(text box: 1)BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE COMMISSION’S OWN INVESTIGATION INTO THE COSTS INCURRED BY IDAHO’S ELECTRIC UTILITY IN PROVIDING ELECTRIC SERVICE. | )  )  )  )  ) | CASE NO. GNR-E-97-1  NOTICE OF SCHEDULING  PROPOSED ORDER NO. 27134 |

This proceeding was commenced to fulfill the Commission’s responsibilities following the determination by the Idaho Legislature that it is necessary and appropriate to begin analyzing the effects that restructuring of the electric industry could have on the citizens of this state.  An analysis of the costs that Idaho’s electric suppliers incur in providing services is essential to that effort.  Idaho Code §§ 61-338 and 61-339, as enacted by House Bill No. 399, require that this Commission obtain this cost information from all providers of electric energy in Idaho with more than 1,000 customers.  The Legislature determined that such cost information shall be separated among utility functions consisting, at a minimum, of generation, transmission and distribution services and including other categories as the Commission may require.

Following the implementation of House Bill No. 399, Governor Philip Batt sent a letter to the President of the Idaho Public Utilities Commission suggesting that electric providers’ investments in “public purposes” should be a separately stated cost component along with generation, transmission and distribution.  Moreover, the Governor urged the Commission to separately identify the various programs that fall in the category of public purposes, such as universal service and fish mitigation costs.

In compliance with House Bill No. 399, the Commission initiated this proceeding and conducted a workshop on August 6, 1997, during which an independent consultant retained by the Commission gave a presentation on the topic of unbundling electric providers’ costs.  The workshop was well-attended by persons representing a wide variety of interests including, among others, publicly-owned utilities, investor-owned utilities, customer groups and environmental organizations.  Following the presentation given by the independent consultant, all others who had expressed interest were given the opportunity to make presentations.  The free exchange of viewpoints and ideas that followed helped greatly to enlighten the Commission on issues attendant to electric industry restructuring in general, as well as those associated with the specific topic of unbundling.  Although all of the discussion was helpful in formulating this Order, we will address only issues specifically related to unbundling.

At the August 6 workshop, Idaho Power Company (Idaho Power) presented its unbundling cost study.  We appreciate Idaho Power’s initiative in this endeavor and thank them for producing a product to facilitate discussion of unbundling issues in Idaho.  Generally speaking, we agree with Idaho Power’s methodology and urge other utilities to use the Idaho Power approach as a guide to their own studies.  We have found some areas that may benefit from expansion or modifications of the Idaho Power approach.   They are described below.  We also urge participants in the technical workshop, scheduled below, to identify areas of the methodology that need modification.

After careful consideration of all the pertinent information submitted to the Commission during the course of the workshop, we have reached some initial conclusions regarding the appropriate categories into which electric providers’ costs should be separated.  We have also reached some initial conclusions regarding issues relevant to the unbundling of costs.  Because a large number of interests are represented in this proceeding, we believe that the most beneficial procedure is for the Commission to set forth its initial decisions in this Proposed Order and allow all interested persons the opportunity to comment.  Those comments will then be taken into consideration before the Commission issues its final Order in this matter and industry participants file their cost information.

COST CATEGORIES

Public Purposes

The term “public purposes” originated to describe programs such as demand-side management that regulators have found in the past to be in the public interest and utilities were required to pursue.  In the debate over restructuring of the electric industry, it seems to have taken a broader meaning, encompassing a number of utility costs that might not have been incurred by utilities if not for government regulation or requirements.

A number of workshop participants expressed concerns about separating public purpose costs into categories.  While we understand their fears that, once identified, these costs will be considered subsidies and pressure will be exerted to eliminate them, we do not consider the decision to identify the costs of public purposes to be in any way pejorative.  We agree with those who argue that many of these are simply costs of doing business and shouldn’t be considered optional.  We are not, however, at this point deciding what information to include on customers’ bills.  We have been required to provide to the public and policy makers, useful information regarding the costs of providing electric service.  We therefore adopt the following public purpose costs to be unbundled:

Demand Side Management

Fish Mitigation

Alternative Energy Sources

Universal Service

Low Income Assistance

We believe that information on these cost categories will be helpful.  However, we welcome comments not only on how useful the information will be, but also on whether it is possible to provide an adequate quantification of these categories.  We expect low-income demand-side management (DSM) programs to be included with other DSM costs.  We request comments on whether utilities have any other costs associated with low-income assistance.  Similarly, we solicit comments on what cost information is available and might be included under the categories of universal service, fish mitigation, and alternative energy sources.

Generation

Generation costs include both fixed costs (primarily return on investment and depreciation) and variable costs (including fuel, purchased power, and operating and maintenance expenses).  Generation costs have traditionally been offset by net surplus (also called secondary or opportunity) sales revenues in setting regulated retail rates.  It would, therefore, be reasonable, at a minimum to separate generation costs to reflect the following three cost components:

Fixed Generation Costs

Variable Generation Costs

Net Benefit of Secondary Sales Revenues

Idaho Power Company, in its cost unbundling study, chose not to include surplus sales revenues as an offset to costs.  To understand current regulated power supply costs, it is important to include this offset, but to separately identify the benefits of its inclusion.  Idaho Power did choose to separately identify the above market cost of cogeneration and small power purchases (CSPP).  Idaho Power refers to these as potentially strandable costs.  We find, however, that an analysis of strandable costs is beyond the scope of this proceeding and will not be directly dealt with at this time.

Transmission and Distribution

Transmission facilities transport energy at high voltage levels from generation sites to load centers and, in some cases, to large end-use customers.  Generally speaking, distribution facilities connect consumers to the electric system, with customers taking service at different voltage levels.  Although the use of the transmission system for wholesale sales and wheeling is regulated by the Federal Energy Regulatory Commission (FERC), the cost of transmission and distribution services to provide retail sales to customers in Idaho is regulated by this Commission.  These costs should be allocated using traditional IPUC methodology.

It is assumed that the actual transportation of energy will continue to be a monopoly service and, therefore, regulated.  Some ancillary services such as scheduling, load following, load shaping, voltage support, and system reserves, as well as distribution services such as metering, meter reading, billing, and other customer services may not be considered monopoly services.  Ancillary service pricing is developing at the federal level and need not be addressed in this proceeding.  It is, however, appropriate to obtain cost information on the potentially competitive services related to distribution.

We adopt the following transmission and distribution cost categories:

Transmission

Distribution Facilities

Metering

Meter Reading

Billing

Other Customer Services

GROUND RULES FOR UNBUNDLING STUDIES

In addition to the foregoing cost categories, the Commission has identified a number of specific issues that must be resolved before costs can be unbundled into the above  categories.  The following can be considered ground rules for preparing unbundling cost studies.

1.  The Uniform System of Accounts (USOA) for Class A and B Electric Utilities contained in the Code of Federal Regulations, Title 18, Part 101, should form the basis of all analyses.  The USOA has been adopted by this Commission for use by all Class A and B electrical utilities subject to our regulatory authority. IDAPA 31.12.10.101   At the August 6 workshop, the Idaho Consumer-Owned Utility Association advocated adoption of the USOA for all utilities required to file unbundled cost information with the Commission.

2.  All studies should use calendar year 1996 data.

3.  Test year data should be normalized for weather and streamflows.

4.  Costs should be unbundled on an Idaho jurisdictional basis.

5.  Embedded costs should be used.

6.  Utilities should use their authorized costs of capital in preparing unbundling studies at this time.

7.  Because a number of existing customer classes are not as homogeneous as might be desired, costs unbundled at the voltage level will provide more accurate and useful information than will information at the customer class level.  Utilities represented at the August 6 workshop indicated that providing information at the voltage level would not be burdensome.  We will, therefore, require information to be provided at the voltage level.

8.  Utilities should file unbundled cost information in hard copy as well as electronic form.  Workpapers should be included.  The Staff is directed to devise a spreadsheet filing  format to be discussed at the technical workshop.

There are a number of other issues that should be resolved to make utilities’ unbundled cost filings more readily comparable.  At this time we do not have enough information to address them.  Consequently, we are scheduling a technical workshop.  Although the workshop will be open to the public, its objective is to resolve technical issues and to devise a format or methodology of

information with regard to all of Idaho’s electric providers.  Thus, active participation in the meeting will be limited to the Commission Staff, and all those electric providers operating in Idaho with 1,000 or more customers.

Other issues to be addressed at the technical workshop are:

1.  What should be the boundaries between generation, transmission, and distribution?

2.  Is there equipment installed on one part of the system designed to benefit another functional part of the system?

3.  How should administrative and general (A&G) costs be allocated?

4.  How should general plant be allocated?

NOTICE OF SCHEDULING

YOU ARE HEREBY NOTIFIED that the Commission has adopted the following scheduling in this proceeding:

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| September 29, 1997  (10:00 a.m., M.D.T.)  October 10, 1997  December 1, 1997 | Technical workshop to be conducted at the Offices of the Idaho Public Utilities Commission.  Comments in response to the Commission’s Proposed Order due.  Deadline for electric providers to provide their preliminary unbundled cost information as formatted by the Commission. |

YOU ARE FURTHER NOTIFIED that after reviewing the comments received in response to the Commission’s Proposed Order, the Commission will make a formal decision as to the unbundling cost categories and all of the technical issues that must be resolved prior to providing that unbundled cost information.  Moreover, the Commission will provide an opportunity for public input once the preliminary unbundled cost information has been filed with the Commission.

O R D E R

IT IS HEREBY ORDERED that the Commission has made initial findings and recommendations as set forth above.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this                  day of September 1997.

                                                                                                                                      DENNIS S. HANSEN, PRESIDENT

                                                                                           RALPH NELSON, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

vld/O:GNR-E-97-1.bp2

**COMMENTS AND ANNOTATIONS**

Text Box 1:

**TEXT BOXES**

Office of the Secretary

Service Date

September 18, 1997