



PUBLIC MEETING

Utah Committee of Consumer Services

January 18, 2011



Welcome & Business



Case Updates

Michele Beck



Case Updates

- Special Contracts Approved
 - Kennecott
 - Praxair



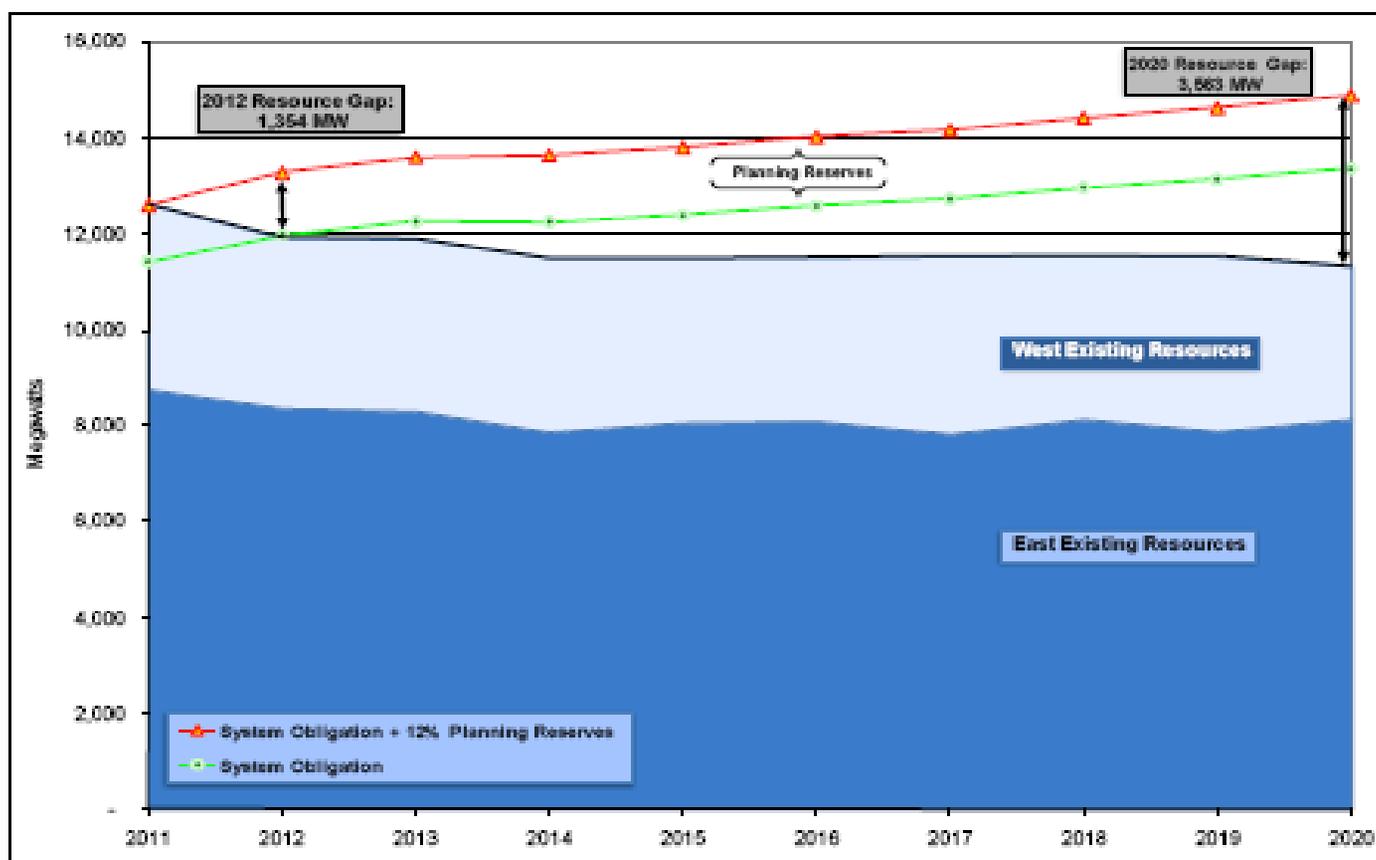
Significant Energy Resource Case

- PacifiCorp filed a request to construct LakeSide 2
 - Natural gas fired
 - 637 MW
 - To be constructed on existing site
- Significant Energy Resource Case is the result of a long-running RFP process conducted by PacifiCorp and overseen by the Independent Evaluator in both Oregon and Utah



Significant Energy Resource Case

Initial Capacity Load and Resource Balance





Significant Energy Resource Case

- Office analysis of filing
 - Need for additional resources is well established
 - Will review the modelling process and assumptions for reasonableness
 - Will review to ensure that Lakeside 2 is least cost/risk alternative available in RFP bids
 - Will review costs associated with new resource for consistency with industry standards
- Potential controversial issue
 - Last minute decision not to also include purchase of an existing plant as an outcome of the RFP



Website

- Committee member bios updated this week
- New website development well underway
 - Working concept for design
 - Content about half finished
- Committee member review
 - Draft site posted with a password protection
 - Review and feedback regarding scope and comprehensibility



Legislative Overview

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Legislative Overview

Known Legislation

- Revisions to the Facilities Siting Board statute
 - Office will monitor, but unlikely to take an active position
- Authorization for voluntary renewable tariff
 - Office will monitor
 - RMP's description of guiding principles are consistent with Office's goals
- Underground Facilities & Pipeline
 - Likely to be uncontroversial, result of workgroup



Legislative Overview

Anticipated Legislation

- Developer sponsored renewable energy bills
 - Typically looking for ratepayer or taxpayer subsidies
 - Possible reworking of SB131 from 2010
 - Danger of undermining fundamental rate protections
 - Office will watch carefully
- “Universal Service Fund” for energy
 - Funded by collecting percentage of utility bills
 - Used to fund un-economic projects
 - Contrary to fundamental principles of ratepayer protections
 - Office will watch carefully



Legislative Overview

Open Bill Files

- Utility Payment Assistance (Rep. Wimmer)
- Regulatory Amendments (Sen. Bramble)
- Telecommunications Amendments (Sen. Bramble)
- State Government Work Week (Rep. Noel)



Rocky Mountain Power Multi-State Allocation Process

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MSP

Background

- In 1989, Pacific Power and Utah Power and Light merged
- The merger was explained to Utah regulators as providing benefits to Utah customers and over time the two companies would increasingly be operated as one system
- The expectation (in Utah) was that rates would eventually be based on a “rolled-in” basis



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Rolled In Rates

- The concept behind rolled in rates is that system costs (primarily generation and transmission) are allocated to the different state jurisdictions based on a load ratio share
- Some costs will remain direct assigned:
 - Distribution
 - DSM
 - Costs resulting from local policy differences (e.g. Oregon's solar pilot program, renewable portfolio standards, etc.)



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Multi-State Process

- Some states in which PacifiCorp serves have had ongoing concerns about sharing system costs
 - Hydro endowment
 - Costs associated with fast-growing states
- The MSP process was created to address these concerns through a sophisticated state allocation process
 - Multi-year process



MSP

MSP Results

- The MSP eventually converged into a settlement process involving four states and many parties (Revised Protocol)
- Utah settlement included a rate capping provision that limited the size of the difference between Revised Protocol and rolled in
- Utah Commission approved settlement, but did not officially endorse MSP allocations
- The rate mitigation provision (cap) ends in 2012



MSP

MSP Outcome

- MSP compromise involved higher costs for Utah in the early years, with projections for lower costs in later years
- Outcome very controversial for some parties
- Actual costs have not matched projections; expectations for the later year lower costs did not materialize



MSP

New Allocation Guidelines

- Utah Commission has sent strong signals that MSP may no longer be in public interest
- Parties have argued that rolled-in methodology must be used in other utility filings
- MSP parties meet regularly to consider issues of concern regarding allocation of costs among the states
- Parties have different interpretations of the length of the MSP agreement – 2014/indefinite



MSP

New Methodology

- Agreement in principle for new allocation that uses a modified rolled in principle
- Utah has clearly indicated its preference for rolled in
- PacifiCorp has indicated its intent to pursue individual agreements with the parties in each state
 - Utah's would be based upon rolled in



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Commission Filing

- PacifiCorp filed the new agreement with Utah, Oregon, Wyoming, and Idaho commissions
- Settlement discussions in Utah are underway
- Major stumbling block to a Utah agreement based upon rolled-in rates
 - Klamath Dam related costs



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Next Steps

- Parties continue discussions regarding settlement
- Some allocation method will need to be determined for setting rates in the general rate case
- General allocation questions may or may not be decided in advance of rate case outcome



General Rate Cases: A Primer

Dan Gimble



General Rate Cases: A Primer

- Process
- Phases of the Rate Case
- Revenue Requirement Issues
- Cost of Service/Rate Design Issues
- RMP Rate Case Preparations Underway
- Recent RMP Rate Case Outcomes and Issues
- Next Steps



Rate Case Process



General Rate Case Process

- Rate Application

--Before a utility can increase rates charged to customers, it must file a general rate case application with the Utah Public Service Commission and obtain the Commission's approval.

--The rate case application is accompanied by the testimony and exhibits of utility witnesses, which represent the utility's evidence underlying its rate proposals.

--The utility has a substantial, legal "burden of proof" to demonstrate that its request for a rate increase is justified.



General Rate Case Process

- Schedule

--A schedule is set shortly after the rate application is filed that governs the information gathering process (discovery), filing of direct, rebuttal and surrebuttal testimony by parties and Commission hearings.

--The Commission has 240 days (8 months) to hold hearings, consider the testimony and recommendations of parties and issue a Report and Order on whether it will allow all, some or none of the requested rate increase.

--Hearings are normally conducted by the Commission over a two-week period, but in certain instances the Commission has elected to bifurcate hearings between revenue requirement and cost-of-service.



General Rate Case Process

- Parties

- The Division of Public Utilities (DPU) and Office of Consumer Services (OCS) have “automatic” status as interveners in the case.
- Both the DPU and OCS closely audit the information provided by the utility and file extensive discovery to acquire additional information not supplied by the utility in its initial filing.
- Other interveners in the case may include industrial, consumer and environmental groups.



Rate Cases Phases



General Rate Case Phases of the Case

- Rate Case Phases - A general rate case involves three specific phases in which the Commission makes the following determinations:
 - Revenue Requirement:** What the authorized amount of revenue requirement increase will be based on changes in the rate of return on investment, additions to rate base and expenses (depreciation, taxes, O&M, etc.).
 - Cost of Service/Rate Spread:** How the revenue requirement increase will be spread among the various rate classes. OCS represents residential and small commercial (which includes irrigation) classes in this phase of the case and the spread proposals among the various parties can vary considerably.
 - Rate Design:** How the revenue increase assigned to an individual class (e.g., residential) will be collected through specific rate elements for that class. At a minimum, rate elements involve a customer charge and energy charge (i.e. based on kwh or decatherms). Rate elements for larger customers include demand charges and may also include administrative charges. These rate elements are combined into class-specific rate designs that reflect a number of principles such as cost causation, fairness, seasonality, and promotion of conservation.



Revenue Requirement Issues



General Rate Case Revenue Requirement

- Revenue Requirement – General Concepts

- **Capital Investment and Operating Expense**

A utility's costs reflect two primary components: capital investments and operating expenses.

(a) Capital investments include generating plants (coal, gas, wind, etc.), transmission and distribution facilities and other infrastructure such as office buildings.

(b) Operating expenses include fuel for generation plants, purchased power and transmission services, plant maintenance, taxes, depreciation and labor costs.



General Rate Case Revenue Requirement

- **Scrutiny of Capital Investment and Operating Expense**
 - (a) Capital investments are carefully reviewed to ensure that the investments are prudent and appropriately meet ratepayer needs.
 - Are investments necessary to serve customers?
 - Are investments least cost considering risk?
 - Are costs associated with investments consistent with industry standards?
 - (b) Operating expenses include fuel for generation plants, purchased power and transmission services, plant maintenance, taxes, depreciation and labor costs.
 - Some types of expenses aren't allowed in rates: corporate advertising, charitable giving
 - Forecasts, especially those including escalation of costs, are reviewed for reasonableness
 - Appropriate salary and bonus levels are examined based on industry standards and bonus criteria
 - Net power costs are currently based upon complex modeling and are typically a major issue in each rate case.



General Rate Case Revenue Requirement

Revenue Requirement – General Concepts (Cont.)

-- Rate of Return

- Utility Earnings - Utilities are provided an opportunity to earn a *rate of return* or profit on its capital investment. The Commission typically updates a utility's rate of return in each general rate case based on detailed financial analysis submitted by expert witnesses.
- The un-depreciated capital investment in rates is commonly referred to as a utility's rate base. The utility recovers the costs of the investment over time via depreciation expense.
- In addition to recovering the capital costs, utilities are allowed to make a certain level of profit for its shareholders.
- Rates are set by including a return component, which is calculated by multiplying the rate base by the allowed rate of return. This represents the Company's profit level. If a utility's earnings exceed its authorized return, then regulators may initiate a rate case to reduce rates.



General Rate Case Revenue Requirement

- Revenue Requirement – General Concepts

--**Test Year:** The test year concept represents the period of time used by the Commission to analyze revenue, expense and rate base data for the purposes of determining changes to the level of revenue requirement. The objective is to select a test year that best reflects a utility's expected conditions in the rate effective period.

--**Test Year Alternatives:** The Commission is statutorily mandated to select from among three test year options:

- (a) Historical Test Year with known and measurable adjustments;
- (b) Mixed Test Year reflecting historical and forecasted information;
- (c) Future Test Year reflecting fully forecasted information.

Since 2006, the Commission has relied on a future test year for setting revenue requirement, but has limited projections of revenue, expense and rate base items to 12 months out.



Cost of Service and Rate Design Issues



General Rate Case COS-Rate Spread (2nd Phase)

- Class Cost of Service Study

--A utility prepares a COS Study in each general rate case for purposes of spreading any change in revenue requirement among customer classes. The five main customer classes are:

- (a) Residential (Sch. 1)
- (b) General Service Small (Sch. 23)
- (c) General Service Large (Sch 6)
- (d) Large Industrial (Sch. 9)
- (e) Irrigation (Sch. 10)

The residential, general service (commercial) and large industrial classes provide between 85%-90% of the Company's Utah revenue.



General Rate Case COS-Rate Spread

- COS Study Results

The results from the COS Study indicate:

- Whether individual classes provide sufficient revenue to cover allocated costs; and

- What level of rate change is necessary to bring a class closer to the costs of serving that class.

- Acceptance of Utility COS Study

- Certain aspects of a utility's COS Study may be challenged by parties and changes to the study may be proposed for adoption by the Commission.

- The reliability of the Company's load sample data, accuracy of test year class load forecasts and lack of weather normalization of class loads in the COS Study are examples of contested issues in recent cases.



General Rate Case COS-Rate Spread

- Ratemaking Principles – The following principles or objectives are used to inform rate spread and rate design proposals:
 - **Cost Causation** - Rates should reflect cost-of-service to send appropriate price signals to customers regarding their use of electricity.
 - **Fairness** - Rate increases to the various classes should be fair such that inter-class subsidies are either minimized or eliminated.
 - **Gradualism**: Rate analysts strive to moderate substantial, one-time rate impacts on a single customer class, or a segment of customers within a class.
 - **Conservation**: Energy conservation is an increasingly important ratemaking objective to encourage customers to use energy wisely.
 - **Revenue Collection**: A good rate design should,
 - (a) provide the utility with an opportunity to collect the revenue requirement authorized by the Commission and
 - (b) avoid significant over- or under-collection of revenues from individual classes



General Rate Case COS-Rate Spread

- Rate Spread

--The COS results, along with the ratemaking principles set forth above, are used by parties as a guide to develop rate spread proposals and by the Commission to make rate spread decisions.

-- A fundamental ratemaking objective is to ensure that each class receives a rate change that moves it closer to cost-of-service. If a particular class's forecasted test year revenue is below the expected cost to serve, then the Commission may decide to give that class a disproportionately higher rate increase to move it in the direction of cost-of service.

-- Rate spread can be a hotly contested area that pits the OCS, who represents residential and small commercial customers, against intervener groups representing large commercial and industrial classes.

--At times, the OCS must carefully balance the interests of the different customer classes we represent.



General Rate Case Rate Design (3rd Phase)

- Rate Design

--After the revenue increase is spread to the individual classes, it needs to be collected from customers through specific charges on monthly utility bills.

--This step in the ratemaking process is referred to as “Rate Design.”

--A little science, a bit of art, and a long run view is required to develop effective rate design proposals that will send proper price signals to customers regarding their use of energy. Often a rate analyst will attempt to balance key ratemaking principles, but the maxim that “costs should follow causation” is the cornerstone of setting proper utility rates.



General Rate Case Rate Design

- Rate Design Elements – The majority of classes have the following design elements,
 - **Customer Charge:** The customer charge is a flat monthly fee that covers customer service costs, including metering and billing services.
 - **Energy Charge (kWh):** The energy charge is set at a level to cover energy costs and is multiplied by a customer's kWh usage on the monthly bill. The energy charge normally appears on customers' bills as either a flat rate or as two- or three-part inverted block rates where higher levels of kWh usage are tied to higher energy rates. (In the case of residential customers, the energy charge covers both energy- and demand-related costs)
 - **Demand Charge (KW):** The demand charge reflects the amount of generating capacity required to serve each customer class's peak demand. Demand charges are applied to a customer's monthly peak demand (KW), which is measured over a specified interval of time (15 - 60 minutes).



General Rate Case Rate Design

- Current Residential Rate Design:
 - Customer Charge of \$3.75/month.
 - Inverted 3-Block Summer Energy Rate Structure:

| <u>Blocks</u> | <u>Usage</u> | <u>Rate</u> |
|---------------|-------------------|-------------------|
| Block 1 | 0 - 400 kWh | 7.5292 cents/kWh |
| Block 2 | 401 - 1,000 kWh | 9.2749 cents/kWh |
| Block 3 | 1,001 – 5,000 kWh | 11.5361 cents/kWh |

--Single (Flat) Winter Energy Rate-7.8009 cents/kWh

*Note - Summer Period (May – Sept); Winter Period (Oct. – Apr.)



General Rate Case Rate Design

- OCS Rate Design Goals - Residential Class

OCS has consistently advocated the following over the past three rate cases:

- **Customer Charge:** Gradually increase the monthly customer charge to COS. Over the past three cases the Commission has increased the customer charge from \$2.00 to \$3.75 (COS = \$3.82). This goal has been accomplished.
- **Summer Energy Rates:** An inverted, three-block summer energy rate structure. Spread either none or very little of the class revenue increase to the 1st block and relatively more of the increase to the 2nd and especially the 3rd block (tailblock) to send a stronger price signal to high use customers.
- **Winter Energy Rate:** Spread a portion of revenue increases on the flat (single) winter energy rate and consider a two-part winter rate in future cases.
- **Customer Outreach:** Educate customers that rate design is part of a broader energy conservation movement and can be used to send stronger price signals to residential customers to curb high energy use.



RMP 2011 General Rate Case: Office Preparations



General Rate Case Revenue Requirement

- OCS Preparations - 2011 Rate Case
 - Cheryl Murray is the Staff lead in the revenue requirement area and will coordinate the OCS's revenue requirement analysis and preparation of testimony.
 - Areas expected to be addressed, with assistance from an experienced team of experts, include:
 - (a) **Rate of Return** – Lawton Law Firm - has assisted OCS since 2003 in estimating a fair return on common equity (ROE) and appropriate capital structure (equity, preferred, debt) for RMP.
 - (b) **Rate Base and Operating Expense** – Larkin and Associates - has assisted the OCS since 1998 in auditing and proposing adjustments in the areas of capital investment, plant maintenance expense, depreciation expense, tax expense, and employee expense.
 - (c) **Net Power Costs** – RFI Consulting – has assisted the OCS since 1998 in auditing the GRID model in terms of model specification, assumptions and inputs. OCS has also issued an RFP seeking a coal expert to assist OCS Staff in analyzing the Company's coal supply strategy.



General Rate Case COS-Spread and Rate Design

- OCS Preparations for 2011 Rate Case
 - OCS Staff has issued an RFP, evaluated COS proposals submitted by bidders, and sent the evaluation results to State Purchasing.
 - The expert retained by OCS will analyze RMP's COS Model and may propose changes to modeling parameters, assumptions and data inputs. This will likely be a very critical piece of this case in terms of outcomes for the Committee's constituency.
 - Dan Gimble and Dan Martinez will be assigned to this portion of the case and present the OCS's cost-of-service/rate spread recommendations and rate design proposals.



Recent RMP General Rate Cases: Outcomes and Issues



General Rate Case Rocky Mt. Power – Rate Case Outcomes 2007 - 2009

Over the past three rate cases, the Company was granted about 41% of the its requested increase in general rates in Utah.

| | <u>RMP Filed</u> | <u>PSC Order</u> |
|------------------|------------------|------------------|
| 2007 Rate Case - | \$99.8 M | \$39.4 M* |
| 2008 Rate Case - | \$116.1 M | \$45.0 M** |
| 2009 Rate Case - | \$66.9 M | \$32.4 M* |

*Litigated Revenue Requirement

** Settled Revenue Requirement



General Rate Case Key Revenue Requirement Issues 2007-2009 Rate Cases

- Rate of Return: Differences in recommendations between OCS and Rocky Mt. Power in recent cases have been as much as \$35 million.
- Federal Income Tax Expense: OCS recently challenged the reasonableness of Rocky Mt. Power's federal income tax estimates and won an adjustment that significantly lowered this tax expense item.
- Generation Plant Maintenance Expense: OCS recently proposed and won an adjustment that significantly lowered the Company's level of expense for generation plant maintenance.
- Net Power Costs: The Company uses a simulation model called GRID to estimate its net power cost (fuel, power purchases, 3rd party wheeling) level for ratemaking purposes. In rate cases dating back to 1998, OCS has consistently won a number of adjustments relating to modeling logic, assumptions and inputs associated with GRID.



General Rate Case Rate Spread 2007-2009 Rate Cases

- Rate increases - residential and small general service classes

OCS has successfully advocated for rate increases below or at the Utah jurisdictional average rate increase for the residential and small general service classes. By contrast, the rate increases for the large industrial have been above the jurisdictional average increase in the last two rate cases.

- Rate increases – irrigation class

OCS has raised concerns with the accuracy and reliability of load data for the irrigation class and has been able to effectively limit increases for the irrigation class to either the jurisdictional average rate increase or slightly above that level.



General Rate Case Rate Design Outcomes

- Residential Decoupling

In the 2009 rate case, OCS defeated a last minute proposal by the DPU, RMP and parties representing environmental interests to implement revenue decoupling for the residential class.

- Residential Rate Design

In the 2009 rate case, the Commission adopted a residential rate design that was very close to the design recommended by the Office. The Commission adopted OCS's proposed customer charge level of \$3.75/month and placed the balance of class revenue increase on summer 2nd and 3rd block energy rates.

- Utah Marginal Cost Study

In the 2009 rate case, the Commission adopted OCS's recommendation that a Utah Marginal Cost Study was needed for designing rates and directed the Company to prepare and file such a study in its next general rate case.



Next Steps



General Rate Case Next Steps

- RMP expected to file rate case on January 24th
- The Office will:
 - Complete the selection of its team of experts
 - Begin its technical analysis immediately
- Future Committee meeting:
 - Briefing on specific issues in filing
 - Additional background on ratemaking principles



Future Scheduling



Future Meetings

- Schedule Next Meeting
 - End of March
 - Late May or early June?
- Streaming Audio?



Other Business/Adjourn
