

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE)
INVESTIGATION BY THE COMMISSION)
ON ITS OWN MOTION OF)
INTERJURISDICTIONAL ISSUES)
REGARDING THE BUSINESS)
ORGANIZATION OF PACIFICORP AND)
RELATED MATTERS)

Docket No. 20000-EI-02-183
(Record No. 7395)

AFFIDAVIT OF DENISE K. PARRISH
ON BEHALF OF THE CONSUMER ADVOCATE STAFF
(April 18, 2002)

I, DENISE K. PARRISH, being duly sworn on oath, state as follows:

1. I am the Supervisor of the Rates and Pricing Section of the Wyoming Public Service Commission. My business address is 2515 Warren Avenue, Suite 300, Cheyenne, Wyoming 82002. I have a Bachelor's degree in Accounting from Michigan State University and have worked for four public service commissions and one consumer advocacy agency during the past twenty-five years. For the purpose of the above listed proceedings, I am a member of the Consumer Advocate Staff of the Wyoming Public Service Commission. As such, I am charged with promoting the best interest of the citizens of the state of Wyoming or a broad class of citizens. Additionally, I am a former co-chair of the PacifiCorp Interjurisdictional Task Force on Allocations and am currently the Chair of the National Association Regulatory Utility Commissioners' Staff Subcommittee on Accounting and Finance.

2. On April 1, 2002, the Commission initiated an investigation into the interjurisdictional issues affecting PacifiCorp and its service in Wyoming. This investigation, opened upon the Commission's own motion, was urged by PacifiCorp in order to address a variety of interjurisdictional issues, including but not limited to: cost allocations of existing revenues, expenses, and assets among the six state jurisdictions served currently by PacifiCorp; future cost allocations given the various forms of regulation practiced by each of the state regulatory commissions and differing growth rates of each of the states; and the selection, timing, and nature of new generation and transmission resources.

3. The Commission's April 1, 2002, Order encouraged parties and interested persons to participate in the April 10-12, 2002, initial multi-state process ("MSP") meeting in Boise, Idaho, "to contribute their insights on how the MSP process should develop and to better understand the possibilities for achieving a workable consensus among the parties and the various jurisdictions as to the further value and character of the MSP." Two members of the Consumer Advocate Staff team assigned to this

proceeding, Mr. Ivan Williams and myself, attended the Boise meeting. We asked a number of questions, and generally joined in the discussion, to the extent that the facilitated process and time allowed.

4. The Commission has requested that the parties, including the Consumer Advocate Staff, report their views on the multi-state process. This affidavit, along with the accompanying legal pleading, address some of the procedural and technical concerns raised by the initial meeting of the multi-state process, and specifically are directed to the Commission's examination of whether Wyoming should continue to participate in the multi-state process as it begins to evolve. This affidavit specifically addresses a number of the technical questions raised by PacifiCorp and others in the request initiating the multi-state process. The focus of this affidavit is on the following question: "Is there a current Wyoming crisis regarding PacifiCorp; and is it likely that any such problem(s) would be resolved through the multi-state process?"

5. In its March 7, 2002, Application to Initiate Investigation of Inter-jurisdictional Issues Effecting It, PacifiCorp argues that the multi-state process is necessary to resolve the allocation issue. PacifiCorp argues that it is currently in a situation where there is no consensus among its jurisdictions as to how the costs of the Company's existing generation and transmission resources should be allocated, denying the Company a reasonable opportunity to recover its prudently incurred costs. However, the March 7, 2002, Application fails to discuss PacifiCorp's 1987 statements wherein it agreed to bear the risk of differing allocations in different state jurisdictions. In researching the records of Docket No. 9266, Sub 104 and Docket No. 9119, Sub 83, the case involving the merger of Utah Power and Light and Pacific Power and Light, I have discovered a series of commitments by PacifiCorp that have a significant bearing on the current allocation issues and the situation in which PacifiCorp currently finds itself.

6. In examining the sworn testimony of the Pacific Power and Utah Power officers and witnesses at the 1987 merger hearing, a continuing theme occurs relative to the commitment of PacifiCorp if the merger were to be granted. This theme can be summarized as: (1) Utah Power and Pacific Power should continue as separate operating divisions since there are stated benefits to having the two divisions, and (2) the Pacific Power customers will not be harmed, and the rates of Pacific Power customers will not increase as a result of Commission approval of the merger. Several examples of these statements are provided below:

a. Cross-examination of Mr. Rodney Boucher, Vice President of Power Supply for Pacific Power and Light, by then Commission Staff member Mr. Steve Ellenbecker, at transcript pages 268 and 269:

Q. So as you testify on page 3, you will operate and plan on a single utility basis as far as your power systems, but then is it your testimony that in your rate case filings in Wyoming you will reflect either a joint power supply cost or a separate power supply cost?

A. What would be reflected in a Wyoming rate case, as I understand it would be the embedded costs of Pacific's system as you currently see them plus the savings that would accrue from working the two systems as one. So that would reflect current costs adjusted for savings.

Q. Are you familiar with a situation in the United States, a rate making situation where companies are integrated for power supply planning and operating purposes but not necessarily for rate making purposes?

A. I believe this is common in the south, for example, Middle South and Southern Company which operates with subsidiaries. They have the individual costs associated with each of those subsidiaries, and they have umbrella costs, if you will, as well as savings that accrue from the holding company.

Q. So if Utah Power's supply costs in 1986 were 17 percent higher than Pacific's corresponding costs those higher costs will never get into Pacific's Wyoming rates. Is that your proposal?

A. That's correct.

Q. Would it follow then that you don't have any intention on sharing your hydro generation power with Utah Power & Light customers and the utility that serves them?

A. Only to the extent that we generate savings through the process that we've described earlier here that would involve neutral transactions that couldn't be achieved otherwise; that would involve dispatch of the system as a whole which generates savings for both parties and the unit commitment process which also does the same thing.

b. Cross examination of Mr. Fredric Reed, Senior Vice President of Pacific Power, by then Commission Staff member Mr. Steve Ellenbecker, at transcript pages 400 and 401:

Q. Now because you expect that result, and in view of the possibility that you could ultimately see a consolidated company for purposes of setting jurisdictional allocations, do you think that it's possible that an integrated system might result in a simplified method of establishing jurisdictional allocations?

A. I think clearly a consolidated system would simplify matters from a pricing standpoint. However, that approach as I see it would be

patently unfair to the existing Pacific Power & Light Company customers. . .

c. Direct examination of Mr. Orrin Colby, Jr., Controller and Chief Accounting Officer for Utah Power & Light, by Mr. Edward Hunter, Jr., attorney for Utah Power & Light, at transcript pages 679 and 680:

Q. Since the merged company will have one capital structure for rate of return purposes, why would it be proper to allocate Wyoming assets by division for two separate divisions operating in Wyoming?

A. Each of the companies prior to the merger constructed or obtained certain assets to provide service to its customers. Those assets can be identified as such and should continue to be allocated to the customers they were built to serve. It would not be appropriate to combine assets of the two divisions and allocate those combined assets to all customers of the merged system until the merged company can ensure that no group of customers would have to absorb increased costs as a result of this combination.

7. The above examples clearly show that PacifiCorp's expectation at the time of the Pacific Power and Utah Power merger was that Pacific Power's customer rates would not increase as a result of the merger or as a result of the allocation process resulting from the merger. Citations from the orders of other states approving this same merger also show that any risk of allocation differences resulting from the merger were to be borne by shareholders, not ratepayers. Two clear statements of this shareholder risk are provided below:

a. Oregon Public Utility Commission Order No. 88-767, at page 22:

Third, Applicants have committed indefinitely that Pacific's customers will not be harmed by the merger and will not subsidize benefits to Utah Power customers. Applicants recognize that if the merger results in higher costs, those costs will be borne by the merged company's shareholders. Applicants further agree that shareholders will assume all risks that may result from less than full system cost recovery if interdivisional allocation methods differ among the various jurisdictions.

b. The Utah Public Service Commission's Order in Docket No. 87-035-27, at pages 90 and 97:

. . .In addition to the conditions dealing with record keeping and reporting requirements, we find the additional conditions set forth in (b) below, conditions proposed by various parties and as modified by the

Commission, to be in the public interest and are imposed as conditions of the merger. . .

11). The Merged Company shall agree that PacifiCorp shareholders shall assume all risks that may result from less than full recovery if inter-divisional allocations methods differ among the Merged Company's various jurisdictions.

8. In spite of the earlier agreements as part of the merger, and in spite of assuming the risk of differing allocations as the merger was consummated, PacifiCorp is now asking the states to consider and discuss possible allocation methods that would likely have the effect of increasing costs assigned or allocated to the majority of PacifiCorp's Wyoming customers. The Consumer Advocate Staff asks the Commission to carefully consider whether any "crisis" that PacifiCorp finds itself in is of its own making, and whether Wyoming ratepayers should be relieved of any obligation to bear additional rate increases to assist PacifiCorp in resolving any real or perceived interjurisdictional allocation concerns.

9. As further discussed throughout this affidavit, one of the situations facing PacifiCorp is the use of different allocations by different jurisdictions. At the PacifiCorp Interjurisdictional Task Force on Allocations meetings held in October of 1999, PacifiCorp provided the states an estimate of its on-going shortfall from the use of the Rolled-In allocation method by some states, and the use of the Modified Accord method by others. While the provided figures were meant to be estimates, they are useful in looking at the potential impact on Wyoming customers if the multi-state process were to result in the Rolled-In allocation method being applied in determining PacifiCorp's Wyoming customer's rates. The estimated impact on Wyoming customers due to movement to Rolled-In is summarized below:

	Benefit to WY Utah Power Customers	Detriment to WY Pacific Power Customers
2000	\$500,000	\$7,200,000
2001	\$700,000	\$6,400,000
2002	\$800,000	\$5,600,000
2003	\$900,000	\$4,900,000
2004	\$800,000	\$3,900,000

To continue the example, if a five year average of the benefits to the Wyoming Utah Power and Light customers were computed, it would amount to about \$4.71 per customer per month for slightly more than 13,000 customers. However, this would be at the expense of increasing the bills to more than 107,000 Wyoming Pacific Power customers an average amount of \$4.33 per month, based on the average five year cost of moving to Rolled-In.

Looking at these same potential savings and costs in terms of dollars per megawatt hours, the Wyoming Utah Power Division would have the opportunity to see a reduction

of \$0.58/mWh, while the Wyoming Pacific Power Division would be facing potential increases of \$0.86/mWh, based on energy data provided for the test year ended March 31, 2001.

10. The Consumer Advocate Staff asks that the Commission carefully consider whether now is the proper time to move to a Rolled-In allocation methodology, given that there are likely to be several factors putting upward pressure on rates during 2002, even without a change in the allocation methodology. With an expectation that PacifiCorp will be asking for increases in rates of 15% or more in a case to be filed within the next few weeks, is now the time to be adding additional pressure to rates?

11. The Consumer Advocate Staff is concerned that a movement to Rolled-In in Wyoming, without the same movement by some of the larger Pacific Power states, may be meaningless in terms of impacting PacifiCorp's overall financial situation. If one assumes that Wyoming's lack of movement to Rolled-In is costing PacifiCorp about \$3.5 million in earnings on an after-tax basis, with a rate base of more than \$897 million in Wyoming, the lost earnings would be less than 40 basis points on its overall return. This is a minimal impact on PacifiCorp's overall earnings. The largest Pacific Power state (e.g., Oregon) must also agree to move to Rolled-In to have a significant closing of the earnings gap left by Utah's adoption of the Rolled-In allocation method.

12. The Consumer Advocate Staff also asks the Commission to focus on the question of how is the multi-state process likely to be different than the previous PacifiCorp Interjurisdictional Task Force on Allocations process and how is the result likely to be different? In his May 2001 testimony filed in Docket No. 20000-EA-00-161, Mr. Rodger Weaver, Director of Regulatory Projects for PacifiCorp, discusses why a corporate restructuring is being requested by PacifiCorp. Page 3 of that testimony states, in part:

These benefits were only available if the parties were prepared to work together to meld PacifiCorp's relatively low-cost resources with Utah Power's relatively high-cost resources in a way that protected customers in all states and without unfairly burdening the Company. The Company and the staffs of the PacifiCorp's state regulatory commissions have committed significant resources to the ongoing development of a universally accepted cost-allocation methodology for a vertically integrated utility. Over time, consensus has broken down on several issues with state commissions now setting rates under two methodologies referred to as "Modified Accord" and "Rolled-in." Use of these two methodologies denies the Company an opportunity to recover all of its prudently incurred costs.

13. It is not clear to the Consumer Advocate Staff that the positions of the states are any different now than they were during the earlier cost allocation meetings that caused the lack of consensus in recent years. Two recent examples of fairly polarized positions readily come to mind:

