

Agenda Date: January 14, 2004
Item Number: A1

Docket: UE-032065
Company: PacifiCorp d/b/a Pacific Power & Light Company

Staff: Roland C. Martin, Regulatory Consultant
Ken Elgin, Case Strategist
Assigned Rate Case Team

Recommendation:

The Commission should issue an order rejecting the proposed tariffs filed in Docket No. UE-032065. The Commission should find that the Company is proposing new rates based upon an unaccepted interstate cost allocation methodology. The Commission should clarify that it is necessary to first determine a reasonable inter-jurisdictional methodology before any changes to the Company's rates can be established. *See Sixth Supp. Order: Denying Petition for Accounting Order; Rejecting Tariff Filing; Authorizing Subsequent Filing* in Docket No. UE-020417 (¶ 23, n.10).

Discussion:

On December 16, 2003, PacifiCorp, d/b/a Pacific Power & Light Company ("Pacific" or "Company") filed a general rate increase for its electric service in Washington, effective January 16, 2004. The proposed filing would increase the Company's annual revenue from its Washington operation by \$26.7 million or 13.5%.

Background:

Pacific serves approximately 124,000 retail electric customers in five Washington counties (Yakima, Walla Walla, Kittitas, Garfield, and Columbia), and approximately 1.45 million retail customers in the States of Oregon, Utah, Wyoming, Idaho, California, and Washington. The Company's last general rate filing was on November 24, 1999. The Company is requesting a return on common equity of 11.25% with an overall rate of return of 8.74%, on a pro forma rate base of approximately \$596 million. PacifiCorp is proposing to allocate the revenue increase equally across all customer classes.

The Company cites the following key factors driving the need for a price increase: a) a goal of achieving a level of earnings in Washington that reflects its current estimated cost of equity capital, and b) a goal of maintaining its ability to provide safe, reliable and adequate service to its customers.

As part of its filing, PacifiCorp is requesting Commission adoption of the findings in the Joint Report (Docket No. UE-991832) concerning prudence review of generating resources acquired by the Company since 1986. In this review, Staff did not make any determination whether these

resources were acquired to meet the needs of Washington customers. The report states: “These resources could be subjected to investigation in future rate case proceedings that will determine whether these resources were acquired prudently to satisfy increased load growth or demand in Washington State, including consideration of the Company’s commitments under merger agreements and orders, the impact of the ‘inter-jurisdictional’ allocation used by the Company, and particular load-growth characteristics of the Company’s Washington service territory.” (Joint Report, Conclusions and Summary, page 62)

In addition, the Company’s request includes investments in new generating resources that were not part of the 1996 prudence review. These new resources, located in the Company’s eastern control area, are a significant issue for Staff. The Company is seeking approval of a proposed inter-jurisdictional cost allocation protocol that would allocate the cost of these new resources to Washington, and Staff believes this is unreasonable. The protocol determines how all-joint costs, including new generation and transmission, will be allocated to its six retail jurisdictions. An appropriate cost allocation protocol is necessary and critical to determine whether rates for Washington customers are reasonable.

Rate Increase Impacts:

The impact of this rate increase to an average residential customer using 1,200 kWhs per month will be a net increase of about \$7.45 per month. The effect of the proposed general rate increase by customer class is as follows:

	Revenue Impact	Percent Change
Residential	\$ 10,836,000	13.5 %
Commercial & Industrial	\$ 15,710,000	13.5 %
Public Street Lighting	<u>\$ 178,000</u>	<u>13.5 %</u>
Total	<u>\$ 26,724,000</u>	<u>13.5 %</u>

Procedural issues:

This case stems from the Commission’s *Sixth Supp. Order: Denying Petition for Accounting Order; Rejecting Tariff Filing; Authorizing Subsequent Filing* in Docket No. UE-020417 (“Order”). Prior to that order, Pacific was operating under a five-year rate “Rate Plan” established in Docket No. UE-991832 that precluded the Company from seeking new rates, barring circumstances that created a financial emergency. The Commission’s order in Docket No. UE-020417 amended the Rate Plan and allowed Pacific to file a rate case prior to the end of Rate Plan. The Order states, “The so-called multi-state process is expected to be finalized by the

middle of this year. The outcome of that process should inform PacifiCorp's filing with respect to the important question of inter-jurisdictional cost allocation issues." (Order at (¶ 23, n.10).

In its Order amending the rate plan, the Commission determined that an examination of the Company's rates in light of a properly restated, normalized *pro forma* test year was in the public interest. The Commission was concerned about the lingering effects of the Western Power Crisis on the Company, and it also recognized the importance of the Company's multi-state process ("MSP"). The order noted that the Company's MSP was expected to be finalized by the middle of 2003. The MSP was an effort to resolve the extremely important issue of interstate cost allocations. In light of all these circumstances the Commission amended the rate plan.

Any findings with respect to the financial performance of Pacific in Washington, are contingent upon first resolving issues of inter-state cost allocations. Unfortunately, the MSP process did not resolve this highly contentious issue. As a result, this case not only presents the Commission Staff with the complex task of auditing a test period for a registered holding company with foreign ownership, a task Staff has yet to undertake, it must analyze the Company's highly controversial proposal for interstate cost allocations within the context of holding company cost allocations. The Company's presentation for the reasonableness of its proposal for inter-jurisdictional cost allocations relies upon the analysis of many diverse future scenarios. It is not based upon an analysis of the test period used for ratemaking purposes. As a result, each possible allocation methodology must be applied to all the restating and *pro forma* adjustments to the test period.

Conclusion:

The Commission should reject the proposed tariffs filed in Docket No. UE-032065, and proceed with a hearing to determine the reasonableness of the Company's inter-jurisdictional cost allocation proposal. As part of the order rejecting this filing, the Commission should find that the Company is proposing new rates based upon an unaccepted interstate cost allocation methodology, and its order should clarify that new rates cannot be established until the Commission first determines a reasonable inter-jurisdictional cost allocation methodology.