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Division of Public Utilities

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MEMORANDUM – MSP 2017 PROTOCOL EXTENSION

To: Utah Public Service Commission

From: Utah Division of Public Utilities

Chris Parker, Director

Artie Powell, Energy Section Manager

Myunghee Tuttle, Utility Analyst

Date: March 3, 2017

Re: **Favorable Recommendation to Extend the 2017 Protocol**

Docket No. 17-035-06, In the Matter of the Application of Rocky Mountain Power to
Extend the 2017 Protocol through December 31, 2019

RECOMMENDATION

The Division of Public Utilities (DPU) recommends that the Commission approve Rocky Mountain Power's (Company) request to extend the 2017 Protocol through the end of December 2019, provided that all required approvals for the extension are forthcoming. In the event of one or more of the states denies the extension, the DPU recommends that prior to January 1, 2019, the Commission adopt either in the next general rate case or another appropriate state proceeding a defined rolled-in (or other reasonable) cost allocation method for reporting purposes and for purposes of establishing Utah's revenue requirement.

ISSUE

On February 1, 2017, the Company filed an application with the Commission to extend the 2017 Protocol for one year through December 31, 2019 (Application). In its scheduling order, dated February 8, 2017, the Commission established due dates of March 3, 2017 and March 10, 2017,

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for comments and responsive comments. The DPU respectfully submits these comments in accordance with that scheduling order.

DISCUSSION

The Company¹ serves six state jurisdictions. Cost allocations among the states² is currently governed by the interjurisdictional cost allocation method commonly referred to as the 2017 Protocol. The initial term of the 2017 Protocol is for the two years, January 1, 2017 through December 31, 2018, “unless all State Commissions that approved the 2017 Protocol determine, by no later than March 31, 2017, that the term of the 2017 Protocol will be extended by an optional one-year extension through December 31, 2019.” (2017 Protocol, Section II) The Company’s Application requests approval from the Commission for the extension.

The 2017 Protocol is a rolled-in method utilizing the Company’s 12 monthly coincident system peaks, annual energy, and a 75%/25% demand/energy classification. While the Company’s system costs are allocated using this defined rolled-in method, the 2017 Protocol does call out state specific adjustments. Utah’s 2017 Protocol or Equalization Adjustment, as defined in the 2017 Protocol, Section XIV: Additional State-Specific Terms, is fixed at \$4.4 million annually, “For the period that the 2017 Protocol remains in effect.” Subparagraph 4 of this section specifies the treatment of Utah’s Equalization Adjustment:

The Utah Parties and PacifiCorp agree to an annual Utah Equalization Adjustment of \$4.4 million and a 2017 Protocol Adjustment of the same amount. The Company agrees that it will not file a Utah general rate case or major plant addition case prior to May 1, 2016, and new rates will not be effective prior to January 1, 2017. Utah’s 2017 Protocol Adjustment shall be included in base rates through a general rate case with rates effective beginning on or after January 1, 2017. To the extent that a Utah general rate case or major plant addition case is filed with a rate effective date later than that date, Utah’s Equalization Adjustment shall be deferred

¹ “Company” here refers to PacifiCorp, which operates as Rocky Mountain Power and Pacific Power in the states where it serves customers.

² While PacifiCorp serves in six state jurisdictions, only five of the states adopted the 2017 Protocol. Namely, California, Idaho, Oregon, Utah, and Wyoming. Washington did not adopt the 2017 Protocol.

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on a monthly basis, (\$366,667 per month), from January 1, 2017, forward as a regulatory asset until the rate effective date of PacifiCorp's next Utah general rate case at which time (1) the deferred costs and (2) the ongoing impact of Utah's 2017 Protocol Adjustment shall be included in rates. The deferred cost amortization period will be determined in the first case that the deferral of the Utah Equalization Adjustment is proposed for inclusion in rates.

Presumably, the Company is deferring Utah's Equalization Adjustment and will seek recovery in an appropriate future proceeding. The DPU's direct testimony in Docket No. 15-035-86 supports the adoption of the 2017 Protocol and demonstrates that Utah's Equalization adjustment was, depending on how one defines rolled-in, within a range of plausible outcomes:

For a group of plausible but non-exhaustive combinations of weighting and coincident peaks, Utah's revenue requirement could decrease by as much as 0.05 percent or increase by as much as 3.0 percent. By comparison, the 2017 Equalization Adjustment for each state or jurisdiction, except California, was originally designed as approximately 0.20% to 0.25% of the jurisdiction's annual revenue requirement. According to the Company's June 2015 results of operations, Utah's 2017 Equalization Adjustment, \$4.4 million, is approximately 0.22 percent of Utah's revenue requirement at its authorized rate of return.³

The latter figure is consistent with the Company's Results of Operations ending June 2016. Namely, Utah's Equalization Adjustment is approximately 0.22 percent of Utah's revenue requirement.

Alternatively, Utah's Equalization Adjustment is equal to approximately 9 basis points in equity. According to the Company's June 2016 Results of Operations, on a normalized (rolled-in) basis the Company earned 10.044% on equity, or about 24 basis points over its authorized return on equity of 9.8%. If, instead of being deferred, the additional \$4.4 million were allowed in current rates, the Company would over earn by approximately 33 basis points or \$16,893,076. While deferral treatment is not normally a guarantee of recovery, the 2017 Protocol does specify that,

³ Direct Testimony of Artie Powell, Docket No. 15-035-86, lines 216-24.

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Utah's Equalization Adjustment shall be deferred on a monthly basis, (\$366,667 per month), from January 1, 2017, forward as a regulatory asset until the rate effective date of PacifiCorp's next Utah general rate case at which time (1) the deferred costs and (2) the ongoing impact of Utah's 2017 Protocol Adjustment **shall be included in rates**. (Section, XIV.4, emphasis added)

If the Company does not file a rate case until after January 1, 2019, a full two years of the Equalization Adjustment (plus interest) would have been deferred and eligible for recovery. If the extension is granted, further deferral of the Equalization Adjustment could coincide with the Company continuing to over earn. While the DPU believes the Equalization Adjustment for the initial two years of the 2017 Protocol is relative to other potential allocation schemes in the public interest, the DPU is not convinced the Company should recover the Equalization Adjustment under an extension of the 2017 Protocol if it continues to over earn. Thus, future recovery based on a continuation of the Equalization Adjustment's deferral might not be in the public interest and the Commission may wish to preserve its ability to adjudicate that question in a future proceeding.

In its testimony, the DPU also explained that despite the multi-state protocol broad review workgroup (BRWG) meeting numerous times, the members of the BRWG were unable to come to a consensus on a durable allocation method. Hence, the 2017 Protocol, with an initial two-year limit, was meant as a temporary fix to allow the BRWG to continue to explore alternative allocation methods, including a potential corporate structural alternative—an east/west separation of the Company.

Subsequent to the Commission's order in Docket No. 15-035-86 approving the settlement stipulation, the BRWG met multiple times to discuss cost allocation issues regarding the Company's analysis of a potential separation of the Company. Depending on the implementation timing, the Company's analysis demonstrates that a separation could impose significant costs on Utah ratepayers. Significantly, the Company's separation analysis does not include the potential incremental costs of separate planning. On this point, PacifiCorp included a divisional planning study in which a two-system approach could potentially add as much as \$2

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billion to system costs over the IRP planning horizon. (PacifiCorp's 2015 IRP, Volume I, pp. 202-203) The Company also presented to the BRWG an alternative allocation method based on situs assignment of certain generation assets, fixing allocations of other current or existing assets, and subscription for new assets. The results of the separation and an overview of the alternative were presented to the state commissioners at the Commissioner's Forum held on January 25, 2017.

Despite the potential for significant costs, some members of the BRWG continue to request that the Company explore a separation scenario. While the Division does not believe structural separation has merit and it would significantly harm Utah ratepayers, until all members of the BRWG are focused on a viable alternative, it is unlikely that much progress will be made in developing a complete alternative allocation method, including a potential redefined rolled-in method. Similarly, weighing the merits of the Company's proposed alternative will require a commitment of significant time and resources, more resources than are practicable to have an alternative in place and approved by the impending expiration of the 2017 Protocol. Therefore, the Division believes it is in the public interest to extend the 2017 Protocol for one year through the end of December 2019.

Finally, the Division notes that approval of the extension depends on all of the adopting states approving the extension. According to the terms of the 2017 Protocol, each state commission is obligated to render a decision by March 31, 2017. If one or more states fail to approve the extension, the 2017 Protocol would expire at the end of 2018, requiring the adoption of a new allocation method commencing January 1, 2019. As earlier observed, it is unlikely that the BRWG will, in the absence of an extension, reach a consensus on a new method prior to January 2019. Therefore, in the event one or more of the states deny an extension, the DPU recommends that the Commission in an appropriate proceeding adopt a defined rolled-in (or other reasonable) cost allocation method for reporting purposes and for purposes of establishing Utah's revenue requirement.

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One alternative would be to adopt rolled-in as it is currently defined. As the Division explained in the previous docket:

Reaching a fully Rolled-In, one-system allocation method has been the stated goal of the Utah Commission since the 1989 merger and has been repeated in numerous dockets since. For example, in its report and order in Docket No. 02-035-04, dated February 3, 2012, the Commission states: “for the reasons we have stated consistently since the Utah Power and Pacific Power merger, we find the principle-based, Rolled-In method and its current, rather than historical, cost-causation rationale, for determining Utah’s revenue requirement in the public interest.”⁴

In an earlier order on allocations, the Commission concluded that, “The analysis of single-system, rolled-in costs of service provides the only acceptable benchmark or standard by which alternative allocation approaches, such as the Consensus Method, may be judged” and “would best promote a single-system planning and operation.” (Report and Order, Docket No. 90-035-06, Phase I, December 7, 1990, p. 12, 13) Furthermore, since the original merger, the Company, on several occasions, has been charged with and accepted the risk of cost recovery due to differing allocations among the states.

CONCLUSION

The DPU has reviewed the Company’s request to extend the 2017 Protocol one year through December 2019. The DPU participated in discussions with the BRWG on cost allocations issues and believes that the extension allowing the members of that group more time to develop a durable allocation method is in the public interest. However, the extension requires the approval of all the adopting states. In the event one or more of the states denies an extension, the DPU recommends that the Commission in an appropriate proceeding adopt rolled-in cost allocation as currently defined, an alternatively defined rolled-in, or other reasonable allocation method for purposes of reporting and establishing Utah’s revenue requirement.

CC Service List

⁴ *Ibid.*, lines 37-43.