

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF

FROM: DONOVAN E. WALKER

DATE: NOVEMBER 15, 2004

SUBJECT: IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO REVISE DEPOSIT REQUIREMENTS IN SCHEDULES 24 & 25 FOR ELECTRIC SERVICE TO IRRIGATION CUSTOMERS, CASE NO. IPC-E-04-20

On September 17, 2004, Idaho Power Company filed an Application requesting authority to revise the deposit requirements under Schedules 24 and 25 for electric service to irrigation customers. Idaho Power requested an effective date of October 18, 2004, and that its Application be handled under Modified Procedure. On October 8, 2004, the Commission issued a Notice of Application and Modified Procedure as well as an Order suspending the effective date for 60 days. Comments were filed by the Commission Staff and by the Idaho Irrigation Pumpers Association. Idaho Power filed Reply Comments.

THE APPLICATION

According to the Application, Idaho Power indicates that in recent years it has experienced an increase in unpaid irrigation bills (accounts receivable) and a corresponding increase in bad debt (net write-offs). At the same time, the number of irrigation service points has been increasing while the number of persons responsible for those agreements has been decreasing. The Company states that consolidation of accounts into the hands of fewer customers raises the level of financial risk to which it is exposed.

In order to minimize its exposure to bad debt, Idaho Power proposes to revise its deposit policy for irrigation customers by collecting a higher deposit from those customers who pose a higher credit risk. Under the Company's proposal, customers asked to pay a deposit will

continue to have the option of providing an irrevocable Letter of Credit from a financial institution. A customer who owes an outstanding balance of over \$1,000 on December 31 will be required to pay a "Tier 2" deposit based upon a formula that in essence collects the customer's bill for the next irrigation season in advance. A customer who has been discharged from bankruptcy or who has had receivership proceedings terminated will also be required to pay a Tier 2 deposit.

The Tier 2 deposit will be applied to each monthly bill as it becomes due throughout the season. A customer who owes less than \$1,000 on December 31 but who has received two or more reminder notices of more than \$100 during a 12-month period, or customers whose service is disconnected during the out-of-season period due to non-payment (i.e., customers who meet the current criteria for requiring a deposit), will be required to pay a "Tier 1" deposit. The deposit criteria and formula currently in use for calculating deposit amounts would be applied to calculate Tier 1 deposits. A customer required to pay a Tier 2 deposit one year will be required to pay a Tier 1 deposit the following year.

SUMMARY OF COMMENTS

Comments were filed by the Commission Staff and by the Idaho Irrigation Pumpers Association. Idaho Power filed Reply Comments. The Staff recommends approval of the Company's Application with a 30-day notice requirement prior to implementing the new deposit requirements. The Irrigation Pumpers recommend rejecting the proposed Tier 2 deposit, modifying the Tier 1 deposit requirement. They also recommend that the Commission initiate further proceedings to examine and modify the deposit requirements for all customers that may constitute a unacceptable increase in the Company's uncollectible expense.

A. Irrigation Pumpers Association

The Irrigation Pumpers argue that Idaho Power's proposed Tier 2 deposit proposal unfairly singles out irrigation customers for more stringent deposit requirements as compared to the deposit requirements for other customers who are also driving an increase in the Company's write-offs. *Comments of Irrigation Pumpers* at 2. They cite as an example that residential and small commercial customers have much less stringent deposit requirements than similarly sized (small) irrigation customers. *Id.* They also assert that large irrigation customers, when

compared to large commercial and special contract customers, also face an unfairly stringent deposit requirement. *Id.* The Pumpers maintain that a required deposit under the proposed Tier 2 would be four (4) times the highest monthly bill, while large commercial and special contract customers' deposits can range anywhere from zero to no more than two times the highest monthly bill. *Id.* at 3.

The Irrigation Pumpers provided a chart, based upon FERC data from 1998 to 2003, that showed an increase in total uncollectible expenses by Idaho Power starting in the year 2000. *Id.* at 4. They state that the large shift in uncollectible expense shown by the chart is a company-wide problem and not something that is specific to the irrigation class of customers. *Id.* at 5. Although they agree with strong deposit requirements, they state the deposit rules should be fairly and uniformly applied to all customers with appropriate allowances to account for uniqueness of some customer classes. They conclude that the Company's proposal appears to be an attempt to isolate and apply considerably more stringent deposit requirements to irrigation customers without addressing the overall problem caused by other customer classes. The chart is attached.

B. Commission Staff

Staff reviewed the supporting data supplied by Idaho Power and confirmed that there is a slight trend towards consolidation of irrigation accounts over the past few years (more service locations in the hands of fewer people). *Staff Comments*, at 2. Staff points out that the Company's bad debt exposure has increased dramatically, nearly doubling over the past three years from \$1,414,666 to \$2,867,849 in 2003. *Id.* at 3. At the same time, net write-offs increased at nearly the same rate, from \$223,426 to \$413,712 in 2003 (this latter figure excludes a \$668,724 write-off amount in 2003 accountable to a single irrigation customer).

Staff states that if Idaho Power's proposed credit policy had been in place last year, approximately 500 out of the 16,000 irrigation customers would have been asked to pay a deposit for the 2004 irrigation season. Of those 500 customers, 77 would have been required to pay the higher Tier 2 deposit amount. These 77 customers owed a total amount past due of \$2,643,101 as of December 31, 2003, and would have been asked to pay an aggregate Tier 2 deposit amount of \$3,766,301 for the 2004 season. Each individual deposit would have been applied towards monthly bills throughout the season.

Staff is concerned that a rising level of bad debt places upward pressure on rates. Staff acknowledges that Idaho Power's existing credit policy already recognizes that certain irrigation customers pose a higher credit risk than others, and views the Company's Application as a further refinement of its policy to address those circumstances where there is an even greater credit risk.

Consequently, Staff recommends approval of Idaho Power's Application stating that the Company has proposed a reasonable and impartial method for assessing the degree of credit risk posed by each irrigation customer. Staff anticipates that a relatively small percentage of customers will be affected by the proposed change in deposit policy, and that asking those customers who pose the greatest risk to pay higher deposits will likely minimize bad debt write-offs. If the proposal is approved by the Commission, Staff additionally recommends that Idaho Power give notice to its irrigation customers at least 30 days in advance (no later than December 1, 2004).

C. Idaho Power Reply

In reply, the Company agrees with the Irrigation Pumpers that the proposed deposit requirement for irrigation customers is more stringent than that for residential and small commercial customers, but states it is justified by the greater credit risk and all ready existent differences in credit and collection practices associated with irrigation customers. *Reply Comments*, at 2. As an example, the Company points out that residential and small commercial customers may have their service disconnected after only two months of unpaid bills. *Id.* In contrast, the Company will not disconnect service to irrigation customers during the irrigation season or while crops are still in the ground. This equates to a time period of at least four months and, depending upon the crop, can extend to six months or more. *Id.* Additionally, the electrical consumption per irrigation customer poses a far greater risk than the potential loss from an average residential or small commercial customer. *Id.*

The Company provided a table (attached) specifying the net write-offs per \$1,000 of billed revenue for Commercial, Industrial, Irrigation, and Special Contract customers during 2001 through September 2004. *Id.* at 3. The Irrigation customers had, by far, the largest amount of write-offs. *Id.* The Company believes that given the significantly greater credit risk presented by the irrigation customers the proposed Tier 2 deposit requirement is fair and reasonable. *Id.*

The Company also addressed the Pumpers' concern that the proposed deposit collects four times the highest monthly bill. Idaho Power pointed out that it proposed to collect four times the *estimated* monthly bill, which is significantly different than the four times the *highest* monthly bill. *Id.* at 4. The Company points out that the proposed Tier 2 deposit is actually very similar to their past policy of requiring a "seasonal advance" however, instead of relying on past bill history it is based on computations for estimated future use using the horsepower size of the pump. *Id.*

The Company does not agree with the Irrigation Pumpers' proposal to raise the Tier 1 deposit by raising the multiplier from 1.5 to 2.0. *Id.* at pg 6. Idaho Power estimates that this would adversely affect 423 of the 500 irrigation customers who made deposits during 2004, and the Company does not believe it is necessary to request larger deposit from customers who were late with payments but have only a small or no outstanding balance at the end of the year. The proposed Tier 2 deposit is intended to address those customers with sizeable outstanding balances that pose the higher credit risk to the Company.

The Company opposes further procedure as suggested by the Irrigation Pumpers. *Id.* at 6. The Company cites to a "multi-pronged" approach that it is taking with regard to decreasing its uncollectible expenses. *Id.* The Commission approved provisions allowing for deposits from industrial and special contract customers in the Company's most recent general rate case. *Id.*

With regard to the Commission Staff's suggested notice requirement if the Commission approves the Company's Application, Idaho Power suggests that an additional direct mailing be made immediately to only those customers with current outstanding balances in excess of \$1,000 (i.e., the customers who would be subject to the new Tier 2 deposit requirement). *Id.* at 7. The Company states that a more cost-effective means could then be utilized to provide notice to the remaining irrigation customers in a timely fashion. *Id.* The Company points out that it did provide notice through a direct mailing to all irrigation customers at the time the Application was filed. *Id.*

COMMISSION DECISION

In Order No. 29609, issued on October 8, 2004, the Commission authorized Modified Procedure for this case with a 21-day comment period. "Persons desiring a hearing must specifically request a hearing in their written protests or comments." IDAPA 31.01.01.203. "If protests, supports or comments are filed within the deadline, the Commission will consider them and may set the matter for hearing or may decide the matter and issue its order on the basis of the written positions before it." IDAPA 31.01.01.203.

Although the Irrigation Pumpers did not specifically request a hearing in their written comments, they did request that the Commission, "Initiate further proceedings (in this case or a separate case) to examine and modify the deposit requirements for all customers driving an unacceptable increase in the Company's Uncollectible Expense." *Comments of Irrigation Pumpers*, at 5.

- 1.) Does the Commission wish to initiate further proceedings to examine and modify the deposit requirements for all customers driving an unacceptable increase in the Company's uncollectible expense- as suggested by the Irrigation Pumpers? If so, does the Commission wish to reject the Tier 2 deposit proposal by Idaho Power and modify the existing Tier 1 deposit requirement by changing the multiplier from 1.5 to 2 - as suggested by the Irrigation Pumpers?
- 2.) Does the Commission wish to approve Idaho Power's Application pursuant to Modified Procedure? If so, does the Commission wish to incorporate the 30 day notice requirement to those customers who would be subject to the increased, Tier 2 deposit requirement? or require 30 days notice to all customers?
- 3.) Does the Commission wish to take some other action in this case?



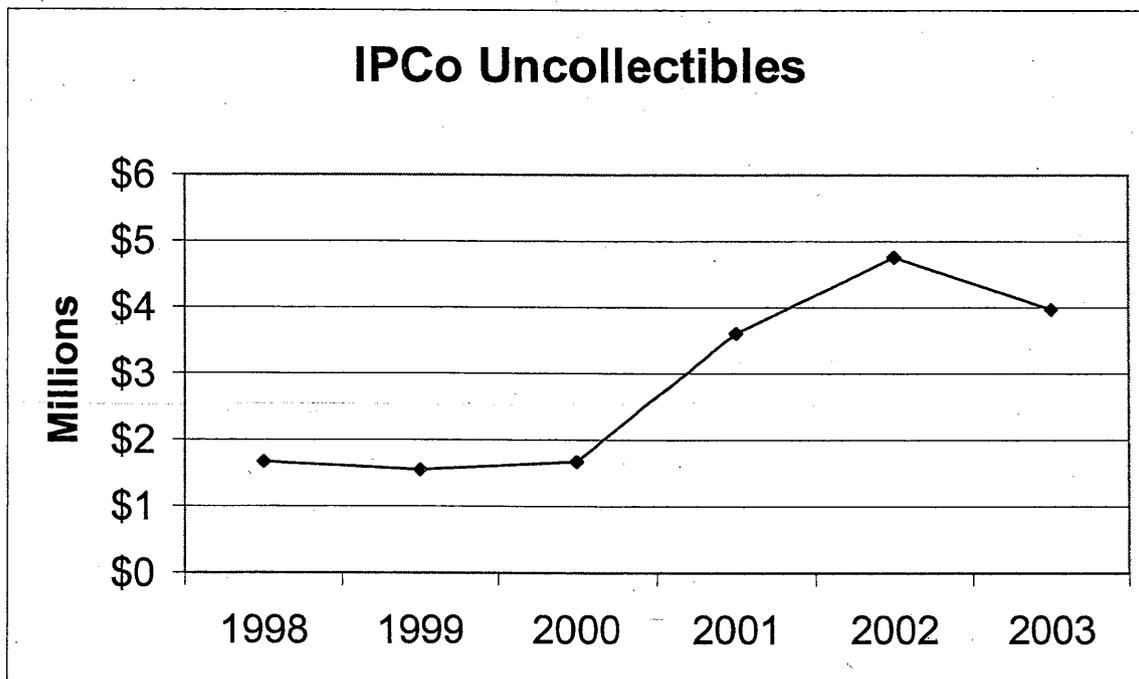
Donovan E. Walker

As part of its justification for the proposed deposit rules for Irrigation customers, Idaho Power points to its recent write-offs for Irrigation customers. The following figures are cited:

<u>Irrigation Write-off</u>	
\$426,139	2002
\$413,712	2003 ¹
\$516,582	2004 as of July

Unfortunately, the Company did not provide any historic data than this to show if these values represent the status quo, reflect a major shift (up or down), or if the current deposit rules for Irrigators adopted in the last case made any difference.

A look at FERC Form 1 data for the last several years reveals that there has been a major increase in Account 904 (Uncollectible Expense).



¹ In its analysis Idaho Power appropriately excluded a single write-off of \$668,724 that would have greatly skewed the results and thus the analysis of the problem.

the unique set of circumstances presented by each customer class, including different levels of credit risk, should be considered. Deposit policies should recognize the inherent risk the Company faces in serving its customers. The following table of uncollectable net write-offs illustrates the range of risk posed by the various rate classes:

Net Write-offs per \$1000 of billed revenue

	<u>Commercial (1)</u>	<u>Industrial</u>	<u>Irrigation</u>	<u>Special Contracts</u>
2001	\$1.87	\$0.00	\$4.86	\$0.00
2002	2.14	0.00	4.53	0.00
2003	2.04	0.00	4.45(2)	0.00
2004(3)	1.01	0.00	6.64	0.00

- (1) Includes both small and large commercial accounts.
- (2) Does not include the \$668,724 write-off of a single irrigator.
- (3) Through September.

Given the unique circumstances and the significantly greater credit risk presented by the irrigation class, the Company believes the proposed Tier 2 Deposit provisions are fair and reasonable.

II.

Amount of Tier 2 Deposit

The Irrigation Pumpers express concern in their comments that customers will be required to pay a deposit that is four times their highest estimated monthly bill. This concern is based on a misunderstanding of the Company's proposal. The amount of the proposed irrigation deposit is not based on the "highest" estimated monthly bill. If this were the Company's intention, the deposit would be computed based on the largest energy use at the height of the irrigation season. In stark contrast, the deposit amount is based on the following: