Docket No. 01-035-01
Laura Nelson
Exhibit No. 11.0
July 16, 2001

-BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH-

IN THE MATTER OF THE APPLICATION OF PACIFICORP FOR APPROVAL OF ITS PROPOSED ELECTRIC RATE SCHEDULES AND ELECTRIC SERVICE REGULATIONS	)))))	DOCKET NO. 01-035-01

REBUTTAL TESTIMONY OF

DR. LAURA NELSON

FOR THE

DIVISION OF PUBLIC UTILITIES

DEPARTMENT OF COMMERCE

STATE OF UTAH

July 16, 2001

Q. Please state your name, business address, and present position with the Division of Public Utilities.

A. My name is Laura Nelson and my business address is the Heber Wells Building, 160 East 300 South, Salt Lake City, Utah. My position with the Division is as a Rate Analyst.

Q. Are you the same Dr. Nelson who previously filed Cost of Service testimony in this docket?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. I will present the Division of Public Utilities' (DPU's or Division's) rebuttal to the testimony filed by Mr. Jeff Burks and Dr. David Nichols on behalf of the Utah Energy Office (UEO). In particular, I will present the Division's position regarding UEO's proposed funding level and program designs for Demand Side Resources (DSR) as presented in UEO's filed revenue requirement testimony.

Q. Could you please summarize the Division's understanding of UEO's proposal?

A. Yes. The Division understands that UEO's proposal is to increase DSR funding by approximately $192 million over the next 6 years. This is in addition to any other revenue increase that may be granted by the Commission in this Docket. In the first year, an increase of $35 million is requested to enhance DSR expenditures. This level would fall to approximately $32 million in each of five subsequent years.

It is further proposed in the Cost of Service (COS) testimony filed by UEO that DSR funds be collected through a tariff rider. The residential rider is estimated to be approximately 3.58 mills per kWh and 1.64 mills per kWh for the nonresidential rider.[1] The rider as proposed would be in addition to the cost based rates, as determined by the Commission, paid by customers. The Division plans to address the impact of this change on customer classes along with other issues in its COS rebuttal testimony.

UEO also identifies and recommends specific DSR programs in its revenue requirement testimony. It is suggested that the recommended programs will potentially generate avoided cost savings that will offset the increased spending on DSR. In sum, UEO is recommending a substantial increase in the funding level for DSR. They posit that this increase will provide the necessary funding stability and incentive for PacifiCorp (Company) to increase investments in DSR.

Q. Could you please summarize the Division's position regarding the proposals made by UEO?

A. The Division does not recommend that the increase be approved. First, we consider this to be tantamount to an out-of-period adjustment that would result in rates which are in excess of costs. Additionally, we believe that the treatment of demand side resources should approximate the treatment of supply side resources (SSR). It is also our position that PacifiCorp's Integrated Resource Plans (IRP) call for the acquisition of ***all cost-effective*** DSR based on the load and resource balance at the time.[2] Finally, we are concerned about the impact that such an increase in DSR investments may have on all customers going forward as a result of changing wholesale market conditions.

Q. Why does the Division consider this request as analogous to an out-of-period adjustment?

A. In past rate case dockets, this Commission has tended to rely on an historic test year for establishing rates going forward. This approach has yielded rates that are as reflective of costs as those that may be determined using alternative methods, such as projected future test year results. The use of historic test years allows for a detailed analysis of the Company's cost, including those associated with resource acquisition. In particular, it allows for a complete prudence review of any resource acquisitions taking place during the test period. Thus, it has not historically been the case that resource acquisitions are funded "up-front." Rather, the costs have been expensed (DSR) or carried in the appropriate account(s) with associated carrying costs (SSR). Cost recovery is determined after the review of the cost-effectiveness of the acquisition.

Q. Why does the Division believe that the treatment of DSR should approximate the treatment of SSR?

[1] Direct testimony of David Nichols on behalf of UEO, June 15, 2001, page 7, lines 10 and 17.
[2] This was most recently put forward in the Division rebuttal testimony sponsored by Ken Powell in Docket 99-035-10.

A. First, as stated above, we believe that all resource acquisitions should be subject to the appropriate prudence review. If funding is granted in advance of DSR program design and implementation, this review process is hampered. We do recognize that the Tellus study, upon which UEO bases its recommendations, identifies a number of potentially cost-effective DSR programs. However, this assessment is based on a number of assumptions that may not hold at the time of program implementation. An historic perspective allows for a more accurate assessment of the conditions prevailing at the time of program adoption.

Q. What role does the IRP process play in determining cost-effective DSR?

A. We hold that the purpose of the IRP process is to identify ***all*** cost-effective resources, including DSR, to meet needs. In Attachment A to its order in Docket 90-2035-01, the Commission states that

> PacifiCorp's future Integrated Resource Plans will include…[a]n evaluation of all present and future resources, including future market opportunities (both demand-side and supply-side) on a consistent and *comparable* basis (emphasis added).

While out-dated assumptions may result in underestimating the need and/or the cost-effectiveness of DSR, properly designed sensitivities coupled with a well-designed risk analysis should mitigate against the possibility of woefully inaccurate projections. Thus, the issue is whether or not adequate planning via a well-designed and implemented IRP has taken place. In short, we contend that the appropriate place for dealing with such issues is in the IRP process. Utilizing the Tellus study results to determine investments over a multi-year time frame is equivalent to basing long-term resource planning on a single sensitivity run. Moreover, the Company should be motivated to pursue a dynamic and effective IRP process in order to provide increased assurance that changes in loads will be adequately met with the necessary resource adjustments.

Q. UEO contends that the future value of avoided cost savings achieved through demand-side measures is likely to more than off-set the implementation cost of its recommended DSR portfolio. Do you agree with this assertion?

A. While it may be argued that programs which can be implemented immediately, may provide benefits in excess of program costs, this may not be true over time. However, increased wholesale market stability that leads to falling avoided costs rates, by definition, decreases the value of savings from DSR programs. Over the past year and a half, the West has experienced particularly volatile times with respect to wholesale energy markets. A change in the position taken by the Federal Energy and Regulatory Commission (FERC) regarding wholesale electricity price regulation has recently emerged in response to this volatility. Specifically, FERC has conditionally capped wholesale market prices in the West leading to lower market prices. Thus, it may be that the results put forward by the Tellus study and supported by UEO are already out of date. We consider that this further supports the need to base resource planning on a well-developed IRP rather than short-term events.

Q. Do you agree that the current method of expensing DSR investments provides a disincentive for increased investment in DSR?

A. It is possible that expensing DSR outlays may not provide an adequate incentive for the Company to pursue DSR enhancements. However, we contend that the IRP process is designed to identify the most cost-effective means of acquiring resources (as discussed above) and that the Company should be incented to pursue such resources. Additionally, we believe that it cannot be established *a priori* that expense treatment always generates a disincentive for enhanced DSR expenditures. For example, high wholesale market prices increase the cost-effectiveness of DSR. Thus, pursuit of enhanced DSR programs at times of high prices may generate increased revenues for the Company in excess of the cost of such programs, because the Company is able to avoid costly market purchases and/or sell into that market. In light of the numerous load curtailment programs that PacifiCorp has put forward in recent months, we believe that the Company has considered such opportunities.

Q. Do you have any other concerns regarding UEO's proposal?

A. Yes, I have one additional concern. However, it is not a concern directly related to UEO's recommendation but is associated with a request recently filed by the Company to enhance its current DSR programs (primarily FinAnswer) and implement new ones. Specifically, the Company has filed a number of proposals for DSR programs that would result in an increase in DSR expenditures of approximately $13.5 million. The Company is not seeking to collect the costs of these programs prior to implementation. Rather, they have filed conjunctively a request for deferred accounting treatment of the costs. At this time, it is not my intent to comment on the Division's position regarding deferred accounting treatment of these cost but to address the relationship between the proposals and the UEO recommendation.

First, we do not view the proposals made by the Company and those made by UEO to be mutually exclusive. In particular, any consideration of the UEO's recommendation should take into account any program costs associated with the additional DSR initiatives put forward by the company, assuming that such investments are indeed pursued.[3]

Secondly, we consider that the Company is in a better position than UEO to identify the programs that it feels it can implement in an expedited manner. As indicated above, programs that can be implemented more quickly may allow for the opportunity to take advantage of wholesale market prices that are higher than the long-run average. Summarily, the short-term avoided cost savings could be substantial, with a leveling out and possible decline as market conditions stabilize and avoided costs rates decline.

Finally, current market volatility should not provide the sole basis upon which DSR investments are made. As avoided cost rates decline, so do the savings. Moreover, changing conditions could alter the positive total resource costs test outcomes suggested by the Tellus study and utilized in the development of UEO's

[3] The Division filed a memo on July 11, 2001 recommending that the Commission approve the programs filed by the Company. However, we also recommended that such approval not replace a formal prudence review at the appropriate time.

position. Additionally, rate impacts on all classes of customers could become increasingly less favorable over time.

In sum, it should be noted that the Division supports increased DSR investments to the extent that they are cost-effective. The Division does expect the Company to pursue all opportunities for cost-effective resource acquisitions as defined by a well-developed IRP. Additionally, we consider that the current method of evaluating DSR programs individually as they are presented allows for greater flexibility in responding to short-term events that may temporarily necessitate changes in the speed and methods of DSR acquisition. Thus, the Division would recommend that the Commission not adopt the position put forward by UEO.

Q. Does this conclude your rebuttal testimony?

A. Yes.