DECISION MEMORANDUM

TO:COMMISSIONER NELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

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KEITH HESSING

DAVID SCOTT

WORKING FILE

FROM:BRAD PURDY

DATE:JANUARY 10, 1997

RE:CASE NO.  IPC-E-96-25; IDAHO POWER’S APPLICATION FOR APPROVAL OF TARIFF (SCHEDULE 20) PROVIDING FOR OPTIONAL MARKET-BASED SERVICE TO CUSTOMERS FROM 5 TO 10 MEGAWATTS

On December 19, 1996, the Idaho Power Company (Idaho Power; Company) filed an Application seeking approval of a proposed Schedule 20—“Market-based Pricing Service Pilot Program.”  Schedule 20 is a pilot program providing optional market-based service to customers who contract for 5 to 10 megawatts of firm demand at one point of delivery.  This voluntary optional service will provide these customers with the choice between the fixed prices offered under Schedule 19 (large industrial) and the variable prices tied to energy markets offered under Schedule 20.  In addition, Idaho Power contends, it will provide these customers experience with market-based prices.  The Company states that it also will benefit by gaining experience with pricing methodologies outside of the standard embedded cost framework.  Idaho Power notes that it currently has 10 customers who could potentially take service under Schedule 20.

Customers who elect to take service under Schedule 20 may have all or as little as one-third of their load priced at market prices.  The Schedule provides two options as market proxies:  The Dow Jones—California—Oregon border (DJ-COB) index and the futures contracts traded on the New York Mercantile exchange (NYMEX) for the California-Oregon border (COB) delivery point.  Customers who choose to have only a portion of their load priced on the market will have the remainder of their load priced at an embedded fixed cost rate.  The required term of the agreement for service under Schedule 20 is three years.  The portion of customers’ loads that is based on the fixed price will remain at that price throughout the term of the Agreement.  At the beginning of each year, however, customers may move their market-based load from one of the two options to the other.  The Company proposes that, if approved, Schedule 20 will be available for all agreements entered into on or before December 31, 1997.

The energy price under the variable (market-based) price options includes an adder of 3.6 mills, which is intended to ensure that customers participating in the pilot program do not receive any preferential treatment (i.e., avoid making a contribution towards earnings and required CSPP purchases) at the expense of other standard tariff customers.  The adder is comprised of two components. The return component is designed to recover the same return in mills per kWh as the embedded fixed price proposed under Schedule 20.  The CSPP component is designed to recover above-market CSPP.  The demand and customer charges, as well as any energy taken under the fixed price option, under Schedule 20 are based on the embedded costs of service under Schedule 19 as detailed in the Company’s cost-of-service study mentioned above and adjusted to reflect the Commission’s decision in Order No. 25880 and 26236 (Case No. IPC-E-95-5: The Twin Falls case).

Energy sales priced under the variable price options will not be subject to the Company’s annual PCA treatment but will impact PCA calculations.  Monthly energy sales priced under either of the variable price options will be removed from the Idaho jurisdictional sales for PCA purposes.  This removal will result in a revised jurisdictional allocation for PCA purposes, which the Company contends will properly match the share of the variable expenses allocated to the Idaho jurisdiction with the jurisdictional customers participating in the PCA.  Any energy sold under Schedule 20 which is priced under the fixed price option will be included in the Idaho jurisdictional sales and will be subject to the PCA.

Idaho Power notes that due to the energy market, it is not possible to predict whether the Company may experience an increase or decrease in revenues during any particular year as a result of participation in Schedule 20.  The Company further notes that in order for the schedule to be implemented, it is necessary for the actual revenues received from the pilot program to flow through the earnings test mechanism established in Case No. IPC-E-95-11 as part of the Company’s rate stability agreement.  Idaho Power states that if any recalculation of revenues associated with the pilot program is determined to be a condition for implementation of the program, the Application would be withdrawn by Idaho Power.

Idaho Power has requested an effective date of January 20, 1997, and requests that this matter be handled under Modified Procedure.  Staff agrees that Modified Procedure is appropriate, but requests that the Commission issue an Order suspending the proposed effective date to allow time to solicit and review comments and issue an Order accordingly.

Commission Decision

Does the Commission wish to suspend Idaho Power’s proposed effective date and handle this matter under Modified Procedure?

Brad Purdy

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