DECISION MEMORANDUM

TO:COMMISSIONER NELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

MYRNA WALTERS

TONYA CLARK

DON HOWELL

STEPHANIE MILLER

DAVE SCHUNKE

KEITH HESSING

GARY RICHARDSON

WORKING FILE

FROM:BRAD PURDY

DATE:OCTOBER 18, 1996

RE:IDAHO POWER’S APPLICATION TO AMEND SCHEDULE 19 TO PROVIDE FOR SPECIAL CONTRACT OPTIONS TO CUSTOMERS 10 MW AND ABOVE, CASE NO.  IPC-E-96-17

On August 23, 1996, the Idaho Power Company (Idaho Power; Company) filed an Application for approval of revisions to the Company’s Schedule 19, which provides service for large customers up to 25 MW.  Under the current tariff, when a customer’s load exceeds 25 MW, special contract arrangements are required.  This special contract provision allows both the Company and its largest customers to customize service provisions to better suit the requirements of the customer and the Company.  According to Idaho Power, these special contracts permit an individual cost analysis for these customers during revenue requirement proceedings which allows these largest customers to be evaluated as individual customer classes.

Idaho Power contends that as the electric industry becomes more competitive, it is increasingly important for the Company to ensure that its large customers are neither subsidized by nor required to subsidize other customers.  The Company contends that in order to accomplish this cost recognition, it is necessary to move away from a “general tariff” pricing methodology toward a “special contract services” pricing methodology.  To accomplish this end, Idaho Power requests approval of a revised Schedule 19, which includes a provision for optional special contract service for those customers who contract for 10 MW or more of load from Idaho Power.

The Company notes that it has seven customers in its Idaho jurisdiction that potentially could become eligible for the 10 MW provision including J.R. Simplot Company in Caldwell, Hewlett Packard in Boise, the Mountain Home Air Force Base, Lamb Weston in Twin Falls, Ore-Ida Foods in Burley, Lamb Weston in American Falls, and American Micro Systems in Pocatello.

According to Idaho Power, the intent of the contract option is to mutually negotiate contracts between the Company and its larger customers.  If the parties fail to come to a special contract agreement, service would be continued under Schedule 19.  The starting point for contract negotiations would be the current terms, conditions and prices provided under Schedule 19.  Assuming agreement is reached, each contract would be submitted to the Commission for approval.  Idaho Power recognizes that the new contracts are to be viewed in the context of the general rate freeze currently in affect and must be entered into voluntarily.

On September 19, 1996, the Commission issued a Notice of Modified Procedure soliciting comments in response to the Company’s Application.  Comments were received from the Idaho Retailers Association, the Industrial Customers of Idaho Power and the Commission Staff.  Those comments are summarized below.

Idaho Retailers Association

The Idaho Retailers Association (Retailers) is an Idaho trade association consisting of approximately 150 member companies operating retail outlets throughout the state of Idaho.  The vast majority of retailers are general service (Schedule 9) customers of Idaho Power.  Consequently, these customers would not be provided with the option of special contracts under the Company’s proposal in this case.  The Retailers argue that in the last general rate case conducted for Idaho Power and completed in 1995 (Case No. IPC-E-94-5) the Commission used a cost of service study which indicated that Schedule 9 customers were paying rates which were more than 14% in excess of their respective cost of service.  The Commission, in Order No. 25880, determined that for the purposes of rate stability and moderation, Schedule 9 customers would not be moved fully to cost of service.  Rather, the Commission ordered an 8% reduction for the Schedule 9 class.

Order No. 25880 also recognized that cost of service studies become dated with the passage of time.  The Commission stated:

The final revenue allocation among the customer classes resulting from these findings is shown in Appendix 4.  We are concerned that the passage of much time between examinations of cost of service and revenue allocation issues prevents an orderly move to cost of service rates.  Accordingly, if a general rate case has not been filed by Idaho Power within two years of today’s Order, we direct the Company to prepare a cost of service study for Staff review on or before April 1, 1997.

Order No. 25880 at p.  35.

The Retailers note that Idaho Power supports its special contract proposal for larger customers in this case by stating that large customers should neither subsidize nor be subsidized by other customers.  In spite of this, the Retailers argue, the Retailers continue to subsidize other classes by paying rates exceeding the Retailers cost of service.

The Retailers object to Idaho Power’s Application in this case for two reasons.  First, they contend that it violates the intent of Order No. 26555 issued in the electric restructuring case (Case No. GNR-E-96-1) where the Commission stated the following principal to be applied to market-based mechanisms:

Recommendation No.  10: Develop market-based mechanisms that will ensure all customers have the opportunity to participate in greater levels of competition if they so choose.

The point of this recommendation seems to be that to the extent some aspect of the industry is deregulated, that all customers have the opportunity to compete for favorable rates and/or service.

We agree wholeheartedly.  Large customers must not be allowed opportunities that are not available to small customers, under the guise of competition.  Restructuring should be accomplished in a manner that allows the economic efficiencies of a competitive market to benefit all customers and not just a select few.

Order No.  26555 at p. 8.

The Retailers argue that Idaho Power’s proposal clearly is intended only to benefit its largest industrial customers, under the guise of competition, to the exclusion of smaller customers such as Retailers.

Second, the Retailers question Idaho Power’s proclaimed motive to ensure that its largest industrial customers are neither subsidized by nor subsidize other customer classes considering that in the last general rate case, the cost of service study adopted by the Commission indicated that the Company’s largest industrial customers on Schedule 19 were brought to cost of service-based rates.  Schedule 9 customers, on the other hand, were left paying rates 6% in excess of their cost of service.  The Retailers contend, therefore, that the Company should have filed an Application first on behalf of large Schedule 9 customers if, in fact, it had concerns regarding rate fairness and subsidies.

In conclusion, the Retailers request that before consideration of the Company’s Application by the Commission, the following conditions occur:

1.Idaho Power prepares and submits its cost of service study as required by Order No. 25880;

2.A hearing is held by the Commission with respect to the cost of service studies;

3.The Commission adopts a new and current cost of service study which best reflects today’s cost of providing electrical service to all customer groups and classes, and;

4.The Commission makes appropriate revenue allocation adjustments among all company rate classes in a revenue neutral fashion so as not to violate the currently existing rate freeze so that all rate schedules or customer groups have a cost neutral rate in preparation for a competitive electric utility industry.

Industrial Customers of Idaho Power

The Industrial Customers of Idaho Power (ICIP) is an unincorporated association of large industrial customers of Idaho Power Company.  All members of the ICIP receive electric utility service under Schedule 19.  The ICIP states that it has consistently supported the use of special rate contracts before this Commission and, consequently, supports the Company’s Application in this case.  The ICIP qualifies its support of Idaho Power’s Application in this case with the caveat that special contracts for large industrial customers is not an adequate substitution for deregulation which the ICIP advocates.  The ICIP views Idaho Power’s Application as simply a first step toward the inevitable deregulation of the electric utility industry in Idaho.  The ICIP urges the Commission to free not just those Schedule 19 customers whose load happens to exceed 10 MWs, but all customers.  To do so in “an orderly fashion,” however, the ICIP proposes that the “freedom” to negotiate special rate contracts first be allowed to those customers whose loads exceed 10 MW as proposed by the Company.  Six months later, all customers whose load exceeds 5 MW should be permitted the freedom to negotiate special contracts with the Company.  Six months after that, all customers whose loads exceed 1 MW should be permitted the opportunity to negotiate special rate contracts.  Finally, the last group of customers whose load is less than 1 MW should be permitted to negotiate special rate contracts.

The ICIP suggests that this four tiered phase-in of the freedom to negotiate special contracts allows all parties an opportunity to explore the available alternative rate options and does not overly burden Idaho Power with a rush of Applications.

Commission Staff

Staff notes that the Company’s proposal appears to be consistent with Order No. 26555 issued in the electric restructuring case in which the Commission stated:

We can see no reason to discontinue our policy of allowing special contracts for larger customers due to their size and the unusual characteristics of their respective loads.  We are supportive of any type of pricing that is responsive to customer needs so long as the net revenues collected from those customers are fair and do not place an undue burden on other customers.  Again, we encourage the utilities to be creative in this regard.

Order No. 26555 at p.  8.  Staff concludes that Idaho Power’s Application appears to be an attempt to more closely tailor service to individual customers and specific needs in an increasingly competitive industry.  As such, Staff believes, it appears consistent with the Commission’s vision reflected in Order No. 26555.

Staff notes that the Company is currently in the midst of a rate stability agreement (established in Case No. IPC-E-95-11) that precludes it from changing its base revenue requirement prior to January 1, 2000.  This commitment, however, does not prevent the Company, or any other party, from filing to redistribute revenue requirement among customer classes.  Special contracts that reduce a Schedule 19 customer’s rates without an offsetting reduction in the costs of serving that customer could shift revenue requirement to other customers.  Any such shift, Staff asserts, should be closely examined and shown to be in the best interest of the general body of ratepayers prior to contract approval.

Staff observes that another consideration is the sharing provisions of the rate stability agreement.  Even if Idaho Power were to agree to absorb a reduction in its revenue requirement caused by lower special contract rates given to a qualifying Schedule 19 customer, other customers could be adversely affected due to the change in actual earnings caused by such a contract.  If actual earnings exceed or would have exceeded an 11.75% return on equity, other customers receive less sharing dollars than they would have otherwise.  On the other end of the sharing spectrum, if the actual return on equity is less than 11.5%, additional accelerated deferred income tax credits would be required to bring the Company’s actual earnings up to 11.5%.

Commission Decision

Does the Commission believe that it has sufficient information to reach a decision in this case?  If not, what additional information would the Commission like to see?  Does the Commission believe that it is premature, as the Retailers suggest, to consider Idaho Power’s Application prior to the completion of a new cost of service study and the reallocation of the Company’s revenue requirement among customer classes?  If not, how does the Commission wish to rule on Idaho Power’s Application?

Brad Purdy

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