



PUBLIC MEETING

Utah Committee of Consumer Services

September 28, 2011



Welcome & Business



Case Updates



Low Income Assistance Programs Background

- Program Requirements
 - Assistance available for qualified low-income residential gas and electric customers
 - Program funding may not exceed 0.5% of the rate class's retail revenues and the monthly surcharge may not exceed \$50 per month for any customer
- Utility payment assistance programs are not mere subsidies; these programs provide benefits to the utility and ratepayers.
 - Lower arrearages, collections, terminations and reconnections (costs that would otherwise be paid through rates by all other customers)
- Evaluation balances viewpoint of recipients and payees
 - “The Committee recognizes that there are some general rate benefits associated with utility low income programs, although these benefits are sometimes difficult to quantify. Therefore, the Committee supports a reasonable amount of funding for these programs.”



Low Income Assistance Programs - Questar

- Program was authorized in 2010.
- Target funding level was set at \$1.5 million per year. Qualified customers receive a one-time yearly credit of \$37
- First year program considered highly successful.
- Collections exceeded credits due to lower than projected participation rates and administration costs, therefore credit requested to be changed to \$52 per year.



Low Income Assistance Programs – RMP

- The Home Electric Lifeline Program (HELP) was approved by the Commission in August 2000
- The Program is currently underfunded
- On September 1, 2011 RMP filed to change the surcharge for most rate schedules to approximately 0.35% of revenues (excludes rate schedules capped at \$50.00)
- If approved the surcharge for residential and small commercial customers (Schedules 1, 2, 25 & 23) will increase from \$0.23 to \$0.26 per month. Irrigation customers' surcharge (Schedule 10) will increase from \$1.15 to \$1.25



Natural Gas Costs

- Fall Pass-Through Filings
 - Requested decrease of \$26 million for the forecasted fall 2011 – fall 2012 due to lower commodity prices
 - Requested increase for the conservation enabling tariff (\$2 M) and the pipeline integrity project (\$3 M)
 - Net change: \$11.87 or 1.71% reduction per customer per year
- Projected natural gas prices are decreasing slightly mainly because of increased supply and decreased demand.



Critical Consumers Issues Forum:

- National forum bringing together electric utility executives, state regulators and consumer advocates
- Recent collaborative: Grid Modernization Issues with a Focus on Consumers
 - Addressed customer issues associated with “smart grid” development (renamed as “grid modernization” seen as a more descriptive label)
 - Important opportunity for consumer advocates to present fundamental customer issues in collaborative atmosphere
 - Final report presented basic principles agreed upon by the collaborative – very consistent with NASUCA resolutions on grid modernization issues



Follow Up

- RMP Rate Case
 - Settlement included several open dockets
 - Good outcome for ratepayers
 - Questions?
- DSM Cost Effectiveness Tests
 - Follow-up white paper describing the tests
 - Additional questions, let us know



Customer Charges in Utility Ratemaking

Dan Martinez



Customer Charge: Basics

- Customer charges are fees that are collected monthly regardless of the amount of energy consumed.
 - Rocky Mountain Power = “Customer Charge”
 - Questar Gas = “Basic Service Fees or BSFs”
- Other types of rate elements typically vary with consumption changes and include:
 - Volumetric rates - variable rates based on the amount of energy consumed
 - Demand charges – charges based on the demand placed on the energy delivery system



Historical Context - RMP

- In July 1985, the Commission approved a \$1 customer charge.
- During the 80's and 90's, the customer charge hovered around \$1.
- In the 1990s, the Commission ordered that the customer charge should include costs associated with: meters, service drops, meter reading, and billing and collecting
- In recent cases, the customer charge was gradually moved to \$3.75, which is cost of service based on the Commission-approved methodology



RMP Customer Charge Proposals

- In the recent RMP rate case, the Company sought to raise the customer charge from \$3.75 to \$10.00.
- RMP argued that customer charge could be \$23 to cover all costs of serving residential customers.
 - This would include all costs of meters, service drops, poles & conductors, transformers, and retail service.
- Settlement resulted in:
 - Customer charge increased to \$4.00, consistent with currently-approved Commission methodology
 - Technical conference will be scheduled to discuss appropriate methodology for determining customer charge.



Historical Context - Questar

- In 1982, the PSC ruled on what goes into a customer charge.
- There are 4 BSF categories.
- 95% of residents reside in the BSF 1 category
- BSF 1 was initially set at \$5 and has remained there since the 1980s.
- Questar calculates full cost of service to be \$9, although it uses methodology different than what the Commission approved in the RMP case



Questar BSF Proposals

- Questar Gas has proposed changing BSFs in recent workgroup meetings resulting in increasing BSF for category 1 in GS Class to resolve *intra-class subsidies*.
 - Currently higher usage GS customers are paying more than their cost of service, and lower usage GS customers are paying less.
 - By increasing the BSF 1 rate, lower usage customers will pay more of their cost of service, thus reducing the intra-class subsidy.
- The Office recognizes that changing the BSF may be a better method of reducing intra-class subsidies than splitting the class
 - BSF must not be higher than cost justified
 - Changes must be implemented using gradualism



Ratemaking Principles and the Customer Charge

- Ratemaking principles must be balanced
 - Cost causation
 - Price signals & promoting conservation
 - Simplicity
 - Potential disproportionate impact on low income & low consuming customers
- The Office has historically argued for very low customer charge
 - Increases on volumetric rates would send better price signals to consumers.
 - Lesser impacts on low income groups.
- Now, we are examining how to better balance cost causation with other principles



What costs should be included in a Basic Service Fee or Customer Charge?

- Customer charges should include the basic costs associated with serving a customer (i.e. costs that don't vary based on levels of usage) This includes:
 - Meters & meter reading
 - Service drops or lines
 - Billing, collecting, other customer-related functions
- Customer charges may appropriately include limited number of items beyond currently-approved Commission methodology
- Customer charges should not include all fixed costs (straight fixed variable rate is harmful to small customers and contrary to conservation goals)



Conclusion

- The Office will determine principled-based position for advocating appropriate levels of customer charges
 - Based on appropriate cost causation and balancing ratemaking principles
 - Implemented with gradualism
 - The Office does not support a Straight Fixed Variable rate design or similar proposals that allocate inappropriate types of costs through customer charges.



PacifiCorp Integrated Resource Plan

Dan Gimble

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- Summary of Resource Needs
- Models used for Resource Planning
- Proposed Plan – Preferred Resource Portfolio
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Purpose of the IRP

- To select the optimal set of resources which will assure an adequate and reliable supply of electricity while balancing:
 - Cost
 - Risk
 - Public Policy Goals
- To provide long range resource planning to meet forecasted load – 20-year planning horizon



Utah Public Service Commission Guidelines

1. The Company will submit its IRP biennially for review and acknowledgment by the Commission.
2. The IRP will be developed using a public process and the Company will accommodate input from interested parties and facilitate information exchange.
3. The IRP will include:
 - a. A range of estimates or forecasts of load growth
 - b. An evaluation of all resources on a consistent and comparable basis
 - c. An analysis of competitive bidding for all types of resource acquisitions
 - d. A 20-year planning horizon
 - e. An action plan to implement the IRP consistent with the business plan
 - f. Different acquisition paths for different economic futures
 - g. Evaluation of cost from the perspective of different ratepayers and social concerns



Commission Guidelines - Continued

3. The IRP will include (cont.):
 - h. An evaluation of risks whether the ratepayer or the stockholder bears the risk
 - i. Allow flexibility so that the Company can take advantage of opportunities
 - j. An analysis of tradeoffs
 - k. A range for external costs
 - l. A description of how rate design is consistent with IRP planning goals
4. The public and all interested parties will have the opportunity to submit formal comments to the Commission
5. The IRP will be used in rate cases to evaluate utility performance related to resource acquisition.
6. Acknowledgement of the IRP will not guarantee favorable rate treatment of resource acquisitions.



Forecast of Resource Needs

Key Assumptions:

- Forecasted loads
- Existing resource levels
- Reserve Requirements

Assumptions included in 2011 IRP:

10-year peak load growth – 2.1% per year

10-year energy use growth – 1.8% per year

Planning reserve margin – 13%



Existing Resources

2011 Projected Capacity*	
(MWs)	
Thermal (Coal/Gas)	8,572
Purchase	1,511
Hydroelectric	1,236
Class 1 DSM	324
Qualifying Facilities	288
Interruptible	281
Renewable	<u>256</u>
Total	12,468

2011 Projected Capacity	
Thermal (Coal/Gas)	69%
Purchase	12%
Hydroelectric	10%
Class 1 DSM	3%
Qualifying Facilities	2%
Interruptible	2%
Renewable	2%

2010 Actual Energy**	
Thermal (Coal/Gas)	74%
Purchases	16%
Hydroelectric	5%
All Other	5%

*Capacity available to meet peak demand.

**PacifiCorp 2010 Form 10-K



Forecast of Resource Needs (MWs)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
System										
Total Resources	12,468	11,802	11,810	11,404	11,399	11,397	11,412	11,433	11,395	11,192
System Obligation	11,497	11,973	12,264	12,256	12,403	12,595	12,728	12,961	13,145	13,376
Reserves (based on 13% target)	1,297	1,430	1,470	1,522	1,542	1,569	1,582	1,611	1,633	1,668
Obligation + 13% Planning Reserves	12,794	13,403	13,735	13,778	13,945	14,164	14,310	14,572	14,777	15,044
System Position	(326)	(1,601)	(1,925)	(2,373)	(2,546)	(2,767)	(2,898)	(3,139)	(3,383)	(3,852)

Calendar Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
East										
East Obligation + Reserves	8,881	9,324	9,643	9,613	9,844	10,063	10,165	10,354	10,544	10,752
East Position	(328)	(1,034)	(1,469)	(1,698)	(2,076)	(2,114)	(2,168)	(2,605)	(2,732)	(2,974)



New Resource Modeling Step 1 – Inputs & Assumptions

- Key Inputs – Resource cost estimates, asset lives, fuel cost inflation, transmission topology, etc.
- Key Assumption Alternatives – Scenario/Case Development
 1. CO2 costs
 2. Natural gas costs
 3. Load growth
 4. Renewable tax credits and wind integration costs
 5. Renewable Portfolio Standards
 6. Demand Side Management (DSM)
 7. Distributed solar
 8. Coal plant utilization
 9. Energy Gateway transmission buildout



New Resource Modeling Step 2 – Capacity Expansion Model

- System Optimizer Model (PacifiCorp's CEM)
- Developed 49 cases for the 2011 IRP
 - Core Cases (19)
 - Energy Gateway Transmission Cases (16)
 - Sensitivity Cases
 - Coal Plant Utilization (5)
 - Load Forecast (3)
 - Renewable Resource (3)
 - DSM (3)
- System Optimizer solves for the least cost mix of resources for each case based on PVRR – Present Value of Revenue Requirement



New Resource Modeling Step 3 – Risk Analysis

- Planning and Risk Model (PaR) – Monte Carlo Simulation
- Risk Analysis – Testing the ability of a portfolio to respond to random and sometimes major changes in the following variables:
 - (1) Loads
 - (2) Natural gas prices
 - (3) Wholesale electricity prices
 - (4) Hydro energy availability
 - (5) Outages for new thermal plants
- This analysis screens the top-performing portfolios based on the combination of average risk and upper-tail risk*
 - 19 core portfolios reduced to 8 for further testing.

*Upper-tail risk reflects potential outcomes that have a low probability of occurring but are very expensive if they do materialize.



Selection of Preferred Portfolio

The preferred portfolio was initially selected using the following criteria:

1. Risk-adjusted Mean PVRR
2. 10-year customer rate impact
3. CO2 emissions
4. Supply reliability
5. Resource diversity
6. Future uncertainty of GHG and RPS policies



Preferred Portfolio Selection

- Case 3 initially selected as the preferred portfolio
 - Ranked first in some measures and low in others
 - Has very few renewable resources
- Company decided to “re-optimize”
 - Used more liberal renewable policy assumptions applied solely to Case 3
 - Made hand-selected changes to the resources outside of the model replacing geothermal with wind and delaying a natural gas plant
- Final preferred portfolio adds:
 - 2,100 MW Wind
 - 2,562 MW DSM
 - 1,697 MW Gas



Office IRP Review

The Office thoroughly reviews the Company's IRP filings focusing on the following types of issues:

- Compliance with Commission Guidelines and past Commission IRP Orders
- Reasonableness of methods, inputs, assumptions and ultimately the preferred portfolio of resources selected by the Company
- Evaluation of selected issues by experts retained by the Office (2011 IRP: coal supply & cost, load forecasts)
- Re-visit issues that have been problems in past IRP filings (i.e. reliance on market power, appropriate planning reserve margins, treatment of renewable resources)



Key Issues Identified by Office

- The preferred portfolio performs poorly on key performance metrics (risk-adjusted mean PVRR, 10-Year Rate Impact, Supply Reliability)
- Low cost geothermal resources are eliminated
- Re-optimization process seems designed to align the preferred portfolio with business plan
- Interdependence of full \$6 B Gateway Transmission build out and preferred portfolio designed to add large amounts of Wyoming wind
- Important Commission guidelines were not followed: public process, optimal resource portfolio, consistency in comparing resources



Other Issues Identified by Office

- Need for objective wind integration study and concerns raised by an Office expert should be considered in the next study
- Class 2 DSM targets may not be achievable
- The planning reserve margin of 13% may be too low to maintain adequate supply



2011 IRP – Next Steps

- Comments on PacifiCorp's 2011 IRP were filed by parties (including the Office) on 9/7/11.
- Reply comments from all parties, including the Company, are due 10/5/11.
- The Commission typically issues an IRP Order a few months after receiving comments. No technical conferences or hearings have been scheduled at this time.



Universal Service Fund: Background & Overview

Eric Orton



Universal Service Fund

- Objective: To provide telephone service to all households; and to ensure that customers have access to basic telecommunications service at just, reasonable and affordable rates.
- Two Universal Service Funds have been established to accomplish this objective: Federal and State



History

Federal USF

- Began in 1934 to provide affordable telephone service to all households based on the idea that all Americans should have access to basic telecommunications service at just, reasonable and affordable rates.
- Major alterations occurred with the passage of the 1996 Telecommunication Reform Act.

State USF

- Began in 1953 revised in 1997 as a result of the 1996 Federal Act and revised one more time in 2002 to clarify the language.



Collection of Fees

- Federal: Assessed on all interstate telephone companies – generally collected from their customers as a line item on their phone bill. The amount collected changes quarterly based on FCC decisions – currently at 15.3% of interstate revenues (see FCC.gov).
- State: Assessed on all telephone companies who provide intrastate service – always collected from their customers. The rate changes periodically based on DPU recommendation – currently at 1%. (see PSC.utah.gov)



Use of USF Funds

- Federal Permitted Uses: Four specific programs: 1) High Cost, 2) Low-Income, 3) Schools and 4) Health Care
 - To qualify to receive disbursement from the fund the company must be an Eligible Telecommunications Company (ETC) as defined by the FCC.
- State Permitted Uses: To provide basic telecommunication service – and whatever else the Commission orders. (The State adopted the four Federal programs above).
 - To qualify for disbursement in Utah, a Company must also charge the Affordable Base Rate and be facilities based.



Recent and Current Issues - Reform

- Federal Universal Service Fund reform proposals began in earnest at the FCC in 2008.
- Reform proposals cover four major areas:
 - High-cost Universal Service Support
 - Developing a Unified intercarrier Compensation Regime
 - Reforming and modernizing the Lifeline and Linkup programs
 - A National Broadband plan for our future.
- Consumer Advocate views:
 - Reform of certain USF elements is necessary
 - Expanding broadband is good for consumers
 - Specific proposals for accomplishing reform raise more potential problems than they solve
 - Ongoing USF funding is at risk



Office Concerns Re: State USF

- Rural telecoms are requesting State USF at significantly increasing levels, which raises concerns whether all expenses are proper uses of the funds. For example:
 - Potentially using USF to fund wireless or other business models
 - Potentially using USF to subsidize the ILEC for line loss when the customers are transferring to an unregulated sister company of the ILEC
 - Potentially using USF to pay a higher return to investors
 - The USF may be perceived as a catch-all fund or safety net thereby causing the company to increase their level of risk taking
- Potential changes to current rules to clarify its applicability in today's telecom market. For example:
 - Current rules did not contemplate the amount of contributions from wireless carriers
 - Current rules did not contemplate the prepaid wireless business model



Conclusion

- Both Federal and State USF funds are stressed
 - Increasing program demands
 - Funding challenges: federal rates going up on limited customer base, balance on state USF is dwindling
- Generally support reform efforts, but customer protections must be in place as well as strong oversight for proper use of customer-funded programs
- Ongoing efforts:
 - Office primarily participates in federal issues through NASUCA and NASUCA-based coalitions
 - Office monitors potential state legislation impacting the state USF
 - Office may increase its attention to the rural telephone companies' rate cases as that is the forum where USF distributions are determined



Adjourn
