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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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UTAH PUBLIC SERVICE COMMISSION

IN THE MATTER OF RATE MAKING TREAT-MENT OF DEMAND SIDE RESOURCES AND THE ANALYSIS OF REGULATORY CHANGES TO ENCOURAGE IMPLEMENTATION OF INTEGRATED RESOURCE PLANNING.	)))))	<u>DOCKET NO. 92-2035-04</u> <u>JOINT AGREEMENT FOR DEMAND SIDE RESOURCE REGULATORY TREATMENT - 1995 AND 1996</u>

PacifiCorp, state regulators, and other interested parties have met each month in 1994 in a collaborative setting made up of subcommittees and the central collaborative to implement the 1994 Demand Side Resource Interim Policy and to develop a mutually agreeable and ongoing regulatory policy (this Joint Agreement) to be used in 1995 and 1996 regarding demand side resource investments. Prior to the fourth quarter of 1996, any interested party can request that the Utah Public Service Commission evaluate the appropriateness of continuing this 1995 - 1996 Joint Agreement (once it is approved and implemented) for application to 1997 and beyond. Absent such action, this Joint Agreement will expire on January 1, 1997.

The Division of Public Utilities (DPU), PacifiCorp dba Utah Power (Company), Department of Natural Resources, Office of Energy and Resource Planning (OE&RP), and Environmental Intervenors (EI) desire to move ahead with Commission approved demand side resource programs (DSR) in 1995 and 1996. The 1994 Interim Policy has given all parties experience in most aspects of demand side resources and has led to this Joint Agreement (Agreement) for DSR regulatory treatment starting with 1995 DSR projects.

The undersigned parties (Parties) propose a new agreement for the regulatory treatment of DSR programs in Utah. This new agreement will be in effect when approved by the Utah Commission, but the Parties agree that it should be retroactive to January 1, 1995. The Parties agree that the Utah 1995 - 1996 DSR Regulatory Treatment Agreement detailed below is a reasonable approach for addressing DSR cost recovery and program review issues for the next two years in the State of Utah. This Agreement represents a compromise among the DSR Cost Recovery Collaborative (Collaborative) members signing this Agreement. The Agreement represents an effort to remove disincentives to DSR implementation and thus Integrated Resource Plan (IRP) implementation by the Company, and the Agreement attempts to equalize and simplify cost recovery treatment of DSR, and make it comparable, to the extent possible, with treatment of Supply Side Resource acquisitions. The Parties agree that this Joint Agreement is a continuation of the DSR experiment in Utah, and as such, neither explicitly or implicitly includes any rewards or penalties regarding success or failure of the Company's accomplishment of DSR savings levels and acquisitions.

UTAH 1995 - 1996 DSR REGULATORY TREATMENT AGREEMENT

This agreement establishes an accounting treatment for Utah Public Service Commission approved DSR programs and calculation and recording of Net Lost Revenues (NLR). Recovery of booked costs and NLR's will be addressed in a future rate case.[1] Nothing in this Agreement precludes or prohibits any Party from challenging the recovery of PacifiCorp's DSR costs in a future rate case proceeding.

During the term of this Agreement, the Parties agree that the Company should be allowed to record all DSR costs for Commission approved programs per the accounting treatment specified in this Agreement. The Parties also agree that the Company should be allowed to record an amount of Net Lost Revenue (NLR) associated with Commission approved DSR programs. This Agreement specifies the terms, conditions and formula to compute the amount of NLR associated with Commission approved DSR acquisitions. Additionally, the Agreement specifies goals and expectations for the amount of DSR to be acquired by PacifiCorp in 1995 and 1996, provides for DSR reporting to regulators and the Commission and allows for further analysis of other future options for cost recovery.

1. DEMAND SIDE RESOURCE PROGRAM COSTS

1.1 For 1995 and 1996, the Parties agree that program evaluation, monitoring, and reporting costs for Commission approved programs will be expensed in the year incurred. Non-program specific advertising costs will also be expensed in the

[1] The Performance Standards Subcommittee of the Cost Recovery Collaborative will present the Commission with recommended guidelines to be used by regulators and PacifiCorp to assess cost effectiveness associated with the Company's DSR acquisitions. The guidelines include definition of cost effectiveness tests and how such tests should be used in determining cost effectiveness. The recommended guidelines will be provided to the Commission in the March, 1995, final report of the Cost Recovery Collaborative.

year incurred. All other DSR program costs and associated carrying charges for Commission approved DSR programs, including costs associated with conservation contracts resulting from bidding processes or from bilateral conservation contracts, will be capitalized with amortization beginning January of the year following installation, and continuing over a period no longer than the life of the programs.

1.2 Capitalized program costs will accrue a carrying charge from the date incurred to the end of each calendar year, at the current Allowance For Funds Used During Construction (AFUDC) rate.

1.3 Capitalization of program costs and NLR will be booked to account 182.3 (Other Regulatory Assets). Amortization of these amounts will be booked to account 456 (Other Electric Revenue). Customer payments resulting from Energy Service Charge (ESC) will be recorded in accounts 124 (Other Investments, For Loan Principal) and 451 (Miscellaneous Service Revenues, For Interest Income). It is expected that the ESC will be approximately 40-50% of the total program costs. Total program costs in 1995 are expected to be approximately $15 million for the DSR target established.

2. NET LOST REVENUE

2.1 Attached as Exhibit 1 is a description of the Net Lost Revenue Formula (Formula) which Parties agree will be used by the Company to calculate NLR starting with new DSR installations from Commission approved DSR programs which occurred after January 1, 1995. The Parties agree that the Commission should adopt the Formula for purposes of calculating NLR for 1995 and 1996. The burden to show that the inputs to the Formula are reasonable rests with PacifiCorp.

2.2 The annual amount of NLR calculated under the Formula in Exhibit 1, available to the Company to offset DSR disincentives, will be based upon energy savings obtained from DSR projects installed during each calendar year starting with 1995 and will be recorded as they occur for the subsequent 12 months. NLR recorded in each year will be capitalized with amortization beginning in January of the following year. Additionally, NLR's will be accrued in 1995 only for up to 12 months from installation for 1994 Commission approved projects. This applies to all installations (all those except 1994 and 1995 ECONS and 1994 Schedule 5, both of which are not considered to be ongoing programs. Recording of NLR's for these two programs will terminate at the end of each calendar year). NLR will not accrue a carrying charge.

PacifiCorp agrees to continue work during 1995 and 1996 to update estimates of energy savings based upon monitoring and evaluation results. These verified estimates of kWh and kW savings will form the basis for PacifiCorp's NLR calculations. When PacifiCorp files its next general rate case, the amortization of NLR's and program costs, the unamortized balance of NLR and program costs, and energy service charge revenues will be included in the Utah jurisdictional revenue requirement subject to regulatory review. The total amount of NLR calculated for all Utah measures installed in each of the calendar years 1995 and 1996, based on the Formula, shall not exceed $2,000,000 in each year.

2.3 NLR will be calculated monthly utilizing the Formula during each calendar year starting with January 1995. Following completed program evaluations and determination of verified DSR savings, PacifiCorp will adjust the NLR amount booked. This process is designed to allow for the 12-15 month interval between DSR program implementation (where projected energy savings amounts are based upon engineering estimates) and the time when actual data is available through program evaluation reports to estimate verified net energy and capacity savings obtained by the DSR programs.

Qualified expertise may be retained to review Company evaluations and monitoring activities and reports. Such expertise will be selected and directed by a committee of interested parties. PacifiCorp agrees to fund up to $50,000 for this effort. After 1995 installations are evaluated, it is the expectation of the Parties that this work will be accomplished without the need for outside expertise funded by PacifiCorp. Such funds will be capitalized by PacifiCorp and amortized along with other program costs.

3. ANNUAL TARGET FOR UTAH DSR ACTIVITY

3.1 Utah DSR targets for 1995 and 1996 will be based upon the Company's current Demand Side Resources Acquisition Plan published as part of the Integrated Resource Plan (IRP) to provide state specific detail consistent with the IRP Action Plan. PacifiCorp's current IRP is designated RAMPP-3, dated April 1994, and contains a DSR Acquisition Plan for 1995. The Utah DSR target for 1996 will be based upon the DSR Acquisition Plan to be published as part of RAMPP-4, which will be published in late 1995. All Parties may not agree with the level of DSR activity stated in the RAMPP DSR Acquisition Plans, however, for purposes of this Agreement, RAMPP DSR Acquisition Plans are adopted. Nothing in this Agreement precludes or prohibits any Party from challenging the prudence of PacifiCorp's DSR activity in a future rate case proceeding. The burden of demonstrating the prudence of Utah DSR activity rests with PacifiCorp.

3.2 The 1995 target for Utah DSR acquisition for this agreement is **80,923 MHW** as reflected in RAMPP-3. A capacity target distinct from the energy target is not included in the DSR Acquisition Plan for Utah, and therefore a capacity target is not included in this Agreement.

The 1996 target for Utah DSR acquisition will be as published as part of RAMPP-4 in late 1995.

It is the expectation of the Parties that this Agreement will allow PacifiCorp to meet the Utah DSR savings levels published in the Acquisition Plans for 1995 and 1996. PacifiCorp will bear the burden to demonstrate the reasonableness of any fluctuation from the Acquisition Plan amounts.

3.3 The **minimum** target for Utah DSR energy savings acquisition in 1995 will be **60,692 MHW** (75% of the Utah DSR Acquisition Plan target stated in RAMPP-3). The minimum target for Utah DSR acquisition in 1996 will be 75% of the DSR savings stated in the RAMPP-4 Acquisition Plan. The minimum DSR target in each year represents the threshold of a good-faith effort on the part of the Company to achieve cost effective demand side resources.

4. REPORTS

4.1 Continuation of Quarterly DSR Report Preparation

The Parties agree that PacifiCorp should continue to prepare quarterly reports showing quarterly DSR activity, savings, and program costs for Utah. This written report should be presented by the Company as an agenda item at their quarterly DSR Update Conference (see Section 5). After the submittal of the Company's fourth quarter 1994 report, the Parties agree that the quarterly reports will no longer have to be submitted directly to the Utah PSC. This is because this same information will now be reported to the Commission in the Company's Semi-Annual Report (see paragraph 4.2). The Parties also agree that the Company will provide their most recent report of Net Lost Revenues (monthly and quarterly) as an agenda item at the quarterly DSR Update Conferences.

4.2 DSR Reporting As Part Of Normal Semi-Annual Report To Regulators

The Parties agree that PacifiCorp will report their DSR activity to Regulators in much the same manner as they provide reporting of other Company operations, specifically in the Semi-Annual Report, recognizing DSR as more of a "business as usual" activity. This Semi-Annual DSR report should provide the same information provided in the Quarterly Activity Reports, but should also include the "building specific" information PacifiCorp has provided semi-annually in past Collaborative meetings. It is the expectation that the Company's Semi-Annual DSR Report will appear as a tab in the Semi-Annual Report. The parties agree that DSR semi-annual reporting should begin with the next Semi-Annual Report due from the Company, which will be April 30th of 1995.

4.3 Annual DSR Report To The Commission

The Division of Public Utilities and the Office of Energy and Resource Planning, will conduct an annual analysis of PacifiCorp's actual annual and cumulative DSR acquisitions.

5. DSR TRACKING AND MONITORING - QUARTERLY UPDATE CONFERENCE

5.1 By the end of March, 1995, the Utah DSR Cost Recovery Collaborative will finish all of its assignments, will report the results to the Commission, and will be disbanded. In order to provide for continued regulatory oversight of the DSR process, the Parties agree that the Company will sponsor a quarterly DSR update conference for regulators and other interested parties where the following topics will be reviewed:

a. DSR Evaluation Reports,

b. Standard Data Requests for DSR Projects,

c. Other DSR contracts or commitments,

d. Monthly, quarterly, and annual Net Lost Revenue calculations based upon the agreed upon Formula,

e. Actual energy and capacity savings vs prior engineering estimates of savings,

f. Updates to or modifications of NLR calculations,

g. Quarterly Activity Reports,

h. Semi-Annual DSR reports prior to submittal in the official Company Semi-Annual Report,

I. Comparison of Statistical Recoupling results to NLR, *

j. Market Transformation efforts,

k. Additional study work to determine the appropriate Avoided Demand Costs to be used in the Formula, (issues such as, but not limited to, transmission and distribution avoided costs),

l. Other DSR topics, as needed.

* The Office of Energy and Resource Planning agrees to provide updated results, using Company provided data, of the statistical recoupling method for addressing the issue of revenue loss between rate cases for comparison to the NLR approach.. This information will be provided in context with the Quarterly Update Conference as data becomes available.

The first Quarterly Update Conference will be scheduled for the third or fourth week in May 1995 at the request of the Company.

6. JOINT AGREEMENT FOR DSR REGULATORY TREATMENT 1995 AND 1996

6.1 The Parties have agreed to this Joint Agreement as an integrated document and recommend that the Commission adopt it in its entirety. Accordingly, in the event any part, or all, of this Joint Agreement is modified or rejected by the Commission, each Party reserves the right, upon written notice to the Commission and all other Parties within 5 days of the date of the Commission's order, to withdraw from this Joint Agreement without being bound by its terms in this, or any other proceeding. Any Party which elects to withdraw, shall be entitled to proceed having its full claim, defenses and rights and shall otherwise not be prejudiced by the terms of the Joint Agreement. The Parties respectfully request that the Commission adopt this Joint Agreement.

Utah Demand Side Resources 1995 and 1996 Joint Agreement - Signature Page

Dated this 15th day of February 1995.

PacifiCorp

Environmental Intervenors

Office of Energy & Resource Planning

Division of Public Utilities

The Committee of Consumer Services, having participated in the Demand Side Resource Task Force and the Cost Recovery Collaborative, and intending to continue to participate in any further Demand Side Resource deliberations, is unable to oppose or support this Joint Agreement as the Committee of Consumer Services is unable to objectively determine whether to oppose or support this Joint Agreement.

Committee of Consumer Services

Attachment: Exhibit 1 - Net Lost Revenue Formula

Exhibit 1

Net Lost Revenue Formula

For purposes of the Joint Agreement Net Lost Revenue (NLR) shall be calculated for a period of 12 months from the installation date of each energy conservation project. NLR shall be the sum of lost energy revenue and lost demand revenue. Both an energy and demand component will be calculated for each energy conservation project. The formulas for these calculations are defined below:

Energy : Net Lost Revenue (energy) = $\text{Sum}_i\,(R - AC_i) \times (ES_i - LG_i)$

where:

- $_i$ = Month
- R = Tail block rate per kWh (per the current tariff) for the participant in the energy conservation project.
- AC_i = Monthly short-run avoided costs per kWh based on PacifiCorp's production cost model. The calculation is based on the comparison of two PDMac runs; one with and one without 50 MW of generation available at zero running cost. The AC is adjusted for sales for resale credit and average line losses.
- ES_i = Monthly kWh energy savings achieved by energy conservation projects installed during the period of the Joint Agreement. A full months energy savings will be assumed in the month of installation. ES_i will be initially based on engineering analysis which will be subsequently updated for the results of program evaluations as such information becomes available. Evaluations will include the appropriate treatment of issues such as free riders, free drivers, snapback, persistence of savings, and other appropriate issues.
- LG_i = Monthly kWh sales growth related to load building aspects of Demand Side Resource (DSR) projects. This component will be initially based on engineering analysis and will be subsequently updated based on the results of program evaluations as such information becomes available.

Demand: Net Lost Revenue (demand) = $\text{Sum}_i\,(DC - ADC_i) \times (NCPs_i - LGp_i)$

where:

- $_i$ = Month
- DC = Demand charge per MW (per the current tariff) for the participant in the energy conservation project.
- ADC_i = Monthly avoided demand costs stated in dollars per $NCPs_i$ that result from DSR installations. This component is measured by current purchase contracts with Southern California Edison and The Washington Water Power Company and a sales contract with Eugene Water and Energy Board. The value of these transactions are used as a surrogate for ADC_i for the months in which sales or purchase contracts occur. For months in which no sales of purchase contracts occur, a zero value is assigned.
- $NCPs_i$= Monthly non-coincident peak (MW) savings achieved by the DSR installation. The non-coincident peak (MW) savings will be based upon DOE-2 modeling analysis. In the event that DOE-2 modeling is not available non-coincident peak (MW) savings will be based on conservation load factor analysis.
- LGp_i = Monthly impact on the $NCPs_i$ of load building aspects of DSR projects. This component will be initially based on engineering analysis and will be subsequently updated based on the results of program evaluations as such information becomes available.