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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF UTAH

In the Matter of the Application of PacifiCorp for an Increase in its Rates and Charges	))))	REQUEST FOR RECONSIDERATION Docket No. 01-035-01

Introduction

Pursuant to § 63-46b-12, *Utah Code Annotated, and R746-100-11, Rules of the Public Service Commission*, the Committee of Consumer Services (the "Committee") requests that the Utah Public Service Commission (the "Commission") reconsider its Report and Order in the above-entitled matter issued September 10, 2001.

The Committee requests that the Commission reconsider its findings, conclusions, and Order with respect to three issues: (1) Integrated Systems Operation; (2) Thermal Unit Availability; and (3) Imputation of Revenue to Certain Long-Term Firm Contracts. Because of the already-noted dynamic inter-relationship of the net power cost issues in this case, any further adjustments made by the Commission in response to this Request for Reconsideration will most likely require the Commission to make a final power cost run based on the set of power cost decisions contained its final Order.

The reasons for the Committee's Request for Reconsideration by the Commission of these three issues are set forth below.

Argument

1. TRANSMISSION CAPACITY; SIZE OF NON-FIRM MARKETS; OPTIMIZING LOGIC

On page 22 of its Order, the Commission makes the following finding and conclusion regarding this important issue:

> "We find record support for the proposition that value exists in integrated system operation to a degree not fully captured by either Company or Division/Committee modeling efforts. Indeed, that there would be significant value in a fully integrated, single-system operation was a principal reason this Commission approved the 1989 merger of Pacific Power and Utah Power. The Company now offers neither complete nor coherent argument as to why these operational benefits should have disappeared. For this reason, plus our findings that the Division/Committee approach appears to capture a more realistic picture of the economic choices the two divisions could be expected to face as they respond to either surplus or deficit, we accept the results of the Division/ Committee analysis. We conclude that $13.7 million is the only amount on this record reasonably suggestive of the value of integrated system operations."

The Committee respectfully submits that as a result of the Commission's decisions on other power cost adjustments (e.g., actual prices for short-term firm and secondary transactions, thermal unit availability, etc.) its adoption of $13.7 million as the value of integrated system operations is in error. Specifically, with the exception of adjustments relating to SMUD and losses on short-term transactions, the remaining adjustments sponsored by Committee power cost witnesses are dynamically interrelated. The record is clear on this point.

Now that the Commission has elected to accept a certain set of power cost adjustments, the value of "dependent"power cost adjustments–particularly that of integrated system modeling–would be different. A final net power cost run needs to be made that shows the impact of the Commission's decisions on adjustments that are interrelated. As set forth below, the Commission's set of power cost decisions significantly increases the value of the integrated system adjustment.

Regarding the issue of actual versus normalized (annualized) market prices for secondary sales and purchases, the Commission found in favor of the position advanced by the Committee/

Division and the UIEC. However, the Commission adopted the market prices proposed by UIEC witness Chalfant: market prices that reflect different sales and purchase prices in the Pacific and Utah Divisions.

Since the Committee/Division's system integration and optimizing logic relied on the simplifying assumption of a single monthly purchase and sales price for both divisions, the impact of using different prices in each division has yet to be determined. In other words, it is necessary to re-optimize the system so that purchases and sales can be effected between the two divisions on the basis of price differentials. Using the actual secondary sales and purchase prices adopted by the Commission, the Committee calculates the value of the system integration adjustment to be $27.5 million.

The Committee strongly urges the Commission to make a final power cost run based on the set of power cost decisions contained in the Order. We believe that run will support increasing the value of the system integration adjustment from $13.7 million to $27.5 million. Alternatively, we recommend re-opening the record so the Commission can acquire additional evidence on the points raised in this aspect of the Committee's Petition for Reconsideration.

2. THERMAL UNIT AVAILABILITY

The Commission in this Order retained the use of four-year averages for thermal availability, concluding that:

"Information in the record shows that four-year averages approximate a longer 10-year experience better than do the six-year averages proposed by the other parties." (Page 15 of Order).

The Commission's conclusion on this issue appears to be predicated on evidence provided by the Company making comparisons of *average availability* for three different time periods: four years,

six years and ten years. However, what the Commission fails to note is average availability is not a data input in the determination of net power costs. The relevant data input to the power cost model is *individual unit availability levels*.

As further discussed below, there is compelling evidence in the record of this case which shows that a six-year average better matches the longer 10-year average when net power cost impact is considered. The information which the Commission relied on in finding otherwise was ostensibly PacifiCorp's equivalent availability data reflected in Mr. Widmer's Rebuttal Exhibit MTW-11:

Year	PacifiCorp Equivalent Availability
Avg. 1991 - 2000	89.12%
Avg. 1994 - 1999	89.41%
Avg. 1996 - 1999	89.16%

The Commission is correct that PacifiCorp's level of equivalent availability was very close in all three periods shown above. The Commission is also correct that the four- and 10-year averages are also nearly identical in the above average availability data. However, this data utilized by the Commission provides an inappropriate standard to assess whether the four- or six-year average is better for the purpose of net power cost modeling. This can best be illustrated by considering a simple example where a utility owns and operates only two generation units.

Example

The first unit is an expensive gas-fired peaking unit with an equivalent availability of 40%, and the second unit is a low cost coal-fired base load unit with an equivalent availability of 93%. Using PacifiCorp's criterion (i.e., simple average or capacity weighted average), the average availability is heavily influenced by the availability rate of the peaking unit. However, the net power cost results would be impacted more by the availability rate of the low cost coal unit.

Thus, the appropriate standard the Commission should use in comparing four- and six-year averages is *individual unit availability levels* because that information is what is actually used in calculating net power costs.

In his oral summary testimony, Mr. Falkenberg introduced evidence demonstrating that the use of either a six- or 10-year average produced net power cost results of approximately $700 million (total Company) and that a four-year average produced a net power cost result in excess of $800 million (total Company). That evidence is attached as Exhibit A to this Request for Reconsideration. When the appropriate standard is utilized, it is clearly evident that the six-year average more closely matches the ten-year average, and should therefore be adopted by this Commission.

3. IMPUTATION OF REVENUES TO CERTAIN LONG-TERM FIRM CONTRACTS.

The Commission's Order imputes revenue to several Company long-term firm wholesale contracts based on Commission findings that:

(1) the 1990 Criteria remain applicable regulatory policy (Page 29 of Order);

(2) the Company shortly after 1995 adopted a business strategy of participation in wholesale market activity well beyond what was required to serve native retail load which "exposed ratepayers to substantial risk" (Page 33 of Order); and

(3) the clear purpose of the 1990 Criteria is to protect ratepayers from the risks of the Company's long-term wholesale sales activity (Page 29 of Order).

The Committee welcomes the Commission's reaffirmation of the 1990 Criteria and the Criteria's regulatory purpose. However, we believe the Commission erred in how it applied the 1990 Criteria in this case. The purpose of the 1990 Criteria is to protect retail ratepayers. Therefore, any revenue imputation found necessary to effect that policy purpose must, in operative fact, *protect* retail ratepayers. Unfortunately, the Commission's revenue imputation in this case falls well short of ratepayer protection. In fact, rather than *protecting* retail ratepayers from the risks of the Company's long-term wholesale sales activity, the Commission's imputation formula *assigns* ratepayers much of that risk. How can this be?

The 1990 Criteria utilize price reference standards of both "marginal cost" and "full embedded cost" in defining the revenue level a long-term firm contract accorded revenue credit must

meet to protect ratepayers. However, the Commission frames the discussion of these pricing standards in its order in such a way– i.e., the Division advocates embedded costs, the Committee advocates marginal costs, etc.–that it would seem the 1990 Criteria permit a choice of pricing standards–and that a choice of either one accomplishes the regulatory purpose of protecting retail ratepayers.

Clearly, neither the wording of the1990 Criteria nor the regulatory purpose they serve offers any such pricing option. To the contrary, Criterion 4-of particular relevance here-uses the terms "marginal cost" and "full-embedded costs", but not interchangeably in the sense that an arbiter might choose between them. Rather, the terms are used in a cumulative, or consecutive sense, to effect the policy end of <u>protecting</u> ratepayers from the risks of the Company's long y1. No "degrees" of protection are either stated or implied. The 1993 task force modification to 4(d), cited on page 29 of the Commission's Order, makes the regulatory objective of full protection even more clear in its forthright statement that:

"Pricing shall be structured such that over the life of the contract retail revenue requirement will be protected from increases resulting from resource acquisitions needed to serve the wholesale contract."

The Committee has argued in this rate case that the 1990 Criteria be given effect by imputing to certain Company long-term firm contracts that amount of revenue sufficient to, in the words of the Commission, "adequately cover the costs of serving them" (Page 34 of Order). That is not only the Committee's argument. It is also, in light of the findings of the Commission in its Order, regulatory policy. The Commission found that the Company's costs of serving the subject long-term firm contracts are manifest in the additional resources (i.e., additional energy by means of short-term firm and non-firm transactions) the Company

acquired to cover them. Thus, in order to "protect" retail ratepayers from the losses associated with these long-term firm wholesale sales contracts, a revenue imputation up to the cost of the short-term transactions made to cover them is clearly necessary. Any imputation short of that is not a grant of protection to retail ratepayers but rather the assignment to them of a substantial portion of the Company's wholesale sales risk and resulting loss.

The imputation ordered by the Commission was based upon the Division's calculation of

Company embedded costs of $33.72 per Mwh. (Page 33 of Order). The Company's marginal costs for the same period were markedly higher. The Committee respectfully requests that the Commission modify its revenue imputation formula to cover not only embedded costs but also the marginal (i.e., additional resource) costs incurred to serve the subject long-term firm contracts so that the regulatory policy of protecting retail ratepayers from the risk of the Company's long-term wholesale sales activity is given real and operative effect.

Conclusion

Based on the foregoing reasons and argument, the Committee respectfully requests that the Commission reconsider its decision with respect to the above-identified issues and make the proposed modifications and changes.

Dated this 1st day of October, 2001.

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REED T. WARNICK
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Committee of Consumer Services

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the forego-ing REQUEST FOR RECONSIDERATION was served by mailing the same, first-class postage pre-paid, this _____ day of October, 2001, to:

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Secretary

Issue – Use six-year not four year average of outages in NPC Model

Basis – Recent high outages not representative, general decline in plant availability.

Impact - $45.6/16.9

PacifiCorp Objection – Over last 10 years not much change in outage performance; accuses data manipulation; customers have received benefit of good performance already; trend in average outage rates not substantial

Response –

- **Test year 4-year average is not representative of normal conditions – compared to year 2000, 6-year or even 10-year average.**

- **"Good performance" in the past produced modest benefit. Also, purpose is to develop forward looking rates, not collect past costs. No double-count.**

- **Questionable outages over past several years.**

- **Average outage rates are a misleading comparison. Model results more meaningful.**

y. o used in Criterion 4, but isn't discussed as an option in the Commission's Order. Once again, the context of the use of this term and the other two price reference terms only further underscores the intent of the provision to hold retail ratepayers harmless.