PUBLIC MEETING

Utah Committee of Consumer Services

March 28, 2012

Welcome & Business

Training:
Open and Public Meetings

Updates: Recent Cases, 2012 Legislation, RMP Rate Case

Case Updates

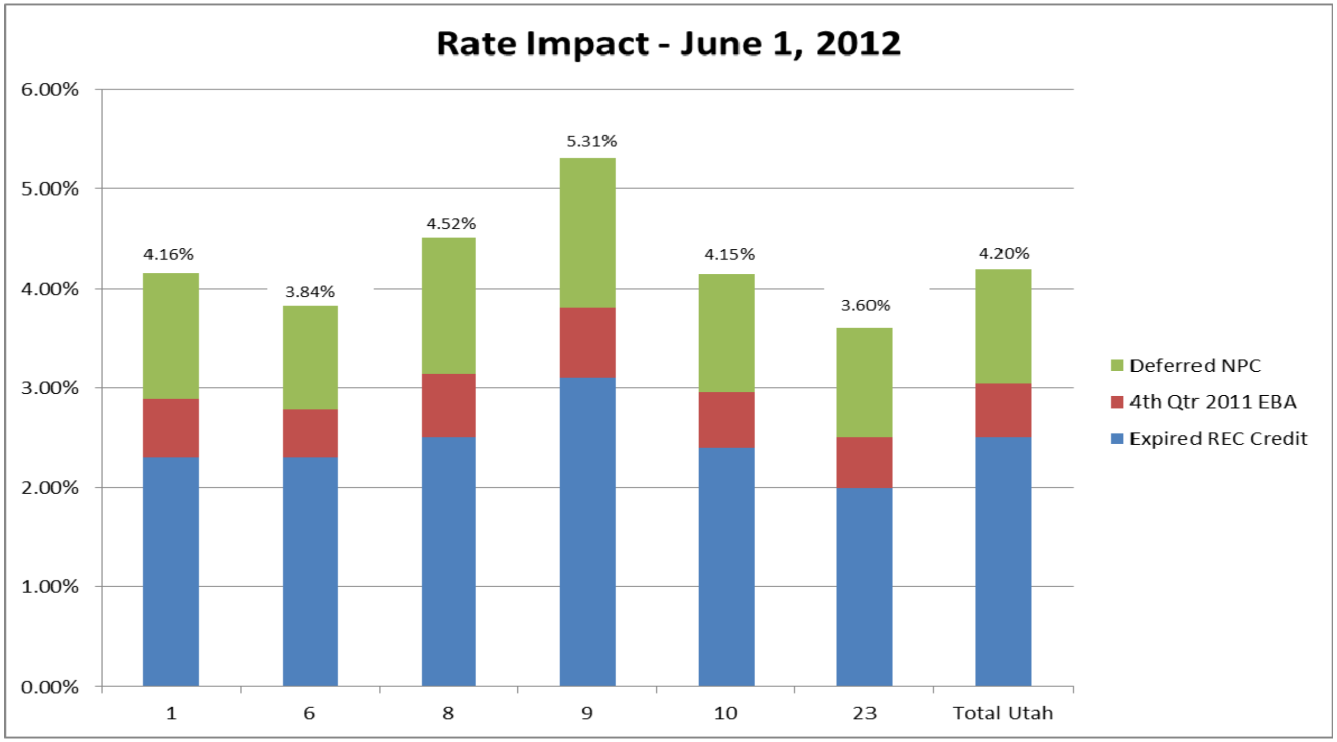
- PSC issued order in PacifiCorp IRP
  - Did not acknowledge IRP
  - Gave guidance for future IRP submissions
  - Indicated that absent significant change, it would provide a more "active directive" role in the next IRP
- Major parties submitted a joint request for agency action to establish a DSM Steering Committee for Rocky Mountain Power
- EBA tariff implementation ongoing
- Telecom RFPs underway

2012 Legislation

- SB12 S1 Energy Amendments:
  - Allows large customers to purchase directly from renewable energy facilities. Contains provisions to ensure excess costs aren't imposed on non-participating customers.
- SB229 Telecommunications Regulatory Amendments:
  - Codifies the current "status quo" for regulating VOIP providers.
- Energy code did not pass out of committee
- Other Energy Legislation that Passed
  - SB 83 Uintah Basin Energy Zones
  - SB 94 Electric Power Facilities Amendments
  - SB 65 S3 Alternative Energy Development Tax Credits
  - HB 137 Energy Changes

June 1st Rate Changes: Rocky Mountain Power

- Three rate increases effective June 1st:
  - Much lower REC revenues
  - Delayed recovery of deferred power costs
  - EBA balance from Sep – Dec 2011



RMP Rate Case: Overview

- Requested increase: $172.3 M (9.7%)
- Major drivers (according to RMP):
  - Plant additions
  - O&M
  - Net power costs
  - REC revenues
- Requested ROE: 10.2%
  - Previous case: 10.0% ROE
  - Also some changes in capital structure and cost of capital
- Test period (consistent with settlement in the last rate case): forecast year ending May 2013

Major Drivers

- Capital additions:
  - Mona –Oquirrh transmission line
  - Several new substations
  - Full year of capital costs associated with new assets from last rate case
- O&M Costs:
  - Chemicals for emissions control,
  - Coal mill maintenance,
  - Maintenance at wind facilities after warranty contracts have expired
- Net Power Costs:
  - Reduction in wholesale sales, increased coal costs
- Lower REC revenues & general business revenues

Proposed Rate Spread

Customer Class	Proposed Percentage Change from Rates In Effect on the date of Application
Residential	10.5%
General Service	
Schedule 6	8.5%
Schedule 8	9.5%
Schedule 9	12.5%
Schedule 23	8.5%
Irrigation	13.5%

Internal evaluation

- Team of experts:
  - Cost of capital/ROE
  - Regulatory accounting
  - Net Power Costs
  - Forecasting
  - Cost of Service/Rate Design
- Evaluation will review all of the details behind the revenue request
- Cost of service/rate design issues will include:
  - Rationale for high percentage request for irrigators compared to large industrial class
  - Focus on residential customer charge and potential use of the minimum bill to mitigate some ongoing concerns

Timeline

- Cost of Capital (ROE):
  - Direct May 31, Rebuttal June 27, Sur-rebuttal July 18, Hearing July 31
- Revenue Requirement:
  - Direct June 11, Rebuttal July 13, Sur-rebuttal August 9
- Cost of Service/Rate Design:
  - Direct June 22, Rebuttal July 27, Sur-rebuttal August 17
- Hearings:
  - Revenue Requirement: August 20 through24 and 27 and 28.
  - Cost of Service/Rate Design: August 29 through 31.
  - Public Witness Day: August 29, 5:00 pm
- Rates go into effect: October 12, 2012

Federal Universal Service Fund: **MAJOR REVISION**

Federal Universal Service Fund History

- Established in 1934 to provide telephone service to all households; and to ensure that customers have access to basic telecommunications service at just, reasonable and affordable rates.
- The 1996 Telecommunications Reform Act added four programs: 1) High Cost, 2) Low-Income, 3) Schools and 4) Health Care

Changes to USF to reflect changes in telecom

- Federal Universal Service Fund reform proposals began in earnest at the FCC in 2008.
- Finally a much anticipated new order was issued on Friday, November 18, 2011 – 751 pages.
  http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-11-161A1.doc
- The changes are not all immediate. There are several stages in the implementation of the new rules.
  - Immediate change is in compensation rules for VOIP traffic.
  - Other changes will happen over time as further Notice of Proposed Rulemaking (NOPR) are issued.

Overview of the New Rules

- Universal Service: The focus is away from basic landline voice telephone service towards the universal availability of broadband internet service and mobile wireless broadband service.
- The fund is ‘capped’ at $4.5 billion (its current level) or 17.9%
- Intercarrier Compensation: Carriers receive money for the calls terminated at their end by charging customers rather from receiving the money from the initiating caller’s phone company.
- IP-to-IP Interconnection: To encourage the use of IP technology the FCC expects carriers to negotiate in good faith to migrate to IP technology.

New Funds Created

- Connect America Fund (CAF): The new umbrella program that will govern the disbursement of funding aimed at increasing access to voice and broadband service in rural and remote areas.
- Mobility Fund: The funding of 3G or better mobile broadband where such services are unavailable.

New Technology Emphasis

- Forces technology neutral services – to ensure VOIP services are included within the telecommunication system and set IP as the technology standard
- Requires ETCs to offer broadband services (4 Mbps downstream / 1 Mbps upstream).

Intercarrier Compensation

- Mandates the phase down of termination charges to zero;
  - To end traffic pumping and Phantom traffic (Access Stimulation)
- Forces the integration of VOIP traffic into the system; and
- Allows the reduction of revenues from other carriers can be recovered from end users.

Further Decisions Expected

- Open USF issues:
  - How should broadband speed and performance be measured?
  - How will it be determined if USF services are "reasonably comparable" to those in urban areas?
  - How will the decision on which company can offer a particular area's wireless broadband be determined?
  - How should ILEC and ETC obligations be modified?
- Open Intercarrier compensation issues:
  - How can IP to IP be implemented when location is unknown?
  - Under what legal rationale can carriers charge end users for terminating calls?
  - How can the system transform from carrier to carrier billing agreements, negotiated in good faith, to end user billing?

Implications for Utah telephone customers

- New uses for USF likely to exceed the soft “cap” (i.e. continued cost increases).
- State USF is expected to be leaned on to fill the gap caused by reduced Federal funding (i.e. more cost increases)
- Results in winners and losers (both companies and customers).
- Uncertainty.

2nd USF Order Addressing Lifeline/Link-Up

- Issued February 6, 2012
- 299 pages just addressing Lifeline/Link-up.

http://www.fcc.gov/encyclopedia/lifeline-program-low-income-consumers

- Key Elements:
  - Eliminate waste and misuse of the Fund
  - Clarify Lifeline eligibility criteria
  - Establish a national data base to ensure one Lifeline per household
  - Eliminate the Link-up program entirely (except for Tribal Lands)
  - Cap Lifeline disbursements at $9.25 per line
  - Promote Lifeline more aggressively

Implications for Utah Companies and Customers

- Federal subsidies for low-income programs are reduced
  - The $30 Link-up fee is eliminated beginning April 1, 2012
  - Lifeline reimbursement amount down to $9.25/month (previously $10/month)
- Lower federal subsidies may lead to requests for greater subsidies from state USF
- Objectives of USF Order may assist in achieving objectives of Utah
  - Helps to eliminate multiple Lifeline telephones to same customer
  - Companies are encouraged to promote Lifeline

Solar Pilot Program

Original Solar Pilot Program

- Tariff became effective 8/3/2007, with an ending date of 12/31/11.
- Program caps:
  - Incentive payment $2.00/watt
  - Total annual costs $314,500
  - Limited to 107 kW/yr
  - Residential limits: system size 3 kW, total annual 57 kW
  - Non-residential: system size 15 kW, total annual 50 kW
- Program enrollment on a first come, first served basis

Purposes and Evaluation of Solar Pilot Program

- Provide market-based data on:
  - Integration of distributed PV resources into the electric system
  - Ability of solar power to meet peak demand
  - Customers' willingness to participate and make investments in solar technology
- Evaluation
  - Difficulty obtaining data from customers
  - Data shows that solar doesn't match peak demand
  - Data shows that it is best to locate panels to maximize energy output to customer, rather than try to locate to better match peak
  - Program quickly filled every year
  - No evaluation of non-participating customers' willingness to pay
  - Limited size and location of panels did not impact integration

Modifications and Continuation of Program

- Sept 30, 2010, RMP proposed to terminate the Program after 2010.
  - Proposed using monies to fund energy storage demonstration project.
  - Parties recommended keeping Program and pursuing demonstration project separately.
  - Commission approved continuation of Program.
- Incentive payment reduced to $1.55/watt in February 2011 to make the program cost effective. New program deadline established, June 30, 2012.
- July 2011, PSC opened new docket and established workgroup to investigate the continuation of the program.
- PSC approved expanded one-year program
  - Incentive $1.55/watt
  - Administrative costs capped at 15%
  - Caps: 214 kW total, one time budget of $385,000
  - Workgroup asked to make recommendations by March 31, 2012 if possible

Workgroup Progress

- Participants include: regulatory agencies, Utah Clean Energy, solar installers, builders, customer groups, commercial entities
- Initial strawman proposals presented in February
- Parameters included:
  - Additional 5-yr program
  - Size ranged from unlimited to 55 MW
  - Incentives varied, most recommended some reductions in payment
  - Some recommended up-front payment only for small projects, performance-based payment over time for larger projects
  - Details such as varying the incentive over time, deposits, rebate assignment to customers or installers, specific cost recovery mechanism

Workgroup continued

- Concerns include:
  - Total ratepayer impact
  - Residential rate design
  - To what extent will the program assist the development of the solar potential
- Parties are working toward a joint proposal taking into account the absolute constraints put forward
  - No more than 500 kW annually for residential
  - Establish balancing account, include in rates - not line item on bills
  - Cap at $50 million, plus admin costs
  - No more than $1 million paid to any one customer
  - Payments to customers, not vendors

Residential Rate Design Issue

- Residential Rate Design/Subsidy of Residential Net Metered Customers
  - Customers that offset much of their energy use through net metering likely do not pay enough through either the customer charge or minimum bill to cover the cost of serving them
  - This results in other customers subsidizing the net metered customers
  - Solar advocates dispute the level of subsidy, especially for low energy users
  - Experience has shown that customers who make purchasing decisions expecting certain outcomes (lower energy bills) based on current circumstances can become dissatisfied when those circumstances change (increased customer charge or minimum bill)
  - Residential rate design needs to be resolved prior to large numbers of customers being eligible for incentives

Cost Effectiveness Evaluation

- Currently the Program is Cost Effective at 2.00
  - Program was evaluated using commercial lighting profile as proxy
  - RMP is conducting a new evaluation using solar profile
  - Program is expected to remain cost effective but with a number something less than 2.00
- Standalone evaluation of cost effectiveness is not the same as integrated resource planning
  - Utah statutes require utility service to be provided on a least cost, least risk basis
  - Solar must be evaluated (from cost and risk perspective) against all resource alternatives
  - Previous IRPs have not included a robust evaluation of solar

Other Issues

- Cost Recovery Mechanism
  - RMP to receive recovery of all costs associated with program
  - Recovery through general rates, not a separate line item on bills
- Overall ratepayer impact
  - Currently many drivers for rate increases
  - Customer resistance to large increases associated with solar program (especially since evaluated on a standalone basis)
- How will costs be spread to various rate classes?
- REC ownership
- Triggers for program adjustments

Next Steps

- If agreement is reached, joint proposal will be presented to PSC
  - If no agreement, DPU will present a report and other parties will make a case for different program elements
- Pursue better integrated modelling in next IRP
- Start to evaluate the rate design issues within the current rate case

Rocky Mountain Power:
Solar Study

Other Business

Adjourn