

Service Date: November 7, 1989

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. 89.6.17 |
| and Charges for Electric Service |) | ORDER NO. 5432 |
| _____ |) | |

FINAL ORDER

FINDINGS OF FACT

Background

1. On June 14, 1989, Pacific Power & Light (PP&L or Company) filed with the Commission a request to decrease its rates. If approved, the rate decrease would result in a \$933,000 annual revenue decrease on a gross basis. After including the effects on the Schedule 98 credit, the Company proposal would result in a net revenue decrease of \$709,000. PP&L submitted the filing to reflect in rates benefits associated with the Company's recent merger with Utah Power and Light (UP&L).
2. On June 30, 1989, the Commission issued a Proposed Procedural Order. A Final Procedural Order was issued on August 14, 1989.
3. On June 30, 1989, the Commission received from the Montana Consumer Counsel (MCC) a Petition to Intervene in this proceeding. Intervention was granted. No other parties requested intervenor status in this proceeding.

4. On October 23, 1989, the Commission received a Stipulation from PP&L and MCC (the Parties). The Stipulation resolves between the parties the issues of revenue requirement, revenue allocation, and price design in Docket No. 89.6.17.

5. On October 30, 1989, a noticed public meeting was held in the Commission's offices so that the Parties could discuss the Stipulation with the Commission, its staff, and any interested members of the public.

The Stipulation

6. If accepted by the Commission, the Stipulation would result in an annual revenue reduction of \$1,123,000 on a gross basis. The net revenue decrease is expected to be \$845,000 when the Schedule 98 impacts are included.

7. The parties agree that the stipulated revenue decrease reflects: 1) the Company's request to pass on to its Montana customers benefits from the PP&L/UP&L merger; and 2) the August 29, 1989, rate reduction (Order No. 5420) resulting from the decrease in the PSC Tax rate.

8. The parties agree that the revenue decrease should be applied equally to the energy charges of all proposed tariffs. Additionally, the Stipulation utilizes PP&L's proposal to eliminate seasonal differences in all commercial, industrial, and agricultural pumping tariff schedules.

9. PP&L and MCC acknowledge that the Stipulation was reached to resolve the issues in this proceeding only, and neither party shall be deemed to have agreed that this Stipulation is appropriate for resolving any issues in any other proceeding, or to have consented to any principles, methods, or theories employed in reaching the Stipulation.

10. The Stipulation is appended to this order as Attachment 1.

Commission Decision

11. Based on an analysis of all relevant exhibits, data responses, work papers, and the public meeting concerning the proposed settlement in this proceeding, the Commission accepts the Stipulation presented by the Parties. After careful consideration of all information available in this docket, the Commission finds that the Stipulation provides a fair balance between the interests of the Company and its Montana electric utility customers.

12. The Commission makes Finding of Fact No. 11 with certain reservations. One reason the Commission is accepting the Stipulation is to allow PP&L's Montana electric customers to share now, and during the winter heating season, the benefits of the PP&L/UP&L merger rather than delay that sharing due to the time required to process a fully contested rate case. The Commission believes that such a delay is not warranted because it would be difficult to develop a complete record on several key issues due to a lack of historic and prospective information about the merged Company. The Commission finds that the public interest requires that the following issues be more fully explored and developed in a future PP&L rate case.

13. The Company's filing was based solely on the operations of the old PP&L system. The merger benefits included in the filing are only estimates which may be difficult to verify and which certainly may be overstated or understated depending on how well the merged Company is actually operating. Also, the Company has not yet developed an acceptable jurisdictional cost allocation procedure which means that at present it would be almost impossible to examine the entire merged Company's actual operations and reasonably determine the amounts attributable to Montana.

14. For many of the reasons stated in Finding of Fact Nos. 12 and 13, the Commission also hesitantly accepts the cost of service and rate design contained in the Parties' Stipulation. The Commission notes that these rates may not be economic when compared to the results of a merged system cost of service study, which is not yet available for analysis.

15 In light of the preceding discussion, the Commission finds it essential to place conditions on its approval of the Stipulation.

Revenue Requirements Conditions

16. The Company must file no later than December 31, 1990, evidence demonstrating that the Company's revenue levels are reasonable. This demonstration must be based upon the most recent test year available and must include 12 FULL months of operation as a merged Company. The Company's filing must comply with the minimum filing requirements of this Commission.

17. The information to be filed by the Company shall include demonstrations on both a merged Company and on a stand alone basis. Unreflected merger benefits will be considered in the Company's filing.

Cost of Service and Rate Design Conditions

18. Concurrent with the required revenue demonstration, the Company shall submit evidence addressing the following cost of service and rate design concerns.

19. PP&L Docket No. 86.12.76 resulted in a stipulated settlement that featured a non-seasonal declining block rate structure for the residential rate class. According to that stipulation, PP&L must request an adjustment to, or elimination of declining block rates under the following circumstances:

- a. Pacific is buying power under BPA's New Resource Rate to meeting its retail load requirements, and BPA acquires an option for the a new resource(s) whose projected cost per kilowatt-hour would exceed both the current New Resources Rate and Pacific's tailblock rates.
- b. Pacific determines that, within three years, there is a substantial possibility that to meet its retail load requirements the Company will have to invest in new generation capacity or power purchase contracts with cost exceeding system average costs.

20. PP&L has since entered into a power purchase contract with Montana Power Company (MPC) for a purchase of 15 MW (Energy Purchase and Transmission Agreement, Docket 88.6.15, RDR NPRC 1-13). A real levelization of the prices contained in that contract,

using PP&L's methodology for levelizing the costs of generation, produces a real levelized price of 34.69 mills/kWh. The Commission calculates that PP&L's average system cost was approximately 28.83 mills/kWh prior to the changes introduced in this rate case (Attachment E of the Company's filing). System average costs are greater than average system costs, including costs such as taxes and return on equity.

21. Based upon information available, the Commission is not able to make a direct conclusion regarding the relationship of the MPC purchase to system average costs. PP&L may have violated the terms of the Rate Design Evaluation Trigger stipulation on Docket No. 86.12.76. The Commission's intent in making this finding is to alert interested parties that the terms of the Rate Design Evaluation Trigger may have occurred. Interested parties may wish to pursue this matter further. The Commission may also opt to address this issue in a separate proceeding. However, if this issue is not addressed in a separate proceeding, the Commission requires PP&L to address this issue in prefiled testimony in the general rate case required by this Order.

22. The Commission's Order No. 5311 in PP&L Docket No. 86.12.76 requires PP&L to comply with Findings of Fact Nos. 107, 110, 111, 113, 114 and 116 in future cost of service and rate design filing (Order No. 5311, page 38).

23. In its Procedural Order in the instant proceeding, the Commission stated that it believes that PP&L did not fully address all issues required by Order No. 5311. The commission required PP&L to file additional testimony addressing those concerns. That requirement is moot given the stipulated settlement in this proceeding. However, the Company must address Findings of Fact Nos. 27, 28, 29, and 30 in its next cost of service

and rate design filing (Procedural Order, Docket No. 89.6.17). The Company must fully comply with the requirements of Order No. 5311 in its next case.

CONCLUSIONS OF LAW

1. The Applicant, Pacific Power & Light Company, furnishes electric service to Montana consumers, and is a "public utility" under the regulatory jurisdiction of the Montana Public Service Commission. Title 69, Chapter 3, MCA.
2. The Montana Public Service Commission properly exercises jurisdiction over the Applicant's Montana operations pursuant to Title 69, Chapter 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 levels and spread approved herein are just, reasonable, and not unjustly discriminatory. Section 69-3-330, MCA.

ORDER

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. Applicant, Pacific Power and Light Company, is hereby required to implement on a permanent basis decreased rates designed to reduce gross annual electric revenues by \$1,123,000.
2. Rate schedules filed shall comport with all Commission determinations set forth in this order.
3. The Applicant's tariff submittal shall reflect the current BPA Exchange Credit for the qualifying schedules.

4. The annual revenue reduction granted by the Commission is to be effective for electric service rendered on and after the approval date of this order.

5. The Stipulation between the Company and the Montana Consumer Counsel is accepted for purposes of this proceeding.

6. The Company is required to file by December 31, 1990, information which adequately addresses ALL of the Commission's concerns stated in the body of this order, and Order No. 5311.

7. All motions and objections not specifically ruled upon are denied.

DONE IN OPEN SESSION at Helena, Montana, this 3rd day of November, 1989, by
a 5-0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

CLYDE JARVIS, Chairman

HOWARD L. ELLIS, Commissioner

WALLACE W. "WALLY" MERCER, Commissioner

DANNY OBERG, Commissioner

JOHN B. DRISCOLL, Commissioner

ATTEST:

Ann Peck
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.