Before the Public Service Commission of Utah

Application of Rocky Mountain Power for Approval of the 2020 Inter-Jurisdictional Cost Allocation Agreement	)))))	DPU Exhibit 1.0D Docket 19-035-42

Direct Testimony

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Utah Division of Public Utilities

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TABLE OF CONTENTS

INTRODUCTION

Q: FOR THE RECORD, PLEASE STATE YOUR NAME, EMPLOYER, AND BUSINESS ADDRESS.

A: My name is Dr. William "Artie" Powell. I am employed by the State of Utah as a manager in the Utah Division of Public Utilities (Division). My business address is 160 East, 300 South, Salt Lake City, Utah, 84114.

Q: ARE YOU TESTIFYING ON BEHALF OF THE DIVISION?

A: Yes, I am.

Q: WILL YOU PLEASE SUMMARIZE YOUR QUALIFICATIONS?

A: I earned a Doctorate of Philosophy in economics from Texas A&M University. My dissertation analyzed certain issues in econometrics, which was my major field of study. For approximately fifteen years, I taught university courses in economics, econometrics, and statistics. I have been employed with the Division since 1996. During my tenure with the Division I have worked on a variety of issues before the Public Service Commission (Commission) including cost of capital, cost of service, demand side management, and rate design. I have also worked on inter-jurisdictional cost allocation issues for the past 10 or 12 years.

PURPOSE OF TESTIMONY

Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A: I provide background and support for the inter-jurisdictional cost allocation method, the 2020 Protocol, filed by Rocky Mountain Power, a division of PacifiCorp, in this docket. For approximately the past three years, Division staff including Mr. Chris Parker, the Division's Director, Ms. Patricia Schmid and Mr. Justin Jetter, the Division's assigned attorneys, various other staff members, and I participated in meetings with PacifiCorp and a variety of representatives from each of the six states PacifiCorp serves discussing and developing the 2020 Protocol.

BRIEF DESCRIPTION OF THE 2020 PROTOCOL

Q: PLEASE BRIEFLY DESCRIBE THE 2020 PROTOCOL.

A: The format of the 2020 Protocol is similar to that of the 2017 Protocol, which expired December 31, 2019. The 2020 Protocol consists of ten sections and seven appendices. There are two primary periods defined in Section 2: the effective period or Interim Period for the 2020 Protocol is from January 1, 2020 through December 31, 2023; and the Post-Interim Period is defined as after December 2023.

The 2017 Protocol as modified in Section 3.2 will be extended through the Interim Period and will be used by PacifiCorp in filings commenced during this period.[1] One modification is the termination of the 2017 Protocol Equalization Adjustment as of December 31, 2019. The Division's support of the 2017 Protocol, including the Equalization Adjustment, was partially predicated on the continuation of dynamic or rolled-in allocations. Since the 2020 Protocol anticipates a Post-Interim Period Method[2] for allocations that is a significant departure from rolled-in, termination of the Equalization Adjustment is warranted.

Three groups of issues are defined in Sections 4 through 6. The Implemented Issues in Section 4 are issues that Parties to the 2020 Protocol have agreed to and will be implemented during the Interim Period provided all approvals are forthcoming. One significant Implemented Issue is the potential Reassignment of coal-fueled Interim Period Resources (Section 4.2) to states that choose to continue using these resources after other states have exited or discontinued the use of these plants.

Section 5 describes Resolved Issues that the Parties have agreed to provided that the Parties reach an agreement on a Post-Interim Period Method of allocating PacifiCorp's costs among the states. An agreement on a Post-Interim period Method is conditioned in part on resolving the Framework Issues described in Section 6. If the

[1] There is an exception to the use of the 2017 Protocol in Section 2.2.5.

[2] Capitalized terms are used as defined in the 2020 Protocol.

Framework Issues cannot be resolved or if the Parties cannot agree on a Post-Interim Period Method, then the Parties will not be bound by the 2020 Protocol in the Post-Interim Period.

Further discussion of the 2020 Protocol is in Appendix DPU-A at the end of this testimony.

Q: WHAT ARE THE FRAMEWORK ISSUES?

A: The Framework Issues are components of a Post-Interim Period Method that are not resolved by the 2020 Protocol. However, the Parties agree during the Interim Period to work to resolve these outstanding issues.

Q: HOW IS THE 2020 PROTOCOL DIFFERENT FROM PAST ALLOCATION METHODS?

A: The primary difference is how generation costs are apportioned to the states. In the past, generation costs have generally been allocated dynamically using a defined total system rolled-in method. If the Framework issues can be resolved, the Post-Interim Period Method will assign and allocate costs based on state-specific fixed generation portfolios. Interim Period Resources will be assigned and allocated using a newly defined System Generation Fixed (SGF) Factor. Similarly, New Resources will be assigned and allocated based on a fixed assignment under a process to be determined as a Framework Issue. It is in part this change in allocation methods that precipitated the Framework Issues.

Q: IF THE PARTIES FAIL TO AGREE ON A POST-INTERIM PERIOD METHOD, HOW WOULD COSTS BE ALLOCATED AMONG THE STATES?

A: In the absence of an agreement going forward states will not be bound by any existing protocol. Each state may revert to a previously defined allocation method favored by its commission or choose a new allocation method. Since the original 1989 merger, the Utah Commission has consistently advocated that rolled-in was the benchmark by which other allocations methods would be measured, while other states have adopted or advocated for other methods. Therefore, it is likely that there would be several allocation methods used (or at least advocated for) by different states.

SUPPORT FOR THE 2020 PROTOCOL

Q: BEFORE AGREEING TO THE 2020 PROTOCOL, DID THE MSP WORKGROUP CONSIDER OTHER ALLOCATION METHODS?

A: Yes, several allocation methods were discussed and evaluated. Prior to the adoption of the 2017 Protocol, the multi-state protocol, or MSP, Workgroup discussed potential changes in the definition of rolled-in as it is currently defined. For example, the MSP Workgroup considered changing the weighting on the System Generation Factor or adopting a different factor for the allocation of transmission costs. The MSP Workgroup, however, could not reach a consensus on these modifications, and others, and agreed to support the use of the 2017 Protocol on a temporary or short-term basis. The MSP Workgroup agreed to continue working on allocation issues including how diverging state policies could be accommodated in an allocation method.

Early in the current round of discussions, it became clear that because of the divergent policies, continued use of a rolled-in method was not viable and the MSP Workgroup began exploring alternatives. The alternatives included green tariffs, although little discussion was devoted to this alternative, and separation of the system into two or more companies. Separation proposals included a virtual separation and a legal separation. Some parties argued that a virtual separation was legally and practically unviable and it was not further pursued by the MSP Workgroup. PacifiCorp did, however, devote considerable resources evaluating a legal separation of the system into two entities.

Q: WOULD A LEGAL SEPARATION OF PACIFICORP'S SYSTEM BE VIABLE?

A: No. PacifiCorp's analysis and the attending discussions concluded that while a legal separation would be doable, the financial implications were prohibitive. To legally separate the system, PacifiCorp's debt would have to be untangled. If done over a relatively short period of time, unwinding PacifiCorp's debt would add hundreds of millions of dollars to PacifiCorp's costs.[3] Doing so over a relatively long period would not accommodate Oregon's and Washington's need to be out of the coal-fueled Interim Resources in the near term. Additionally, the Division was concerned that the due diligence necessary to separate the system would be costly and lengthy.

Q: DOES THE DIVISION RECOMMEND THAT THE COMMISSION ADOPT THE 2020 PROTOCOL?

A: Yes. Given the lengthy discussions, work, and analysis completed in the MSP Workgroup, the Division concludes that the 2020 Protocol is a reasonable outcome given the issues at hand and is in the public interest, particularly given the ability to completely exit the multi-state allocation scheme after 2023 if an acceptable multi-state allocation method cannot be achieved. Although the Division is committed to reaching an agreement with other states on allocations, it is possible no agreement with other states and the utility can be made in the public interest. The 2020 Protocol preserves Utah's ability to determine the public interest in light of Utah's policies and priorities.

SUMMARY AND NEXT STEPS

Q: DO YOU HAVE ANY FINAL COMMENTS?

A: Yes. Since the 1989 merger a variety of allocation methods have been used to apportion PacifiCorp's costs among the various state jurisdictions.[4] Each of these allocation methods, with the exception of the 2010 and 2017 Protocols, diverged from a fully rolled-in allocation in various ways, sometimes significantly. With the adoption of the 2017 Protocol, the Division was guardedly optimistic that an alternatively defined rolled-in method could be developed and used for a number of years. However, although the 2017 Protocol was extended for a year through 2019, it became clear early in the latest round of MSP Workgroup discussions that a rolled-in allocation method would not viably

[3] PacifiCorp's 2017 IRP found similar results after running an East/West Split Sensitivity. The sensitivity compared the effect of planning for the Washington Control Area as a stand-alone system. The analysis indicated that the present value revenue requirement increased over $1 billion dollars. (PacifiCorp's 2017 IRP, Chapter 8, p. 258).

[4] Appendix DPU-B at the end of this testimony lists several historical Utah Commission orders dealing with inter-jurisdictional allocations.

support the diverging state-specific policies. Several alternatives were discussed during the MSP Workgroup meetings, but none of these appeared economical or practical. After considerable discussion, the 2020 Protocol emerged.

There are several major components to the 2020 Protocol. The 2020 Protocol does extend the 2017 Protocol (with some modification) through the Interim Period, January 1, 2020 to December 31, 2023. If the Framework Issues can be resolved, a Post-Interim Period Method would "transition from a dynamically-allocated system generation portfolio to fixed generation portfolios" (Lines 798-799). If the Framework Issues are not resolved, the Parties are not bound in the Post-Interim Period by the 2020 Protocol.

Q: WHAT ARE THE NEXT STEPS?

A: The Framework Issues must be resolved if a new Post-Interim allocation method is to be developed. A new Framework Issues Workgroup will begin discussing these issues soon. The issues, time frames, and processes for these discussions are contained in Section 6 of the 2020 Protocol. These Framework Issues include resource planning and new resource assignment (Section 6.1); and net power costs and the development and implementation of a nodal pricing model (Section 6.2).

Additionally, the resolution of the Framework Issues may trigger the need for state level discussions. For example, transitioning to fixed assignment of Interim Period resources as well as New Resources may necessitate changes in state-specific planning and procurement guidelines or rules. Similarly, the use of a nodal pricing model (NPM) may warrant reviewing avoided cost methods.

Q: DOES THAT CONCLUDE YOUR DIRECT TESTIMONY

A: Yes.

APPENDIX DPU-A: 2020 PROTOCOL

2020 Protocol Details

The formatting of the 2020 Protocol is similar in style to past agreements, in particular the 2010 and 2017 Protocols. The 2020 Protocol consists of ten sections and seven appendices. Each section and appendix were carefully crafted after extended discussions and negotiations among the several Parties.

As indicated in Section 1, Introduction,[5] the 2020 Protocol is intended to replace or "supersede" the 2017 Protocol approved in Utah Docket No. 15-035-86. If approved by all six states, the 2020 Protocol will supersede the 2017 Protocol for California, Idaho, Oregon, Utah, and Wyoming, and the West Control Area Inter-jurisdictional Allocation method or WCA for Washington. During the defined Interim Period (Section 2.1), the 2017 Protocol and the WCA methods will continue to be used with modifications described in the 2020 Protocol. As applied in Utah, the 2017 Protocol is a fully dynamic or rolled-in cost allocation method[6] utilizing the system's 12 monthly coincident peaks and annual energy, to define the system capacity (SC) and system energy (SE) allocation factors, and, combined with a 75% demand and 25% energy weighting, to define the system generation (SG) allocation factor.[7] Differences between the 2017 Protocol rolled-in allocations and the 2020 Protocol will be highlighted in the following discussion.

Discussion of 2020 Protocol Agreement

[5] References to section numbers, line numbers, or appendices, unless otherwise indicated, refer to sections, line numbers, or appendices in the 2020 Protocol as filed by PacifiCorp.

[6] A large portion of PacifiCorp's costs are joint or common costs. "Joint costs occur when the provision of one service is an automatic by-product of the production of another service. Common costs are incurred when an entity produces several services using the same facilities or inputs. . . . In the electric industry, [a] common occurrence of joint costs is the time jointness of the costs of production where the capacity installed to serve peak demands is also available to serve demands at other times . . . Overhead expenses such as the president's salary or the accounting and legal expenses are examples of costs that are common to all the separate services offered by the utility" (NARUC, Electric Utility Cost Allocation Manual, January, 1992, p. 15). These costs cannot be directly assigned to customers, customer groups, or jurisdictions and, therefore, must be allocated among the states. Other costs, such as distribution expenses, can be directly assigned to jurisdictions and are treated on a situs basis. The 2017 Protocol uses a combination of joint and common cost allocation and direct assignment or situs treatment of other costs.

[7] See 2020 Protocol, Appendix C for further details. While there are a couple of dozen allocation factors defined in the 2017 Protocol, most of the costs allocated between the states is currently done so with the SG and SE factors.

Section 1: Introduction

The Introduction contains language similar to the language introducing recent allocation agreements. For example, nothing in the 2020 Protocol is intended to prejudge or determine the prudence or reasonableness of any particular expense or investment, or circumvent the Commission in establishing fair, just, and reasonable rates (lines 46-54). Nor does any Party's support of the 2020 Protocol now bind that Party if in the future it determines that the 2020 Protocol no longer produces rates that are just and reasonable, and in the public interest (lines 55-62), provided that Party works in good faith with other Parties to try and resolve its concerns or issues before appealing to its state commission (Section 8.4). These are important elements in the 2020 Protocol that allow the Division in particular, but other parties as well, to fulfill its statutory obligations to promote the public interest in rate regulation.

The Introduction further explains that the Parties did not attempt to resolve intra-state allocation issues (lines 63-73). In the past, the Commission has stated a preference for intra-state allocations or cost of service allocations to follow inter-state allocation methods, unless a party supports a departure with sufficient evidence.[8] Given the departure of the 2020 Protocol from rolled-in principles of allocation, the Division anticipates that this may be a significant issue in the next general rate case PacifiCorp files in Utah.

Finally, the Introduction briefly describes three sets of issues: Implemented Issues, Resolved Issues, and Framework Issues (lines 30-45). When combined, these issues will be the basis of a new allocation method, to be used post 2023. Each type or set of issues is discussed in the 2020 Protocol in Sections 4, 5, and 6 respectively.

Section 2: Timeframes and Effective Periods

[8] "For more than 25 years, state regulators, stakeholders and PacifiCorp have worked to develop an allocation method that fairly and accurately allocates costs among jurisdictions. This Commission has unwaveringly sought over the years to implement a method that treats the utility system as a whole and apportions costs and revenues among PacifiCorp's jurisdictions using a cost-of-service analysis. In other words, the customers in each jurisdiction should bear the proportion of the total utility system costs those customers cause the utility system to incur. The Commission has historically referred to this as the 'Rolled-In Method' and deemed it the most suitable means for fairly apportioning costs among the jurisdictions." (Order, Utah Docket No. 15-035-86, p. 3, June 23, 2016. For a detailed discussion of the history of inter-jurisdictional allocations in Utah see Utah Docket No. 02-035-04, order dated, December 14, 2004, pp. 19-28).

Section 2 lays out two relevant periods, an Interim Period and a Post-Interim Period. During the Interim Period, January 1, 2020 through December 31, 2023, the 2020 Protocol will form the basis for inter-state allocations, with two caveats defined in Sections 2.2.4 and 2.2.5, which are intended to avoid gaps or overlaps in allocation methods. After the Interim Period, the Post-Interim Period, a new Post-Interim Period agreement, combining the three types of issues, and other to-be-determined elements, will define inter-state allocations.

If a Post-Interim Period Method agreement is not reached, either because a commission denies a request for approval of such method or the Parties fail to reach an agreement on a Post-Interim Period Method before the end of the Interim Period, PacifiCorp will propose a Post-Interim Method and Parties are free to take any position on PacifiCorp's proposal the Party believes just and reasonable, or in the public interest.

Section 3: Interim Period Allocation Method

On its own, the 2017 Protocol expired December 31, 2019,[9] but was extended through the Interim Period, defined in Section 2, with the modifications defined in Section 3.2.[10]

One modification deals with net power costs (NPC), Section 3.2.1, Net Power Cost Filings. At lines 296-297, the table indicates that for calendar year 2019, the energy balancing account (EBA) filing due in March 2020 will follow the 2017 Protocol. For calendar year 2020, which PacifiCorp will file March 2021, the EBA will follow the 2020 Protocol. In general, the idea is to align the allocation method in place when the costs were incurred with the method of recovery.

After the Interim Period, as described in Section 6.2, Net Power Costs/Nodal Pricing Model ("NPM"), and Appendix D, Nodal Pricing Model Memorandum of Understanding, PacifiCorp proposes developing and utilizing a nodal pricing model (NPM) "to track cost causation and receipt of benefits by each state for rate-making purposes." (Lines 829-830). In general, nodal

[9] See Order, Docket No. 17-035-06.

[10] Sections subsequent to Section 3.2.1, Net Power Cost Filings, namely, Embedded Cost Differential ("ECD") and Equalization Adjustment through Interpretation and Governance, are miss-numbered. Each of these sections should be read as part of Section 3.2, Modifications to the 2017 Protocol During the Interim Period.

pricing, or locational marginal pricing, provides price signals that reflect energy costs of the marginal generation unit serving the load at a node or location, taking into account transmission congestion and line losses at various points on the electric grid. If congestion and losses do not occur, then the price will be the same at every node on the grid. Congestion, however, may prevent some nodes from accessing less expensive remote generation resources. Similarly, line losses may add costs to delivering energy to nodes on the grid.[11] The expectation is that PacifiCorp, will contract for the development of and will deploy the NPM by the end of January 2021, which allows time for parties to become familiar with how net power costs will be forecast and allocated under a NPM prior to its use for rate-making purposes in the Post-Interim Period.

The use of a NPM is necessitated by potentially diverging resource portfolios between states. Generation choices can no longer be made on the same economic basis for all jurisdictions. Creating a cost allocation model that both allows the states to choose generation resources for different reasons without harming other states is difficult. In such an interdependent complex system it may not be possible to both completely isolate each state from other state's choices while also retaining benefits of a combined system. The NPM appears to be a good solution that allows for continued economic dispatch and assigns costs and benefits for each generation resource to the subscribing state or states. It represents a blended approach between complete isolation and complete integration and provides most of the benefits of both.

Since the NPM will likely be proprietary,[12] the use of an NPM will add a layer of complexity to the regulatory evaluation of PacifiCorp's net power cost calculations and allocation. In addition to reviewing and auditing PacifiCorp's EBA on a regular basis, resources will need to be spent understanding, reviewing, and validating the reasonableness of the output from the NPM, including the effects of congestion and line losses on nodal prices and net power costs. Appendix D addresses this need by committing PacifiCorp "to provide adequate training and documentation" for the NPM and a separate model used to forecast net power costs. Net power

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[11] "Locational Marginal Pricing," California Public Utilities Commission, https://www.cpuc.ca.gov/General.aspx?id=4429

[12] PacifiCorp is discussing a NPM with the California Independent System Operator or CAISO (Appendix D, paragraph 7).

costs and the NPM are part of the Framework Issues, which will be part of the Post-Interim Period allocation method but still need to be finalized. The Division has a history of working cooperatively with PacifiCorp under similar circumstances. For example, PacifiCorp has provided access and training for DPU staff for its GRID model and has been responsive concerning questions about the energy imbalance market and its effects in the EBA. Thus, the Division is optimistic that remaining issues including the development, implementation, and training for an NPM can be resolved.

Another modification of the 2017 Protocol deals with the embedded cost differential (ECD) and the Equalization Adjustment. While the ECD will continue as described for Idaho and Oregon, there is no ECD under the 2017 Protocol for Utah and, thus, none under the 2020 Protocol (Section 3.3.2.1). Furthermore, the Equalization Adjustment, which under the 2017 Protocol is $4.4 million for Utah, terminated on December 31, 2019. The Division supported the Equalization Adjustment in Docket No. 17-035-06 primarily for two reasons. First, at the time of negotiations on the 2017 Protocol, the Division contemplated a range of changes to the dynamic allocations, such as the weighting of demand and energy or transmission allocations that gave rise to cost allocation differences, which supported the reasonableness of the $4.4 million Utah adjustment. Second, the Division's support for the Equalization Adjustment was predicated on development and adoption of a modified dynamic allocation method going forward upon the conclusion or expiration of the 2017 Protocol. After adoption of the 2017 Protocol, when it became clear in the MSP discussions that a dynamic or rolled-in allocation was not tenable going forward, the Division expressed opposition to continuation of the Equalization Adjustment as part of an extension of the 2017 Protocol under the 2020 Protocol. Given the anticipated departure from rolled-in allocations, it is just and reasonable and in the public interest to discontinue the Equalization Adjustment.

The treatment of qualifying facilitates (QF) is also modified under the 2020 Protocol (Sections 3.3.3 and 4.4) superseding Section IV(A)(3) of the 2017 Protocol. In brief, under the 2017 Protocol, QFs are generally treated as system resources. The 2020 Protocol distinguishes between existing QFs, defined as those executed before December 31, 2019, and new QFs executed after December 31, 2019.

Existing QFs will continue to be treated as system resources until December 31, 2029, after which they will be situs assigned to the state of origin.

The treatment of New QFs is designated for Interim Period Treatment (Section 4.4.2.1) and Post-Interim Period Treatment (Section 4.4.2.2). During the Interim Period, the energy from new QFs will priced at a "forecasted reasonable energy price" as defined in Line 645 through 653, and allocated dynamically using a system generation or SG factor. Any costs associated with the new QF above the reasonable price will be situs assigned to the originating state. After the Interim Period, during the Post-Interim Period, assuming resolution is reached on all of the Framework Issues (Section 4), New QFs will be situs assigned to the originating state with the costs and benefits allocated and assigned consistent with the method developed through the Framework process in Section 6.2, Net Power Costs/Nodal Pricing Model ("NPM").

The change in QF treatment along with the change from the dynamic allocation of a common portfolio to state specific portfolios may require a change in the method of calculating avoided costs. One possibility would be to calculate avoided costs state by state. This potentially could trigger legal and policy issues that will need to be addressed in the future.

As I previously mentioned, the 2020 Protocol has three classifications of defined issues: Implemented Issues in Section 4; Resolved Issues in Section 5; and Framework Issues in Section 6. I have briefly discussed some of these issues above in describing some differences between the 2017 and 2020 Protocols.

Section 4: Implemented Issues

Parties have agreed to the Implemented Issues as specified in Section 4, which will be implemented during the Interim Period. There are four categories of Implemented Issues.

- Section 4.1, establishes procedures and timing for States' decisions exiting coal-fueled Interim Resources.[13]

[13] Interim Period Resource means Resource in commercial operation, or with a contract delivery date, as applicable, during the Interim Period (Appendix A, Definitions, Lines 90-91).

- Section 4.2, details a process for potential Reassignment of coal-fueled Interim Period Resources among States not exiting the resource.
- Section 4.3, details a process for allocating decommissioning costs of coal-fueled resources.
- Section 4.4, discusses the treatment of QFs.

Oregon law specifies that coal resources cannot be included in Oregon base rates after December 2029[14] and Washington law specifies a similar provision after December 2025.[15] Section 4 describes procedures or process that facilitates the beginning of an orderly transition away from the historical dynamic allocation of costs to a new paradigm or allocation scheme that is intended to accommodate the Oregon and Washington policies (as well as other future state policies).

Section 4.1 specifies procedures where states planning on exiting coal-fueled Interim Resources enter Exit Orders specifying Exit Dates. The Exit Dates govern the allocation of costs of those coal-fueled plants. Prior to the Exit Date, states participating in the coal plant are allocated the actual costs of the plant. After the Exit Date, exiting states will not be allocated costs associated with the plant nor will the state receive benefits associated with the plant. Tentative Oregon Exit Dates are specified in Section 4.1.3 and Washington Exit Dates are discussed in Section 4.1.4.

Section 4.2 details a process for potential Reassignment of coal-fueled Interim Period Resources among States without Exit Orders. Notwithstanding the tentative Exit Dates, the 2020 Protocol intends that non-exiting states have adequate notice and time to review and analyze the effect of any Exit Order including the potential reassignment of the coal-fueled Interim Resource to the states without Exit Orders (see Lines 381-384, 446-448, 457-460, and 499-511). Also attached to PacifiCorp's application is a letter agreement between Rocky Mountain Power (RMP) and certain Utah parties (see Exhibit RMP___(JRS-3)) (Letter Agreement). The Letter Agreement specifies, among other things, the type and timing of information RMP would file in Utah to support the potential reassignment of coal-fueled Interim Resources where other states have entered an Exit Order. Specifically, "For the limited purpose of evaluating a Reassignment

[14] 2016 Oregon Senate Bill 1547.

[15] 2019 Washington Senate Bill 5116.

proposal, the Parties intend that this Utah Agreement modify and expand PacifiCorp's integrated resource planning and energy resource procurement analyses by incorporating the requirements contained [therein].” The combination of the notice and information requirements in the 2020 Protocol and the Letter Agreement should afford Utah parties adequate time and information to evaluate whether a reassignment proposal is in the public interest.

Under the 2017 Protocol, Utah’s allocated share of coal-fueled resources is approximately 42 percent. If the western states all exit a plant and the eastern states are reassigned a pro-rated share of that plant, Utah’s allocated share would be approximately 65 percent of that plant. However, because of the potential timing of closures and other factors, Utah’s share of coal-fired resources in aggregate is not expected to change significantly. Notably, though, events that impair any single plant will affect a greater share of Utah’s generation resources, potentially increasing risks to Utah ratepayers.

Section 4.3 discusses the process for allocating Decommissioning Costs for the coal-fired Interim Resources. PacifiCorp intends (and has begun) to undertake engineering assisted studies to estimate the appropriate levels of reserves to cover the Decommissioning Costs of these resources (Sections 4.3.1.1 and 4.3.1.2). The first of these studies was filed in Utah and is under review in Docket No. 18-035-36, the depreciation docket. The next decommissioning study, slated to be completed by June 2024, will be incorporated in a future depreciation case. While the Decommissioning Studies are intended to better inform the states of the level of necessary reserves, each state will make its own determination of a just and reasonable amount for decommissioning reserves. In general, all states participating in a coal-fueled Interim Resource at that time of its closure will pay their allocated share of actual decommissioning costs. If one or more states have previously exited a plant, those states will pay an allocated share of the Decommissioning Studies’ estimates (Section 4.3.1.4). To account for and preserve any Decommissioning Cost reserves, PacifiCorp commits to file by December 31, 2021a proposal to separately account for interim retirements and final Decommissioning Costs on its books (Section 4.3.3). The Division intends to be vigilant about ensuring one state’s agreement about the limits of its share of decommissioning costs does not bind remaining states to cover any shortfall in that agreement.

Section 4.4 discusses the treatment of qualifying facilities (QF). The treatment of QF were previously discussed.

Section 5: Resolved Issues—Post-Interim Period Implementation

Section 5 discusses Resolved Issues that are intended to take effect after the Interim Period with the implementation of a Post-Interim Period Method. The final implementation of the Resolved issues and the development of a Post-Interim Period allocation method are contingent on resolving the Framework Issues discussed in Section 6.

The Resolved Issues include:

- Section 5.1 Generation Costs;
- Section 5.2 Transmission Costs;
- Section 5.3 Distribution Costs;
- Section 5.4 System Overhead Costs;
- Section 5.5 Administration and General Costs;
- Section 5.6 Other Allocation Costs;
- Section 5.7 Demand-side Management Programs; and
- Section 5.8 State-Specific Initiatives.

Section 5.1 discusses the allocation of generation costs after the end of the Interim Period. Under the 2017 Protocol, generation costs are allocated dynamically using the defined rolled-in method. The 2020 Protocol anticipates that generation costs will be assigned and allocated on a fixed allocation or share basis to each state (Section 5.1.1), which is a significant departure from past allocation schemes. The Interim Period Resources will be assigned and allocated using a newly defined factor, the System Generation Factor-Fixed (SGF), which is the average of the System Generation (SG) factors for the four years previous to the end of the Interim Period (Appendix C, page 8). New Resources, resources that are commercially operational after the Interim Period, will be similarly assigned and allocated subject to the process to be determined in Section 6.1, which is part of the Framework Issues (Section 5.1.2). It is intended that the Section 6.1 process will allow PacifiCorp to plan, dispatch, and operate the system "as an integrated six-

State system, to the greatest extent possible" (Lines 806-807). The development of assigned and allocated fixed generation shares, may necessitate changes to the Integrated Resource Plan (IRP) guidelines and procedures, to accommodate differing state resource portfolios. Similarly, as generation portfolios between the states diverge, the evaluation and estimation of avoided costs within Utah for the purposes of pricing QFs may warrant modifications. The Division will evaluate these possibilities as a Post-Interim Perion Method is developed and implemented.

Section 5.2 discusses the allocation of transmission costs. Transmission costs will continue to be dynamically allocated.

Section 5.3, Distribution Costs, specifies that distribution costs will continue to be situs assigned to each state.

Section 6: Framework Issues

Despite the good faith efforts of the MSP Workgroup participants over the last three years, there are a number of important issues that have not been resolved. These issues are discussed in Section 6, Framework issues. Again, the implementation of the Resolved Issues from Section 5 and the development of a Post-Interim Period Method to allocate PacifiCorp's costs among the several states is contingent on the resolution of the Framework Issues.

The Framework Issues include:

- Section 6.1 Resource Planning and New Resource Development;
- Section 6.2 Net Power Costs/Nodal Pricing Model ("NPM");
- Section 6.3 Special Contracts;
- Section 6.4 Limited Realignment; and
- Section 6.5 Post-Interim Period Capital Additions—Coal-Fueled Interim Period Resources.

Section 6.1 recognizes that in a Post-Interim Period, procedures and guidelines for resource planning and acquisition of new resources may be necessary (Lines 823-824). While the intent is to allow PacifiCorp, to the extent practicable, to plan on system basis, this may include an increased focus on state specific planning.

Section 6.2 discusses net power costs (NPC) in the Post-Interim Period, including the implementation of a nodal pricing model (NPM). The use of an NPM "will be necessary . . . to maintain the benefits of system dispatch as much as practicable" (Lines 827-828). Under the 2017 Protocol, NPC are based on an economic dispatch of the Company's resources and are common among the several states. With differing resource portfolios between the states, NPC may vary by location.[16] An NPM will allow PacifiCorp to economically dispatch its generation resources while capturing the variation in NPC for each state. Exactly how an NPM will work and how it may be evaluated and audited are to be worked out as a Framework Issue. PacifiCorp intends to propose using the NPM to forecast NPC after the Interim Period (Lines 837-840). The use of the NPM to forecast NPC may necessitate a change in the method of evaluating avoided costs for pricing QFs and other purposes.

In Section 6.4, the Parties agree to discuss during the Interim Period the potential of a Limited Realignment of Interim Period Resources. In Appendix A, Limited Realignment is defined as "the assignment of Interim Period Resources among PacifiCorp States that differ from assignment using the SGF Factor." The potential Limited Realignment may include realignment of gas-fueled Interim Period Resources to accommodate Washington's transition out of Coal-fueled Interim Period Resources.

Section 6.5 details PacifiCorp's straw proposal "for determining the cost allocation for capital investments made in the Resources subsequent to the Interim Period and prior to the Exit Date for each State" (Lines 857-858). Without going into detail, PacifiCorp's proposed treatment of any Post-Interim Capital additions appears consistent with other provisions of the 2020 Protocol, namely, decommission costs and assignment of costs and benefits associated with Coal-fueled Interim Resources. However, although the Parties agree to evaluate PacifiCorp's straw proposal, the Parties have not accepted the proposal. Details of how to assign and allocate incremental

[16] If there are no line losses or congestion on the transmission system, the price in each location or node should be the same.

capital additions will be determined as a Framework Issue and is a critical component of reaching an agreement on a Post-Interim Period Method.

Sections 7 Through 10

The final sections of the 2020 Protocol, Sections 7 through 10, are similar, with a few differences, to provisions in previous allocation schemes. One difference is the formation of a Framework Issues Workgroup to continue development and negotiations on the Framework Issues. The Multi-State Process, or MSP, Workgroup will convene only when necessary (Section 8.2.1). Also, the annual Commissioner Forum mandated under the 2017 Protocol is not required under the 2020 Protocol.

Discussion of Appendices

There are seven appendices to the 2020 Protocol, Appendices A through G. Appendix A defines proper terms used in the 2020 Protocol. Appendices B and C define allocation factors and their application to FERC accounts. Appendix C in particular defines (algebraically) several new allocation factors to be implemented after the Interim Period. Appendix D, Nodal Pricing Model Memorandum of Understanding, specifies support for PacifiCorp pursuing an NPM and recovery of reasonable and prudent costs to develop and implement an NPM. PacifiCorp agrees to provide training and documentation of the NPM to facilitate reviewing and auditing NPM derived NPC. Appendix E summarizes the Coal-fueled Interim Resource depreciation lives addressed in Section 4. Appendix F is a memorandum of understanding between Washington and PacifiCorp acknowledging support for certain adjustments to the West Control Area Inter-Jurisdictional Allocation Methodology currently used in Washington for allocation purposes. Finally, Appendix G discusses the structure of special contracts and certain allocations of costs and benefits. The final disposition and regulatory treatment of special contracts is, however, a Framework Issue that will need to be finalized for a Post-Interim Period Method.

APPENDIX DPU-B: LIST OF HISTORICAL DOCUMENTS

1. Docket No. 87-035-27. Report and Order. Short Title: PacifiCorp/UP&L Merger. September 28, 1988.

2. Docket No. 90-035-03. Order. In the Matter of the Implementation of Utah Power & Light Company's Merger Commitment Price Reduction. April 4, 1990.

3. Docket 90-035-06. Report and Order. In the Matter of the Investigation into the Reasonableness of Allocation and the Rates and Charges for Utah Power & Light Company, (PacifiCorp Electric Operations: Phase I Rate Proceeding). December 7, 1990.

4. Docket No. 90-035-06. Erratum Order. In the Matter of the Investigation into the Reasonableness of Allocation and the Rates and Charges for Utah Power & Light Company. October 20, 1993.

5. Docket No. 97-035-01. Report and Order, In the Matter of the Investigation Into the Reasonableness of Rates and Charges of PacifiCorp, dba Utah Power & Light (Short Title: PacifiCorp 1998 General Rate Case). March 4, 1999.

6. Docket No. 97-035-04. Report and Order. In the Matter of a Proceeding to Establish an Allocation Methodology to Separate PACIFICORP'S Assets, Expenses and Revenues Between Various States, (Short Title: Determination of the Value of the Fairness Premium). July 7, 1998.

7. Docket No. 02-035-04. Order on PacifiCorp's Application to Initiate Investigation of Inter-Jurisdictional Issues. In the Matter of the Application of PacifiCorp for an Investigation of Inter-Jurisdictional Issues. April 3, 2002.

8. Docket No. 02-035-04. Report and Order. (Revised Protocol). In the Matter of the Application of PacifiCorp for an Investigation of Inter-Jurisdictional Issues. December 14, 2004.

9. Docket No. 02-035-04. Report and Order. (PacifiCorp Multi-state Process ("MSP") Case). In the Matter of the Application of PacifiCorp for an Investigation of Inter-Jurisdictional Issues. February 12, 2012.

10. Docket No. 15-035-86. Order. In the Matter of the Application of Rocky Mountain Power for Approval of the 2017 Protocol. June 23, 2016.

11. Docket No. 17-035-06. Order. In the Matter of the Application of Rocky Mountain Power to Extend the 2017 Protocol through December 31, 2019. March 23, 2017.