MULTISTATE DIALOGUE ON

PACIFICORP INTERSTATE ALLOCATION OF COSTS AND REVENUES

Draft goal statement and process alternative for Commissions

Problem Statement

The current allocation of PacifiCorp's costs and revenues among the affected states does not currently provide PacifiCorp an opportunity to recover all of its costs. With this in mind, and with the knowledge that each states may choose different market-structure policies, the states of Oregon, Utah, Washington, Wyoming, and Idaho are willing to attempt a resolution among the states regarding the allocation of PacifiCorp's costs and revenues. We direct our respective staffs and interested parties to achieve a resolution, using a public process, whereby PacifiCorp has the opportunity to recover all of its costs and, the issues on the following two pages are addressed. We leave open the issue of whether the resolution reached is in the public interest in each of our states.

Process

We understand that each state has different statutes and regulations to which it must abide. Generally, we envision that the staffs of each state commission or advocacy agency, along with interested participants or parties, would jointly hold multi-day workshops and settlement conferences with a goal of reaching a global resolution. Once such resolution is reached, each state would proceed with the necessary legal mechanism to review the resolution. This could occur state by state, or could occur with joint hearings by several or all of the states.

Notwithstanding the various state statutes, a few general procedural understandings are necessary:

1. The state commissions may decide to hold a joint public meeting whereby we formally direct our staffs to seek global resolution assuming the problem statement holds.
2. At some point, each state will conduct a contested case or similar proceeding consistent with its Administrative Procedures Act to review the resolution. Each state will determine whether a new docket is appropriate, or whether this matter will be held within its current PacifiCorp restructuring docket.
3. Any state may petition to intervene in another state's proceedings. To ensure broad discussions and reaching resolution, the state staffs should not oppose such intervention
4. Due to the numbers of potential parties in this process, PacifiCorp or the states will share the cost of using a facilitator to convene and manage the multi-state workshop and settlement conference process.
5. The facilitator will explore with the parties mechanisms to assure adequate participation by **customer** groups.
6. All workshops and settlement conferences will be open to the public. These meetings will likely take place over groups of days.

Multistate Allocation Issues Faced by PacifiCorp

PacifiCorp faces a number of issues related to the interstate allocation of its costs. In each case, these issues could cause the states' shares of PacifiCorp's costs to add to less than the total. In several cases, PacifiCorp has already experienced allocation shortfalls. Additional issues indicate that this problem may well become more significant in the future.

Actual Allocation Shortfalls

- Adoption of "rolled-in" methodology by Utah. At the time of the merger between Utah Power and Pacific Power, a taskforce of staffs of the Commissions regulating PacifiCorp developed several different methods of allocating PacifiCorp's costs. The group ultimately adopted the "modified accord" allocation method. In recent years, the Utah Commission has adopted the "rolled in" allocation methodology, which allocates a lower share of PacifiCorp's power costs to Utah.
- Sale of Centralia. In 2000, PacifiCorp sold its Centralia generating station at a price higher than the plant's net book value. All of the state commissions regulating PacifiCorp held hearings to approve the sale and determine the appropriate ratemaking treatment. In total, the various state commissions ordered that more than 100% of the gain on Centralia be returned to ratepayers, causing PacifiCorp to incur a loss on an otherwise profitable sale.
- Allocation of special contracts. The "modified accord" allocation method provides that the costs and revenues from certain interruptible retail special contracts be allocated across PacifiCorp's system like power supply costs. In PacifiCorp's most recent rate case, the Oregon staff and other parties proposed that costs and revenues from these contracts be assigned "situs" to the states in which the customers are located. Since none of the relevant special contracts are with Oregon customers, this reduces costs that are allocated to Oregon and creates an allocation shortfall.
- Responsibility for load growth. In Oregon docket UE 116, the Commission approved a stipulation regarding deferral of excess power costs. That stipulation calculates the amount of Oregon power costs based on actual Oregon loads rather than factors specified in the "modified accord" allocation method. Since Oregon is growing more slowly than PacifiCorp's system as a whole, this results in an allocation of less power cost to Oregon and creates an allocation shortfall.
- SG allocation factor. In a previous rate case, the Utah PSC determined that one of the allocation factors shared by the "modified accord" and "rolled in" allocation methods was inappropriate and ordered that rates be calculated on a different number. The Commission's preferred allocation factor allocated fewer costs to Utah.
- Customer accounting and customer service. The "modified accord" method allocates the costs of customer accounting and customer service to the various states based on the number of customers in each state. In a previous rate case, the Utah PSC ordered that these costs be allocated on a different basis, which resulted in fewer costs being allocated to Utah.

Potential Allocation Shortfalls

- Direct access. Ultimate implementation of Oregon's direct access initiative requires PacifiCorp to identify and value a fixed slice of resources serving Oregon load. This "fixed slice" approach is inconsistent with the "modified accord" allocation method, which allocates power costs dynamically, using shares of energy and contribution to peak demand in each year.
- Significant load changes. PacifiCorp faces a variety of situations that could lead to loss of significant amounts of load. These include municipalization, direct access, and sale of service territory. The various states have very different views regarding the implications of these developments. If PacifiCorp were to sell its California service territory, for instance, it seems unlikely that all states will agree to pay their shares of the fixed costs of generation presently used to serve California customers. Equally, there are circumstances in which a state's load could grow significantly and disputes are likely regarding these. Examples include a new large single load or an acquisition of new service territory.
- New generation. States have divergent policy goals regarding new generation. Some states support integrated resource planning. Some states, like Oregon, have given policy support to supplying new load from market sources. There has been substantial policy support in Washington State for a renewable portfolio standard. Other states have not indicated a willingness to pay more than traditional cost-effective amounts. Parties in slow growing states have indicated that they would not support recovery of the costs of even cost-effective new generation if the need for that generation was prompted by another state. Additionally, states are likely to disagree regarding the types of generation to be built, appropriate reserve margins, and approaches to controlling air emissions from PacifiCorp's existing plants.
- Multiple cost allocation methodologies. In addition to the adoption of "rolled in" allocation by Utah, other states have indicated that they might consider alternatives. The Idaho staff is presently supporting "rolled in" allocation. The Washington staff has indicated a desire to revisit the use of "modified accord," favoring the use of prior allocation methods.
- Treatment of wholesale sales and purchases. Some jurisdictions have proposed that wholesale sales and purchases be allocated in a manner different than the "modified accord" method. For example, one state has proposed the establishment of a separate FERC jurisdiction. In addition, states have considered a "situs" assignment of the costs of QF contracts.
- State taxes. As other allocation issues are raised, states are likely to want to revisit the system-wide allocation of state-specific taxes.