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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR APPROVAL OF TARIFF (SCHEDULE 20) PROVIDING  FOR OPTIONAL MARKET-BASED SERVICE  TO CUSTOMERS FROM 5 TO 10 MEGAWATTS. | )  )  )  )  )  )  ) | CASE NO. IPC-E-96-25  COMMENTS OF THE  COMMISSION STAFF |

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Brad Purdy, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure filed on January 21, 1997, submits the following comments.

INTRODUCTION

On December 19, 1996, Idaho Power Company filed an Application with the Idaho Public Utilities Commission for approval of Schedule 20, Market-Based Pricing Service Pilot Program.  Schedule 20 provides for optional market-based pricing service to customers who contract for five to ten megawatts of firm electric demand at a single point of delivery.  Ten customers currently qualify for service under Schedule 20.  These customers have the option of moving to Schedule 20 or remaining on Schedule 19.  Schedule 20 contains three energy pricing options, one is based on fixed embedded costs and the other two are variable cost market-based pricing options.  The three energy pricing options available on Schedule 20 are:  a fixed-price option that flows from the Company’s cost-of-service results, a variable price option that is based on DJ COB data and a second variable price option based on COB NYMEX futures prices.  An eligible customer can choose to have its entire load priced using either of the variable price options or split in any way between the two options, or it can price up to two-thirds of its load at the Schedule 20 fixed rate and price the remainder of its load under one or both of the variable pricing options in percentages the customer chooses.  A customer who changes to Schedule 20 service must remain on Schedule 20 through the end of the experiment which is December 31, 1999.  The Company’s proposal requires eligible customers who desire to participate to take Schedule 20 service by December 31, 1997.

SCHEDULE 20 RATES

The proposed Schedule 20 Customer Charge, Demand Charge and Basic Charge come from the Company’s most recent cost-of-service study.  Each of these three components is priced higher on Schedule 20 than it is on Schedule 19.  However, the Energy Charge is lower on Schedule 20 than on Schedule 19.  Schedule 19 rates were set to recover the cost-of-service based revenue requirement in the Company’s last general rate case.  Individual rate components were not set at cost-of-service levels, some were set lower and one was set higher such that when revenues from all components are combined, the cost-based revenue requirement is recovered.

The Fixed Price Option is composed of three energy rates depending upon the voltage at which the customer takes service.  The Secondary Voltage rate is 18.229 mills per kWh, the Primary Voltage rate is 17.730 mills per kWh and the Transmission Voltage rate is 16.570 mills per kWh.  The Company proposes that these base rates be adjusted by the PCA to produce the Effective Rates shown on Original Sheet 20-4 of Attachment 3 to its filing.

The Company proposes two Variable Price Options.  A Daily Price Option based on the DJ COB Index and a Monthly Price Option based on futures trading on the NYMEX at COB.  The Company proposes that both price options differentiate between on and off-peak hours, not be subject to adjustment by the PCA, include losses dependant on voltage service level and include a 3.6 mill adder to cover the Company’s embedded return (1.9 mills/kWh) and “above market CSPP” costs (1.8 mills/kWh).

WHAT SCHEDULE 20 IS AND WHAT IT IS NOT

In its Application the Company says that Schedule 20 will provide certain customers the opportunity to choose between fixed prices and market-based variable prices.  The Company further states that Schedule 20 provides “an opportunity to gain experience with pricing methodologies outside of the standard embedded cost framework, billing requirements and information technologies necessary to accommodate daily and/or monthly pricing, and customer choices and behavior when provided options.” (Application, pg. 1)  Staff offers the observation that attempts to gain experience in these areas are ample justification for experimentation.

However, Schedule 20 service should not be construed to provide broad based experience in electric utility competition.  Schedule 20 is relatively narrow in scope.  For example, it does not allow other service providers to sell electricity to any of the eligible customers.  Also Schedule 20 service provides no experience with energy purchasing.  Neither Idaho Power nor the Schedule 20 participants will purchase energy from the market as a result of this experiment.

The portion of load that a customer allocates to the indexed pricing mechanism will be priced at a running average of the DJ COB spot market prices.  The customer will not be buying and selling the energy directly.  The portion of load that a customer allocates to futures prices is open to more options, but is still limited.  This pricing option allows customers to hedge their prices via futures purchases and sales prior to the 15th day of each month.  The cut-off date of the 15th day of the month places limitations on the customer that would not exist if the customer had full access to the wholesale market.

Another limitation contained in the Company’s proposal relates to the customer’s ability to change its mix of futures purchases relative to spot purchases.  Such changes are only allowed once per year.  In an open competition situation where the customer has access to wholesale markets, if and when such markets exist, the customer will be able to make these choices over very short time periods, perhaps hourly.  At a minimum, in a deregulated industry, it is likely that agribusinesses will want to change their portfolios with the seasons.  Clearly Schedule 20 does not offer that degree of flexibility.

Schedule 20 is just what the Company says it is.  It allows some Schedule 19 customers direct access to one fixed cost rate and two market based variable rates.  It is not a broad-based experiment in retail competition or customer choice.  It is a very focused experiment involving a few industrial customers and limited pricing options.

THE POWER COST ADJUSTMENT (PCA) MECHANISM

Idaho Power proposes that energy sold under the Schedule 20 Fixed Price Option be included in the PCA and that energy sold under either of the Variable Price Options be excluded from PCA treatment.  Staff supports the Company’s recommendation.  The variable price options should already reflect current and expected regional weather and water conditions as well as other factors.  To add the PCA to variable energy prices appears to double count.

An argument can be made that the true-up portion of the PCA in the first year be spread to all Idaho jurisdictional customers since the true-up is composed of deferred costs or benefits accumulated prior to approval of the Schedule 20 option.  However, since true-ups have been historically small, Staff believes that it does not make administrative sense to capture and return the true-up part of the PCA separately to Schedule 20 customers participating in a variable energy price option.  Including a PCA rate adjustment in the variable price options would change the price the customer is trying to beat in order to finish financially better off.  The market price signal would be distorted and the results of the pilot could not be directly attributed to pure market-based prices.

RATE STABILITY AND SHARING AGREEMENT (EARNINGS TEST)

In its Application Idaho Power proposes that the actual revenues associated with service under the Schedule 20 option be allowed to flow through the earnings test as opposed to recalculated revenues based on Schedule 19 rates.  In its Application Idaho Power further states, “[i]f any recalculation of revenues associated with the pilot program is determined to be a condition for implementation of the pilot program, the program would be withdrawn by Idaho Power.”

Because of the value of the experiment, the Commission Staff is willing to accept this proposal, but not without some concern.  Staff does not know if the customers who choose to participate in this program will, in the end, pay more or less than they would pay under Schedule 19 rates.  However, it is unlikely that any customer will sign up for Schedule 20 service unless that customer believes there is money to be saved.  If Schedule 20 customers do save money, Idaho Power’s earnings will be lower than it would be otherwise.  Lower earnings translate into a reduced opportunity for all customers to share in earnings above 11.75 percent on equity, and an increased chance that earnings will be below 11.5 percent on equity resulting in using accelerated deferred tax credits to bring earnings to the minimum level.

RECOMMENDATIONS

In the Order closing the Commission's formal investigation into changes occurring in the electric industry the Commission encouraged electric utilities to explore the provision of competitive service.  The Commission said, “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.”  (Case No. GNR-E-96-1, Order No. 26555, pg. 8)

It is Staff’s position that the Company’s filing meets the requirements of the previously cited Order and that the Company’s Application should be approved.  Staff’s recommendation for approval should not be construed to imply agreement or disagreement with the philosophies or methods used by the Company in the rate unbundling process.  In Staff’s opinion, the unbundling philosophies and methods applied by the Company to determine rates presented in its Application constitute one of many ways of doing the job.  A voluntary Application that establishes an optional pricing scheme should, within reasonable limits, be left to the Company’s design.

Staff proposes that Schedule 20 be effective March 1, 1997.

DATED  at Boise, Idaho, this            day of February 1997.

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