

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: March 20, 2008

REGULAR  CONSENT  EFFECTIVE DATE \_\_\_\_\_

DATE: March 18, 2008

TO: Public Utility Commission

FROM: Marc Hellman

THROUGH: Lee Sparling

SUBJECT: PACIFIC POWER & LIGHT: (Docket No. UM 926) PacifiCorp and the Bonneville Power Administration Proposed Interim Relief and Standstill Agreement.

**STAFF RECOMMENDATION:**

I recommend that the Commission not require PacifiCorp to execute the proposed Bonneville Power Administration Interim Relief and Standstill Agreement.

**DISCUSSION:**

On March 17, 2008, PacifiCorp filed correspondence with the Public Utility Commission of Oregon (OPUC) that included the Bonneville Power Administration (BPA) proposed Interim Relief and Standstill Agreement. In correspondence from BPA to PacifiCorp, BPA states that the interim relief offer remains in effect through March 24, 2008. Should PacifiCorp not execute the agreement prior to March 25, 2008, then the agreement is no longer valid or in force.

The agreement calls for the resumption of residential exchange benefits. The Regional Power Act credit was suspended on June 1, 2007, after the 9<sup>th</sup> Circuit ruled in May 2007, that the Settlement Agreements entered into by BPA and each of the investor-owned utilities were contrary to federal law.

The Interim Agreement calls for benefits of \$20.7 million for 2008. However, as by its name, the monies are interim in nature and not a permanent level of benefits. BPA is currently holding formal proceedings to determine the appropriate level of residential exchange benefits on a going forward basis (2009), the level of benefits paid to PacifiCorp since 2002, as well as how much residential exchange benefits PacifiCorp was entitled to under a properly administered residential exchange program for the

2002 to 2008, time period. BPA intends to undertake retroactive ratemaking to reconcile past benefits paid with benefits BPA determines PacifiCorp is entitled to under a properly administered residential exchange program. Therefore any benefits paid under the Interim Agreement will be trued-up to BPA's final determinations. As PacifiCorp notes, BPA's preliminary estimates call for PacifiCorp to receive residential exchange benefits of \$4.1 million for 2008. This value is significantly less than the \$20.7 million interim level offered by BPA.

PacifiCorp states that the Regional Power Act (RPA) balancing account has customers owing PacifiCorp \$291,426. PacifiCorp calculates that the level of benefits offered through the interim agreements may serve to reduce the total electric bill by \$0.20 to \$0.60 per month.

PacifiCorp requests the Commission issue an order to not require the execution of the Interim Agreement. The company offers a few reasons for that request. The principal reason is that the interim benefits offered by BPA are significantly higher than the final level that may be determined by BPA as a result of BPA's rate case. The interim benefit level offered by BPA is not established using the procedures and policies set forth in the 1980 Regional Power Act and therefore could differ significantly from the "permanent" benefit levels as determined by BPA. The PacifiCorp citation of \$4.1 million BPA rate case figure results from BPA using an average system cost (ASC) methodology that excludes the costs of taxes, equity in the capital structure, and most transmission costs.

PacifiCorp also notes that the Commissions of Oregon, Washington and Idaho do not agree on how the benefits provided by BPA should be allocated across those states. PacifiCorp states that the commissions need to resolve the allocation issue before the conclusion of BPA's rate processes.

Staff supports PacifiCorp's request to have the Commission issue an order to not require PacifiCorp to execute the Interim Agreement. While the OPUC will advocate for an ASC methodology that reverses those exclusions noted above, and thereby may raise the benefits for which PacifiCorp is entitled to, there is no guarantee that the outcome of BPA's rate proceedings will result in establishing benefits for 2008 near that offered by BPA through the Interim Agreement. It does not seem reasonable to provide rate credits that may likely be required to be returned, with interest, several months later.

Staff also agrees with PacifiCorp's observation that the states of Idaho, Washington and Oregon do not agree on how any residential exchange benefits should be allocated across the states.

Under “Subscription”, the former BPA policy for spreading the benefits of the federal system, the 4-state commissions jointly recommended how benefits should be allocated across the IOUs. The recommendations included how benefits should be allocated across the states for PacifiCorp. Under the 4-state commission allocation, the allocation of benefits for PacifiCorp is as follows:

State	2002 – 2006		2007 – 2011		Pro rata Load %
	4-state Benefits	%	4-state Benefits	%	
Idaho	140 AMW	29.4%	140 aMW	23.7%	13%
Oregon	256	53.8%	341	57.8%	67%
Washington	80	16.8%	109	18.4%	20%

The last column in the table represents an allocation based on relative shares of residential and small farm (qualifying) loads. In BPA’s average system cost (ASC) proposal, BPA calculates one ASC for PacifiCorp and benefits for PacifiCorp are dependent in part on PacifiCorp’s ASC and qualifying loads. We can observe that PacifiCorp’s Idaho jurisdiction received more than twice the share of benefits than would be allocated based on principles of the Regional Power Act. The main issue of contention is that Oregon PUC staff recommends using the pro rata load allocator both in any BPA “Lookback” analysis as well as going forward. Idaho PUC may be seeking to continue using the 4-state commission allocator. The pro rata load allocator is consistent with the Regional Power Act. The 4-state commissions allocator is a construct developed under “Subscription”. Subscription was a policy approach adopted by BPA which is no longer being followed by BPA as a result of the 9<sup>th</sup> Circuit decisions.

While staff concurs with PacifiCorp that the states of Idaho, Washington and Oregon may not all agree on the proper allocator, staff does not agree with PacifiCorp that it is the states’ obligation to reconcile their views. Staff will work with the other states to discuss issues and seek consensus; however staff will recommend benefits be allocated in a fair manner consistent with the Regional Power Act, regardless as to whether there is consensus among the states. No action is required by the Commission on this allocation issue at this time.

**PROPOSED COMMISSION MOTION:**

I recommend that the Commission issue an order to not require PacifiCorp to execute the proposed Bonneville Power Administration Interim Relief and Standstill Agreement.