

April 8, 2005

VIA ELECTRONIC FILING & FIRST CLASS MAIL

Carole Washburn, Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Pk. Dr. S.W.
P.O. Box 47250
Olympia, WA 98504-7250

RE: Docket No. UE-032065 – PacifiCorp Status Report on Inter-Jurisdictional Cost Allocations

Dear Ms. Washburn:

Public Counsel submits this letter to provide our perspective on PacifiCorp's inter-jurisdictional cost allocation discussions and to provide our prospective on the status of cost allocation methods adopted for use in other jurisdictions.

Discussions Aimed at an Agreed Methodology

The Washington Commission ordered PacifiCorp to engage in discussions, "aimed at development of an agreed methodology for inter-jurisdictional cost allocation to be used by PacifiCorp in this jurisdiction."¹ In the previous Docket No. UE-991832, the Commission cited the lack of a cost allocation method as one factor in their decision to suspension PacifiCorp's five year rate plan prior to the last two years which were rate freeze years.² Unfortunately, the discussions did not lead to an agreement between PacifiCorp and any other party on a cost allocation methodology for Washington State.

In the first several meetings participants reviewed the Revised Protocol, testimony on Revised Protocol, and stipulations approved by other state Commissions in adopting the Revised Protocol. In addition the participants reviewed and discussed skeletal outlines of several other possible cost allocations methodologies.

At the group's last substantive meeting the hybrid methodology was reviewed. Public Counsel requested this review with Commission Staff concurring in the request. The meeting took place in Portland on February 10, 2005 to allow Oregon parties to attend. Their attendance

¹ *WUTC v. PacifiCorp*, Order No. 06 - Approving and Adopting Settlement Agreement Subject to Conditions; Rejecting Tariff Sheets; Authorizing and Requiring Compliance Filing, p. 23, Docket No. UE-032065 (October 27, 2004).

² Re *PacifiCorp*, Docket No. UE-991832 Eighth Supplemental Order, p. 14, ¶ 31(July 15th, 2003).

was recommended by PacifiCorp because the Oregon Commission, in adopting the Revised Protocol, ordered PacifiCorp, Oregon Commission Staff and other interested parties to finish a “fully developed hybrid method” by December 1, 2005.³

In the following meeting on February 24, 2005 Public Counsel requested parties design a fully developed hybrid method to compare to the Revised Protocol with the aim of coming to a cost-causation based agreement on which cost allocation methodology best represented the actual cost of serving Washington load. PacifiCorp declined to participate in developing a hybrid method. PacifiCorp cited its obligation to uphold the Revised Protocol.⁴ PacifiCorp suggested it would have more latitude under settlement talks and indicated its intention to file a general rate case in Washington State with the Revised Protocol as the allocation methodology.

Public Counsel is still willing to work with PacifiCorp within the discussions envisioned under the Commission’s Sixth Order from the last rate case to fully develop a hybrid methodology for purposes of analysis and comparison.

Status of Revised Protocol

The Revised Protocol has been adopted with stipulations by the Oregon, Utah, Idaho and Wyoming Commissions. The Revised Protocol was explicitly designed to take effect without Washington State Commission approval,

“...Final ratification of the Protocol by any of the Commissions of Oregon, Utah, Wyoming and Idaho, is expressly conditioned upon similar ratification of the Protocol by the other mentioned commissions...”⁵

The Commission should note that the Revised Protocol similarly allows for the adoption of amendments without the Washington Commission’s consent.

“The Protocol will only be deemed to have been amended if each of the Commissions who have previously ratified the Protocol ratifies the amendment.”⁶

The Washington Commission described requirements for how rates were to be determined in their 2nd Supplemental Order in the Pacific Power and Light merger with Utah Power and Light.

³ Oregon PUC, Order No. 05-021, P. 12 UM 1050.

⁴ PacifiCorp at the time did not provide cited language in the Revised Protocol, other state Commission orders, or stipulations which expressly barred their participation in the development of a hybrid method as a means to work towards an agreement on a cost allocation method for Washington.

⁵ Exhibit ALK-5: Revised Protocol and Appendix A, p. 14

⁶ Exhibit ALK-5: Revised Protocol and Appendix A, pp. 13-14.

"The Commission continues to be concerned about the effects on Pacific's ratepayers of merging with a higher cost system, and believes that any integration of the power supply function of the two companies should be done in a manner consistent with Pacific's least-cost planning process now getting underway. In the meantime, the Commission views Pacific's current average system costs as the appropriate basis for rates."⁷

PacifiCorp's update to its 2003 Integrated Resource Plan defined two physical areas of loads and resources separated by transmission constraints. Known in the electric transmission trade as "Bubbles" these two areas of load for PacifiCorp are the Utah bubble and the Western Control Area bubble. PacifiCorp's IRP update shows the Utah bubble growing faster than the Western Control Area bubble and states the resource needs can only be met with, "geographically specific, physical solutions." Furthermore PacifiCorp states that the long-term planning based on the separate bubble approach is, "consistent with the manner in which PacifiCorp's Front Office plans for the system on the near term (2-3 years out)."

Struggling with the distinctly different loads driving costs and two control areas distinguished in the planning process, the Oregon, Utah and Idaho Commissions added significant stipulations in their Orders adopting the Revised Protocol. The Oregon Commission required PacifiCorp and Oregon Staff along with other interested parties to create a "fully developed hybrid method" by December 1, 2005. The Oregon Commission intended the fully developed hybrid method "to assist our determination of whether the Revised Protocol remains an equitable allocation methodology," and "as a possible means to eliminate cost shifting among PacifiCorp customers in different states."⁸

The Hybrid Method as presented in the Oregon proceeding was recognized by both the Oregon Commission Staff⁹ and the Oregon Commission as providing lower rates than the Revised Protocol by mitigating the subsidizing of load growth.¹⁰ In adopting the Revised Protocol, the Oregon Commission weighed the importance of agreement with the three other jurisdictions against the less than perfect fairness of cost allocation under Revised Protocol.

In adopting the revised Protocol, the Utah Commission set out stipulations which use the Rolled-In Allocation Method to cap PacifiCorp's cost recovery in Utah, essentially hedging their agreement to the Revised Protocol. Through March 31, 2009 PacifiCorp's Utah revenue requirement will be the lessor of:

"...(i) the company's Utah revenue requirement calculated under the Rolled-In Allocation Method Multiplied by the Applicable Percentage [all of which are greater than one

⁷ U-87-1338, Merger Order 2nd Supplemental Order, p. 14.

⁸ Oregon PUC, Order No. 05-021, P. 1.

⁹ Oregon PUC, UM 1050, Staff Exhibit 100(Hellman), p. 14 table 1 and p. 16 ll. 13-15.

¹⁰ Oregon PUC, Order No. 05-021, P. 7, "Allocation under the Hybrid Method as currently configured would mitigate the subsidization of load growth and would result in lower rates than allocation under the revised protocol."

hundred] ...or (ii) the Company's Utah revenue requirement resulting from the Revised Protocol."¹¹

Public Counsel believes the Rolled-in Allocation Method is onerous to Washington ratepayers and does not follow cost causation. Public Counsel strongly believes the Rolled-In Allocation as applied in Utah will require less revenue than the Revised Protocol effectively suspending the adoption of the protocol.

Idaho followed Utah in adopting the revised Protocol by also adopting an effective four year rate cap based on 1.67% above the Rolled-In Allocation Method.¹²

As a result of these stipulations accompanying the adoption of the Revised Protocol, Public Counsel believes Idaho and Utah will be determining revenue requirements by the Rolled-In Allocation Method for the next four and five years, respectively. Utah also extends a 5 year monitoring period starting at the end of the rate mitigation cap period which expressly reserves PacifiCorp's right to file a different cost allocation method if the Company's revenue requirement under Revised Protocol exceeds 101% of that required by the Rolled-In Allocation Method.¹³

Public Counsel anticipates raising these and other issues in the upcoming PacifiCorp General Rate Case. Public Counsel thanks the Commission for this opportunity to comment. If the Commission wishes any additional information Public Counsel would welcome the opportunity to discuss this matter further.

Sincerely,

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cc: Service List (First Class Mail & E-mail)

¹¹ Utah PSC, Docket No. 02-035-04, Stipulation, p. 2. The Utah Stipulation sets out the "Applicable percentage on p. 3, ¶ 2 as 101.5% through March 31, 2007 and 101.25% beyond March 2007 to March 31, 2009.

¹² Idaho PUC, Docket No. PAC-E-02-3, Stipulation and Agreement, pp. 3-4.

¹³ Utah PSC, Docket No. 02-035-04, Stipulation, p. 4.