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May 20, 1993

Rich Collins

TO: ALL ATTENDEES
AT DSR TECHNICAL CONFERENCE
HELD MAY 11, 1993

Enclosed is a Draft copy of the May 11th DSR Technical Conference Minutes, together with attachments.

The next Technical Conference is scheduled for Tuesday, June 1, at 9:00 a.m., in the large conference room on the 20th Floor of the One Utah Center. Please come with your completed ranking/weighting of the criteria on Page 5 of the Minutes. If you have any questions, please feel free to call.

Sincerely,

D. Douglas Larson

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Director, Economic Regulation

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Enclosures

5:9

LOST REVENUES AND DECOUPLING ISSUES

Lost Revenues

3. What are the dollar figures on lost revenues (for Utah) after netting out off-system sales?

4. Should energy service charge (ESC) revenues be netted against program costs or against lost revenues?

5. Is there a "found" revenue offset against load building?

6. There is still general concern about definition of lost revenues between rate cases. What is it that gives rise to lost revenue between rate cases?

11. Measurement: how will it be done? Who will do it?

12. Are there really lost revenues with new customers?

Decoupling

1. Can we decouple/recouple without a fuel adjustment clause?

8. Explore multi-part rates for residential customers to insulate the Company from lost revenues due to lessened energy consumption.

13. What classes of customers would we apply these lost revenue and decoupling approaches to? Is it appropriate to differentiate between customers for DSR when we don't do it under SSR?

14. Is it appropriate to take away the incentive for the Company to build load?

Incentive

7. Is there a method of evaluating incentives and other regulatory changes that will allow recognition of "perverse" effects? (This question was identified as an item to be discussed in the incentive meeting.)

9. Explore price regulation as a substitute for rate base/rate of return regulation.

10. Is there more risk to SSR than to DSR due to greater regulatory lag? Does this provide incentives for DSR?

Allocation

2. What is the effect on DSM inter-state allocation in relation to new supply allocation?

Analysis and Comparison

15. When all of our presenting and discussing is completed, it was suggested that the group define three to four solutions and compare them against six to seven defined criteria.

Lost Revenues

3. What are the dollar figures on lost net revenues (for Utah) after netting out off-system sales? Burrup's Argument against netting against lost revenues

4. Should energy service charge (ESC) revenues be netted against program costs or against lost revenues? It is moot. No impact on rates if you do it either way.

? 5. Is there a "found" revenue offset against load building?

6. There is still general concern about definition of lost revenues between rate cases. What is it that gives rise to lost revenue between rate cases?

8. Explore multi-part rates for residential customers to insulate the Company from lost revenues due to lessened energy consumption.

11. Measurement: how will it be done? Who will do it? {kwh not sold}

12. Are there really lost revenues with new customers? where does this fit in?

Decoupling

1. Can we decouple/recouple without a fuel adjustment clause? Yes {Balancing account treatment on a class by class basis.

Need to look @ again problems w/ the estimation

13. What classes of customers would we apply these lost revenue and decoupling approaches to? Is it appropriate to differentiate between customers for DSR when we don't do it under SSR?

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DRAFT

DSR TECHNICAL CONFERENCE #5
MINUTES

May 11, 1993

This meeting was held at the One Utah Center (OUC) on the 20th floor. *Attachment 1* is a list of those who attended the meeting.

OVERVIEW OF MEETINGS AND EXPECTATIONS

Arty Trost began the meeting by asking for the group's opinion about the technical conference process. Specifically, she wondered whether the technical conferences were accomplishing their desired purpose; whether the participants were learning from the meetings; and if there were opinions that could be stated or agreements that could be reached. The following comments were made:

Rich Collins felt that he was still at the learning level. He indicated that he has been accumulating information and was not prepared to state a definite position. He is still looking for answers to certain questions.

Audrey Curtiss spoke for the DPU and stated that further investigation of the issues was necessary. She believed more questions need to be answered. The DPU views the technical conferences as a learning process.

Margo Hovingh agreed that the conferences were a learning process and indicated that she still had a lot of skepticism about the proposed cost recovery mechanisms.

Judith Johnson also expressed concern about all the "estimates of estimates" that were being used to measure savings.

Doug Larson explained that the Company wanted to acquire demand side resources that were good for the customers and the Company. The greatest concern that the Company has when investing in DSR is to ensure that shareholders have an opportunity to earn a fair return.

REVIEW OF QUESTIONS

A list of the 15 questions that the group developed at the last meeting was distributed. (See *Attachment 2*) For convenience, the questions had been grouped into five categories, and the discussion proceeded as follows:

<u>Lost Revenues</u>

The matching problem that would be created by netting Lost Revenues against Energy Service Charge (ESC) revenues was explained. ESC revenues result from the repayment of loans for DSR improvements that the Company has made to the customer's property. The repayment of the loans is collected over the life of the DSR investment. In contrast, Lost Revenues occur only between rate cases. It was generally agreed that trying to net these revenues would cloud the DSR cost recovery issue. Also, the problem of identifying and adequately measuring Lost Revenues would remain.

The DPU requested that the formula for determining lost revenues be reviewed. The following is the formula that the Company proposes to use for calculating lost revenues:

Lost Revenue = Saved KWh X (Tail Block Rate - Avoid Cost Adj For Sales For Resale)

After discussing the calculation, the Company was asked to prepare a write-up that addressed the following questions:

- What formula will be used to determine the lost revenues related to demand?
- To what class of customers will lost revenues be applied (i.e., Residential, Commercial, Industrial)?
- Will the formula change depending on the class of customer?
- According to RAMPP 2, what is the estimated amount of lost revenues (energy and demand) in Utah by customer class for the next two years?
- What are the estimated regulatory (rate case) and Company-related costs associated with measuring, calculating, and monitoring lost revenues?
- Is PacifiCorp aware of other states that adjust for lost revenues related to new customers?

Audrey Curtiss also agreed to research the types of formulas used to calculate lost revenues in other states and report her findings to the group.

The group agreed that "clearly lost revenues exist." However, the question is whether the Company should be compensated for them. George Compton compared lost revenues from DSR with regulatory lag from SSR.

The discussion then focused on how the problems surrounding the measurement and calculation of lost revenues could be overcome by using an estimated or forecasted test year for setting rates.

Before leaving the subject of lost revenues, the group agreed that the forum for determining the proper measurement of lost revenues would be the DSR Task Force on Evaluations. Audrey Curtiss and Ron Burrup are preparing an issue paper to be given to the Task Force at its July 7th meeting. It was suggested that Dan Violette, the consultant from XEnergy who has been hired by the Task Force, should come to a future technical conference meeting and explain the recommended procedure for measuring lost revenues.

Decoupling

The questions related to decoupling were not actively pursued by the group. However, Becky Wilson suggested that statistical recoupling, the method introduced by Eric Hirst at the last meeting, be considered by the group as an alternative solution for removing the disincentives of investing in DSR.

The group expressed interest in the current status of the Oregon Decoupling Collaborative. Anne Eakin explained the collaborative's proposal and how it would work. *Attachment 3* is a copy of the Oregon Decoupling filing.

<u>Incentive</u>
A list of eight incentive mechanisms was discussed. After some consideration, the group narrowed the list to the following five that warranted further review:

1. Shared Savings
2. Rate of ROE (Entire Company R/B or Return on just DSM R/B)
3. "Bounty" (Company is given an agreed upon dollar amount if they achieve a desired KWH savings level.)
4. Management Bonus
5. Regulatory Whip. (This was determined to be close to #2.)

These five incentives will be defined, explained, and illustrated at the next technical conference.

<u>Allocation</u>
The following are issues related to the allocation of DSR costs:

1. Since all DSR costs are currently assigned situs, those states that invest in DSR could argue that future SSR should be assigned to the states that chose not to invest in DSR and create greater need for new SSR. The group agreed to be aware of this issue and monitor it on an ongoing basis.
2. Successful DSR reduces the states' demand and energy, thereby reducing allocation of all SSR.
3. Allocation among states would require consistency in items such as prudence and cost effectiveness tests.

<u>Analysis and Comparison</u>
It was suggested that at the conclusion of the group's analyzing, learning and comparing, a matrix should be developed that compared the top three or four solutions against a prioritized list of criteria. Doug Kirk indicated that the Commission was looking for an analysis that compared alternative approaches with a recommendation of the most preferred. The analysis should contain the criteria for evaluating the alternatives and the basis for selecting the preferred approach. The group agreed to use the matrix approach and to present the preferred solution to the Commission.

RETROACTIVE RATEMAKING
Just prior to and during lunch, Mike Ginsberg from the DPU and Tim Hunter from Stoel, Rives, Boley, Jones & Grey discussed whether or not deferring and delaying the amortization of DSR costs constituted retroactive ratemaking. Mike Ginsberg stated that the Utah Supreme Court had ruled that the transfer of revenues from the EBA to general revenues violated the rule against retroactive ratemaking. The Court stated that revenues/prices are to be set in a general rate case and projection errors could only be corrected prospectively. Mr. Ginsberg also cited a U.S. West

case for the principle that in Utah the only recognized exceptions to the rule are extraordinary events like storm damage and utility misconduct.

Tim Hunter pointed out that the cases Mike Ginsberg had sighted did not deal with deferred accounting for DSR or SSR. Traditionally, SSR's have received deferred accounting treatment, and recent utility Commission decisions across the U. S. have recognized the need for and have allowed deferred accounting for DSR.

Retroactive ratemaking was defined as trying to correct inaccurate projections by providing refunds or surcharges. Deferred accounting, on the other hand, was explained as an approach that preserves evidence that a utility may use to seek cost recovery in future cases.

The Oregon and Indiana Commissions were sighted as having allowed utilities within their jurisdictions to book deferred accounting costs. The purpose was to allow the utilities to recover their prudently incurred DSR costs.

LUNCH

The DPU announced that next week they will be filing a petition with the Commission recommending an approach for addressing the standards set forth in the Energy Policy Act. A pre-hearing conference will be proposed for the first week of June.

INDUSTRIAL PRESENTATION

After lunch, Maurice Brubaker of Drazen-Brubaker & Associates, Inc. gave a presentation entitled "Rate Impact Considerations for Demand-Side Resources." A copy of his presentation is included as *Attachment 4*.

Following his presentation, Maurice was asked his opinion about incentive mechanisms. He explained that if incentives were to be used then adjusting the ROE would be his preference, followed by some sort of shared savings approach. Maurice was also asked some "what if" questions pertaining to his analysis. *Attachment 5* is his response to those questions.

NEXT MEETING

The next meeting was scheduled for Tuesday, June 1, 1993, on the 20th floor of the OUC. It will begin an hour earlier, at 8:00 a.m., with a Company presentation for those who are interested in the accounting treatment of DSR, SSR, and Lost Revenues. The regular meeting will begin at 9:00 a.m. and will consist of the following:

- A presentation by Nucor and Geneva industrial customers
- Discussion of incentives
- Presentation by Dan Violette on measurement
- Prioritizing of criteria

Recognizing the need for another meeting, the date of June 22 was set aside for that purpose.

IDENTIFYING CRITERIA

The group then brainstormed on the possible criteria that the solutions should be measured against. Sixteen different criteria were identified as possibilities for inclusion in the matrix. To reduce this number to a more manageable level, each group member was given the assignment to weight the following criteria. There are 100 points to work with. Each criterion can receive anywhere from 0 to 100 points. Following your weighting, please rank your top ten. Please feel free to combine or add criteria.

Ranking	Weighting	Goal: Encourage the Company to implement a Least Cost Plan by developing a cost recovery mechanism which encourages the Company to look at a variety of alternatives for acquiring cost effective DSR, including rate design.
1	30	1. Does it provide cost recovery?
		2. Does it provide a positive incentive?
3	10	3. Is it performance based?
4		4. Is it measurable? [illegible]
		5. Is it understandable?
		6. Is it administrable?
		7. Is it predictable?
		~~8. Does it minimize non-participant costs?~~ 8 + 13
8		9. Does it discourage gaming?
		10. Does it discourage cream skimming?
9		11. Does it appropriately share risk? (shareholder + ratepayers)
4		12. Does it give the Company an incentive to operate efficiently?
5		13. Is there an equitable allocation of costs and benefits? (between ratepayer
		14. Does it discourage micro management?
10		15. Does it have the potential for unintended consequences?
2	20	16. Does it reduce the disincentives associated with lost sales?

5:9