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Memorandum

TO: Public Service Commission

FROM: Division of Public Utilities
Constance White, Director,
Artie Powell, Energy Section Manager
Abdinasir Abdulle, Technical Consultant
Charles Peterson, Technical Consultant

DATE: February 1, 2007

RE: PacifiCorp Acquisition Stipulation Provision 15c. in Docket 05-035-54.

I. ISSUE

Stipulation Provision 15c. in Docket 05-035-54 required that PacifiCorp, the Division of Public Utilities, and other interested parties meet to discuss “service quality standards related to industrial customers, with a focus on high tech companies.” The Parties are to report to the Commission by February 1, 2007. This memorandum is the Division’s response to PacifiCorp’s Report to the Commission.

PacifiCorp (the Company) has circulated its report (the Report) to the Utah Public Service Commission (the Commission) among the interested Parties. The Report summarizes the activities of the Service Quality group that met to discuss the service quality issues provided for in Stipulation Provision 15c in Docket 05-035-54, the Docket of the Company’s acquisition by MidAmerican Energy Holdings Company (MEHC). This Report details suggestions made by some industrial customers of the Company and gives the Company’s response and conclusions. The Division of Public Utilities (the Division) comments on the Report.

II. RECOMMENDATION

The Division recommends that the Commission acknowledge the Report. The Division recommends further that the Customers, Company and the Division continue to meet to discuss these issues further to the extent the Parties perceive a need for further discussion.

III. DISCUSSION

The Division participated in the initial meetings outlined in the Report. After listening to the discussions between the interested industrial customers (the Customers) and the Company, the Division's impression was that problems, issues, and concerns of the Customers beyond a general desire to receive "good service" were largely specific to individual customers. The Division notes that PacifiCorp has designated customer representatives to specifically deal with these Customers. The Customers participating in the meetings generally expressed satisfaction with the Company's responsiveness to the problems that had occurred in the past and that, working through its customer representatives, the Company had, for the most part, responded in a timely fashion to the issues. The Division's general impression from the first couple of meetings was that from the viewpoint of most of the Customers, the quality and reliability of PacifiCorp's service had generally improved in recent years. Coming away from these meetings, the Division's conclusion was that there was neither a significant nor a systemic problem that required intervention by Utah regulators. The Company's internal customer service response appeared to be adequate.

Following these initial meetings representatives of the Customers submitted the list of five recommendations discussed in the Report.

- Conduct an annual review of performance with each of the high-tech customers and tie compensation of employees involved in operating the system to reliability performance.
- Establish an incident review board comprised of high-tech customers and utility officials to review significant customer and utility events and jointly discuss methods of improving reliability.
- Establish higher level operational and maintenance procedures for facilities which provide service to high-tech customers.
- Conduct national/international benchmarking with other utilities to determine best-in-class procedures for providing service to high tech customers.
- RMP should offer a program to its high-tech customers, which provides incentives to implement solutions to power quality problems in their plants.

Each of these recommendations is discussed in turn.

Annual Performance Review and Employee Compensation

The Division believes that it would be appropriate for the Company's dedicated customer representatives to review annually, if not more frequently, performance issues with these Customers. Indeed, we would be surprised if that isn't already happening on at least an informal basis. The Division suggests that the Company adopt a more formal review procedure if one isn't already in place. However, the Division does not perceive that there is a present need for a formal Commission approved and enforced standard in this regard.

With regard to compensation, the Division believes that this goes to the reliability and quality of the entire system. There already exists measurable reliability and quality standards. The Company might consider structuring the compensation of the customer representatives who deal with these Customers to give incentives to successfully resolve problems, assuming it doesn't do something like this already. However, the Division doesn't believe that the Division or the Commission generally should be involved in setting compensation standards or formulae for all employees of the Company.

Establish an Incident Review Board

In the abstract this appears to be a reasonable request. The question that arises is whether such a board would be truly beneficial to the parties concerned, or whether it would constitute another layer of "busy work." Answers to questions such as who would constitute such a board (e.g. would there be independent engineers, regulators, etc.), how often or under what circumstances it would meet, how would expenses, if any, be covered, and most importantly, what exactly would the board be expected to accomplish, remain unclear. The Company represents that it investigates power problems and keeps the Customers informed. The Division has no reason to doubt this. In its initial remarks above, the Division discussed that there did not appear to be significant ongoing or systemic problems at this point. The Division recommends that if the Customers believe that such a board would be useful, that further discussions need to be held to answer these and other questions and then present to the Commission, if appropriate, a proposal. At this point the Division is skeptical about the need for an incident review board.

Higher Levels of Operations and Maintenance

The Division generally concurs with PacifiCorp's conclusion here. If a Customer needs/demands higher levels of operations and maintenance, the Division recommends that such requests be reviewed on a case by case basis to determine cost allocation and any other relevant issues.

National/International Benchmarking

The Division supports PacifiCorp's and its division Rocky Mountain Power that they should continue to pursue improvements to reliability and service quality as outlined in the Report.

Program with Incentives to High Tech Customers

An incentives program for Customers would probably require a legislatively mandated program. The Division could support such a program if it could be structured so that all ratepayers were either benefited or were neutral.

IV. CONCLUSION

The Division did not detect any significant or system problem that needed to be addressed as a result of the meetings that were held with the Company and the Customers. The Division suggests that the Company instigate at least annual service quality reviews with their Customers if it is not already doing so. This could be done through the Company's existing network of customer reps. The Division does not believe it generally wise for regulators to become heavily

involved in the Company's employee compensation. The need to depart from this policy was not provided at these meetings. The Division therefore opposes the setting of standards regarding employee compensation at this time.

An incident review board may have merit, but its purpose and activities would need to be better defined before the Division could support it. However, the Division's first impression is that there is not a significant problem to be addressed and, if the board is created, may just result in "busyness" without a clear accomplishment.

The funding source of higher operating and maintenance levels or Customer incentive programs would have to be identified along with further definition of these programs before the Division could support such activities. For the most part the Division would expect the direct beneficiaries of such programs to pay for them. While conceptually the idea of benchmarking is appealing, the practical implementation is problematic. The Division supports the Companies current efforts on continuous quality improvement.

cc Dave Taylor, Rocky Mountain Power
Cheryl Murray, Committee of Consumer Services
Gary Dodge, UAE