

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of PacifiCorp for an)
Accounting Order Authorizing Treatment of Demand)
Side Resource Costs)

DOCKET NO. 01-035-21

ORDER

ISSUED: September 28, 2001

By the Commission:

On June 27, 2001, PacifiCorp, dba Utah Power & Light Company ("Company" or "Applicant") filed an Application with the Commission requesting an accounting order authorizing the treatment of demand-side resource costs. In support of the Application, the Company stated:

- a) Applicant is currently implementing Commission-approved demand side resource ("DSR") programs in Utah. These programs include Electric Service Schedule 125, which is designed to improve the energy efficiency of new and existing commercial and industrial customers, and the CESWay contract for Hill Air Force Base.
- b) In Docket No. 99-035-10 the Commission ordered the formation of a stakeholder advisory group to address, among other things, appropriate funding levels and alternative funding mechanisms for DSR programs. The report filed by that stakeholder group concludes that there is evidence of significant amounts of cost-effective DSR in Utah. The report further concludes that the current "expense" method of accounting for DSR creates a disincentive for PacifiCorp to acquire that DSR.
- c) Due to increases in anticipated market prices for energy, the DSR targets from the Company's Integrated Resource Plan, RAMPP-6, are significantly higher than those from RAMPP-4 or RAMPP-5. Thus, the Company anticipates that significantly increased costs, estimated to be approximately \$13 million, will be incurred to meet the higher targets. Expensing these costs is inconsistent with treatment that would be afforded equivalent supply-side costs.

The Company sought an order providing that the costs and carrying charges directly associated with PacifiCorp's current and future Commission-approved DSR programs, which then included Electric Service Schedules 125 and the CESWay contract, would be recorded in PacifiCorp's books of account as follows:

- a) All expenditures which are not recoverable as loans shall be recorded in Account 182, Regulatory Assets;
- b) All expenditures which are recoverable as loans shall be recorded in Account 124, Other Investments;
- c) The expenditures recorded in Account 182 shall be amortized to Account 908, Customer Assistance Expenses, over 5 years, beginning when the amortization is reflected in prices, or at the beginning of the third calendar year following the year in which the costs were incurred, whichever occurs first;
- d) The expenditures recorded in Accounts 182 and 124 shall accrue, in Account 182, a carrying charge at the then-current, Commission authorized rate of return until the charges are reflected in prices, or until the beginning of the third calendar year following the year in which the costs were incurred, whichever occurs first.

On July 13, 2001, August 28, 2001, and September 24, 2001, the Land and Water Fund (LAW Fund) of the Rockies filed comments, supporting the Commission's prompt approval of the Company's Application and petitioned to intervene in the case. The LAW Fund asked that the issue of cost recovery be addressed in a proceeding before PacifiCorp's next general rate case.

On August 27, 2001, the Division of Public Utilities ("Division") filed its recommendation regarding the Company's Application. The Division recommended that the Company's Application be approved, effective August 1, 2001, with the following conditions:

- a) Only the Commission-approved DSR programs be given deferred accounting treatment;
- b) The \$2.5 million of DSR costs currently in PacifiCorp's rates not be included in the deferred cost account;
- c) Deferred accounting treatment does not imply approval for purposes of rate recovery;
- d) Approval of deferred accounting treatment be retroactive to August 1, 2001;
- e) The carrying charge should be PacifiCorp's authorized return on rate base;
- f) PacifiCorp report in its Semi-Annual filing all DSR costs deferred, the associated carrying charges for the fiscal year, and total cumulative deferrals and carrying charges; and,
- g) The Division and other interested parties be allowed to explore cost recovery options other than through general rates.

On August 28, 2001, the Utah Energy Office filed comments supporting approval of the Application subject to the possibility of the deferred amounts later being transferred for recovery through a tariff rider. The Office reiterated those comments in this docket on September 26, 2001.

On September 20, 2001, the Committee of Consumer Services filed comments recommending that the Commission develop a complete record on alternative accounting and cost recovery methods before taking action. In the event the Commission elects to approve the petition, the Committee recommended that:

- a) PacifiCorp be required to maintain detailed records of all costs associated with DSR programs and that the records should be available for audit before costs are included in rates;
- b) PacifiCorp be required to show that DSR expenditures have produced a net benefit to ratepayers;
- c) Only costs of Commission-approved DSR programs be deferred;
- d) The deferred account not include the \$2.5 million already in PacifiCorp's rates;
- e) Deferring DSR costs create no presumption of recovery in rates; and,
- f) The carrying charge on deferred DSR costs be limited to the current Allowance for Funds Used During Construction (AFUDC) rate.

DISCUSSION, FINDINGS AND CONCLUSIONS OF LAW

1. Applicant is a public utility that provides retail electric service in the states of California, Idaho, Oregon, Utah, Washington and Wyoming. Applicant conducts its electric utility business in the state of Utah under the assumed business name of "Utah Power & Light Company" and is subject to the Commission's jurisdiction.
2. The Commission has jurisdiction over the accounts and records of Applicant pursuant to Utah Code Ann. § 54-4-23.
3. On June 26, 2001, the Company filed Advice Filing 01-09 seeking Commission approval of new or revised tariffs for four DSR programs. On July 18, 2001, the Commission issued an order approving those tariff filings.
4. In its comments, the Division recommended that PacifiCorp's application be approved with seven conditions itemized above.
5. As noted by the Division, the accounting treatment proposed by the Company is similar to a prior accounting mechanism approved by the Commission for DSR costs in its June 14, 1995 Order in Docket No. 92-2035-04, wherein the Commission found that "the provisions of the Joint Agreement's proposed accounting mechanism,

[providing for accounting treatment similar to that proposed in this case] including the carrying charge and amortization provisions of the proposed mechanism, attempts to treat demand-side resources in a way that is comparable and consistent with the cost recovery treatment of supply-side resources." Such finding is as applicable today as it was in 1995, and the Commission adopts that finding with respect to the Company's proposed accounting treatment in this case.

6. As stated above, the Committee made six recommendations in the event the Commission approves PacifiCorp's petition, several of which comport with the Division's proposed conditions.
7. The Commission finds that approval of the Application with the Division's conditions except for its proposed carrying charge, and the Committee's conditions, will be in the public interest. In Docket No. 92-2035-04, the Commission established the carrying charge on DSR costs at the AFUDC rate to treat them consistently with supply-side resources and finds no reason to alter that position.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, that:

1. PacifiCorp's Application is hereby approved, effective August 1, 2001, and PacifiCorp is authorized to account for current and future Commission-approved DSR programs in the manner described above, subject to the conditions recommended by the Division and the Committee as set forth above. The exception is the Division's proposed cost of capital carrying charge. The carrying charge for the DSR costs will be the current AFUDC rate to treat those costs consistently with supply-side resources.
2. The approval of PacifiCorp's Application does not reflect a finding regarding the reasonableness of the Company's DSR expenditures, nor does it include a determination of the rate making treatment for the deferred costs.

DATED at Salt Lake City, Utah, this the 28th day of September, 2001.

/s/ Stephen F. Mecham, Chairman

/s/ Constance B. White, Commissioner

/s/ Richard M. Campbell, Commissioner

Attest:

/s/ Julie Orchard

Commission Secretary