

MEMORANDUM

November 30, 2000

TO: UTAH PUBLIC SERVICE COMMISSION

FROM: UTAH DIVISION OF PUBLIC UTILITIES
Ric Campbell, Director
Lowell E. Alt, Manager - Energy Section
Mark V. Flandro, Utility Rate Analyst

RE: DOCKET NO. 99-035-10 REPORT AND ORDER STUDIES STATUS, DIVISION RESPONSE TO PSC NOVEMBER 8, 2000 MEMORANDUM

In response to the Commission's November 8, 2000 memorandum, Re: "Studies Ordered in Docket No. 99-035-00", the Division submits the following status of the six (6) studies listed.

1. Corporate Management Fee Allocation.

Assignment from PSC Order:

"The Division of Public Utilities to submit to the Commission a report, with supporting material, containing recommendations for maintenance of, or modification to, the corporate management fee methodology used to allocate corporate overhead expenses; particularly with consideration of the ScottishPower merger/acquisition of PacifiCorp."

Study Status:

Mary Cleveland is working on this item. The current Management Fee Allocation which the Company implemented in March 2000 is being reviewed. Some corporate costs have been decentralized (i.e. now being performed at the department level) while others continue to be allocated. Little detail is available, as the organization is yet to be finalized.

The Division is actively pursuing necessary information in this area and will be evaluating corporate allocation methods. Although most subsidiaries of PacifiCorp have been sold off, some small units still exist and should have corporate costs allocated as appropriate under some allocation formula. A report is planned upon completion of our review.

2. Net Power Cost Modeling

Assignment from PSC Order:

"We desire the Division and interested parties to undertake an evaluation of alternative approaches to the normalization of net power costs."

Study Status:

Becky Wilson, Neal Townsend and Ron Burrup are assigned to this study. Becky has scheduled a PD Mac and Alternative Net Power Cost Normalization Evaluation Meeting at 10:00 AM on December 8, 2000 in Room 427 at Heber Wells. The proposed agenda for that meeting is attached. This initial meeting will determine the scope of evaluation of this topic, will determine if any report will be forthcoming and will attempt to establish a time line for the study effort.

3. FERC or Wholesale Jurisdiction

Assignment from PSC Order:

“... We will, however, order the establishment of a forum, as recommended by the Committee and Division, for the purposes they have identified.”

Study Status:

Becky Wilson and Neal Townsend are assigned to this study. Becky has scheduled a Retail/Wholesale Revenue Requirement Responsibility Forum Meeting at 2:00 PM on December 8, 2000 in Room 427 at Heber Wells. The proposed agenda for that meeting is attached. Also attached is a Strawman Outline of the issue to be addressed and a list of detailed questions which are intended to stimulate discussion and help define the scope of evaluation in this study.

4. SAP Audit

Assignment from PSC Order:

“We adopt the recommendation ... to require a performance audit of the entire project. One aspect of this audit should inform us how an allocation of these expenditures should be performed. We await the receipt of the semi-annual report on operations for 1999 and the ScottishPower merger transition plan before stating more clearly the audit requirements.”

Study Status:

Ron Burrup and Mary Cleveland are assigned to this study. Mary is investigating allocation issues and Ron plans to evaluate SAP system benefits. Mary has conducted a preliminary review of materials justifying the purchase of SAP. Two October meetings were held in Portland with PacifiCorp to begin exploration of this issue. The language of the PSC’s May 24, 2000 Order indicates the Commission will state more clearly the audit requirements after receipt of the semi-annual report on operations for 1999 and the ScottishPower merger transition plan. Since the PSC also indicated that they expected the audit to be “limited” and “focused” the Division is awaiting these further audit instructions from the Commission before proceeding.

5. Weather Normalization

Assignment from PSC Order:

“PacifiCorp to inform the Commission and the Division of Public Utilities of the anticipated date for completion of its studies concerning the weather normalization procedure and shall file with the Commission a report, with supporting material, containing recommendations for maintenance of, or modification to, the weather normalization procedure. Interested parties may thereafter submit their

comments to the filed report.”

Study Status:

Artie Powell is assigned to this study. November 29, 2000 discussions with Bob Lively of PacifiCorp indicate that the regulatory lead person handling weather normalization for PacifiCorp is Dave Taylor. The actual work group for weather normalization studies is Reed Davis' group. Bob Lively indicates that PacifiCorp is working on a weather normalization report and that Dave Taylor will plan to meet with Artie Powell of the Division and other interested parties on Friday, December 8, 2000 to inform Utah regulators of PacifiCorp's study progress.

6. Account 903 Allocation

Assignment from PSC Order:

“We will expect the Division to work closely with the Company and other interested parties to resolve the technical points raised here so that an appropriate allocation factor may be adopted in the next general rate case.”

Study Status:

Neal Townsend is assigned to this study. We met with PacifiCorp on November 3, 2000 to discuss the approach to this issue. Since the phone centers are a key cost component to be allocated, a tour of the Salt Lake phone center has been set for December 13, 2000. The purpose of the tour and meeting will be to learn more about the phone center functions and their related cost drivers.

Attachments: - Agenda for Item 2 above
- Agenda and Strawman Outline for Item 3 above

C: Parties of Record

Initial meetings have been scheduled to begin discussion of the following two issues:

PD Mac and Alternative Net Power Cost Normalization Evaluation Meeting

Date: December 8, 2000

Time: 10:00 a.m.

Place: Heber Wells Building, 4th Floor, Room 427

Retail/Wholesale Revenue Requirement Responsibility Forum

Date: December 8, 2000

Time: 2:00 p.m.

Place: Heber Wells Building, 4th Floor, Room 427

The Division has prepared an agenda and discussion material for each meeting, which is attached.

AGENDA

PD Mac and Alternative Net Power Cost Normalization Evaluation Meeting

December 8, 2000
Room 427, 10:00 a.m.

The purpose of this meeting is to begin the process of evaluating alternative approaches to normalizing net power costs. The following outline is proposed:

- D: Discuss Scope of Evaluation
- E: Identify End Product (workgroup report?)
- F: Establish Time line

ISSUE

In its May 24, 2000 order in the PacifiCorp 1999 General Rate Case, the Utah Public Service Commission stated on page 43,

In summary, our experience with PD/Mac in this Docket has been unsatisfactory and convinces us that the regulatory treatment of net power costs must be re-evaluated before the next general rate case for this Company. The record shows that the primary source of the increase in revenue requirement in this Docket is the result of the increase in net power costs. Although the Company listed certain causes from the witness stand for the increase, no party evaluated them in written testimony. It also shows that parties, with the exception of hired consultants, lack the expertise to fully evaluate net power cost issues. The model itself is a major contributing factor to such difficulties. This complex subject warrants further discussion outside the time-limited confines of a general rate proceeding, including this one. We desire the Division and interested parties to undertake an evaluation of alternative approaches to the normalization of net power costs.

The Commission also stated beginning on page 42,

LCG recommends recasting the PD/Mac model using Microsoft Excel to make the methods and performance of the model easier to understand. In this Docket, LCG provides an Excel version of PD/Mac. This record not only shows that the change can be accomplished, but the report of the Committee's consultant, who participated in the last rate case and provided a report to the Division and the Committee, recommends the same. Moreover, it is clear to us that the tool can be transported from a MacIntosh format to an IBM-compatible format such as Excel. The Committee and other interveners do not have ready access to MacIntosh equipment, and this reduces their ability to continually evaluate the logic of the model and its assumptions. The issue of net power costs was one of the least understood in this Docket. This change will help to address that problem. Therefore, we order that a Microsoft Excel version of PD/Mac be made available to the Division, the Committee, and any intervenor who requests it. This must be accomplished well before the next general rate case occurs.

In its order on reconsideration issued October 6, 2000, the Commission stated on page 4,

The Commission requires significant alteration of the format of this model, and orders the Company to provide a Microsoft Excel version of it prior to the next rate case. The Report and Order also requires an evaluation of alternative ways to normalize net power costs. In its Petition for Reconsideration, the Company makes the reasonable point that filing a new format for a model that may be replaced puts the cart before the horse. LCG, supported by UIEC, does not disagree, "assuming PacifiCorp never again files a rate case using the PD/Mac model or any variation of the same." On reconsideration, we conclude that the alteration of model format should await the conclusions of the net power cost evaluation. Should PacifiCorp file a rate case before this is complete, a reformatted production dispatch model (PD/Mac), or an alternative to that model, must be in its Application.

DISCUSSION QUESTIONS REGARDING TO SCOPE OF EVALUATION

Below are some questions for the group to consider regarding scope:

- A: PD Mac normalizes components of power costs. Why normalize? What is the history behind adoption of PD Mac?
- B: What are the requirements of net power cost calculations? Identify the components of net power cost and identify which components require normalization.
- C: What connection does this issue have with PacifiCorp's recent request for deferred accounting treatment of excess net power costs?
- D: What kind of model is desired, i.e., what features of a normalizing model are most desired such as transparent calculation logic, easily understood inputs, ability to have a copy on any party's computer?
- E: Of the model requirements, which are accomplished by PD/Mac currently, which need to be added, if any?
- F: Is Excel a required format? Has any one successfully run LCG's PD/Excel yet?

AGENDA

Retail/Wholesale Revenue Requirement Responsibility Forum

December 8, 2000
2:00 p.m.

For the purpose of opening the discussion, the Division has taken the liberty of drafting this agenda for the first meeting, a strawman outline of the issue to be addressed and list of detailed questions.

- 7. Identify the objectives of this forum (for example):
 - A. Provide ratemaking incentive for minimization of retail costs,
 - B. Provide for appropriate symmetry of risk and reward between retail customers and shareholders.
- 8. Define the scope of study to be undertaken by this forum.

- A. Review the historical basis for adoption of revenue credit versus assignment of wholesale costs and revenues to a separate jurisdiction.
 - B. Identify advantages and disadvantages with continued use of revenue credit treatment.
 - C. Identify alternative approaches for retail/wholesale allocation of revenue requirement.
9. Discuss connection of this issue to PacifiCorp's recent request for deferred accounting treatment of excess net power costs and with PD Mac evaluation
 10. Discuss forum deliverables.
 11. Establish a Time line for completion of deliverables.
 12. Assignments and next meeting.

Strawman Outline Retail/Wholesale Revenue Requirement Responsibility

Issue

In its May 24, 2000 order in the 99-035-10 rate case, page 12, the Utah Public Service Commission ordered the establishment of a forum to address treatment of jurisdictional revenue responsibility, both retail and wholesale, in the wake of recent changes in Company direction and wholesale markets, and possible changes in the electric industry. The Commission also ordered that the issue of which loads should be used to determine the time of system peak for jurisdictional allocation of costs should be studied in this forum too.

Background

Ten years ago, in Docket 90-035-06, PacifiCorp requested revenue credit treatment of certain wholesale activity. This deviated from historical use of a separate jurisdiction. The Division supported the request with conditions to safeguard against new risk this could present to retail customers. PacifiCorp and all parties responding on this issue concurred with the Division's suggested safeguards. On December 7, 1990, the Commission ordered the use of the revenue credit method per the Division's testimony. Historically, i.e., up to 1995, wholesale sales were about 18-25% of total company sales and appeared to be mostly made from surplus generation. Post 1995 the amount of sales about doubled with a concurrent increase in wholesale purchases. (See attached chart.) In 1999, wholesale sales were 44% of total sales. In Docket 99-035-10, Committee and Division witnesses raised the concern that higher levels of activity may increase risk to retail customers and recommended study of this concern.

Discussion Regarding the Scope of Study

Discuss the role of surplus versus deficit system balance and impact on ratemaking treatment of wholesale and retail cost responsibility. Examine the current method for allocating costs and revenues of wholesale activities. Identify when and why it was adopted, what has changed, what its advantages and disadvantages are, and evaluate it against alternatives for allocation of revenue requirement responsibility between the retail and wholesale jurisdictions. Address symmetry of risk and reward and the incentives provided for PacifiCorp management to minimize costs to retail customers.

For example: Study creation of a FERC jurisdiction or other alternative for wholesale activity.
Some questions may include (this is not an exhaustive list):

- A: What incentives for minimizing total system costs does this create?
- B: What loads should be included in this jurisdiction?
- C: What loads should be included in the time of system peak for allocation of capacity related costs?
- D: Should the same allocation factor be used for both PacifiCorp generation assets and purchase power contracts or should different or new allocation factors be used? If different, how should the factors be developed?
- E: Should we run multiple scenarios?
- F: Detailed cost-causation and allocation issues:
 - A: Should we start with the development of cost-causing principles to guide us in determining allocation of costs and revenues?
 - B: Should allocation of fully embedded costs to each jurisdiction be our goal?
 - C: What is the proper allocation of FERC accounts allocated on No. of Customers (CN Factor)? Company's 1998 FERC jurisdiction analysis allocated no costs to FERC jurisdiction.
 - D: If a FERC jurisdiction is created, where should current "Utah FERC" and "Brigham City" be included?
 - E: How should wheeling revenues be treated if a FERC jurisdiction is created? Should there be symmetry in assigning costs and revenues. For example, should the FERC jurisdiction receive a credit for system treatment of special contracts?
 - F: Review and consider the appropriate allocation of each account. For example:
 - I. Should Trojan costs be allocated to the FERC jurisdiction?
 - II. Should Cholla costs be allocated to the FERC jurisdiction?
 - III. What is the proper factors for DITEXP, DITBAL, TAXDEPR, SCHMAT, and SCHMDT with a FERC jurisdiction?
 - IV. What is the proper number of Lead/Lag days for the FERC jurisdiction?
 - V. What are the appropriate capital costs and capital structure for the FERC jurisdiction?
 - VI. What is the proper tax rate to apply to the FERC jurisdiction?