Service Date: September 20, 1995

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

* * * * *

IN THE MATTER OF Montana Power Company's Decoupling Compliance filing for the Period May 1994 through April 1995.	))))	UTILITY DIVISION DOCKET NO. 95.6.27 ORDER NO. 5858a

ORDER SUSPENDING DECOUPLING INDEX

Background

1. The Montana Power Company submitted its first annual decoupling compliance filing on June 5, 1995, pursuant to the Decoupling Stipulation adopted by the Commission in Order No. 5709d, Docket No. 93.6.24.

2. Pursuant to the Limited Procedural Schedule issued on July 11, 1995, the Commission received written comments from interested parties and reply comments from MPC.

MPC's Decoupling Adjustment

3. MPC proposes a positive decoupling adjustment of about $2.25 million,[1] comprised of three main components: (1) the basic decoupling calculation; (2) an adjustment that reflects the temporary shut down of an industrial customer; and (3) an adjustment for higher than forecast economic growth.

---

[1] The first year decoupling adjustment is based on sales that occurred between May 1, 1994 and April 28, 1995.

4. The basic decoupling calculation, based on the approved decoupling formula, multiplies the fixed cost component of average retail rates by the difference between MPC's actual, weather normalized kilowatt hour sales during the year and the forecast kilowatt hour sales for the same period.[2] This calculation produces a positive decoupling adjustment of $468,313. MPC used EPRI's Hourly Energy Load Module (HELM) to weather normalize actual kilowatt hour sales. The HELM model has not been approved by the Commission and MPC did not include the impacts of using HELM instead of the Commission approved model.

5. To reflect the temporary shut down of Golden Sunlight, an industrial customer, MPC subtracts $858,832 from the basic decoupling formula results. The Golden Sunlight shut down caused a significant reduction in kilowatt hour sales unrelated to conservation or demand side management. Under the decoupling stipulation, extraordinary fixed cost revenue fluctuations unrelated to demand side management activities, such as large industrial customer load variations, shall be excluded from decoupling adjustment filings. The cumulative impact of this adjustment and the formula result in a negative decoupling adjustment of $390,519.

6. MPC then adds about $2.9 million to account for stronger economic growth in the residential and GS-1 commercial classes than was projected by the 1993 forecast of kilowatt hour sales. MPC maintains that this addition is consistent with the decoupling stipulation because it is analogous to the Golden Sunlight subtraction. To compute its proposed economic growth adjustment, MPC multiplies the 1993 test period average kilowatt hour use per customer by the

---

[2] In mathematical form the decoupling equation is:

Decoupling Adjustment = 0.97[F(Qs) - A(Qs, wn)] * E(IFk)?

where A(Qs, wn) = actual, weather normalized kilowatt hour sales

F(Qs,) = 1993 forecast kilowatt hour sales

E(IFk) = incremental fixed cost revenue per kilowatt hour

difference between the forecast and actual number of customers in the decoupling adjustment period.

7. MPC's proposed economic growth adjustment brings the total decoupling adjustment to a positive $2,503,260. Under the stipulation, the decoupling adjustment must be set at 90 percent of the formula result for the first two years of the experiment, resulting in a total positive decoupling request of $2,252,934.

Comments from Interested Parties

8. The Commission received written Comments from the Montana Consumer Counsel (MCC), the Montana Department of Environmental Quality (DEQ), Large Customer Group (LCG), and joint comments from District XI Human Resource Council, Natural Resources Defense Council and Montana Environmental Information Center.

Large Customer Group (LCG)

9. LCG objects to MPC's decoupling compliance filing, alleging noncompliance with the decoupling stipulation adopted in the Commission's Final Order 5709d. LCG asks that the Commission reject the filing and direct MPC to make a correct filing.

10. According to LCG, MPC's economic growth adjustment is inconsistent with the decoupling stipulation because the stipulating parties chose not to include an adjustment for unexpected differences between actual loads and the forecast. According to LCG, using a fixed index for decoupling is meaningless if actual loads can be adjusted for such variations.

11. LCG also criticizes MPC for applying the economic growth adjustment only to the Residential and GS-1 classes, for which MPC's forecast was below actual sales. LCG asserts that forecast sales for the GS-2 class were higher than actual sales and that consistency would require MPC to make an adjustment for this unexpected difference also.

12. LCG asserts that MPC's use of HELM to weather normalize actual sales is also inconsistent with the decoupling stipulation because HELM is not an annual weather normalization model and has not been used before in Company rate filings.[3]

---

[3] Paragraph 2.g. of the Decoupling Stipulation states: "The monthly decoupling calculations shall be based on the Company's proposed monthly weather normalization model for

13. Finally, LCG rebuts MPC's claim that it is entitled to several million dollars in lost revenues. LCG maintains that MPC has not experienced any financial loss because of its conservation and demand side management expenditures. Rather, MPC made more sales from May 1994 through April 1995, not fewer sales, and the result was higher revenues, not lost revenues. LCG states that MPC's fixed cost margins were fully covered and suggests that only a lost revenue recovery mechanism (LRAM) would produce MPC's claimed lost revenues.

Montana Consumer Counsel (MCC)

14. MCC comments that there are two areas where MPC's decoupling adjustment does not comply with the decoupling stipulation: weather normalization and the economic growth adjustment.

15. MCC states that MPC's original decoupling proposal used a monthly weather normalization model not approved by the Commission. According to MCC, the parties to the stipulation intended to reduce controversy surrounding MPC's monthly weather normalization proposal by relying on the annual weather normalization model historically used in MPC's rate filings. MCC states HELM is inconsistent with the stipulation because HELM is a monthly normalization model, not an annual model, and because it has not been used in Company rate filings. MCC asserts that a new and potentially controversial weather normalization model should not be introduced in a compliance filing, but rather in a general rate filing.

16. According to MCC, the economic growth adjustment defies the whole intent of the decoupling mechanism's forecast kilowatt hour index.

> If general departures from that forecast were intended to justify adjustments, then what is the purpose of the forecast index? ... The forecast of load growth included in the stipulation was included knowing that it was imperfect, but known, and therefore not subject

---

monthly reporting purposes and reconciled on an annual basis to the weather normalization model used in Company rate filings."

> to manipulation. MPC's [economic growth adjustment] in essence is a manipulation of that forecast. Comments of MCC, pp. 3-4.

Department of Environmental Quality (DEQ)

17. DEQ comments that load growth during the decoupling adjustment period was significantly higher than projected in the near term load forecast. As a result, the original decoupling mechanism unfairly penalizes MPC. However, DEQ recognizes that the risk of such an outcome was inherent in the selection of the near term forecast for the decoupling index. According to DEQ, although MPC's economic growth adjustment might seem reasonable, it was not envisioned in the stipulation. DEQ suggests setting aside the decoupling experiment for the first year, resuming it when the parties find or create a more satisfactory index.

Joint Comments of District XI Human Resource Council, Natural Resources Defense Council and Montana Environmental Information Center (Jointly HRC)

18. According to HRC the near term forecast has not been, and probably cannot be, an accurate or appropriate decoupling index. The forecast kilowatt hour index leads to adjustments that are primarily due to changes in the economy, which parties agreed was not appropriate. HRC believes that MPC should make a "mid-course correction" to the current decoupling index and that the Commission should deny any adjustments based on the index.

19. HRC maintains that MPC's decoupling adjustment filing goes "far beyond" the adjustments envisioned by the parties to the decoupling stipulation; the economic growth adjustment represents an arbitrary adjustment for **some** (emphasis in comments) loads that deviated from the forecast. Further, HRC criticizes MPC for using a weather normalization method that none of the parties have seen or analyzed.

20. HRC asserts that MPC urged use of the short term load forecast for a temporary decoupling index, although modeling by various parties showed that such an index could result in adjustments tied solely to errors in the forecast and not to any DSM or promotional activities. Nevertheless, HRC states that the failure of a particular decoupling index should not be used to penalize the utility; to do so would undermine the very purpose of decoupling.

21. HRC suggests that no decoupling adjustments should be made for the first two years. Instead, HRC recommends that the Commission direct the parties to develop and present an appropriate permanent index no later than March 1, 1996.

MPC Reply Comments

22. MPC disagrees that its economic growth adjustment is inconsistent with the decoupling stipulation. MPC again asserts that paragraph 2(j) of the decoupling stipulation requires the adjustment. According to MPC, decoupling "is intended to recover lost revenues that result from demand side management activities." MPC states that it invested $11 million in DSM during the first year and experienced lost revenues of $2-to-$3 million. Without adjusting the decoupling index to reflect the unanticipated load growth, MPC maintains that the mechanism will fail to fulfill the intent of the stipulation and to achieve the goal of removing disincentives to DSM investment.

23. MPC supports the use of HELM to weather normalize actual kilowatt hour sales, maintaining that it complies with the spirit of the stipulation and improves the procedure for normalizing weather. MPC states that it no longer uses the previously approved method and has no way of determining the impact of using HELM over the old method.

24. MPC responds that LCG is wrong to assert that MPC has suffered no financial loss from its DSM investments, because MPC's revenues would have been higher if it had not invested in DSM and incurred lost revenues.

25. MPC "firmly believes" that it is entitled to recover lost revenues and that the adjustments it made in its filing are appropriate. However, MPC is willing to accept HRC's and DEQ's suggestions to abandon the decoupling index for the first two years, set the adjustments for this period to zero and work towards developing a new index.

COMMISSION DECISION

26. The Commission remains committed to eliminating institutional disincentives which bias utility decisions against acquiring cost-effective conservation and demand-side management resources. Acquiring these resources is in the best interests of both MPC's ratepayers and society. The Commission does not wish to require decoupling adjustments that are inconsistent with this

goal. Neither is the Commission devoted to decoupling as the means to achieve this goal if a better alternative exists.

27. The forecast kilowatt hour sales decoupling index did not produce the decoupling adjustment expected when MPC's decoupling mechanism was initially approved. However, the adjustment that results does fall within the realm of possible outcomes identified prior to deciding to proceed with the experiment. The approved decoupling adjustment band includes negative adjustments of up to one (1) percent of MPC's fixed cost revenues. But a question arises: does any negative decoupling adjustment conflict with the goal of decoupling?

28. MPC's attempt to alter the stipulated decoupling mechanism through its proposed economic growth adjustment is troubling. MPC understandably desires to increase its profits, but its proposed economic growth adjustment changes the rules in the middle of the game.

29. In Docket No. 93.6.24 it was clear that swings in economic conditions could affect the decoupling adjustment. MPC indicated that it would accept both the potential benefits and risks of this characteristic of its proposed mechanism. To data Request PSC-27b, MPC responded that under its proposed decoupling mechanism, if the load forecast did not correctly predict reduced sales from a downturn in economic conditions, MPC would recover lost revenues for those sales although they were not caused by DSM. The converse of this situation is that MPC's forecast does not correctly predict increased sales from an economic up-swing. To be consistent, MPC should then make a refund even if it invested in DSM, and the increased sales were not due to any promotional activity. In fact, this economic up-swing actually occurred. Additional revenues produced by higher than forecast economic growth more than made up for any revenues foregone by MPC due to conservation and DSM. But the negative decoupling adjustment that results from strict application of the stipulation causes MPC to decide, in contrast to its assertion in PSC-27b, that "...if revenues increase ... between rate cases, unrelated to DSM activities, then MPC should be able to keep the increased ... revenues." MPC Reply Comments, p. 6.

30. MPC's comments raise questions about its understanding of the decoupling concept. Decoupling is not intended to recover lost revenues, as MPC asserts, but is supposed to remove the lost revenue disincentive by linking fixed cost revenues to something other than kilowatt hour sales.

Although decoupling may allow MPC to achieve revenues between rate cases above the level of revenues that would have resulted from actual sales, it is not an automatic lost revenue adjustment mechanism.

31. In principle, the Commission should implement the resulting negative decoupling adjustment. However, it will be more productive to put this filing in the past and focus on a more appropriate index. Therefore, no decoupling adjustments will take place in either of the first two years of the four-year decoupling experiment. If the parties develop a more appropriate decoupling index, they should present it to the Commission before the beginning of the third year of the decoupling experiment.

CONCLUSIONS OF LAW

32. The Montana Public Service Commission regulates public utilities pursuant to Title 69, Chapter 3, Montana Code Annotated (MCA). § 69-3-102, MCA.

33. Montana Power Company is a public utility subject to the jurisdiction of the Montana Public Service Commission pursuant to Title 69, Chapter 3, MCA. § 69-3-101, MCA.

34. The Commission has the power to do all things necessary and convenient in the exercise of the powers conferred by Title 69, Chapter 3, including suspending a stipulated decoupling index at the agreement of the parties, pending further analysis on an appropriate index. § 69-3-103, MCA.

ORDER

35. The four year decoupling experiment approved in Docket No. 93.6.24, Order No. 5709d shall continue.

36. No decoupling rate adjustments will be made in 1995 or 1996.

37. MPC shall present an alternative decoupling index before the beginning of the third year decoupling analysis period.

Done and Dated this 19th day of September, 1995 by a vote of 5 - 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

_____
NANCY MCCAFFREE, Chair

_____
DAVE FISHER, Vice Chair

_____
BOB ROWE, Commissioner

_____
BOB ANDERSON, Commissioner

_____
DANNY OBERG, Commissioner

ATTEST:

Kathlene M. Anderson
Commission Secretary

(SEAL)

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