

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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In the Matter of the Application of	)	Docket No. 02-035-04
PacifiCorp for an Investigation of	)	Direct Testimony of
Inter-Jurisdictional Issues	)	Michele Beck
	)	For the Office of
	)	Consumer Services

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August 18, 2011

1 **Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?**

2 A. My name is Michele Beck. I am the Director of the Office of Consumer Services.

3 My business address is 160 East 300 South, Salt Lake City, Utah.

4

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6 A. I present the Office's position regarding the "Agreement Pertaining to

7 PacifiCorp's September 15, 2010, Application for Approval of Amendments to

8 Revised Protocol Allocation Methodology" (Agreement).

9

10 **Q. WHAT IS THE OFFICE'S POSITION REGARDING INTER-JURISDICTIONAL**  
11 **ALLOCATION METHODOLOGY?**

12 A. The Office's position is that Utah rates should be established using the rolled-in  
13 allocation methodology. PacifiCorp operates in six states as an integrated utility

14 and rolled-in allocation provides the best method of fairly distributing the costs of

15 a single system among the participants in that system. Further, after six years

16 establishing rates using Revised Protocol, it became apparent to the Public

17 Service Commission (Commission), other Utah parties and the Office that the

18 results were no longer in the public interest. With the recent approval of an

19 Energy Balancing Account (EBA), using the rolled-in methodology is the only

20 method to establish fair, just and reasonable rates for Rocky Mountain Power's

21 Utah customers.

22

23 **Q. PLEASE PROVIDE THE OFFICE’S REASONS FOR SUPPORTING THIS**  
24 **AGREEMENT.**

25 A. The Office is a party to this Agreement because it essentially results in Utah  
26 rates being set using the rolled-in allocation methodology, which is the only  
27 method by which just and reasonable rates can be achieved with an Energy  
28 Balancing Account (EBA) in place. Parties agree that the Rolled-In allocation  
29 methodology remains the benchmark and starting point for allocating inter-  
30 jurisdictional costs to Utah for ratemaking purposes. The Agreement also  
31 preserves rights of parties to contest inclusion of costs of any particular resource,  
32 or to dispute consequences of past Company decisions, specifically to challenge  
33 the inclusion in Utah rates of any costs associated with the Klamath Hydroelectric  
34 Settlement Agreement (KHSA), including costs described in the Agreement as  
35 Klamath Rate Impacts.

36  
37 **Q. WAS THE OFFICE A PARTY TO THE MULTI-STATE PROCESS AND THE**  
38 **REVISED PROTOCOL AGREEMENT?**

39 A. Yes. The Office (at the time the Committee of Consumer Services) participated  
40 in the lengthy multi-state process that began initially in December 2000 with the  
41 Company’s Structural Realignment Proposal that evolved into the multi-state  
42 process (MSP) and eventually resulted in a June 2004 Stipulation (Revised  
43 Protocol). The Office was a signatory to the stipulation that created the Revised  
44 Protocol Agreement, which was approved by the Commission in December 2004.

45 The Office continues to participate in the MSP Standing Committee Meetings and  
46 MSP work groups.

47

48 **Q. AT THE TIME THE REVISED PROTOCOL STIPULATION WAS ADOPTED**  
49 **WHAT WAS THE OFFICE’S PREFERRED ALLOCATION METHODOLOGY?**

50 A. Then as now the Office preferred rolled-in allocation as necessary to produce  
51 just, fair and reasonable rates. In testimony regarding the Revised Protocol  
52 Stipulation the Office recommended that “the Commission reaffirm that a  
53 traditional, single-system, fully rolled-in, allocation method is the ratemaking  
54 standard for determining cost causation and for evaluating whether a rate is just  
55 and reasonable; deviations from rolled-in are intended to achieve ends other than  
56 cost-causation”.<sup>1</sup>

57

58 **Q. DID THE COMMISSION CONDITION APPROVAL OF THE REVISED**  
59 **PROTOCOL STIPULATION?**

60 A. Yes. The approval of the Stipulation was conditional. In its December 2004  
61 Order the Commission stated that “...in the long run, it [Revised Protocol] must  
62 not result in significantly different impacts on Utah than now expected. If the  
63 projected savings to Utah in the later years, which substantially offset the  
64 increases in the early years, do not materialize, we may reconsider the further  
65 use of the Stipulation.”

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<sup>1</sup> Direct testimony of Nancy Kelly for the Committee of Consumer Services, page 3, lines 20 – 24.

67 **Q. HAVE THE COMMISSION AND UTAH PARTIES EXPRESSED CONCERN**  
68 **REGARDING CONTINUED USE OF REVISED PROTOCOL?**

69 A. Yes. At the Multi-State Process Commissioners' Forum on November 6, 2008  
70 the Utah Commissioners expressed concern that the results of the latest  
71 forecasted revenue requirement showed that the projected savings to Utah in the  
72 later years would not materialize, similar to the concern expressed by the  
73 Commission in its December 2004 Order. On September 9, 2009 several Utah  
74 parties, including the Office, issued a notification to MSP participants expressing  
75 concern that continued use of the Revised Protocol would no longer result in just  
76 and reasonable rates for Utah ratepayers. The issue was subsequently taken up  
77 by the MSP Standing Committee.

78

79 **Q. DID THE COMMISSION ACT ON ITS CONCERNS REGARDING REVISED**  
80 **PROTOCOL?**

81 A. On October 19, 2009 in Docket No. 09-035-23, a general rate case, the  
82 Commission issued an Order which in part, directed the Utah Division of Public  
83 Utilities and other parties to address the following in rebuttal testimony:

84 1. Are the continued use of the 2004 Stipulation terms for the  
85 development of the Utah revenue requirement in this case in the public  
86 interest?

87 2. Whether there are alternatives, such as the use of the Rolled-In  
88 method without the revenue requirement adjustments contained in the

89 2004 Stipulation terms, which would be just and reasonable in this  
90 case.

91  
92 However, the Commission stayed the October 19, 2009 Order stating, “Although  
93 constrained by the time remaining in this [GRC] docket, we intend to have inter-  
94 jurisdictional allocation issues addressed and the reasonableness of any  
95 allocation established prior to our approval of any future change in RMP’s rates.”

96

97 **Q. WERE UTAH PARTIES’ CONCERNS REGARDING THE RATE IMPACTS OF**  
98 **REVISED PROTOCOL ADDRESSED IN THE MSP STANDING COMMITTEE?**

99 A. Yes, the 2010 Protocol was crafted through discussions in the MSP Standing  
100 Committee in an attempt to address the concerns about Revised Protocol raised  
101 by Utah parties. However, the 2010 Protocol did not satisfy the concerns of all  
102 parties. Only by Utah parties working directly with the Company was Utah’s  
103 interest in the resumption of rolled-in allocation agreed to.

104

105 **Q. HAS THE OFFICE ADVOCATED FOR ROLLED-IN ALLOCATION**  
106 **METHODOLOGY IN OTHER DOCKETS?**

107 A. Yes, in Docket No. 09-035-15 Rocky Mountain Power’s request for an energy  
108 balancing account (EBA), the Office (and other parties) recommended that if the  
109 Commission approved an EBA for the Company, then base rates must be  
110 established based on rolled-in allocation methodology for the duration that the  
111 EBA is in place . The Office also supported use of rolled-in methodology in

112 Docket No. 10-035-124, the Company's most recent general rate case. The  
113 Office asserts that only through rolled-in allocation can just, fair and reasonable  
114 rates be achieved.

115

116 **Q. PLEASE EXPLAIN WHY THE OFFICE TOOK THIS POSITION.**

117 A. Because the Commission has approved the Company's request for an EBA,  
118 Docket No. 09-035-15, Utah ratepayers are now subject to the variations in hydro  
119 conditions. If the Company experiences a low hydro year, the actual Net Power  
120 Cost (NPC) are likely to be higher than the normalized forecasts included in  
121 rates. Under an EBA these higher costs would be passed through to Utah  
122 customers. Since Utah ratepayers will be exposed to this hydro risk the Office  
123 advocated that they should also receive benefits attendant to low-cost hydro.  
124 During any time in which an EBA-type mechanism is in place, it is only by using a  
125 rolled-in allocation methodology that the Commission can ensure that the rates  
126 paid by Utah customers are just and reasonable. The Office as well as other  
127 Utah parties prefer that rates generally be calculated based on a rolled in  
128 allocation methodology, particularly since it has been over 20 years since Utah  
129 Power and Pacific Power merged.

130

131 **Q. DOES THE OFFICE AGREE WITH THE COMPANY'S DEFINITION OF WHAT  
132 SHOULD BE INCLUDED IN ROLLED-IN RATES?**

133 A. No. The Office notes that utilizing rolled-in methodology is not an agreement to  
134 each cost component of each individual resource. In the general rate case

135 settlement, Docket No. 10-035-124, the Company agreed to remove certain  
136 costs associated with the removal of the Klamath Dam from the case. As stated  
137 in my Direct Testimony in that case “the Office will continue to oppose these  
138 costs being allocated to Utah customers and strongly recommends to the  
139 Commission that all Klamath-related costs warrant careful scrutiny, preferably in  
140 a more focused context not embedded within a general rate case.”

141

142 **Q. DOES THE AGREEMENT DEFINE ALL COST COMPONENTS THAT WILL BE**  
143 **INCLUDED IN ROLLED-IN ALLOCATION?**

144 A. Although the Agreement essentially establishes the use of rolled-in allocation  
145 methodology in Utah, it specifically leaves parties free to contest the inclusion of  
146 any cost component in Utah rates that a party feels are unjustified even though  
147 that component may typically be considered part of the rolled-in system. The  
148 Klamath Hydroelectric Settlement Agreement is a specific case in point. The  
149 Office contends that Utah ratepayers cannot and should not be compelled to pay  
150 such costs and that to do otherwise would not be fair, just and reasonable. The  
151 Klamath Rate Impacts relate to agreements the Company entered into with  
152 sovereign states and regional entities and do not purport to incorporate Utah  
153 interests. The only way to resolve the dispute regarding the Klamath Rate  
154 Impacts is to thoroughly examine the issues in a separate process.

155



156 **Q. HOW DOES THIS AGREEMENT TREAT ANY DISALLOWANCES MADE IN A**  
157 **GENERAL RATE CASE RELATED TO ITEMS IDENTIFIED AS KLAMATH**  
158 **RATE IMPACTS?**

159 A. As stated in the last sentence of Paragraph 11: “The Parties recognize and agree  
160 that any Commission disallowance of costs related to the Klamath Rate Impacts  
161 shall result in adjustments to the calculation of rates under both Rolled-In and  
162 2010 Protocol.” Thus, any reductions to what costs are included within the  
163 calculation of rolled-in rates to apply to Utah customers will equally impact both  
164 calculations whether viewed to have been calculated under Rolled-In or modified  
165 2010 Protocol.

166

167 **Q. ARE THERE ANY OTHER PROVISIONS OF THE AGREEMENT YOU WOULD**  
168 **LIKE TO COMMENT ON?**

169 A. Yes, the 2010 Protocol covers a six-year period from 2011 to 2016. There is no  
170 agreement as to the allocation method to be used in Utah after 2016. The  
171 Office’s position at this time is that rolled-in allocation will continue to be the  
172 appropriate method to establish rates in Utah, particularly if an EBA is still in  
173 place.

174

175 **Q. PLEASE SUMMARIZE THE OFFICE’S POSITION.**

176 A. The Office contends that the Agreement, in total, is in the public interest and will  
177 result in just and reasonable rates for Utah customers. The Office supports the  
178 Agreement because it essentially results in Utah rates being set using the rolled-

179 in allocation methodology, which is the only method by which just and reasonable  
180 rates can be achieved with an Energy Balancing Account (EBA) in place, while  
181 preserving parties' ability to challenge specific costs from being included in the  
182 calculation of rolled-in rates. Thus, the Office recommends that the Commission  
183 approve the Agreement.

184

185 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

186 **A. Yes.**