

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of PacifiCorp for Approval of its Proposed Electric Rate Schedules and Electric Service Regulations)))	<u>DOCKET NO. 99-035-10</u> <u>ORDER ON RECONSIDERATION</u>
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ISSUED: October 6, 2000

By The Commission:

On June 13, 2000, requests for reconsideration of the May 24, 2000 Report and Order in this Docket were filed by PacifiCorp (the Company) and by the Committee of Consumer Services (Committee). PacifiCorp requests reconsideration of Commission decisions regarding a computer software write-down, a business postage expense disallowance, a normalization of firm retail peak loads for the purpose of cost allocation, the choice of an allocation factor for Account 903, adjustments to the calculation of net power costs, and changes in the format of the Company's production dispatch model. The Committee requests reconsideration of decisions regarding the Supplemental Executive Retirement Program, the Noell Kempf Climate Action Project, re-engineering expenses, Systems Applications and Product software, and Glenrock closure reclamation expenses. Two letters from private persons were received on that date requesting reconsideration of line extension policy modifications adopted in the Report and Order.

On June 23, 2000, PacifiCorp and the Committee each filed responses to the other's June 13, 2000 Petition. The Company opposes the Committee request in all respects but one, the Committee's recommended correction of a computational error in the Noell Kempf decision. With this exception, the Company states that the Committee fails to raise any legal or factual issue justifying reconsideration. The Committee responds to the PacifiCorp petition on the issues of computer software write-down and net power cost adjustments, arguing that the Commission's decisions with respect to each should stand as ordered.

Also filed on that date were the responsive memoranda of the Large Customer Group (LCG) and the Utah Industrial Energy Consumers (UIEC). LCG opposes the PacifiCorp request entirely, but addresses its responsive comments to computer software write-down, net power cost adjustments, and format of the production dispatch model. With the exception of a PacifiCorp argument about the timing of the evaluation of the model's format, with which it does not disagree, LCG supports the Commission's Report and Order. UIEC concurs with the LCG position.

On August 16, 2000, the Commission received a letter from one of the persons whose attorney had requested review of the line extension policy modifications, noting the Company's response to objections, appending the Company's letter to that effect, and continuing the objection to the new policy.

By its July 3, 2000 Order Granting Reconsideration, the Commission winnowed these requests to four that would be reconsidered: business postage expense, the Noell Kempf Climate Action Program expense amortization, format of the production dispatch model, and line extension policy.

Business Postage Expense

In the May 24, 2000 Report and Order, the Commission reduced recoverable postage expense owing to the unacceptable influence of an affiliate relationship. PacifiCorp seeks restoration of the full expense. We conclude that its request for reversal of the expense disallowance raises no factors not already considered.

We affirm the asymmetric pricing principle which is the basis for the partial disallowance and conclude that the evidence in this Docket clearly supports the disallowance for the reasons stated in the Report and Order. Upon reconsideration, however, we make three corrections that raise the amount of the recoverable expense.

First, we revise downward the share of the "Voices" newsletter content we disallow. Our examination of test-year Voices newsletters supports a disallowance of 33 percent, rather than the 50 percent contained in the Report and Order. We conclude that this is appropriate. Second, we revise the number of bill stuffers we disallow as unrelated to regulated operations. We allow the Oregon Pilot Program, but disallow all Hassel Free, Regional Board, and Oregon Portfolio bill stuffers. This results in a total of 12, 481,000 items disallowed. Finally, based on the total number of pieces mailed in the billing envelope, 43,977,178, and the total postage cost of \$5,056,910, the cost per item is \$0.115. These decisions produce a disallowance of \$498,067, rather than the \$808,035 reached in the Report and Order. The result is an increase in revenue requirement.

Noell Kempf Climate Action Program

In its petition for reconsideration, the Committee correctly observes that the Commission amortizes out-of-test-year amounts rather than just the \$763,500 expended in the test year which the Company sought to recover. As the Committee states, the Commission inadvertently violates its own test-year rules by bringing out-of-test-year amounts into the calculation. On reconsideration, we correct this mistake and decrease revenue requirement by approximately \$83,000. The test-year expense of \$763,500 is figured into revenue requirement on the basis of a five-year amortization. The unamortized portion is placed in rate base.

The net effect of reconsidering the postage expense and the Noell Kempf Program test-year expenditure is an increase in revenue requirement of \$227,698.

Format of the Production Dispatch Model

The Commission requires significant alteration of the format of this model, and orders the Company to provide a Microsoft Excel version of it prior to the next rate case. The Report and Order also requires an evaluation of alternative ways to normalize net power costs. In its Petition for Reconsideration, the Company makes the reasonable point that filing a new format for a model that may be replaced puts the cart before the horse. LCG, supported by UIEC, does not disagree, "assuming PacifiCorp never again files a rate case using the PD/Mac model or any variation of the same." On reconsideration, we conclude that the alteration of model format should await the conclusions of the net power cost evaluation. Should PacifiCorp file a rate case before this is complete, a reformatted production dispatch model (PD/Mac), or an alternative to that model, must be in its Application.

Line Extension Policy

The Commission has been troubled by the Company's proposed line extension policy, rejecting it once in Docket No. 97-035-01 and accepting it, but only after modification, in the present Docket. Requests for reconsideration from members of the public express confusion about the new policy and assert that it will have adverse consequences. Ordinarily, we do not reconsider matters upon the request of persons not party to the Docket, but in this case the problematic nature of the policy, coupled with our ratemaking objectives of universal service, and public acceptance and understanding, support reconsideration.

Even as modified, the new policy is bound to be controversial because it reduces the support provided by the general body of ratepayers for extension of lines to new connections. In reaching its decision, the Commission sought public policy justification for reducing this support. The Commission stated that mere reduction of support is not, per se, an objective of policy. In the interests of the larger community, a rate structure, though within the bounds of law, policy and practice, may contain subsidies that normally are unobjectionable.

The record indicates Company support for its proposed new policy, support expressed by the Division of Public Utilities, our investigative staff, and a statement of neutrality by the Committee of Consumer Services. It contains the uncontested argument that the Company bears the burden of line extension expense between rate cases, that, under conditions of service territory growth, this places upward pressure on general rates, and that the proposed line extension policy would bring charges in line with those assessed by the State's municipal and cooperative utilities. On this basis, we chose to alter the line extension policy in a compromise thought reasonable, by limiting the term of a heretofore continuous facilities charge and by reducing the amount of the permissible subsidy, though somewhat less than had been

proposed.

On reconsideration, we again face the subjective question of the reasonableness of a subsidy, and, given the quantitative information the record contains, find no reason to alter the compromise modification of the line extension policy specified in the May 24, 2000 Report and Order.

Rate Adjustment and Tariff Refiling

In making these rulings on the reconsideration issues, the Commission has indicated the revenue requirement changes we believe would reflect our decisions with respect to our decisions on reconsideration. We are aware that the cumulative financial impact of the decisions we have made in this Order have a relatively minimal effect in changing the overall revenue requirement relied upon in our May 24, 2000, Report and Order. We are sensitive to the burden and costs, associated with making rate changes and refiling tariffs, to attempt to incorporate this changed revenue requirement to the Company's filings made to comply with our May 24th Report and Order. Therefore, we will order that the Company may review its existing tariffs to determine whether any rate adjustment and tariff refiling is justified to attempt to reflect the decisions we have made herein. If so, the Company may submit proposed tariff revisions for review by the Division of Public Utilities and approval by the Commission.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, that:

- Our May 24, 2000 Report and Order is modified to reflect the decisions made herein.
- PacifiCorp shall review its existing rates and tariffs and determine whether any rate change is warranted to reflect the decisions made herein.
- If tariff revisions are submitted by PacifiCorp, the Division of Public Utilities shall review them for consistency with this Order and submit its Memorandum/Recommendation concerning its review.

This Order constitutes final agency action on the reconsideration granted by our July 3, 2000 Order granting reconsideration. Judicial review of this Order may be sought pursuant to the Utah Administrative Procedures Act (U.C.A. §§63-46b-1 et seq.).

DATED at Salt Lake City, Utah, this 6th day of October, 2000.

/s/ Stephen F. Mecham, Chairman

/s/ Constance B. White, Commissioner

/s/ Clark D. Jones, Commissioner

Attest:

/s/ Julie Orchard

Commission Secretary