Utah Work Group III
Consistency of Allocation Factors Between JAM and Class COS

Report to the

Utah Public Service Commission

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Submitted by
Utah Division of Public Utilities

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EXECUTIVE SUMMARY

In its Report and Order on Revenue Requirement, Cost of Service and Spread of Rates, Docket No. 09-035-23, issued on February 18, 2010, the Commission ordered the formation of, among other groups, a workgroup (workgroup III) to study the consistency between jurisdictional and class allocations. In compliance with this order, the Division assembled a workgroup of the interested parties. The workgroup held six meetings, May 20, June 3, July 8, August 12, September 16, and October 21, 2010. In the first meeting, the workgroup discussed the scope of work and determined a schedule for the remaining meetings. In the subsequent meetings the workgroup reviewed and discussed spreadsheets containing information on the functionalization, classification and allocation of costs in the JAM and Class COS models to help identify inconsistent items.

The workgroup needed to first determine what the Commission had previously decided. To determine this, the Division performed an historical review and determined that there were two Dockets in which the Commission made decisions regarding allocation factors. The first was Docket No. 97-035-04, entitled "In the Matter of a Proceeding to Establish Allocation Methodology to Separate PacifiCorp's Assets, Expenses and Revenues Between Various States," and the second was the MSP stipulation in Docket No. 02-035-04. The Division reviewed these two dockets along with the allocation methods used in the most recent general rate case, Docket No. 09-035-23. The Division determined that the inter-jurisdictional allocation methods used in the most recent 2009 General Rate Case, Docket No. 09-035-23, were in compliance with the Commission decisions in Docket Nos. 97-035-04 and 02-035-04 (Attachment B).

The Company provided a spreadsheet, following a format developed by Dr. James Logan, Commission staff, comparing allocation factors between the JAM and COS models. The spreadsheet also indicated where the Company perceived inconsistencies to exist between the two models along with its proposed solutions. Workgroup members provided similar comments, which were incorporated in the spreadsheet. These comments collectively show that the allocation factors used in the JAM and COS models are consistent for most FERC accounts. Of those FERC accounts that are not consistently allocated, the workgroup participants neither came to a consensus as to how to make the accounts consistent nor agreed on whether or not consistency is needed.

Finally, the Division notes that the recent 2010 MSP filing, filed in the original Docket No. 02-035-04, requests that the future jurisdictional allocation method (JAM) include, among other changes, an elimination of seasonal resource distinctions. The current schedule for the MSP docket concludes well after the anticipated filing date for the Company's next general rate case. However, a decision in the MSP docket may be available before the conclusion of the rate case. Therefore, Depending on the outcome of the MSP case, the changes in inter-jurisdictional allocations may create further inconsistencies between the two allocation models unless the same changes are also made at the class level. Therefore, the Division encourages all parties to participate in the MSP docket, as well as the next general rate case, and propose whatever changes they deem necessary.

WORKGROUP ASSIGNMENT

In the PacifiCorp 2009 rate case, Docket No. 09-035-23, the Division of Public Utilities (Division) raised issues regarding the consistency between the jurisdictional allocation and class cost allocation factors and recommended that the Public Service Commission (Commission) appoint a workgroup to review, update, and revise as necessary the allocation issues between the inter-jurisdictional and class cost-of-service models. Consequently, in its Report and Order on Revenue Requirement, Cost of Service and Spread of Rates (Order) in this docket issued on February 18, 2010, the Commission ordered the formation of, among other groups, a workgroup to study the consistency between jurisdictional and class allocations. The Commission directed the Division to report to the Commission on the findings of this workgroup by November 30, 2010.

This report constitutes the Division's response to the Commission's Order. Attached to this report is a spreadsheet, Attachment C, that compares, for each FERC account, the jurisdictional and class allocation factors. Also attached to this report, Attachments H and I-Confidential, are independent comments from UIEC.

ISSUES AND MEETINGS

In its Order, the Commission directed the Division to assemble a workgroup to study the consistency between the jurisdictional and class allocation factors. The Order states[1]

> We agree there are inconsistencies between the allocation factors used in Company's interjurisdictional and class cost-of-service models. We find these inconsistencies must be addressed and therefore accept the Division's recommendation. The goal of this work group is to produce a document comparing all inter-jurisdictional and class cost-of-service allocation factors, for both the Roll-In and Revised Protocol methods. Factors for which consensus cannot be achieved will be documented and explained. This type of information was provided to the Commission for the interjurisdictional model

[1] Docket No. 09-035-23. "Report and Order on Revenue Requirement, Cost of Service and Spread of Rates." Issued on February 18, 2010, p. 125-126.

with the approval of the MSP stipulation in Docket No. 02-035-04[2]. We direct the working group to provide a similar document to be filed with the Commission by no later than November 30, 2010[3].

The Order also indicates

> Any party who would like to propose an alternative to the approved methods must provide analysis to demonstrate the proposed method is also appropriate and viable at the interjurisdictional level. This analysis must include a level of detail to determine the impacts to Utah and other states in the PacifiCorp system of a proposed change in classification and allocation methods[4].

The Order also states

> Other than treatment of MSP stipulation components, parties recommending changes to cost allocations for class cost of service purposes must provide analysis regarding the appropriateness of these changes for inter-jurisdictional cost allocations and provide an estimate of the impact to Utah and the other states of any proposed change and an assessment of the likelihood such a change could also be made at the inter-jurisdictional level[5].

In compliance with this order, a workgroup of the interested parties was assembled. A list of the participants and their affiliations is given in Attachment A. The workgroup held six meetings, May 20, June 3, July 8, August 12, September 16, and October 21, 2010. In the first

[2] Docket No. 02-035-04, "In the Matter of the Application of PacifiCorp for an Investigation of Interjurisdictional Issues."
[3] Docket No. 97-035-01, "In the Matter of the Investigation into the Reasonableness of the Rates and Charges of Pacificorp, dba Utah Power & Light Company."
[4] Docket No. 09-035-23, "Report and Order on Revenue Requirement, Cost of Service and Spread of Rates." Issued on February 18, 2010, p. 123.

[5] Docket No. 09-035-23, "Report and Order on Revenue Requirement, Cost of Service and Spread of Rates." Issued on February 18, 2010, p. 125.

meeting, the group discussed the scope of work and determined a schedule for the remaining meetings. In this meeting Rocky Mountain Power agreed to prepare for the next meeting a spreadsheet comparing the allocation factors between Jurisdictional Allocation Model (JAM) and Class Cost of Service Allocation Model (COS) with its comments. In the second meeting, the group reviewed the Company's spreadsheet and discussed the issues to be addressed by the Group. The discussion resulted in the following issues list

1. What is precedent—what has actually been decided that can be considered precedent?
2. What is the binding effect of JAM on COS, if it can be binding?
    a. If it can be binding, does it extend beyond functionalization and classification?
    b. If so, why?
3. What should coincident allocators be?
4. Seasonality of energy.
5. Consistency between the inter-jurisdictional allocation factors and the class allocation factors.

During the subsequent meetings, the group discussed these issues. The remainder of the report will discuss these issues. Some of these issues will be combined into one.

RESULTS AND DISCUSSION

PRECEDENCE OF THE ALLOCATION METHODS CURRENTLY USED

Regarding the precedence of the allocation factors, the workgroup needed to first determine what the Commission previously has decided. The Division performed an historical review and determined that there were two Dockets in which the Commission made decisions regarding allocation factors. The first was Docket No. 97-035-04, entitled "In the Matter of a Proceeding to Establish Allocation Methodology to Separate PacifiCorp's Assets, Expenses and Revenues Between Various States," and the second was the MSP stipulation in Docket No. 02-

035-04. The Division reviewed these two dockets along with the allocation methods used in the most recent general rate case, Docket No. 09-035-23. The Division determined that the inter-jurisdictional allocation methods used in the most recent 2009 General Rate Case, Docket No. 09-035-23, were in compliance with the Commission decisions in Docket Nos. 97-035-04 and 02-035-04 (Attachment B). In its review of these Dockets, the Division noted that the most recent general rate case contained new cost accounts and sub-accounts that were not previously decided by the Commission. Rocky Mountain Power allocated these accounts and sub-accounts based on the method it deemed appropriate. In addition to allocating these new accounts and sub-accounts, Rocky Mountain power also adopted monthly weighing for some of the factors that the Commission had already decided on. This was the result of a report submitted to the Commission on December 15, 2005 by a 2004 general rate case cost of service task force, which was ordered by the Commission in Docket No. 04-035-42. These modifications to the existing factors, though used in all rate cases beginning with 2006, have never been decided by the Commission.

Some members of the group questioned whether or not such methods can be considered as precedent. Consequently, these parties proposed some modifications to these methods that will be discussed later in this report. The general consensus of the workgroup was that any allocation factors that were not included in Commission decisions in Docket Nos. 97-035-04 and 02-035-04 are not precedent and therefore are subject to discussion.

CONSISTENCY BETWEEN THE INTER-JURISDITIONAL ALLOCATION FACTORS AND THE CLASS ALLOCATION FACTORS.

According to the Commission's Report and Order in Docket No. 97-035-01, allocation includes functionalization, classification and allocation of costs. In light of this, the group reviewed a Company-prepared spreadsheet containing all of this information for the JAM and COS models. In this spreadsheet, the Company also indicated where it perceived there are inconsistencies between the methods and commented on the differences. This spreadsheet was later put into a different format by Dr. James Logan of the Commission Staff and then circulated to the workgroup members for their comments. The resulting spreadsheet, which identifies the inconsistencies and contains proposed solutions submitted by various parties to deal with such inconsistencies, is attached as Attachment C. The parties' comments are generally confined to consistency with the Rolled-In method, since the workgroup considers the relevant JAM method going forward to be Rolled-In. This spreadsheet shows, in the accounts where there are inconsistent inter-jurisdictional and class cost allocations, where there is consensus among the parties and where the parties disagree. For example, there is a general agreement that inconsistency between the inter-jurisdictional and class cost service for the distribution costs is inevitable because, at the inter-jurisdictional level, these costs are allocated as situs. It is not reasonable to allocate these distribution costs as situs at the class level, and there must be a different way of allocating these costs among the classes. In what follows, the positions of the different parties are discussed along with suggestions for the future.

POSITIONS OF THE PARTIES

Division of Public Utilities

The Division of Public Utilities believes that it is important to maintain the consistency between the inter-jurisdictional and class cost of service allocation factors wherever reasonable. This position is based on the fact that the inter-jurisdictional allocation factors used in the JAM dictate important information related to the underlying cost drivers (or cost classification) that should be in alignment with class allocation factors used in the RMP cost of service analysis. In light of this, the Division's comments are geared towards achieving consistency between the inter-jurisdictional and class allocation factors. Specifically, the Division provides the following comments. These comments are also found in the DPU column of the spreadsheet Attachment C.

1. For the demand component of the F10, eliminate the weighing of the class contribution to the monthly coincident peak based on the annual peak. This means, use unweighted F10 instead of weighted F10. This will make the F10 factor consistent with the SG factor used in the JAM. The specific FERC accounts that are affected by this change can be seen under the DPU column of the spreadsheet in Attachment C.
2. The factors used to allocate fuel and other generation-related net power cost at the class level should be allocated on an annual basis rather than monthly basis. The factors that would be affected are F85 through F96. These accounts are allocated annually to the jurisdictions. The specific FERC accounts affected by this change can be seen on the DPU column of the spreadsheet in Attachment C.
3. Overhead factor, F102f, excludes the allocable general and intangible plant. That is, it includes production, transmission, and distribution, but excludes the general and intangible plants that are allocated using some factor other than overhead factor. This factor should be replaced with one that includes allocable general and intangible plants to be consistent with the SO factor in JAM (see Tabs GPP, GPT and GPD of the spreadsheet in Attachment C). The specific FERC accounts affected by this change can be seen on the DPU column of the spreadsheet in Attachment C.
4. Some of the customer-related costs are allocated to the classes in the class cost-of-service model as F42. This factor weights the number of customers for Account 903. These costs are allocated to the jurisdictions using the CN factor, which does not include a weighting for Account 903. To make it consistent with the CN factor used at the inter-jurisdictional level, the Division recommends using F40 which does not weight Account 903. The specific FERC accounts affected by this change can be seen on the DPU column of the spreadsheet in Attachment C.

5. The tax effect (current and deferred) of book and tax depreciation should be allocated at each level based on each group's (jurisdiction, function, class) respective share of book and/or tax depreciation. For more details on this proposed change, refer to Attachment D.
6. There are a number of other changes to specific accounts that are not enumerated here. However, these changes can be seen in the DPU column of the spreadsheet in Attachment C.

Rocky Mountain Power

Rocky Mountain Power (RMP or Company) proposed a number of changes to the class cost of service allocation factors to make them consistent with the jurisdictional allocation factors or to make them reflect the available information. These changes are mostly at the account level and can be seen in the RMP column of the spreadsheet in Attachment C. The Company maintains that use of the monthly weighted demand factors (i.e., a weighted F10 allocation factor) is a reasonable approach for incorporating seasonality into the cost of service study. These factors reflect seasonal load and cost differences in the cost-of-service study without causing significant shifts between customer classes.

Office of Consumer Services

The Office submits the charge of this Working Group was limited to determining the consistency of allocation factors and demand-energy classification in the JAM and COS models. This consistency is generally a matter of fact rather than opinion. The Office did not take a position on most of the allocation differences identified by other parties, but urged that the seasonally-weighted F10 factor in the COS model be replaced by the un-weighted F10 factor for consistency purposes.

In response to UIEC's allocation proposals, the Office discussed its position that more than 25% of generation fixed costs should be allocated on energy, as opposed to the UIEC's proposal to reduce the number of months included in the generation allocators. The Office pointed out that the 2003 stress analysis found that load in all months contribute to PacifiCorp's need for capacity. For a more detailed description of Office's proposals, refer to Attachment G.

Utah Association of Energy Users (UAE)

UAE's comments are restricted to the Rolled-In method. UAE maintains that the only relevant IJA/COS allocation method going forward is Rolled-In, although they reserve the right to provide comments regarding the appropriate COS allocation method at the appropriate time if the Rolled-In methodology is not adopted in Utah. With that said, UAE generally supports keeping the class cost of service factors as they are. UAE also accepts most of the Company's proposed changes for those few accounts in which it believes change is needed. However, though it accepts RMP's current cost-of-service allocation factors for the Distribution Plant, UAE proposes that there should be a customer component for Accounts 364-367 distribution plant to properly account for the cost to deliver power to load that is unrelated to size of demand or volume of energy.

Utah Industrial Energy Consumers (UIEC)

UIEC maintains that since the present allocation of generation costs among the jurisdictions is the product of extensive compromises between RMP, regulators and customers in each state, the particular classifications and allocations contained in the jurisdictional study should not be considered authoritative with respect to determining the cost of serving retail customer classes. UIEC contends that, because of significant seasonality of the RMP's Utah load, the 12CP method in the COS should be modified towards a 3CP summer peak allocation methodology (for more details, refer to Attachment E). UIEC recommends this because the allocation of fixed generation costs among classes should reflect a greater degree of seasonality, with more weight given to summer demands (3CP), than is currently the case with the SG (12CP) factor. In addition, UIEC recommends the use of 100% demand and 0% energy in allocating generation fixed costs among customer classes. Consequently, UIEC recommends that the F10 factor no longer be used to allocate fixed generation costs.

With respect to transmission allocation factors, UIEC recommends that all transmission costs no longer be tied to generation and that the SG factor no longer be used in either the JAM or COS models. UIEC also asserts that transmission is being built on a regional basis, which raises issues of allocating incremental transmission costs to those wholesale and retail customers benefiting from the projects. For a more detailed description of UIEC's proposals, refer to the notes at the bottom of the spreadsheet in Attachment C.

WHERE DO WE GO FROM HERE?

While some inconsistencies exist, for the most part, the allocations are consistent between the JAM and class cost of service models. Where inconsistencies exist, the workgroup members were unable to reach a consensus on whether consistency was necessary or how to achieve such consistency. Additionally, the Division notes that the recent MSP filing in Docket 02-035-04 may, depending on the outcome of the case, create more allocation inconsistencies between the two models.

In previous orders, Docket Nos. 97-035-04 and 09-035-23,the Commission voiced a clear preference for consistency between the inter-jurisdictional and class allocation factors. Furthermore, the Division notes that the Commission requires any party who is proposing changes or supports current inconsistencies in allocations to support and demonstrate how those differences would impact other states and Utah rate payers. Given the lack of consensus among members of the workgroup and the complications arising from the MSP docket, the

Division encourages all parties to participate in the MSP docket and the next general rate case and propose whatever changes they deem necessary.