ROCKY MOUNTAIN
POWER
A DIVISION OF PACIFICORP

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***VIA ELECTRONIC FILING***
***AND HAND DELIVERY***

Public Service Commission of Utah
Heber M. Wells Building, 4th Floor
160 East 300 South
Salt Lake City, UT 84111

Attention: Julie P. Orchard
Commission Secretary

Re: Docket No. 08-999-05
Rocky Mountain Power's comments regarding Public Utility Regulatory Policies Act Electric Standard No. 17—Rate Design Modification to Promote Energy Efficiency Investments enacted by the 2007 Energy Independence and Security Act

On November 19, 2009, the Public Service Commission of Utah (the "Commission") issued a request for comments responding to comments filed by the Division of Public Utilities (the "Division") regarding the Public Utility Regulatory Policies Act ("PURPA") Electric Standard No. 17—Rate Design Modification to Promote Energy Efficiency Investments ("Standard No. 17"). In its comments, the Division stated that it believes that current rate designs and Demand-Side Management ("DSM") activities in Utah are in line with the requirements of Standard No. 17 and any modifications to the current rate designs need to be made in a rate case setting. Accordingly, the Division recommends that no further action is necessary and that the Commission elect to not adopt Standard No. 17.

Standard No. 17 states that the rates allowed to be charged by any electric utility shall: 1) align utility incentives with the delivery of cost effective energy; and 2) promote energy efficiency investments. As a general statement, Rocky Mountain Power (the "Company") disagrees with the Division's overall conclusions that current rate designs and DSM activities in Utah are "in line" with the requirements of Standard No. 17.

**Rate Design Alignment with Utility Incentives to Offer DSM**

Concerning residential rate design, the Company believes that its current residential rate design in Utah does not properly reflect or adequately recover the fixed costs to serve customers in the state. The current fixed distribution and customer service costs associated with service to residential customers in Utah is approximately $24.00 per month, compared to a customer charge of $3.00 per month. The current Utah residential customer charge is the lowest that the Company is allowed to charge in any of the six jurisdictions in which it does business. The $3.00 per month charge is also the lowest customer charge among investor-owned utilities as reported by the Edison Electric Institute in its January 2009 results. This extremely low charge forces the

Company to recover a greater percentage of its fixed costs from volumetric energy charges, creating a disincentive for the Company to encourage its customers to use less electricity, which directly contravenes Standard No. 17's requirements that rates be designed to align utility incentives with the delivery of cost-effective energy efficiency and to promote investments in energy efficiency.

The fixed charge components of rates, such as a residential customer charge, should reflect the fixed costs incurred by the utility to serve customers. While this has generally not been a problem for the commercial and industrial classes, it has been and continues to be a problem for residential rate design in Utah. Given that most fixed costs are currently being recovered through a charge based on the volume of electricity consumed, every kWh of electricity usage avoided by a customer through the implementation of cost effective DSM represents a decrease in the recovery of fixed costs by the Company, creating a disincentive to the Company to offer DSM programs in the state of Utah.

The Division acknowledges this issue by stating the following on page 5 of its comments:

> "Utah's current rate structures are such that some of the fixed costs are recovered through volumetric charges. Energy efficiency programs designed to reduce energy usage may make it difficult for the Company to recover all of its fixed costs. This may create a financial disincentive for the Company to promote energy efficiency."

The Division further states the work group that analyzed Standard No. 17 considered various mechanisms that would eliminate the utility disincentive, including cost compensatory fixed charges and revenue decoupling, and generally concluded that collecting fixed costs through a high fixed charge is not a viable option and that further analysis regarding this issue is needed. Rocky Mountain Power agrees with the Division that further analysis regarding this issue is required, but adamantly disagrees with the conclusion that allowing the recovery of fixed costs through a "high", or cost compensatory, fixed charge is not a viable option; the Company believes it is a viable option that should be implemented.

In the Company's view, in order to eliminate the utility disincentive, the Commission must either increase the customer charge to reflect the total fixed costs incurred by the Company or establish a decoupling mechanism that ensures the Company has a reasonable opportunity to recover the fixed costs associated with providing service to residential customers.

Contrary to the Division's comments on the benefits the Company accrues through offering DSM programs (found on page 5 and 6 of its memo), due to the revenue loss issue there currently is no incentive for Rocky Mountain Power to participate in and implement DSM measures in Utah. Under current DSM tariffs in place in Utah, the Company's customers are paying only the costs associated with the program incentives and a small administration cost. In return, they are receiving an overall reduction in their cost of service. The Company, on the other hand, is seeing an erosion of its recovery of fixed costs. Unless proper pricing measures are put in place, and the Company is given a fair opportunity to recover its fixed costs, the Company will continue to be disadvantaged by implementing DSM measures.

**Promote Energy Efficiency Investments**

The Public Service Commission of Utah has long been an advocate for cost effective DSM. When traditional embedded cost pricing methods are used to set retail rates in an increasing cost environment, retail consumers receive a significantly dampened price signal regarding the higher incremental cost of new energy resources. While the inverted block rate structure in Utah is intended to send appropriate price signals to customers, it does not allow the Company to recover its fixed costs and does not send accurate price signals to customers regarding the actual and incremental cost of electricity. Lacking a proper price signal, customers may not choose DSM opportunities even when those would be cost-effective for the total customer base. Utility programs and incentives, such as those offered through Rocky Mountain Power, help to overcome the impact of the dampened price signal and encourage customers to invest in energy efficiency measures.

The lack of an energy cost adjustment mechanism in Utah is further contributing to the lack of appropriate price signals. As the incremental cost of fuel and purchased energy increases, customers are shielded from those increases until such time as rates are adjusted. Consequently, customers are only aware of the impact their usage has on overall costs long after the Company incurs the costs.

The Company believes that pricing mechanisms, such as an energy cost adjustment mechanism, which more accurately reflect the actual cost of electricity in the rates customers pay, will send appropriate price signals about the cost of electricity and encourage investments in energy efficiency measures.

While Rocky Mountain Power disagrees with the Division's conclusions that current rate designs and DSM activities in Utah are "in line" with the requirements of Standard No. 17, the Company does not believe that the Commission needs to go as far as adopting Standard No. 17 at this time. A docket is pending before the Commission on an energy cost adjustment mechanism that has the potential of addressing certain aspects covered by Standard No. 17. Additionally, the company recommends that the Commission initiate a docket to remove the disincentives associated with the residential rate design and implement the outcome of such a docket at the time of the next rate change.

Rocky Mountain Power appreciates the opportunity to comment on these issues. Please direct any questions regarding these comments to Dave Taylor, Utah regulatory affairs manager, at (801) 220-2923.

Sincerely,

Jeffrey K. Larsen
Vice President, Regulation