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February 4, 1997

Utah Public Service Commission
160 East 300 South
Salt Lake City, UT 84111

Re: Expiration of PacifiCorp's 1995 & 1996 Lost Revenue and Cost Recovery Mechanism, DSM Joint Agreement Docket No. 92-2035-04

Dear Commissioners:

DSM cost recovery in Utah began with formation of DSR Technical Conference Collaborative in February 1993 and a series of technical conferences through July of 1993 culminating in a report to the Commission under Docket No. 92-2035-04. In October of 1993 some members of the Technical Conference Collaborative submitted a Trial Policy Joint Recommendation for cost and lost revenue recovery for calendar year 1994. The Commission approved the 1994 trial approach in February 1994 and also at that time established the Demand Side Resource Cost Recovery Collaborative to replace the Technical Conference Collaborative. The DSRCRC met throughout 1994 and produced the "joint agreement" on DSM cost recovery that was in place for 1995 and 1996. The "joint agreement" was intended to remove disincentives to the selection of demand side rather than supply side alternatives to meet load growth within Utah. The mechanism allows PacifiCorp (Company) to defer expenditures for DSM programs and amortize those expenditures over the life of the measures in the program. The mechanism also provides for the calculation of the net lost revenues associated with the DSM programs and allows for the deferral and amortization of the first year's net lost revenues for each program.

Over the past two years quarterly meetings were held with the Utah Demand Side Management Quarterly Review Committee (Committee) to review the Company's demand side activities. The Company demonstrated that it had acquired 8.2 aMW in 1994, 9.8 aMW in 1995 and 9.2 aMW in 1996. By the end of 1996 more than $9 million dollars (excluding loans) had been deferred for program expenses and an additional $2.6 million dollars had been deferred for lost revenues.

The existing mechanism and joint agreement expired at the end of 1996. The Committee is not proposing that it be extended or replaced. With its expiration DSM expenditures will be treated as a current period expense rather than being deferred and net lost revenues will no longer be calculated for DSM activities post 1996.

The Company indicates that there are several factors which are driving the decision not seek renewal of the mechanism. First is the changing utility environment. When the mechanism was first discussed and developed, nearly three years ago, utilities typically operated in and expected to continue to operate in a regulated market. Least cost planning for future requirements was based on an assured customer base. Recovery of deferred costs could be granted with relative certainty by the Commission. In the more competitive market that the Company believes it operates in today there is a concern that deferred or "regulatory" assets may not be recoverable. Indeed the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) has concluded in their issue No. 92-7 that deferred revenues, such as the lost revenues calculated in the current mechanism, must be recovered within 2 years of the deferral or they must be written off as unrecoverable. In recognition of such decisions and the nature of the competitive markets the Company has stated that it believes it is the prudent course to minimize future regulatory assets.

The Company also believes that to be successful in a more competitive environment it must increase its focus on the customer's needs. Historically, electric service came in a one-size fits all bundle. The Company views energy efficiency as an expertise that it can offer to the customer to enhance the basic electric commodity. As such, it believes that energy efficiency will be driven in the future by the needs and desires of the customer, rather than by the targets set in a least cost planning process.

Another factor which is driving the Company's position is the momentum that has been created by the accomplishments of the last three years. The Company asserts that Company field personnel work closely with local Utah developers and architects to assure that new construction activity and major remodeling efforts incorporate the most energy efficient designs. Often the Company finds that Utah developers and architects have considered and are incorporating energy efficiency into their designs without Company involvement. The Company is encouraged by this movement towards "transforming the market", that is, providing an environment, through education and program offerings, that allows the customer to choose the most energy efficient solution to his or her needs with minimum Company involvement and expense. This provides the most cost effective source of demand side resources. The Company is finding that the market demands vary from little or incidental involvement, to full consultation, design and often financing through the FinAnswer offering.

Finally, the avoided cost by which demand side programs are judged cost effective has declined. This has the effect of rendering many of the traditional demand side programs, notably retrofit programs, non-cost effective. The Company believes that the momentum previously mentioned and the focus on customer service will be effective in capturing available energy efficiency in those areas that remain cost effective. To the extent that socially desirable demand side activities remain unaddressed, the Company supports the implementation of a state-wide, competitively neutral, non-bypassable service charge to fund such activities. This approach is currently under consideration by the System Benefits Workgroup in Utah Public Service Commission Docket No. 96-999-01.

The review committee members agree with the Company that the current mechanism has served its purpose. However, the committee members acknowledge that a competitive market is still evolving and that PacifiCorp remains a regulated monopoly. PacifiCorp's Integrated Resource Planning process identifies cost effective demand side resources for each year. The 1997 IRP update identifies 68,000 mWh of cost effective DSM in Utah for calendar year 1997. The Company has indicated its continuing commitment to the IRP process and to the acquisition of cost effective DSM subject to an on-going review of market conditions. The Committee participants encourage the Company to continue to report its demand side activities and accumulated net lost revenues in quarterly meetings through 1997 and to continue to report on DSM costs and savings in its semi-annual reports to the Utah Commission.

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