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FROM:SCOTT WOODBURY

DATE:MARCH 3, 1997

RE:CASE NO. WWP-E-97-1

MORE OPTIONS FOR POWER SERVICE (MOPS) PILOT PROGRAM

On February 10, 1997, The Washington Water Power Company (Water Power; Company; WWP) filed an Application with the Idaho Public Utilities Commission (Commission) for approval of a proposed pilot program which will allow a portion of the Company’s residential and commercial electric customers the opportunity to choose alternative energy providers for a limited duration of two years beginning July 1, 1997.  The proposed program is called More Options for Power Service (MOPS) and complements a similar and previously approved direct access pilot  for industrial customers (reference WWP Electric Schedule 26 experimental Direct Access Delivery Service (DADS)).

For the MOPS pilot, the Company is proposing a random selection process involving customers across its entire service area.  The Company will randomly select and contact customers until 2,805 participants are identified.  The Company anticipates a distribution of participants as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Existing Schedule | MOPS Schedule | No. of Customers | Avg Megawatts |
| Residential  Small Commercial  Large Commercial  Pumping Service  Total | 1  11  21  31 | 81  82  83  84 | 2,500  250  40  15    2,805 | 3.5  0.5  2.1  0.1    6.2 |

Schedule 21 commercial customers with multiple sites will be limited in the pilot program to one participant site.  Participating customers, who will represent approximately 1% of the customers on the respective schedules, will be split between Idaho (approximately 900 participants) and Washington (approximately 1,900 participants) based on the ratio of the number of customers in the respective states.  The Company estimates that it may be necessary to involve as many as 3% to 5% (8,000 to 14,000) or more selected customers to identify 2,805 participating customers who want an opportunity to pursue electric service from other energy providers.  The election to participate by the randomly selected customers will be strictly voluntary.

Customers electing to participate will grant Water Power permission to release their name, address and phone number to the participating alternate energy suppliers. Under the Company’s proposal, alternate suppliers will be able to contact customers directly by phone, mail, and/or site visits.  MOPS service will be subject to a written service agreement between Water Power and the customer, as well as a written agreement between the customer and the supplier.  Participating customers will be under no obligation to sign up with an alternate supplier, and may choose to stay with WWP.  A customer’s electric service will not be interrupted as a result of failure of an alternate supplier to provide power, however, the customer may incur increased costs on a temporary basis associated with standby energy service provided by WWP.  A MOPS tariff customer purchasing energy from an alternate supplier may return to Water Power for energy service at any time during  the pilot.  Customers will automatically revert to Water Power’s standard tariff effective on the customer’s meter reading date just prior to the end of the MOPS pilot, June 30, 1999.

The Company proposes that the Commission establish a simple registration procedure for suppliers interested in participating in the MOPS pilot, similar to the registry for the DADS pilot.  The Company proposes that suppliers provide the following information to the Commission:

a.  Name, address and form of business.

b.  Certified copy of Articles of Incorporation

c.  Evidence of FERC registration or evidence of local, state or federal authorization to sell electric energy.

d.  Evidence of qualification to do business in Idaho.

e.  Name and address of registered agent for service in Idaho.

f.  Agreement in writing to comply with the terms of the MOPS tariff schedules, including the marketing rules in Schedule 88.

Participating MOPS customers may purchase capacity and energy from any of the eligible suppliers on the registry.  There is no limit to the number of alternate suppliers that will be allowed to register for the pilot, nor will there by any effort to limit or control the energy offerings made by suppliers, e.g., “green power.”  Water Power will execute agreements with each participating alternate supplier including provisions related to scheduling, energy true-up, billing, etc.

Water Power is proposing that utilities currently providing electric service directly to retail customers must provide comparable direct access by Water Power to their customers in order to participate in the Water Power pilot, i.e, a reciprocity provision.  To the extent that the Company receives increased margins, or “found margins”, as a direct result of this reciprocity provision, the Company will credit 50% of these found margins against the deferred program costs.

Water Power notes that its electric rates are among the very lowest of the investor-owned electric utilities in the United States.  Water Power has elected to not compete directly with alternate suppliers on the price of energy during the MOPS pilot.  Although energy service from WWP will be presented to customers during the pilot as a choice, the Company’s offer will be limited to non-price issues.  Among the factors which will influence the benefits that customers realize from direct access opportunities are the following: existing embedded electric energy rates versus the market price, customer load factor, level of energy use per customer, knowledge of the electric industry, metering costs, transaction costs and stranded utility costs.  The energy pricing offered to customers by alternate suppliers during the pilot is expected to be at or below market.

The Company states that it is proposing the MOPS pilot to gain information and practical experience.  The pilot is not intended to be an existing perfect simulation of competition under full retail direct access.  One objective of the pilot is to be able to separately identify the manner in which choice among alternative energy providers affects low-income residential customers.  Approximately 400 low-income customers will be targeted to participate.  Additionally, to facilitate the WWP study team’s ability to better monitor and document communication occurring between energy supplier and customer, ten MOPS study team members will participate in the residential sample.

Water Power states that it will prepare periodic reports to the Commission summarizing the Company’s findings  related to the MOPS pilot, as well as conduct three separate customer surveys.  It is anticipated that the Company, its customers, regulators, legislators and other energy providers will benefit from the information gathered regarding issues including, but not limited to, the following:

1.  The benefits and risks for small use customers.

2.  Information on the products and pricing and services offered by alternate providers.

3.  Factors considered by customers in choosing an alternate energy provider.

4.  The marketing techniques and practices of alternate energy providers.

5.  Customer protection that might be needed under full implementation of direct access.

6.  Implementation issues and costs.

7.  Other accounting, administrative, power operation, rate design, and legal issues.

The pilot is not intended to resolve such issues as stranded cost issues, pricing issues for delivery services, and full regulation of power providers.

The pilot will gather information and provide experience related to hourly metering, determining load profiles for customers, billing for commodity and delivery service, billing settlements with suppliers, and power scheduling with small loads.  The pilot will also educate participating customers regarding retail access and gather information on customer preference related to choice of suppliers.

The proposed MOPS delivery service rates include bundled charges for transmission, distribution, ancillary services, A&G, Public Utility Regulatory Policies Act (PURPA) costs in excess of market, recovery of prior demand side management (DSM), and one-half of the lost margins associated with the pilot.  (The Company states that it will absorb the other half of the lost margins.)  Ancillary services include such services as regulation and frequency control, spinning and operating reserves, and supplemental operating reserves.  The charge included in the delivery service rates for ancillary services is 2.00 mills per kWh for all MOPS customers.  The delivery service rates were determined based on the same cost of service study used in developing the delivery service rates for the DADS tariff, with one exception.  The study was rerun using a uniform rate of return across all customer classes.

The Company is proposing that the incremental costs associated with the MOPS pilot be deferred, with recovery of the costs (including accrued return on balance) to be addressed in the utility’s next general rate filing.  The Company has proposed a cap on the program costs to limit the total costs that would be deferred ($758,000 on a system basis, excluding a return component).  Since all the Company’s customers will presumptively benefit from the pilot because of information gathered, and because the pilot may be a “stepping stone” to full direct access for all customers, the Company contends that it is appropriate for all customers to contribute to the cost of the pilot.  If the Company does not file a general rate case within one year following the end of the pilot, the Company proposes that it will cease accruing a return on the balance and will begin to amortize the deferred program costs over a three-year period beginning July 1, 2000.

The proposed MOPS tariff Schedules 81, 82, 83, 84 and Schedule 88 Marketing Rules are provided in Application Attachment A.  The calculation of the delivery service rates for the pilot is provided in Application Attachment B.  The Company requests that the Commission approve the proposed MOPS pilot program to become effective March 31, 1997.  Participating customers could begin to purchase energy from alternate energy providers on or after July 1, 1997.  The Company also requests that the Commission approve the Company’s proposed accounting treatment.

Regarding jurisdiction, Water Power notes that it intends to file with the FERC a request that the FERC defer any federal regulation related to the MOPS pilot, in favor of state regulation during the term of the pilot.  The Company made a similar request for deferral of federal regulation related to the DADS pilot.  The Company contends that the MOPS pilot does not constitute “unbundling of transmission service” within the meaning of FERC Order 888.  The only portion of the state regulated utility service which has been separated, the Company contends, is the energy or “commodity” component of retail service.

Commission Decision

How does the Commission wish to process the Company’s Application?  Staff recommends Modified Procedure.  Does the Commission agree that Modified Procedure is appropriate?  If not, what is the Commission’s preference?

                                                              Scott Woodbury

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