



PUBLIC MEETING

Utah Committee of Consumer Services

March 31, 2011



Welcome & Business



Legislative Recap and Case Updates

Michele Beck



Legislative Recap: Bills that Passed

- HB303 Phone Fees
 - Requires point of source collection for 911 and poison control fees for prepaid wireless
 - Step toward tax parity among telecommunications providers, especially as it relates to the prepaid wireless Lifeline issues
- HB475 Division of Energy Amendments
- HB461 Energy Producer States' Agreement
- SB111 Utilities-Underground Facilities and Pipelines
- HB203 Codification of State Construction and Fire Codes
 - Did not include energy code
 - Inclusion of energy code in interim study
 - How much involvement will be appropriate for OCS?



Legislative Recap: Interim Study Items

- Building Energy Codes (4)
- Injection of Greenhouse Gases (167)
- Electric Generating Capacity (178)
- Energy Cost Recovery (179) **relates to SB190
- Infrastructure Expansion Fund (181 & 182) **
- Office of Energy Development (183)
- Pipeline Safety (184)
- Power Lines – methods of funding underground (185)
- Siting of Utility Facilities (186)
- Utility Payment Assistance (187) **
- Division of Housing and Community Development (217)
- Economic Development Regulatory Environment (218)



Case Updates: Electric

- Update on MSP (Multi-State Process)
 - Settlement discussions ongoing
 - Primary goal remains working toward rolled-in rates
 - EBA order appears to support rolled-in rates
- Update on Significant Energy Resource Decision
 - No party objected to Lake Side 2
 - Concerns raised about process for evaluating the purchase of an existing plant
 - Concerns raised about opportunity cost of not purchasing a specific plant
- New Issues
 - Deferred accounting request for addition REC revenue
 - Deferred accounting request for bonus depreciation
- Decision Issued on ECAM request (now called EBA)



Energy Balancing Account: Background

- Currently almost all elements of Rocky Mountain Power's rates are decided in general rate cases
 - Conservation costs fluctuate through a rider
- After rates are set, when actual costs are lower the Company earns a higher return and when actual costs are higher the Company earns a lower return
- RMP filed a request for an Energy Cost Adjustment Mechanism (ECAM) to collect actual energy costs through a true-up mechanism
- Although these types of mechanisms are common, the history with this Company is unique
 - The Company itself requested the elimination of a similar mechanism back in the 1990s making the argument that it isn't in the public interest to have one.



EBA: RMP Arguments in Favor

- Energy costs are volatile and cannot be accurately forecast
 - Company should not be penalized for things outside its control
 - Company must have opportunity to recover prudently incurred costs
- Company has been under-earning for years, in part because of the lack of an ECAM
- Most utilities have a similar mechanism



EBA: Concerns of OCS and Others

- Loss of appropriate incentives for efficient management of energy-related costs
- Shifts risks to customers, especially those risks due to long-term resource choices
 - For example, decisions to rely on the market rather than build based upon low market prices subjects customers to the risks that prices will rise higher than expected
 - In the past, the PSC has explicitly noted that these risks belong with the Company
- Potential benefits to customers are not symmetrical, limited by the Company's hedging practices
- Imposes the risks associated with hydro power on Utah customers, even though Utah does not receive its share of the benefits



EBA: OCS Recommendations

- Primary position: No ECAM should be allowed until after a thorough review of hedging strategies and reliance on market energy
- Secondary position: If an ECAM is approved, it should include the following components:
 - a 70/30 sharing mechanism to maintain efficiency incentives
 - Set underlying rates based on rolled in
 - Begin as pilot
 - Misc provisions re: treatment of certain specific costs



Energy Balancing Account: Order

- PSC approved an Energy Balancing Account
- Four year pilot
- Includes 70/30 split to address efficiency incentives and long-term planning decisions
- Direction to parties to address hedging issues in the general rate case
- Appeared to support setting base rates using rolled-in methodology



Case Updates: Questar

- Cost of Service task force ongoing
 - Recently completed its requirement to complete a Cost of Service model to submit to the Commission
 - Currently the Task Force is examining rate design issues, including possibly splitting the general service class
- New tariff filing: CIAC (Contribution in aid of construction)
 - Seeks to adjust the amount of new customer CIAC to reflect current cost conditions and Company practice
 - Specific CIAC information will now be published on the Questar website or by calling 800 number



Case Updates: Telecom

- ETC (Eligible Telecommunications Carrier) for wireless providers of Lifeline Services
 - Scheduling Conference to be held mid-April
 - FCC issues NPRM on similar issues
 - Legislation helps to create tax parity
- Other ongoing cases include rate cases for some rural telecom providers
 - Office primarily monitors these cases
 - Issue regarding patronage payments and eligibility for USF funds



Rocky Mountain Power General Rate Case Overview

Michele Beck



RMP Rate Case

Overview

- Requested increase of \$232.6 M
- Average retail rate increase of 14.1%
- Key Drivers:
 - Increase in net power costs: expiration of low cost long-term contracts, lower off-system sales, increase in hedging costs, increase in coal costs
 - Increase in capital investment: pollution control equipment, transmission and distribution facilities
 - Load growth
- Proposed a test period of July 2011 to June 2012
 - Test period challenged by industrial groups who supported calendar yr 2011
 - OCS testified to generally support “closer in” test periods
 - DPU testified “no objection” to Company test period
 - PSC decision supported the Company’s proposal, but requested that parties closely examine certain forecasts in upcoming testimony



RMP Rate Case

Overview Part II

- Company spread proposal:
 - Residential (1) 14.6% increase
 - Gen Ser – Small (23) 12.6 %
 - Gen Ser – Large (6) 12.6 %
 - Gen Ser -- > 1 MW (8) 14.6 %
 - Large Industrial (9) 16.6 %
 - Irrigation (10) 18.8 %
- Recent changes to Company calibration methodology have lowered performance of residential class and improved performance of commercial classes
- Proposed change to residential customer charge from \$3.75 to \$10
 - Disproportionately impacts small users:
 - Average residential user monthly bill increase 14.6 %
 - 500 kWh user monthly bill increase 22 %
 - 1500 kWh user monthly bill increase 9 %



RMP Rate Case

Overview, part III

	Cost of Capital	Revenue Requirement	COS/Spread/Design
Direct	May 11	May 26	June 2
Rebuttal	June 8	June 30	July 7
Surrebuttal	June 27	July 19	July 26
Hearings*	July 11	July 27, 28 Aug. 1, 2, 3, 4	Aug. 8, 9, 10, 29
Issues (preliminary)	Appropriate rate of return History of under-earning Debt/equity Reduced risk	Regulatory accounting REC revenue Net Power Costs Coal Load Forecasting Hedging Costs	Calibration issues Other cost allocation Residential customer charge Residential decoupling? Irrigation load sample

*Public witness day will be held July 28th, 5:00 pm



RMP Rate Case

OCS Rate Case Team

- Revenue Requirement
 - Cheryl Murray, project manager
 - Dan Lawton, cost of capital
 - Larkin & Associates (Donna Ramas), regulatory accounting
 - Randy Falkenberg/Phil Hayet, net power costs
 - GDS, load forecasting
 - GDS, hedging costs
 - Energy Venture Associates, coal costs (overseen by Dan Gimble and Bela Vastag)
- Cost of Service/Rate Design
 - Dan Gimble, project manager, with Dan Martinez
 - Resource Insights (Paul Chernick), cost of service
 - Rate design using in-house expert witnesses



RMP Rate Case

Rate of Return: Overview

- Specialized part of the revenue requirement
 - Often separated from the rest of the case because it involved different experts
- Addresses what rate of return should be authorized for the Company
- Fundamental purpose:
 - Regulation substitutes for competition
 - Cost-based regulation sets costs assuming a reasonable rate of return on investment
- Rocky Mountain Power currently operating under an authorized 10.6 % rate of return
 - Recent Idaho order allowed only 9.9 %



RMP Rate Case

Rate of Return: Standards

- In 1944 in *FPC vs. Hope Natural Gas*, the Supreme Court ruled that:
 - From the investor or company point of view, it is important that prices are set such that there be enough revenue not only for operating expenses but also for the capital costs of the business – these include service on the debt (interest) and dividends on stock
 - The return to the equity/stock owners should be
 - commensurate with the returns on investments in other enterprises with similar risks
 - sufficient to assure confidence in the financial integrity of the utility so as to maintain its credit and to attract capital.



RMP Rate Case

Rate of Return: Analysis

- Factors considered include:
 - Appropriate debt/equity structure
 - Cost of debt capital, cost of preferred equity, cost of common equity
 - Level of risk being faced
 - Authorized returns for comparison utilities
- Standard regulatory tests
 - Discounted Cash Flow Analysis (DCF)
 - Capital Asset Pricing Model Analysis (CAPM)
 - Risk Premium Analysis
 - Comparable Earnings Analysis
- Although there are standard tests utilized in regulatory proceedings, the analysis is more art than science



RMP Rate Case

Questions?



Integrated Resource Planning Introduction

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IRP

Presentation Overview

- Background on PacifiCorp System
- Explanation of Planning (IRP) and Procurement (RFP) processes
- Critique of Processes
- Current Status: IRP



IRP

Background: PacifiCorp System

- Service territory in Utah, Wyoming, Idaho, Oregon, Washington, California
 - Subject to jurisdiction of six state commissions
 - Also subject to federal oversight (FERC)
- Generation located in eight states
- Significant transmission assets
 - Firm transmission associated with generation assets
 - On a nonfirm basis, transmission extends from Canada to Colorado, the desert southwest, and southern CA
- Operates two balancing authorities
 - East (including Utah) is summer peaking, West is winter peaking, but developing a strong secondary summer peak
 - The two areas share resources, reducing total capacity needs by 600 MW



IRP

PacifiCorp System

- From 1989 until 2000 PacifiCorp had surplus capacity and energy
 - Summer peak shortage appeared in early to mid-90s
 - Overall system became short when PC sold its share of the Centralia coal plant and mine in May of 2000
- PacifiCorp is facing a prolonged acquisition cycle
 - Contracts are expiring
 - Load is growing
- PC must address its resource needs in a cost effective manner
- Must balance many risks and uncertainties
 - Climate change policy
 - Gas price risk
 - Wholesale electricity market risk
 - Load growth
- Aspires to full cost recovery (future rate case)



IRP

Definitions

- Integrated Resource Planning (IRP): the process for determining the optimal size, type, and timing of new resources
- Request for Proposal (RFP): the process for acquiring the resources identified by the IRP



IRP

Integrated Resource Planning

- Integrated resource planning uses modeling to examine which combination of resources best meets system needs
 - Examines present value revenue requirements over multiple years
 - Maximizes within system and policy constraints
 - Different portfolios of resources are developed for performance comparisons
- Resource options PacifiCorp is considering include
 - Demand side management
 - Wind, Geothermal, Solar
 - Market purchases
 - Natural gas resources
 - Very late in planning cycle (2030): Nuclear, Coal – Traditional and Integrated Gasification Combined Cycle (IGCC)
- Risk analysis determines whether potential plans are robust across many possible future scenarios



IRP

IRP Process

- 1992 IRP Standards and Guidelines (Acknowledgement Process)
- PacifiCorp Public Input Process
- IRP Draft
- Comments to Company
- IRP Final Report
- Comments to Commission
- Possible Technical Conference(s) or Hearing
- Acknowledgement Order



IRP

Resource Procurement

- While the IRP identifies potential future resources to best meet needs, it does not result in any actual resource selection
- Large new generating resources must be selected through an RFP Process
 - Utah Senate Bill 26 (2005 session)
 - Requires an RFP process for: 100 MW or larger with a term of 10 years or longer
 - Provides for preapproval of selected resources
 - Requires an independent evaluator
 - 2007 session amended this process
 - Provides exemption from RFP in emergency or “time limited” commercial opportunities
 - With exemption, prudence is determined in next rate case (no preapproval)
 - 2008 session further amended process
 - Exempts renewable resources less than 300 MW from RFP requirement and established alternate process for renewable solicitations



IRP

Office Critique of the Processes

- Although the IRP process is designed to be a collaborative process, it appears to be moving away from that and is in danger of becoming an expensive regulatory exercise
 - Current planning cycle has been plagued with lengthy delays
 - Despite Utah Commission orders directing that the planning process go forward without undue influence from the business plan, the end result of the planning appears to tie directly to the business plan
- Despite the robust analytical and modeling capabilities of the PacifiCorp planning team, it is unclear to what extent this analysis impacts actual resource selection
- The challenges facing PacifiCorp are significant:
 - Each state has a different process and timeline for review
 - Different participating stakeholders have clear and different agendas



IRP

Preliminary Concerns Regarding Current IRP

- The preferred portfolio has been modified to look very similar to the business plan portfolio (which performed poorly in risk analysis)
- Action steps need to be developed for addressing regulatory needs for further geothermal development
- Modeling only included near-term volatility of loads
- Analysis did not examine long-term coal availability and alternate plans for replacing coal resources when necessary
- Some assumptions associated with additional wind resources may be faulty



IRP

Current Status

- Provided comments on draft IRP, despite knowing that the Company would not have time to consider and implement
- IRP expected to be officially filed with Commission today
- Transmission case modeling will be filed at least one month late
- Commission will establish a comment period
 - Typically comments and reply comments
 - Process ends with an order of acknowledgement (sometimes partial acknowledgement or explicit lack of acknowledgement)



IRP

Questions?



Other Business/Adjourn
