- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of PacifiCorp for an Investigation of Inter-Jurisdictional Issues	|	**Docket No. 02-035-04** **Utah Division of Public Utilities** **Exhibit No. DPU 2.0**

Direct Prefiled Testimony of

Ron Burrup

For the Division of Public Utilities

July 15, 2004

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

A. My name is Ron Burrup and my business address is the Heber Wells Building, 160 East 300 South, Salt Lake City, Utah. My current position with the Division is as Acting Energy Group Manager.

Q. Could you please explain your education and regulatory experience?

A. I have been with the Division for 28 years and worked in a number of different capacities. I am a CPA have experience in audits and policy development. I participated in the prior PITA meetings.

Q. What is the purpose of your testimony in this filing?

A. As the Acting Energy Group Manger, I am presenting the Division's policy assessment of the Revised Protocol and the associated stipulation between PacifiCorp, the Division, the Committee of Consumer Services, the Utah Association of Energy Users, Crossroads Urban Center, and Salt Lake Cap. This assessment includes a discussion of the anticipated benefits and problems solved through the adoption of the Revised Protocol.

Policy Assessment

Q. What were the policy objectives the Division relied upon in evaluation of possible solutions to the cost recovery problem?

A. A financially sound utility is advantageous to Utah ratepayers in that it promotes efficient acquisition of resources as required to provide safe, reliable service at reasonable rates. The Division expressed numerous times in this process that the increased risk of cost recovery of future plant would be an impediment to the Company for making decisions concerning adequate investments in new resources. Moreover, if the financial community observed a persistent situation of under-recovery and increased risk of future cost recovery, it is likely that the costs of accessing financial markets would increase for PacifiCorp. Ultimately, this could translate into higher rates for customers.

The Division recognized early in the MSP process that resolution of cost recovery differences should not be pursued at any costs. Succinctly stated, any cost shifts to Utah ratepayers resulting from a change in the cost allocation methodology should be both minimal and reasonable.

The rolled-in methodology as has been used in Utah represents a relatively simple and straightforward method for cost allocation. Changes to the current method should be as minimal as possible while still providing effective resolution to the cost recovery problem.

Q. Does the filed Revised Protocol and the associated stipulation meet the Division's policy objectives?

A. The Protocol is really a modified dynamic approach, and in large part, as discussed in George Compton's testimony, incorporates a rolled-in approach. The adjustments that are included in the Protocol, namely in terms of seasonal and regional resources, are reasonable and are necessary for an agreement with the Oregon advocacy group as represented by the Oregon OPUC staff. Since Division staff and other parties are familiar with the rolled-in methodology, preservation of a majority of the rolled-in approach supports the goal of regulatory ease and transparency.

The Division believes that lack of an agreement between states would not follow Utah's stated state energy policy of developing solutions to common problems, would not achieve the benefits listed below, and would not balance the interests of customers and shareholders. Acceptance of the Revised Protocol by Utah parties, Oregon and the at least the majority of other jurisdictions is critical to meeting these objectives.[1]

However, as discussed previously in this testimony, a solution should not be secured at any cost. Analyses of the Revised Protocol indicated that cost shifts to Utah ratepayers in the early years of application of the method exceeded the Division's benchmark of reasonableness. In the later years, there is a projected cost reduction to Utah ratepayers as a result of using the Protocol method. The stipulation provides a method to mitigate the impacts on Utah ratepayers in the early years. In short, the Protocol as revised meets the DPU's policy objectives over the long term, and in conjunction with the stipulation provides a method for minimizing cost impacts to Utah ratepayers.

Q. Please explain how the stipulation provides for mitigation of costs in the early years?

A. First, through March of 2009 there is a "hard cap" on the size of the rate increase. In particular, Utah's revenue requirement cannot exceed what would have occurred under the Rolled-In methodology by more than 1.5% for fiscal years 2006 and 2007. For fiscal periods April 1, 2008 through March 31, 2009, Utah revenue requirement cannot be greater than 1.25% more than what would have occurred if the Rolled-In methodology had been applied. The Division believes that this mitigation is fair and in the public interest. It allows PacifiCorp a greater opportunity to recover its prudently incurred cost, while also promoting rate stability and minimal cost impacts for ratepayers. Moreover, it

[1] The Division believes that an agreement between Oregon and Utah, as they are the largest jurisdictions, is a necessary condition for consideration and acceptance of the Protocol on the part of other states.

is consistent with the benchmark of reasonableness that the Division supported early on in this process.

It should be noted, though, that the method does not allow for an opportunity to fully recover costs in the early years. The reason for this is that in some years the cap is less than the projected Protocol allocation. As part of the stipulation, for the fiscal periods April 1, 2009 through March 31, 2012, the Company is permitted to collect .25% more in revenue requirement over the Revised Protocol results.

In summary the Division concludes that the Protocol allocation method is consistent with the Utah's energy policy and will ultimately provide benefits to Utah customers. At the same time it is flexible -- allowing for ongoing assessment of issues that may impact cost allocation in the future, and no state in being asked to give up its sovereign jurisdiction over generation or transmission assets.

Benefits of an MSP Resolution

Q. Please explain the benefits the Division sees from the MSP resolution.

A. I will list eight benefits the Division sees.

1. The agreement supports continued <u>system</u> planning for generation and transmission investments.
2. The agreement supports PacifiCorp's continued access to financial markets and mitigates the risk of higher capital costs resulting in higher customer rates.
3. The agreement improves PacifiCorp's ability to implement its resource plans.
4. The agreement promotes retention of a strong integrated system, which provides benefits to all states.

5. The agreement provides improved clarity for PacifiCorp and state regulators around state energy policy differences.
6. The agreement can mitigate the impact on other jurisdictions of another state's energy policies.
7. The agreement preserves existing state jurisdiction over generation and transmission assets.
8. The agreement is consistent with and supports the Utah's energy policy.

1. Continued System Planning

Q. Please explain the continued system planning.

A. It is more economical for PacifiCorp to plan and operate its system for the benefit of all six states than for each state individually. System planning and operation benefits come from economies due to seasonal and time of day differences between the states, and from spreading fixed overheads among larger numbers of customers.

2. Access to financial markets

Q. Please explain the access to financial markets benefit

A. Problems with cost recovery have emerged as states have chosen to utilize different cost allocation methods. Most recently the two predominant cost recovery methods have been the rolled-in approach and Modified Accord. Utah has been the only jurisdiction using the rolled-in method, but other states (Idaho and Wyoming) had considered adopting this method. Other jurisdictions have used the Modified Accord (MA) Method. Perhaps the primary difference between these two approaches is the hydro adjustment that is incorporated in the MA method, an adjustment that is important to the Northwest states, namely Oregon and Washington. Because of the use of differing cost recovery methods, PacifiCorp has been unable to recover all of it prudently incurred costs for existing resources. Historically, this created what came to be referred to as the allocations "hole." Continued under- or non-recovery of utility assets can make it harder for a utility to access the financial markets at reasonable rates for capital requirements.

Cost recovery risk for new plant has been further compounded by differing rates of load growth. In particular, there was a concern that other states might be subsidizing Utah's high rate of growth. This further fueled states' (namely Oregon's and Washington's) concerns about accepting a cost allocation inclusive of new resources. Adopting the Protocol promotes the application of a consistent cost allocation method across all states. As a result it improves the company's opportunity to fully recover its prudently incurred costs. It also provides a mechanism to address load growth issues and reduces the risk for future cost recovery.

3. Ability to implement its resource plan

Q. Please explain the ability to implement its resource plan.

A. PacifiCorp creates a system-wide resource plan, however state energy policies differ and states experience different levels of load growth. It appears increasingly more difficult to implement a system-wide resource plan when jurisdictions disagree on how cost of new resources should be recovered. The Protocol fosters agreement on this critical issue.

4. Retention of a strong integrated system

Q. Please explain the retention of a strong integrated system benefit.

A. PacifiCorp does not need an incentive to break its generation and transmission system into six separate state utilities. Divergent state energy policies could provide this incentive. The agreement, on the other hand, provides an incentive to retain integrated system operations, planning and ultimately integrated system benefits.

5. Improved clarity around state energy policy differences

Q. Please explain the improved clarity around state energy policy differences.

A. For Utah, the agreement provides clarity around the treatment of special contracts, Qualifying Facilities, and demand side management programs. The agreement provides clarity as to how these issue will be treated in rates, thus assisting the evaluation and negotiation process within and among states.

6. Mitigate the impact on other jurisdictions of another state's energy policies.

Q. Please explain this benefit.

A. Oregon legislation promoting open or direct access (Oregon Senate Bill 1149)[2] was perhaps the most significant state energy policy fostering the need to resolve cost allocation differences. While Oregon deregulation has not unfolded as originally anticipated, in fact has stalled to some extent, the impacts on Oregon's perspective regarding cost responsibility for new resources have remained pertinent. Moreover, there is still some anticipation that deregulation could "rebound" in Oregon, or in other states for that matter. The result is that the move toward deregulation increases significantly the risk to PacifiCorp for recovery of costs associated with new plants. The Protocol addresses this issue, thus reducing risk to PacifiCorp.

7. Preserves existing state jurisdiction over generation and transmission assets.

Q. Please explain this benefit.

[2] Since the purpose of this testimony is not to delve into the specifics of this policy but to highlight its impacts on cost allocations, further discussion on the details of SB 1149 is not provided here.

A. Some of the solutions to this problem included separating PacifiCorp into independent distribution companies, with a service company, a generation company, and a transmission company, with limited or no state jurisdiction. The Protocol preserves Utah's jurisdiction over generation and transmission assets used to serve Utah customers.

8. Consistency with the State Energy Policy

Q. Please explain how this agreement is consistent with the State Energy Policy.

A. I have attached the March 14, 2001 state energy policy statement, it says:

> *Regional Participation – Utah recognizes that it is part of an integrated energy system and partners with neighboring states in developing regional solutions to common problems.*

The agreement fulfills this mandate by participating with neighboring states in solving regional allocation problems.

Q. Does that conclude your testimony?

A. Yes