

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

DOCKET NO. UE-050684

ICNU'S RESPONSE TO BENCH REQUEST NO. 20

Bench Request No. 20:

Please provide the letter that ICNU filed at the Oregon Public Utility Commission regarding PacifiCorp's Hybrid and Load Growth Reports.

Response to Bench Request No. 20:

Attached please find ICNU's December 8, 2005 letter to the Commissioners of the Oregon Public Utility Commission.

Date: January 27, 2006
Respondent: Irion Sanger
Witness: n/a

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December 8, 2005

Via Electronic Mail and U.S. Mail

Chairman Lee Beyer
Commissioner Ray Baum
Commissioner John Savage
Oregon Public Utility Commission
550 Capitol St. NE, Suite 215
Salem, OR 97301-2551

Re: PacifiCorp Load Growth and Hybrid Reports

Dear Commissioners:

The Industrial Customers of Northwest Utilities (“ICNU”) is submitting this letter regarding PacifiCorp’s two recently filed multi-state process (“MSP”) reports, the Load Growth Report and the Hybrid Report. PacifiCorp filed the Load Growth Report with the Oregon Public Utility Commission (“OPUC” or “Commission”) on October 20, 2005, and filed the Hybrid Report on November 21, 2005. ICNU opposes many of the substantive conclusions and decisions reached by PacifiCorp in these Reports, and urges the Commission to reject PacifiCorp’s modified Hybrid methodology (“New Hybrid Method”), and require PacifiCorp to develop a fully functional structural protection mechanism (“SPM”) that protects Oregon ratepayers from the costs of Utah load growth.

1. The Commission Should Reject PacifiCorp’s Unsupported Revisions to the Hybrid Methodology

PacifiCorp’s Hybrid Report fails to achieve the goals established by the Commission when it directed PacifiCorp to develop a fully functional Hybrid methodology. Re PacifiCorp, OPUC Docket No. UM 1050, Order No. 05-021 (Jan. 12, 2005). The Commission directed PacifiCorp to fully develop a Hybrid Method so that it could be: 1) considered as “as one of the options for structural protection;” and 2) used “as a comparator” in PacifiCorp’s annual reports and general rate case filings to compare with the results of the Revised Protocol. Id. at 12. Instead of developing a fully

functional version of the original Hybrid methodology (“Original Hybrid Method”), PacifiCorp has revised the Hybrid Method so that it produces overall results similar to the Revised Protocol and Rolled-in methodologies.

PacifiCorp has made at least three significant modifications to the Original Hybrid Method that lack adequate support and should be rejected by the Commission before the Hybrid Method can be used as a comparator or an SPM. First, the New Hybrid Method inappropriately assigns the Arizona Public Service Company (“APS”) contract (but no resources to serve the contract) to the western control area. The assignment of this contract in the southwestern part of the United States to the Pacific Northwestern states is inconsistent with how PacifiCorp operates its system. Essentially, PacifiCorp has not demonstrated that the APS contract has any real connection with the western control area.

The New Hybrid Method also inappropriately assigns 125 megawatts of the Bridger plant to the eastern control area. The Bridger plant should not have been assigned to the eastern control area because it was originally a Pacific Power & Light resource and it is located in the western control area. In addition, the assignment of part of the Bridger plant to Utah does not correspond to PacifiCorp’s actual operations because Bridger is not directly connected to Utah.

Finally, PacifiCorp’s own growth studies establish that the Company should not have assigned a new eastern 2014 Combined Cycle unit to the western control area. PacifiCorp’s studies show that the eastern Combined Cycle unit is being built for Utah growth and none of its costs should be assigned to the western control area. Assigning a plant built for Utah load growth may result in the New Hybrid Method being unable to have any use as a comparator or an SPM.

ICNU urges the Commission to reject PacifiCorp’s unsupported and arbitrary resource allocations in the New Hybrid Method. ICNU continues to believe that the Original Hybrid Method should be utilized to compare the results of the Revised Protocol and considered as a possible SPM. However, the New Hybrid Method does not have any use as a tracking tool because it essentially compares a version of the Revised Protocol against the Revised Protocol. Similarly, it may not be possible to utilize the New Hybrid Method as an SPM to address the cost shifts associated with Utah load growth because PacifiCorp has inappropriately assigned the costs of a new eastern Combined Cycle plant to the western control area.

2. PacifiCorp’s Load Growth Report Minimizes Cost Shifts and Fails to Propose a Structural Protection Mechanism

PacifiCorp’s Load Growth Report is flawed because it ignores cost shifting that has occurred due to historic load growth, and does not propose an adequate SPM that will address the problems of Oregon ratepayers paying for the cost of Utah’s load growth. The Commission should reject the underlying conclusions in the Load

Growth Report, and direct PacifiCorp to expeditiously develop a rigorous SPM that protects Oregon customers from cost shifts associated with Utah load growth.

ICNU disagrees with PacifiCorp's conclusion that the Revised Protocol does not result in the costs of Utah load growth being shifted to slow growing states. Load Growth Report at 2. ICNU questions the results of PacifiCorp's studies because the participants in the MSP process did not conduct exhaustive analysis or independent model runs. Also, PacifiCorp's analysis of load growth was flawed because the Company refused to analyze the cost shifts associated with historic load growth. In addition, the Company's methodologies did not measure cost shifts associated with generation units already under construction, and were entirely unable to measure the costs shifts that had already occurred or were about to occur. Ignoring these cost shifts fails to provide the Commission with the necessary information to analyze whether cost shifts are significant, or whether the Revised Protocol is addressing load growth and producing fair, just and reasonable results.

PacifiCorp's Load Growth Report is also flawed because it fails to propose an SPM that will protect Oregon ratepayers. Instead, the Company recommends further analysis and discussion of the issue of load growth. The issue of developing an SPM has been discussed by the MSP parties for years; however, PacifiCorp has failed to propose a fully developed SPM. In addition, the Commission approved the Revised Protocol nearly a year ago with the understanding that PacifiCorp would finally develop an SPM that could protect Oregon ratepayers. See Order No. 05-021 at 12. Despite these years of work and PacifiCorp's ongoing process to develop an SPM, Oregon ratepayers continue to pay for the high costs of Utah load growth.


PacifiCorp rejects the Hybrid Method as an SPM primarily because the eastern states do not support the Hybrid Method and the Company views it as a significant departure from the Revised Protocol. See Load Growth Report at 24. ICNU believes that it is inappropriate to reject an SPM based on these grounds because it is unlikely that the representatives of the eastern states will support an SPM that actually protects Oregon from the increased costs associated with Utah load growth.

PacifiCorp has proposed that the MSP workgroup continue work on two embedded cost differential ("ECD") SPMs. Although these proposed SPMs have not been finalized, ICNU recommends that at least one of these proposals be developed in an expeditious manner. The first potential SPM, the "ECD Alternative 1," would temporarily assign new resources to the fastest growing state. ICNU does not believe the ECD Alternative 1 should be further pursued because it would be unlikely to result in an equitable solution to the problem of cost shifting because: 1) all of PacifiCorp's states would likely be required to develop comparable ratemaking methodologies; and 2) the ECD Alternative 1 could simply increase costs in faster growing states without any offsetting benefits to slower growing states.

The second potential SPM proposed by PacifiCorp, the "ECD Alternative 2," warrants further development. The ECD Alternative 2 proposes a direct and permanent assignment of resources as a protection against load growth. This approach would address the problem that, under the Revised Protocol and PacifiCorp's studies, once a power plant is under construction, the power plant is never considered as contributing to the problem of cost shifting. However, PacifiCorp's final proposed SPM should be carefully reviewed by the Commission to ensure that the cost shifting problem is not minimized and that the SPM can be implemented in a timely manner.

ICNU respectfully urges the Commission to reject the underlying conclusions in the Hybrid Report and Load Growth Report. Instead, the Commission should utilize the Original Hybrid Method for purposes of comparison with the Revised Protocol because it includes resource allocations that are consistent with the original Pacific Power & Light system and how PacifiCorp operates its system. In addition, the Commission should direct PacifiCorp to expeditiously develop an SPM that adequately protects Oregon ratepayers. If PacifiCorp continues to fail to develop an appropriate SPM, then the Commission should consider unilaterally adopting the Original Hybrid Method as an SPM.

Sincerely,



Melinda J. Davison

cc: Michael Early
MSP participants (via email)