DECISION MEMORANDUM

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WORKING FILE

FROM:BRAD PURDY

DATE:AUGUST 10, 1998

RE:CASE NO. UPL-E-98-3—UTAH POWER & LIGHT—RATE INCREASE RESULTING FROM REDUCTION IN BONNEVILLE POWER ADMINISTRA­TION RESIDENTIAL EXCHANGE PROGRAM CREDITS

On June 9, 1998, PacifiCorp dba Utah Power & Light Company (UP&L; Company) submitted a tariff advice to the Commission by which it proposes to increase rates for its residential customers as a result of a reduction in credits received through the Bonneville Power Administration’s (BPA) residential exchange program.

According to UP&L, the 1996 BPA rate case substantially increased the price charged investor-owned utilities exchanging power under the residential exchange program.  The exchange  credit provided by BPA to the customers of exchanging utilities is based on the difference between the average system cost of the exchanging utility and BPA’s PF exchange price.  The increase in the PF exchange price reduced the exchange credit available to exchanging utilities by roughly half.  This reduction would have resulted in net price increases for UP&L’s customers in Idaho of approximately 10% for residential customers and 30% for irrigation customers.

UP&L states that Congress, in Public Law 104-46, directed BPA to increase the credit paid for the BPA fiscal year beginning October 1, 1996, above what it would have paid under the new PF exchange price.  Congress also suggested that BPA negotiate with exchanging utilities to phase-out the program over the remainder of the contract period ending June 30, 2001.  In Tariff Advice No. 96-09, filed with this Commission, UP&L submitted tariffs for the exchanging customers reflecting the congressional action.  These tariffs included the 4.8% increase for residential customers and the 14.1% increase for irrigation customers resulting from the decrease in the BPA credit.  During the latter part of 1996 and early 1997, PacifiCorp states, it entered into negotiations with BPA to phase-out the exchange in accordance with the congressional directive.  UP&L contends, absent these negotiations, its exchange customers would have received an additional 5% increase for residential customers and 15% increase for irrigation customers when the congressional directive expired on October 1, 1997.

PacifiCorp reached a settlement agreement with BPA in May 1997 providing for a fixed payment stream totaling $47,693,863 for UP&L’s customers.  This represents approximately $6,000,000 more than these customers would have received had a settlement not been reached, UP&L contends.  The settlement allows UP&L to distribute the money in accordance with any method approved by the IPUC.  UP&L states that after discussion with representatives from the Idaho Governor’s Office, the Idaho Legislature, irrigation customers and the IPUC Staff, it filed for a temporary sur-credit for the irrigation customers in Case No. UPL-E-97-2.  The sur-credit provided an 8% reduction for the irrigation class for the 1997 irrigation season.  In Order Nos. 26904 and 26973, the Commission approved the sur-credit.  The Commission also directed UP&L to address the issue of the allocation of benefits between the residential class and the irrigation class before any future sur-credit would be considered.

UP&L further states that during the fall 1997 and into early 1998, Company representatives met on several occasions with the Commission Staff, representatives from the Idaho Legislature and representatives of the irrigation customers to address the allocation of the exchange benefits over the remainder of the exchange contract.  As a result of these discussions, UP&L proposes to phase-out the remaining exchange benefits with annual reductions over the next three years.  These reductions would occur prior to the irrigation season in 1998, 1999 and 2000.  The reductions would result in 3.35% net price increases for residential customers each year and 8% net price increases for irrigation customers each year.  These increases, UP&L contends, will allow the Company to provide some level of exchange benefits through the end of the exchange contract period for the residential class and through September 2000 for the irrigation class assuming average  irrigation usage.

In supporting documents filed with its tariff advice, UP&L states that, in the absence of a settlement agreement with BPA, the Company’s residential class would have expected to receive $17.9 million from October 1, 1996 through June 30, 2001.  The irrigation class would have expected to receive $23.5 million over the same period.  The proposed phase-out the Company contends, will result in the residential class receiving $20.6 million and the irrigation class receiving $27.1 million, representing 43% and 57%, respectively, of the total $47.7 million available under the settlement.

According to UP&L, this current tariff advice filing is the first step in the phase-out.  The proposed Schedule 34 reflects a 3.35% increase for residential customers.  The 8% increase for irrigation customers occurs with the absence of the sur-credit that was in place during the 1997 irrigation season and which expired on October 31, 1997, so no change is needed, the Company states, in Schedule 34 for the 1998 irrigation season for irrigators.

The total effect of the proposed changes in the Schedule 34 credit results in a net annual rate increase to qualifying customers of $1,174,000.  Of this, the increase to residential customers is $1,133,000.  This will increase residential bills by an average of 3.35%.

On July 9, 1998, the Commission issued a Notice of Modified Procedure soliciting comments in response to UP&L’s tariff advice filing.  Comments were submitted by the Commission Staff, the Idaho Irrigation Pumpers Association, Inc. (Irrigators) and a joint letter from representative Golden C. Linford and Senator Robert R. Lee of the Idaho Legislature.

Commission Staff

Staff has reviewed the Company’s current filing and is satisfied that the spread of settlement benefits between residential and irrigation customers has been done on a 43%-57% basis, respectively.  Staff believes that this is the fair and reasonable way to spread the BPA benefits.  On the bottom half of the Company’s Exhibit No. 3, the planned benefits to residential and irrigation customers through the year 2001 are shown.  The phase-out plan, Staff notes, requires residential rate increases of 3.35% each year through the year 2000 and 8% annual increases for irrigation customers over the same time period.  Staff recommends approval of revised Schedule 34 as filed by the Company.

Irrigators

The Irrigators support approval of the Company’s proposed rate change.  The Irrigators note that they previously supported UP&L’s negotiated settlement with BPA.  At the time of the settlement, the Irrigators state, it was anticipated by both the Irrigators and PacifiCorp and other parties that the benefits resulting from the settlement would be distributed between irrigation and residential customers in a manner approximately equaling the BPA exchange benefits each of those customer classes would have received absent the settlement.

The actual distribution of the BPA credit since the settlement, however, has varied considerably from what was contemplated.  The Irrigators state that in a subtle but substantial way, the combination of the additional $6.2 million UP&L negotiated as a part of the settlement coupled with changes to BPA’s PF rates that underlie the distribution computations unexpectedly shifted benefits from the irrigators to the residential class.  The Irrigators state that once this problem was discovered, UP&L worked closely with the Irrigators, eastern Idaho Legislators and the Commission Staff to identify and quantify the disparity in the distribution of BPA credits and in arriving at a solution.  According to the Irrigators, the Company’s Tariff Advice 98-06 would rectify this discrepancy and result in the BPA credits being distributed between irrigation and residential customers in approximately in the same manner that would have occurred under the original exchange agreement.

The Irrigators contend that the Company’s proposal in this filing would result in three consecutive rate increases for residential customers of 3.35% in 1998, 1999 and 2000.  The irrigation customers’ rates, the Irrigators contend, will increase 8% in each of those years.  Consequently, it is expected that the exchange credit will be fully utilized near the end of the year 2000 irrigation season.  The Irrigators assert, at that time, that irrigation customers on the eastern Idaho UP&L system will be paying rates nearly 50% higher than neighboring irrigation customers in the adjacent Idaho Power Company service territory.  The Irrigators request that the Commission “establish a docket case to investigate the possibility” of an irrigation pilot program providing UP&L’s eastern Idaho irrigation customers the opportunity to access other energy suppliers.

Representative Linford and Senator Lee

Representative Linford and Senator Lee state that they support the Utah Power BPA credit phase-out.  The note that they have been involved in discussions for some time with Brian Hedman of PacifiCorp, representatives of irrigators and others on the matter and are hopeful of a favorable consideration by the Commission of UP&L’s proposal.

Commission Decision

Does the Commission wish to approve UP&L’s Tariff Advice No. 98-002?

Brad Purdy

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