Memo:
To: Commission
From: Richard Collins
Re: 92-2035-04 DSR Cost Recovery and Commission support for DSR
Date: May 15,1995

Introduction:

The Commission has before it a Joint Recommendation which establishes a policy for regulatory treatment of PacifiCorp's demand-side resource activities for calendar year 1995 and 1996. I recommend that the Commission approve the recommendation. It provides an accounting treatment for the costs associated with the Company's DSR acquisition. The Joint recommendation does not give preapproval for the costs associated with those acquisitions. To deny approval of any cost recovery mechanism would be unfair to the Company and would go against stated Commission policy on Integrated Resource Planning.

The Commission has supported IRP in past orders and should continue to provide regulatory support to the Company to implement its IRP. If there is concern about the prudence of acquiring DSR at some philosophical level, then the Commission should reconsider its Standards and Guidelines for IRP. It should not hold the Company's DSR expenditures hostage by denying its a cost recovery mechanism.

The following excerpts from past Commission orders gives support for IRP and the acquisition of cost effective DSR by the Company:

DOCKET NO. 90-035-06 -
REPORT AND ORDER April 10, 1992 P. 62
Commisioners: Byrne & Hewlett
"Testimony and evidence show the **Company has begun to promote demand-side management programs in this jurisdiction. This effort has full Commission support**. The Commission is aware, however, that the Company's experience is generally in the Pacific northwest. Circumstances are different in this jurisdiction, and perhaps in ways that may affect program design and application. The Company must employ programs here which recognize such differences."

DOCKET NO. 90-2035-01

ORDER ON DRAFT STANDARDS AND GUIDELINES; Issued September 3, 1991 -
Commisioners: Stewart, Byrne & Mecham

The Commission's goal is to provide a regulatory environment that encourages PacifiCorp to actively pursue a least-cost plan as a part of its business strategy. P. 1

REPORT AND ORDER ON STANDARDS AND GUIDELINES, Issued June 18, 1992
Commisioners: Byrne & Hewlett

" Definition:

Integrated resource planning is a utility planning process which evaluates all known resources on a consistent and comparable basis, in order to meet current and future customer electric energy services needs at the lowest total cost to the utility and its customers, and in a manner consistent with the long-run public interest. The process should result in the selection of the optimal set of resources given the expected combination of costs, risk and uncertainty." P. 15

Thus the object of IRP is to minimize the total cost of energy services. The order goes on to define total costs:

"The Commission requested that parties recommend whether "lowest cost" be defined as lowest rates or as lowest revenue requirement; whether lowest costs should include costs incurred by ratepayers as well as the utility; and whether lowest cost should include external costs." P.16

"The Commission finds that UDE's recommendation for using the Total Resource Cost to define the "lowest cost" criterion is reasonable; it should include the costs incurred by the utility and the ratepayer. However, the Company should also determine the costs incurred by the utility, that is, the present value of total revenue requirements of a resource acquisition strategy. If different strategies have the same total resource costs, the Company should choose that strategy that has the lowest total revenue requirement" P.17

Threshold issue No. 6

6. Integrated resource planning must evaluate supply-side and demand-side resources on a consistent and comparable basis.

"Ratemaking treatment can affect the Company's willingness to acquire resources. Ratemaking treatment for DSR has yet to be determined in this jurisdiction and this uncertainty might create a disincentive to invest in such resources. The Commission concludes that disincentives must be studied in more detail and assigns this analysis to a task force to be described later in this order."

In a section on other issues, the Commision acknowledges that regulatory changes will be required to insure that the Company has incentives to pursue its IRP.

"Regulatory changes to insure Company pursuit of its IRP."

"The Commission finds that demand-side resources, which includes end-use efficiencies, load management, and conservation, are more difficult to acquire than supply-side resources. Regulatory disincentives may exist. The Commission finds that currently there is no approved ratemaking treatment for DSR. Given the asymmetry of ratemaking treatment for DSR and the resulting uncertainty of cost recovery, the Commission questions whether the Company has sufficient financial incentive to pursue its IRP. Given the Commission's directive that DSR and SSR be treated on a comparable basis, the Commission finds that clarification of the regulatory treatment of DSR is necessary. However, this Docket has not provided an evidentiary basis for a Commission decision. Therefore, the Commission concludes that further study is warranted and establishes Docket No. 92-2035-04, "In the Matter of Ratemaking Treatment of Demand-Side Resources and the Analysis of Regulatory Changes to Encourage Implementation of Integrated Resource Planning". P. 32