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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of PACIFICORP for an Investigation of Inter- Jurisdictional Issues	UAE ISSUE PAPER
	Docket No. 02-035-04

The UAE Intervention Group (“UAE”) files this Issue Paper in accordance with the Commission’s scheduling orders in this docket. UAE has invested significant resources in the SRP/MSP process, and has been an active participant from the beginning. However, UAE is not yet able to specify all of the important issues raised by PacifiCorp’s proposed Protocol, given the fluid nature of the discussions and the lack of consensus. Nevertheless, UAE will provide a list of primary issues of concern to UAE with respect to the Protocol. UAE reserves the right to raise, analyze and address any and all other issues or proposals that may arise in this process.

Protocol Issues

- **Rate Impacts.** One of UAE’s most significant concerns is an accurate and verifiable determination of the likely rate impacts of PacifiCorp’s Protocol (or any other alternative interstate allocation methodology). UAE is a strong supporter of cost-causation-based ratemaking. However, determining cost causation is as much of an art as it is a science, and many important policy implications must be carefully considered in applying cost causation principles in ratemaking. For example, principles of fairness, rate stability and gradualism are important policy considerations, as well as protection of economic

development within the State of Utah. UAE remains concerned, as it has throughout this process, that potential rate impacts stemming from changes in interstate allocations are not sufficiently understood and have not been sufficiently verified to permit meaningful conclusions.

- **Verification of Modeling Assumptions and Results.** Closely related to the rate impact concerns expressed above is UAE's ongoing concern, expressed from the beginning of this process, that the extremely complicated models utilized by PacifiCorp in projecting impacts of various alternatives, and the assumptions used in those models, have not received sufficient outside analysis or verification. Concerns over confidentiality, while legitimate to a point, have prevented any meaningful review or confirmation of the reasonableness of the modeling assumptions, inputs or outputs. UAE cannot support any change to interstate allocation methodologies without first determining that the impacts of any such changes have been reasonably identified.
- **Expansion of Endowments.** UAE recognizes, but does not accept, the claim of certain states to a permanent "endowment" to any given PacifiCorp resource. Utah approved the Utah Power/PacifiCorp merger on the condition that the merged company would in fact become a merged company over time. Utah recognized the need for a "fairness" adjustment, consistent with sound principles such as fairness, rate stability and gradualism, but it did not recognize any jurisdiction's exclusive claim to any PacifiCorp resource. UAE is not opposed to the reasonable use of "endowments," credits or other similar mechanisms to further desired goals such as cost-causation, fairness and gradualism. However, UAE opposes permanent recognition of any claim to exclusive ownership of a resource. Unless PacifiCorp is literally severed into two (or more) companies, UAE supports continued recognition of the reality that PacifiCorp is a

merged company and of allocation methodologies that recognize and further that reality. UAE is concerned that the Protocol's use of endowments is inconsistent with the realities of the merged system. Moreover, the Protocol's "endowment" scheme, in which the "Hydro Endowment" is in reality a hydro burden and the "Coal Endowment" is in reality a coal burden, appears to be a non-starter. UAE believes that an alternative mechanism, such as a fuel credit for a specified number of years, would be more appropriate.

- **Opt-out Provisions.** UAE is concerned about the fairness and implications of a resource "opt-out" to any jurisdiction. UAE fears that such a provision will significantly complicate interstate allocations, will likely impact optimal planning and operation of the integrated system, and may give one state an unfair advantage over other states. UAE does not believe that the full implications of such a provision have been identified or analyzed.
- **Merger commitments.** UAE believes that PacifiCorp must continue to honor the representations made and conditions imposed in connection with its merger. Among other things, UAE believes that PacifiCorp, and not Utah ratepayers, must continue to bear the risk that states will adopt different interstate allocation approaches. While UAE does not oppose a reasonable shift in cost responsibility in order to help close any interstate allocation "hole," it opposes any cost shift that exceeds Utah's "fair share" of the problem, assuming other states and PacifiCorp also bear their fair shares.
- **Cost of Utah load growth.** UAE recognizes that the cost allocation impact of Utah load growth is an issue in this process. We are open to explore allocation approaches that ensure that the cost of one state's growth is not unduly funded by others. However, the development of any such mechanisms must be sustainable and not burdensomely complex. Another factor in addressing this issue is properly valuing the natural hedge

associated with being part of an integrated system, in light of future uncertainties and the propensity for forecasts to be wrong. Utah's load growth has benefited the system in the past when PacifiCorp was burdened with excess resources. Utah should not be permitted to become the victim of adverse selection, in which the cost allocation methodology is changed only after Utah's growth ceases benefiting the system. Similarly, if the methodology is modified now in order to assign greater costs to Utah while it is growing more rapidly than the average and resources are scarce, the methodology should not be permitted to be "undone" at a later date when the facts are different.

Alternatives

At this point in time, UAE is not in a position to suggest or support any particular alternative to the Protocol. UAE will continue to work with the Utah parties and others to identify and analyze potential solutions to the issues raised above and all other relevant issues.

UAE has had insufficient time to analyze any alternatives suggested by others. UAE notes, however, that it continues to have significant concerns over many aspects of the so-called "hybrid" approach. Moreover, based on a brief (but incomplete) review of the "Dynamic Alternative" recently proposed by the "Oregon Coalition," UAE will likely have a number of significant concerns with that approach. Alternative proposals are beyond the scope of this document, however, and UAE reserves the right to fully analyze any alternative proposals and to raise all relevant issues regarding the same.

DATED this 5th day of March, 2004.

HATCH, JAMES & DODGE

/s/ Gary A. Dodge
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served upon the following parties by electronic mail on March 5, 2004:

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