DECISION MEMORANDUM

TO:COMMISSIONER HANSEN

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WORKING FILE

FROM:BRAD PURDY

DATE:AUGUST 20, 1998

RE:CASE NO. IPC-E-98-9; IDAHO POWER COMPANY APPLICATION FOR APPROVAL OF EXTENSION OF SCHEDULE 20—MARKET BASED PRICING SERVICE PILOT PROGRAM

On July 10, 1998, the Commission issued a Notice of Modified Procedure soliciting comments in response to Idaho Power Company’s Application for authority to revise its Schedule 20 pilot program and extending the time during which customers may participate in the program.  Schedule 20 is available to customers with five to ten megawatts of load providing them the opportunity to choose between the fixed prices offered under Schedule 19 and the variable prices tied to the energy market.  The program expired December 31, 1997.  None of Idaho Power’s customers elected to take service under Schedule 20.  Because of renewed interest on the part of its customers, however, Idaho Power now seeks to reopen Schedule 20 with modifications.

In its current Application, Idaho Power proposes to revise Schedule 20 to revamp the market proxies used to price energy and to provide more flexibility for customers who wish to customize their energy pricing.  The proposed, revised Schedule 20 maintains both the daily and monthly market price options as well as the embedded fixed price option.  The means for establishing the market-based prices has been modified.  Unlike the energy prices included under the original Schedule 20, the energy prices under the revised schedule do not include any adders.  Customers utilizing both the daily and monthly market price options can designate on a monthly basis the amount of load to be priced under each option.

Under the daily option, energy designated will be priced using the Dow Jones mid- Columbia Index (“mid-C” Index) rather than the DJ Cobb Index.  The mid-C index is more representative of the northwest regional market prices than is the DJ Cobb Index.  In addition, the mid-C Index is now published in the Wallstreet Journal, providing customers with easy access to pricing information.

Regarding the monthly option, rather than utilizing the settlement price of futures contracts traded at Nymex for establishing the month ahead price, the revised Schedule 20 will include actual price quotes provided by the Company’s energy marketers.  The Company will post indicative prices on a daily basis through a password protected Internet site.  Customers can accept the desired price quote for any month or months quoted.  Should a customer fail to make a monthly price commitment for any load designated under the monthly price option, the default price will be the mid-C Index.

Finally, under the fixed price option, no changes have been made to the original Schedule 20 other than updating the price to reflect the current PCA.

Under the revised Schedule 20, Idaho Power will impose a demand charge of $4.64 per kW of billing demand.  This charge will provide customers with transmission service, load following, generating reserves and A&G.  The demand charge also includes a component for above-market CSPP, DSM and other regulatory related costs.

Energy sales priced under Schedule 20 will not be subject to Idaho Power’s PCA mechanism other than during the first contract year.  During that year, the true-up component of the PCA will apply to all energy sales priced using a market-based option.  Subsequent to the first contract year, no component of the PCA will apply.

Formal comments were filed by the Commission Staff and the Industrial Customers of Idaho Power (ICIP).  In addition, Idaho Power relayed a letter it received from the J.R. Simplot Company relating to Schedule 20.

Commission Staff

Staff recommends approval of the revised Schedule 20 pilot program.  Staff supports the program because (1) eligible Schedule 19 customers continue to have the option of staying on Schedule 19, (2) the Commission has encouraged this type of experimentation, and (3) the customers, the Company and the Commission all have the opportunity to gain some experience with a market-based pricing option.  Staff also believes that a small amount of useful information is obtained from such offerings even if no customers choose to participate.

ICIP

The ICIP is highly critical of Idaho Power’s original and modified Schedule 20 noting that “anything short of full market access for the commodity of electric power would fall short of the ICIP’s ultimate goal.”  The ICIP alleges that Idaho Power “has attempted to forestall discussion of substantive aspects of its Application” referring to the Company’s proposal to not unbundle the costs associated with providing Schedule 20 services nor to put the specific cost components inherent in the demand charge under scrutiny because the program is voluntary and alternative service is available under the Company’s other schedules.

The ICIP characterizes the Commission’s original approval of Schedule 20 in 1997 as “perfunctory” and that Idaho Power’s proposal in this case is an “exercise in futility.”  The ICIP goes further to “emphasize that Idaho Power’s Schedule 20 should not be represented to outside observes (for example, the Idaho Legislature) to be anything approaching a valid experiment mimicking a restructured electric utility industry.”  The ICIP argues that the failure of the original Schedule 20 can be “found in the failure of the Company and the Commission to incorporate the initial suggestions offered by the ICIP.”

In conclusion, the ICIP is “indifferent on whether or not the Commission should approve Idaho Power’s Application for modification of Schedule 20 because of the take it or leave it approach taken by the Company and because of the Commission’s apparent desire to take a hands-off approach to the entire issue of electric utility industry restructuring.”  The ICIP suggests that the Commission should convene a workshop or a hearing process to investigate a means to implement customer choice in electricity supply.

J.R. Simplot Company

In a letter authored by David Hawk of J.R. Simplot Company to Ric Gale of the Idaho Power Company, Simplot asserts that “there are benefits to Idaho Power’s efforts in this area.”  Simplot believes that the revised Schedule 20 is a step in the right direction and is in favor of Idaho Power offering it to its customers as an option.  Simplot believes that Idaho Power’s willingness to change the benchmark pricing indicator to the mid-C Index and the change to a daily price option rather than just a monthly option along with the removal of the adders is important.  Simplot characterizes the ICIP comments filed in this case as being “designed to cause the Commission and others to better understand where industrial customers want to go in the deregulation of generation resources.”  Simplot states that it looks forward to continuing discussions regarding unbundling and restructuring but, in the meantime, supports Idaho Power’s efforts with respect to Schedule 20.

Commission Decision

Does the Commission wish to approve Idaho Power’s Application to renew and modify Schedule 20?

Brad Purdy

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