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**Division of
Public Utilities**

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March 11, 2004

TO: Public Service Commission

FROM: Division of Public Utilities
Irene Rees, Director
Energy Section
Judith Johnson, Manager
Abdinasir Abdulle, Utility Analyst
Mary Cleveland, Regulatory Analyst

RE: In the Matter of Demand Side Management Cost Recovery by PacifiCorp dba
Utah Power & Light Company, Docket No. 02-035-T12

ISSUE:

On January 22, 2004, PacifiCorp (d.b.a. Utah Power & Light Company) submitted proposed Schedules 192 and 193 of Tariff P.S.C.U. No. 45. Schedule 193 replaces Schedule 191, which was cancelled and renumbered as Schedule 193 in compliance with the Commission's October 3, 2003 Order in this docket. Additionally, PacifiCorp requested the Commission approve Schedule 193, setting the initial collection rate to recover Demand Side Management (DSM) expenditures. The Company proposed an initial collection rate of 3%, to be applied against a customer's power charge, energy charge and voltage discount. The derivation of the collection rate by service schedule is based on the stipulated rate spread approved by the Commission in Docket No. 03-2035-02. The charge is to appear as a separate line item on the customer's bill and is to be identified by the description, "Customer Efficiency Services". Schedules 192 and 193 are not currently applicable to special contract customers.

RECOMMENDATION:

The Division recommends approval of Electric Service Schedule No. 193, DSM Cost Adjustment, setting the initial collection rates to recover DSM expenditures.

Additionally, all references to Schedule 191 in the Stipulation in Docket No. 02-035-T12, should apply equally to Schedule 193.

DISCUSSION:

Per the Stipulation approved by the Commission in Docket No. 02-035-T12, the Schedule 193 collection rate is to be determined based on the following factors:

- a) the balance in the Schedule 193 balancing account at the time the collection rate is being set, reviewed or adjusted, which balance will initially include the DSM expenses deferred by the Company pursuant to the Commission's Order in Docket No. 01-035-21, effective August 1, 2001.
- b) a forecast of the next year's expenses for Commission-approved DSM programs; and;
- c) the current collection amount or rate.

The objective is to set a Schedule 193 collection rate projected to result in a zero balance by the following annual review period. However, the Parties proposed that the Schedule 193 collection rate initially be set at an amount that would collect the balance of expenses deferred pursuant to the Order in Docket No. 01-035-21 over a longer period of time longer than one year, the precise period to be determined at the time the initial collection rate was set.

Subsequently, the Company and DSM Advisory Group met on two separate occasions, November 20, 2003 and February 6, 2004, to determine an initial collection rate considering the inter-play of the projected balance in the deferred account as of March 31, 2004, forecast of expenditures for Commission approved programs during the next five years (the amortization period previously approved by the Commission in Docket No. 01-035-21), as well as the likelihood of new programs introductions during the next five years, the expenditures of which would be charged to Schedule 193 upon receiving Commission approval. In setting the initial collection rate the parties agreed to the following objectives: (1) consider customer rate impacts, (2) provide a stable rate over the next five year period, and (3) set a rate that recognizes the carrying costs of collecting the deferred balance over a period of time.

The Company in conjunction with the Division developed an Excel Spreadsheet model to assist in determining the initial collection rate which, given various assumptions regarding new Commission approved program introductions, budgeted expenditures for Commission approved programs and the AFUDC rate, would result in full amortization of the deferred balance over a three to five year period, not result in a greater rate than currently being collected in Schedule 95, and not result in a significant over or under recovering at the end of a five year period. Based upon this analysis and discussions with participating parties in Docket No. 02-035-T12, the

parties agreed upon establishing 3% as the initial collection rate. The Division has reviewed the assumptions used in establishing the 3% rate and found them to be reasonable in light of the current AFUDC rate and the level of DSM included in the Company's recent IRP.

The collection rate is applied against a customer's power charge, energy charge, and voltage discount each month in determining a customer's applicable DSM related charges. Accordingly, the collection rate would likely vary slightly by rate schedule because of the varying basic charge among rate schedules. The actual collection rate for any rate schedule is calculated as the ratio of the 3% of the present revenue and the present revenue plus unbilled charges less the customer charge and the minimum charge as is shown in Appendix B of the application. The Division found that the proposed collection rate is based on the stipulated rate spread approved by the Commission in Docket No. 03-2035-02.

Currently Schedule 193 is not applicable to special contract customers. However, no Party is precluded from proposing and advocating in any proceeding that Schedule 193 should be made applicable to special contract customers.

The Stipulation entered into by and among the parties in Docket No. 02-035-T12, refers to the DSM cost recovery tariff as "Schedule 191". Subsequently, the Commission in its Order approving the Stipulation ordered the DSM cost recovery tariff to be renumbered. In the current filing the Company has proposed to renumber it as "Schedule 193". Thus, all references in the Stipulation to "Schedule 191" should now be applicable to Schedule 193.

The Division is currently reviewing the costs recorded in the DSM deferral account, which will be amortized through Schedule 193. To date we have received a detail of amounts recorded in the DSM deferral by DSM program through December 2003. We expect to receive a detail of the amounts recorded, January – March 2004, in early April. Costs, which are found not to qualify for Schedule 193, will be removed along with the associated interest.

cc: John W. Stewart, PacifiCorp
Klare Bachman, Department of Commerce
Committee of Consumer Services

