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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF PACIFICORP FOR APPROVAL OF ITS PROPOSED ELECTRIC RATE SCHEDULES AND ELECTRIC SERVICE REGULATIONS	)	Docket No. 99-035-10 MEMORANDUM OF LARGE CUSTOMER GROUP IN OPPOSITION TO PACIFICORP'S PETITION FOR RECONSIDERATION

The Large Customer Group files this memorandum in response and opposition to the Petition of PacifiCorp for Reconsideration of the Report and Order entered by the Commission in this matter on May 24, 2000. PacifiCorp seeks reconsideration on six specific issues. The Large Customer Group opposes PacifiCorp's arguments on each of the six issues, but will address in this memorandum only three issues on which it provided substantive testimony in the rate case.

1. Computer Software Write-Down.

PacifiCorp challenges the Commission's deferral of computer software write-down expenses and offers a convoluted argument that the action will result in a denial rather than a deferral of these expenses. The company's arguments are not sustainable.

In the first place, more than adequate evidence exists on the record to justify a complete disallowance or deferral of all of PacifiCorp's SAP-related expenses, not just the write-down expenses of the old software program. As evidenced by the fact that the Commission ordered a performance audit of the entire SAP project, PacifiCorp has not made an adequate showing that any of its SAP-related expenses were prudently incurred--particularly in light of dramatic changes made by the company in its intentions and activities after the SAP system was ordered. The SAP system was not used and useful on a company-wide basis until at least 1999. No real 1998 benefits can properly be attributed to implementation of SAP. [E.g., Tr., p.407, l.14-p.416. l.18 (Meier)]. PacifiCorp thus misstates the record that "SAP was 'in service' and providing benefits during the test period." (Petition, at 2). SAP was not rolled out for any type of general use within the company until at least 1999. Thus, if PacifiCorp's Petition for Rehearing is granted, the Commission should defer not only the computer software write-down expenses, but all SAP-related expenses.

Second, the company misstates and mischaracterizes the Commission's ruling in both this case and the prior case. In each order, the Commission properly considered, as an appropriate factor, the matching of costs and benefits. The Company's argument that it might lose any opportunity to recover its software costs is illogical and not suggested by the Commission's Order. If PacifiCorp ultimately makes a showing that it was prudent for it to have incurred the significant expenses associated with the SAP system, that SAP is in service and used and useful, and that it was prudent for it to have abandoned the Legacy system, the Commission will presumably permit amortization of the write-off costs over an appropriate period of time, in a manner that will more properly match the benefits of the new system with the costs of abandoning the old system. The Order does not suggest otherwise.

Finally, it is very troubling that the company suggests that the Commission is legally obligated to permit it to recover a fully amortized portion of the total costs of a new project in the first year that any degree of "use" occured or any amount of "benefits" arguably accrued, no matter how slight. Unless the traditional utility concepts of "in service" and "used and useful" are to have practically no meaning, the Commission clearly must have the discretion to begin amortization of costs in a manner that reasonably attempts to match the expenses with substantive ratepayer benefits.

2. *Net Power Cost Adjustments.*

PacifiCorp's arguments on net power costs are unsupportable and unpersuasive. PacifiCorp mischaracterizes the Commission's policy and practice, claims that the Commission misunderstood the issues, castigates the Commission for a supposed misstatement of PacifiCorp's position, and argues, in effect, that the Commission must either use all "actual" data or all "normalized" data. PacifiCorp is wrong on each point.

PacifiCorp complains that the Commission has departed from its "past policy" of *preferring* normalized data. [Petition at 10-11 (emphasis added)]. PacifiCorp offers no basis for this statement, and it is extremely misleading. The Commission has certainly accepted "normalizing" adjustments to deal with the effects of weather and other unpredictable factors. It has also accepted, in one or two prior PacifiCorp rate cases, PacifiCorp's PD/Mac-driven net power cost results. However, it is both an extreme overstatement and a remarkable and arrogant position to assert that the Commission is now bound to accept the results of PacifiCorp's computer-manipulated "normalized" results unless if first "justifie[s] a departure from its past policy." [Id. at 11].

Never before this case has PacifiCorp's net power costs analysis been subjected to anywhere near the level of analysis and scrutiny presented in this case. Witnesses for the Division, the Committee and the Large Customer Group all carefully analyzed PacifiCorp's outdated, manipulated and inscrutable net power cost calculations and discovered significant problems. The evidence in this case supports significantly greater adjustments than ultimately adopted by the

Commission, and would support a wholesale rejection of PacifiCorp's net power cost analysis, and thus a dismissal of the case.

PacifiCorp also contends that the Commission misunderstood the Committee's net power cost adjustments. [Petition at 9-10]. The company cites language from the Order that the Committee used actual, rather than normalized, market prices for short-term firm sales and purchases. The company argues that, in fact, the Committee used "normalized" prices for short-term firm purchases. PacifiCorp's semantic arguments are convoluted and inaccurate. The problem is that PacifiCorp has so mangled the concept of "normalization" that the term is no longer clearly descriptive of anything. In fact, the Committee witness did use *actual* short-term firm purchase numbers, but he *adjusted* those numbers in a few minor instances to account for imprudent conduct. While such adjustments could perhaps be considered "normalized" in a sense (normalized to a standard of prudence), they are more properly characterized as adjusted actual results, to distinguish them from the convoluted and illogical "normalization" process used by PacifiCorp in its PD/Mac modeling.

The company next chastises the Commission for misstating PacifiCorp's position that "it is only appropriate to use actual information when a net power cost balancing account is used to set customer prices." [Petition at 11]. PacifiCorp claims that it "never" took that position. Interestingly, the Commission's statement of PacifiCorp's position follows almost verbatim the "Company Position" reflected in the Joint Exhibit, as follows: "The Company believes it is only appropriate to use actual when a net power cost balancing account is used to set customer prices." [Joint Exhibit, Power Costs CCS 6.4; Company Position; B)]. If the Commission misstated the Company's position, it appears that the Company also misstated it.

In essence, PacifiCorp's argument is that the Commission must accept all of the company's "normalized" data, on the other hand, or use all actual, unadjusted data, on the other hand. Such an argument is absurd and unsustainable, particularly given PacifiCorp's perverse use of "normalization" adjustments to make dramatic reductions in wholesale revenues, despite a virtually "normal" water year.

PacifiCorp's claimed opposition to mixing actual data and modeled data is also remarkable given that its testimony includes an extreme hodge-podge of actual and modeled data and results. Approximately sixty percent of the wholesale transactions "modeled" by PD/Mac use actual data. [Tr., p.1554, l.15-p.1555 l.8 (Falkenberg)]. The Commission's Report and Order properly and adequately explains a preference for the use of actual data, when possible, rather than manipulated data, and properly adopts adjustments on the basis of that preference.

3. Format of the Production Dispatch Model.

PacifiCorp argues that it may be wasteful to require it to create an Excel version of the PD/Mac model in light of the direction to evaluate alternative approaches to the normalization of net power costs. The Large Customer Group does not necessarily disagree, assuming PacifiCorp never again files a rate case using the PD/Mac model or any variation of the same. If PacifiCorp does file another rate case before the alternative net power cost modeling procedures have been fully evaluated and a choice has been made to adopt a new approach, the company should not be permitted to utilize outdated, unverified and illogical processes to reflect net power costs as it did in this case.

Dated this ___ day of June, 2000.

PARR WADDOUPS BROWN GEE & LOVELESS

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CERTIFICATE OF SERVICE

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