

Service Date: October 25, 1988

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

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IN THE MATTER Of The Application )  
Of PACIFIC POWER & LIGHT COMPANY ) UTILITY DIVISION  
For Authority To Adopt New Rates ) DOCKET NO. 87.12.80  
and Charges For Electric Service ) ORDER NO. 5326a  
Furnished In The State of Montana )  
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FINAL ORDER  
FINDINGS OF FACT  
Background

1. On December 17, 1987, Pacific Power and Light Company (PP&L, Company or Applicant) filed an application with the Montana Public Service Commission (Commission) to reflect among other items the following in its Montana electric rates: 1) the Bonneville Power Administration (BPA) rate increase that occurred October 1, 1987; 2) the PP&L deferred tree trimming program; 3) the second phase of the 1986 Tax Reform Act (34 percent tax rate); 4) the change in the Schedule 98 BPA Credit; and 5) the inclusion of Colstrip 4. Testimony and Exhibits filed by the Applicant demonstrated that the above factors taken together with several other proposed adjustments would result in a Montana base revenue decrease of \$565,000. Applying the BPA Schedule 98 Credit to its analysis, PP&L concluded that there should be no change in the Company's net rates.
2. On January 28, 1988, the Commission issued a Proposed Procedural Order. A Final Procedural Order was issued on February 10, 1988.
3. On March 16, 1988, by a 5-0 vote, the Commission issued Interim Order No. 5326. Upon applying the Commission's interim guidelines, it was determined that PP&L's Montana base electric revenues should be reduced by \$929,000.
4. On May 9, 1988, The Commission received testimony from the Montana Consumer Counsel (MCC) supporting a \$1,717,000 reduction in the Company's Montana base electric revenues. MCC has participated in this Docket on behalf of PP&L's Montana electric utility customers since the inception of these proceedings.

5. On July 1, 1988, the Commission issued a Notice of Public Hearing that established the schedule for the technical and satellite hearings in this proceeding.

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6. On July 8, 1988, the Commission received a stipulation entered into by PP&L and MCC (the Parties). The Stipulation purported to resolve all issues in this proceeding. The net result of the Stipulation would be to make permanent the rates established in Interim Order No. 5326.

7. On July 19, 1988, the Commission issued a Notice of Commission Action vacating the technical hearing in this proceeding. Instead, an informal public meeting was scheduled to review and discuss the proposed stipulation with the Parties and the Montana electric customers of PP&L. The public meeting was held in Kalispell on July 26, 1988.

#### The Stipulation

8. As previously stated, a stipulation purporting to resolve all pending issues in this Docket was filed by the Parties on July 8, 1988. Eight factors were specifically addressed in the Stipulation:

(1) The Parties agreed that revenue requirements and rate design established in Interim Order No.

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5326 should be placed in effect on a permanent basis.

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(2) The Parties agreed that Phase IV of the Company's jurisdictional allocation methodology should be accepted in this proceeding. The Company will continue to use Phase IV in future Montana rate filings.

(3) The Parties agreed that the Company's investment in Colstrip Unit No. 4 should be included in rate base.

(4) The Parties agreed that the carrying charges associated with Colstrip Unit No. 4 should be allowed in rate base and amortized over a ten year period.

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(5) The Parties agreed that the Company's proposed treatment of the Deferred Tree Trimming Program should be accepted in this proceeding.

- (6) The Parties agreed that the new depreciation rates proposed by the Company should be accepted in this proceeding.
- (7) The Parties agreed that no recovery should be allowed on the deferred carrying charges associated with the Company's investment in Colstrip Unit No. 3.
- (8) The Parties agreed that the Net Benefit Analysis for Colstrip Unit No. 3 should be terminated.

9. PP&L and MCC acknowledge that the Stipulation is made for settlement purposes only and that except for the matters expressly agreed upon, neither Party, by entry into the Stipulation shall be deemed to have accepted, agreed to or conceded any particular rate making principle, cost of service determination or legal principle underlying the agreed to revenue requirement level, rate spread or rate design.

10. Based on its analysis of all relative testimony, exhibits, data responses, work papers, and discussions concerning the proposed Stipulation in this proceeding, the Commission accepts the Stipulation as proposed by the Parties. After analyzing all information available in this Docket, the Commission finds that this Stipulation provides a fair balance between the interests of the Company and its Montana electric customers. However, as a result of accepting this Stipulation several important issues remain unresolved. The unresolved issues are discussed as follows:

#### Cost of Service

11. On December 8, 1987, the Commission accepted a stipulated settlement of Docket No. 86.12.76 (Order No. 5311). That stipulation required PP&L to file a cost-of-service/rate design study in its next general rate case. Additionally, the stipulation required that PP&L not propose increasing the residential rate class' revenue requirement in its next rate filing.

12. On December 17, 1987, PP&L filed Docket No. 87.12.80. Cost-of-service (COS) and rate design (RD) issues raised by the Commission in Docket No. 86.12.76 were not addressed in this filing due to the short time period between the Commission's Final Order in Docket No. 86.12.76 and the Company's filing in Docket No. 87.12.80 (see Order 5311, Paragraph No. 3 of the Order section).

13. The COS study filed by PP&L in the instant Docket is identical to the Company's filing in Docket No. 86.12.76. Therefore, the issues identified in Finding of Fact (FOF) Nos. 107, 110, 111, 113, 114, and 116 of Docket No. 86.12.76 remain unresolved and must be addressed in PP&L's next cost-of-service/rate design filing (Order No. 5311). Failure to do so will result in the rejection of the next filing as deficient.

#### Reconciliation and Rate Design

14. PP&L is not proposing to increase residential class revenue requirements in this docket in order to comply with the stipulation accepted in Docket No. 86.12.76. The Company's proposed rate design goals in the instant Docket are to minimize changes in billed prices. Accordingly, the Company is proposing a reconciliation which minimizes revenue requirement changes among classes. This reconciliation is not based upon a reconciliation of marginal revenue requirements to embedded revenues, rather, as stated previously, it is an attempt to minimize billing impacts. The Commission intends to revisit the issue of reconciliation in future PP&L filings. In particular, the Commission will revisit the Company's methodology for spreading the cost of the employee discount back to all customer classes.

15. The Commission accepted PP&L's proposed rate design methodology in Interim Order No. 5326 (FOF Nos. 34, 35). The Stipulation in the instant Docket also accepts the Company's proposed rates. Therefore, the Commission's acceptance of the proposed Stipulation will result in acceptance of PP&L's proposed tariffs. However, the Commission has several concerns regarding PP&L's rate design methodology. The largest concern is that PP&L proposes seasonally differentiated rates for some rate classes, and not for others. This apparent inconsistency will be more fully investigated in PP&L's next general filing.

#### Price Stability Plan

16. In the Proposed Direct Testimony of James T. Watson the Company discussed several aspects of its Price Stability Plan. Increasing efficiency and streamlining operations are mentioned in Mr. Watson's discussion and the Commission finds these efforts to be commendable. PP&L's Price Stability Plan was equally addressed in Docket No. 86.12.76 by Mr. Watson when he discussed the Company's decision to ask for no increase in that proceeding when it believed that an increase over \$1 million could be supported.

Additionally, in its request for approval to merge with Utah Power and Light Company, Docket No. 87.9.51, the Company stated that it was committed to rate stability for its Montana customers in the foreseeable future.

17. The Commission finds the Company's efforts to stabilize rates to be a laudable goal. As previously mentioned, the Commission generally finds activities that increase efficiency and streamline operations are desirable. However, the Commission finds it imperative that the concerns discussed in Finding of Fact Nos. 11-15 not be ignored in favor of the Company's goal to stabilize rates.

18. Additionally, the Commission notes that the revenue requirements associated with the Company's last two rate filings have been resolved through stipulation. To some degree this raises questions about

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the level of the Company's currently authorized revenues. Indeed, the last proceeding in which the Commission made a full determination of the Company's revenue levels was Docket No. 85.10.41. The test year in that proceeding ran from April 1, 1984, through March 31, 1985.

19. In order to address these concerns the Commission requires PP&L to file by June 1, 1989, evidence showing that its rates are reasonable in light of current conditions.

20. From a revenue requirements perspective, PP&L must demonstrate that its current revenue levels are reasonable. This demonstration must be based upon the most recent test year (preferably calendar year 1988) for which reliable data is available, in compliance with Commission rules. See ARM 38.5.106. The filing must incorporate the effects of the Stipulation accepted in this Order.

21. From a rate design perspective the Company will be required to file a current Marginal COS/RD study that incorporates all unresolved issues put forth in this Order.

22. The Commission is fully aware that the Company's application with the Federal Energy Regulatory Commission (FERC) to merge with Utah Power and Light is still unresolved. If FERC allows the merger to occur, the concerns discussed

in this Order can be addressed when the Company files with this Commission to reflect the merger impacts, but in no instance can a filing be subsequent to June 1, 1989.

#### CONCLUSIONS OF LAW

1. The Applicant, Pacific Power and Light Company, furnishes electric service to consumers in Montana, and is a public utility under the regulatory jurisdiction of the Montana Public Service Commission. Section 69-3-101, MCA.
2. The Commission properly exercises jurisdiction over the Applicant's rates and operations. Section 69-3-102, MCA and Title 69, Chapter 3, Part 3, MCA.
3. The Commission has provided adequate public notice of all proceedings and opportunity to be heard to all interested parties in this Docket. Title 2, Chapter 4, MCA.
4. The rate level and rate structure approved herein are just, reasonable, and not unjustly discriminatory. Section 69-3-330, MCA.

#### ORDER

1. Pacific Power and Light Company shall file with the Commission rate schedules which reflect the decisions contained in this Order.
  2. The rates authorized in this Order shall be effective for service rendered on and after the approval date of this Order.
  3. The Stipulation between the Company and the Montana Consumer Council is accepted for purposes of this proceeding.
  4. The Company is required to file the information discussed in Finding of Fact Nos. 19-21 no later than June 1, 1989.
  5. All motions and objections not specifically ruled upon are denied
- DONE AND DATED at Helena, Montana this 14th day of October by a 5-0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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CLYDE JARVIS, Chairman

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HOWARD L. ELLIS, Commissioner

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TOM MONAHAN, Commissioner

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DANNY OBERG, Commissioner

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JOHN B. DRISCOLL, Commissioner

ATTEST:

Carol A. Frasier  
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.