon share of a generating resource will equal the ratio of the class's total Oregon retail load measured in weather-normalized

kilowatt-hour sales in the 12 months ending September 30, 2001, to total Oregon retail load measured in weather-normalized kilowatt-hour sales in the 12 months ending September 30, 2001. To the extent such shares are not known as of October 1, 2001, the electric company will use estimates until relevant data are available.
(3) On or before November 1, 2000, each electric company must file with the Commission a resource plan that meets the following requirements:
(a) Information. The resource plan must include the following information:
(A) Consistent with paragraph subsection (3)(a)(G) of this rule, the amount of capacity and energy and the availability of each generating resource that is attributable to the Oregon residential and small nonresidential consumers' share of the electric company's load, and the amount that is attributable to the Oregon large nonresidential consumers' share of the electric company's load;
(B) A forecast of the revenue requirements associated with each generating resource over both its projected remaining useful life and economic life, with sensitivities for major assumptions, and identification of deferred taxes, excess deferred taxes, FASB 109 assets, and any investment tax credits associated with each generating resource;
(C) The other characteristics of the generating resource that could affect its value including but not limited to its capability to provide or support ancillary services, the value of its site and environmental or operating permits, and any environmental issues associated with it;
(D) A forecast of future market prices for electricity, including forecasts of major fuel inputs and sensitivity analyses;
(E) A forecast of loads of the electric company's Oregon residential and small nonresidential consumers covering at least the period of the longest-lived generating resource;
(F) The estimated fair market value of the Oregon share of each generating resource; and
(G) For a multi-state electric company, how the electric company proposes to allocate a share of its generating resources to Oregon. The multi-state electric company must also propose a fixed Oregon-allocated generating resource share based on the following factors:
(i) A forecasted allocation of each generating resource for the 12 months ending September 30, 2001, using traditional allocation methods recognized by the Commission;
(ii) The projected potential changes in Oregon share, due to alternative inter-jurisdictional allocation methods, over the life of each resource absent implementation of these rules; and
(iii) The change in risk borne by parties by fixing the Oregon share of generating resource.
(b) Recommended Valuation Methodology. The resource plan must identify, for each generating resource, or portion thereof if the resource meets the criteria for mixed status, whether the Oregon share of each generating resource should be:

(A) Retained in the electric company's Oregon revenue requirement for the purpose of serving Oregon residential and small nonresidential consumers and administratively valued through a process to be specified by rule;
(B) Sold through the auction process specified in OAR 860-038-0100, and if so:
(i) The general terms and conditions that should apply to the sale, including but not limited to, a prototype purchase and sale agreement; and
(ii) Any sales incentives that the electric company proposes to apply to Oregon nonresidential consumers for the Oregon nonresidential consumers' share of the generating resource. Such incentives may be structured to encourage the electric company to follow the recommended timeline provided under subsection (3)(d) of this rule; or
(C) Removed from the electric company's Oregon revenue requirement and administratively valued through a process to be specified by rule, and if so, any incentive to apply to Oregon nonresidential consumers for removing the nonresidential consumers' share of the generating resource from revenue requirement. Such incentives may be structured to encourage the electric company to follow the recommended timeline provided under subsection (3)(d) of this rule.
(c) Results of the Resource Plan. The resource plan must identify the impacts of implementing it, including the following:
(A) The approximate load/resource balance, and the availability of each generating resource based on the electric company's current and forecasted load for Oregon residential and small nonresidential consumers;
(B) The estimated rates to each Oregon customer class that will result from implementation of the resource plan, including:
(i) The amount of estimated transition charges and credits;
(ii) A comparison to the rates filed by the electric company on October 1, 2000; and
(iii) An estimate of the cost-of-service rates for Oregon residential and small nonresidential consumers 10 years after implementation of the resource plan.
(C) How the resource plan is consistent with the purposes of SB 1149 in that the plan:
(i) Facilitates a fully competitive market;
(ii) Provides consumers fair, non-discriminatory access to competitive markets; and
(iii) Retains the benefits of low-cost resources for consumers.
(D) Any other implications of the resource plan that could help inform the Commissioners in their decision.
(d) Process. The electric company must develop the resource plan in a public process designed to inform and solicit input from Commission staff, representatives of Oregon residential, small nonresidential and large nonresidential consumers, and other interested parties.
(4) The Commission must consider the electric company's recommended resource plan in a contested case proceeding. The schedule in the contested case proceeding must be set to produce a Commission decision on the resource plan by April 1, 2001. The Commission's order must identify those resources that, at the option of the electric

company, may be auctioned immediately, before final administrative valuation of other resources and potential modification of the electric company's Resource Plan. The Commission's order must also approve, modify, or reject the resource plan.
(a) If the Commission modifies the resource plan, the electric company will have 30 days from the date of the Commission's order to accept or reject the modifications. If the electric company rejects the Commission's modifications, the electric company must file a second recommended resource plan within 60 days of the date of rejection;
(b) If the Commission rejects the resource plan, the order rejecting the plan must specifically describe the deficiencies in the resource plan. In that event, the electric company must file a second recommended resource plan within 60 days of the order rejecting the original plan;
(c) If the Commission modifies the second recommended resource plan, the electric company will have 30 days from the date of the order to accept or reject the modifications. If the electric company rejects the Commission's modifications, future attempts at reaching a resource plan may be initiated by either the electric company or the Commission. The timelines outlined in subsection (4)(a) of this rule shall apply once a new resource plan is submitted or modifications to a former plan are suggested. Until a resource plan is approved by the Commission, the ongoing valuation method described in OAR 860-038-0140 will be used to establish transition charges and credits.
(5) An electric company or any nonresidential consumer may propose to change the definition of "large nonresidential consumer" provided in OAR 860-038-0005(23), by making a written request to the Commission no later than October 15, 2000, in which case the following shall apply;
(a) The Commission shall initiate a proceeding open to all interested parties to determine on an expedited basis whether to change the definition of "large nonresidential consumer." The schedule shall be set to obtain a Commission decision on this issue as soon as practical prior to March 1, 2001.
(b) The Commission shall only change the definition of "large nonresidential consumer" if the Commission determines it is in the public interest based on the following factors, and such other factors as the Commission deems relevant:
(A) Each electric company may have the same definition of large nonresidential consumer;
(B) For each class of consumers deemed "large nonresidential consumers," prices for electricity services, taking into account transition charges, transition credits, and incentive payments, if any, should not materially exceed prices for electricity services such class of consumers would pay under a cost-of-service rate;
(C) Consistent with ORS 757.646, the Commission should define large non-residential consumers to encompass as many nonresidential consumers as is feasible; and
(D) The potential benefits available due to new products, service options, and product innovations.
(c) Notwithstanding section (5) of this rule, each electric company shall file its resource plan on November 1, 2000, based on the definition of "large nonresidential consumer"

contained in OAR 860-038-0005. In the event the Commission modifies the definition of "large nonresidential consumer" pursuant to section (5) of this rule, each electric company shall promptly modify its resource plan to reflect such change; and
(d) Each electric company shall identify the changes that would be necessary to implement any alternate definition of "large nonresidential consumer" proposed by a party to the proceeding initiated pursuant to this section (5) of this rule.
(6) A resource plan that has been recommended by the electric company and approved by the Commission, or modified by the Commission and accepted by the electric company, is referred to in these rules as a "Resource Plan." The electric company must implement the Resource Plan consistent with OAR 860-038-0100 and a process for administrative valuation to be specified by rule. Until a Resource Plan is implemented, including the establishment of final values for generating resources, the electric company must determine transition charges and credits using an ongoing valuation method permitted under OAR 860-038-0140.
(7) For a multi-state electric company, pending the implementation of a Resource Plan and establishing final values for generating resources in accordance with these rules, the following will guide developing rates for Oregon consumers of the electric company for the period October 1, 2001, through December 31, 2002:
(a) Cost-of-service rates will be based upon traditional allocation methods;
(b) Transition charges or credits shall not include assumed costs and revenues of the portion of generating resources not needed to serve Oregon loads associated with residential and small nonresidential consumers choosing portfolio access, small nonresidential consumers choosing direct access or standard offer rate options, and large nonresidential consumers when, and to the extent, the costs and revenues of the generating resources that are not needed are recognized and included in the electric company's revenue requirement in another state, less the costs and revenues of such generating resources which have been included in the electric company's revenue requirement by another state prior to October 1, 2001; and
(c) Beginning January 1, 2003, transition charges and transition credits will be calculated without regard to subsection (7)(b) of this rule.
Stat. Auth.: ORS 183, ORS 756 & ORS 757
Stats. Implemented: ORS 756.040 & ORS 757.600 &endash; ORS 757.667
Hist.: PUC 17-2000, f. & cert. ef. 9-29-00
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