DECISION MEMORANDUM

TO:COMMISSIONER NELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

MYRNA WALTERS

TONYA CLARK

DON HOWELL

STEPHANIE MILLER

DAVID SCHUNKE

KEITH HESSING

TERRI CARLOCK

BEVERLY BARKER

DAVID SCOTT

WORKING FILE

FROM:SCOTT WOODBURY

DATE:APRIL 2, 1997

RE:CASE NO. WWP-E-97-1

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) in Case No. WWP-E-97-1 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.  On March 12, 1997, Water Power filed an Amended Application in Case No. WWP-E-97-1.  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, 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.

On March 5, 1997, the Commission in Case No. WWP-E-97-1 issued Order No. 26825 and a Notice of Application and Modified Procedure.  The Commission directed Water Power to file comments on or prior to March 13 regarding the recent February 25, 1997, Order of FERC which rejected Water Power’s retail wheeling pilot (Sch 26 Direct Access Delivery Service tariff) for industrial customers for not complying with FERC’s Order 888 Open Access Transmission Tariff Requirements.  A March 25, 1997 deadline was established for filing written comments or protests in Case No. WWP-E-97-1 with respect to the Application and the Commission’s use of Modified Procedure.

On March 13, 1997, Water Power, pursuant to Commission direction, filed comments (attached) regarding FERC’s Order related to the pricing for transmission service under the DADS direct access pilot program and the ramifications in this case.  The Company plans to refile tariffs with FERC related to transmission service for customers under the DADS pilot.  The FERC filing will reflect the same methodology used in developing the transmission service rates included in the Company’s amended MOPS filing.  In its comments Water Power states:

As part of the amended filing, transmission charges are separately stated on the MOPS tariff schedules in response to recent orders by FERC related to unbundled retail transmission service.  The transmission charges are based on the revenue requirement associated with the Company’s filed open access transmission tariff.  The use of transmission charges in the MOPS pilot based on the Company’s open access transmission tariff is not intended in anyway to resolve any issues related to state versus federal jurisdiction over transmission pricing under direct access, or to set precedent for the future determination of transmission pricing under retail direct access.  In its February 1995 Order at page 7, FERC has specifically indicated that any rate it might approve for the transmission portion of retail access pilot of short duration will not serve as precedent for any proposed allocation of jurisdiction between federally regulated transmission facilities and state regulated local distribution facilities.

Commission Staff was the only party to file comments in Case No. WWP-E-97-1 (attached).  Staff recommends general approval of the MOPS pilot program with the following modifications:

●It is Staff’s position that the reciprocity provision should not be a requirement for alternate supplier participation in the experiment.

●Staff proposes that amortization of program costs and related deferrals begin no later than July 1, 1998 and be completed by July 1, 2001.  These dates, Staff contends, better match open access proposals at national and regional levels and recovered beyond these dates, Staff contends, would be highly speculatively.

●Staff recommends that the Company be required to provide the participating customer upon request with a monthly calculation of what that customer’s total bill would have been under the customers previous rate schedule if the customer had not chosen to participate in the MOPS pilot.

●Staff proposes that alternate suppliers previously certified to participate in the DADS experiment only be required to agree in writing to the Schedule 88 proposed rules of conduct in order to be certified by the Commission to participate in the MOPS pilot since their DADS certification included all other MOPS certificate requirements.

●Staff perceives the need to establish communication channels for resolution of customer disputes.  Therefore Staff recommends that the Commission require cooperation by alternate suppliers with the Staff as a part of Commission registration.

●Staff notes that still under development are standard form contracts to be signed by Water Power and its participating customers.  Also under development is a bill format and billing system that itemizes and tracks specified unbundled components pertinent to the pilot as well as other information.  Water Power has agreed to involve Staff in the development process and provide final billing format, copies of forms and consumer education materials used in conjunction with the pilot.

Company Response

On April 2, 1997, Water Power filed its Reply to Staff Comments (attached).  The Company disagrees with Staff recommendations regarding reciprocity and amortization of program costs.  Regarding reciprocity, the Company agrees with Staff that the reciprocity provision may be relatively easy to circumvent.  Nevertheless, the Company believes that utilities which currently serve retail customers and which are unwilling or unable to experiment themselves with direct access should not be allowed a “free ride” to participate in the MOPS pilot.  The Company believes that it is appropriate for utilities which are unwilling or unable to provide reciprocity to have to go the extra effort to use an affiliate or broker to participate in the pilot.  The Company is unwilling to provide such utilities the opportunity to extend their utility “name brand” to participating MOPS customers and to freely solicit Water Power loads.

Regarding amortization, the Company disagrees with Staff’s recommendation that amortization of program costs begin on July 1, 1998, rather than July 1, 2000.  The Company states that few areas of the country have direct access proposals which begin as early as 1998, and that the most optimistic case of implementation of full direct access in the Pacific Northwest is likely mid 1999 as recommended in the Northwest Comprehensive Review report.  To require early implementation of amortization, the Company contends will require the filing of a rate case within a matter of months in order to have the opportunity to recover its program costs.  The MOPS pilot is proposed to run until June 30, 1999.  The likely most optimistic date that full direct access would occur for all customers is mid 1999.  The Company, therefore, believes that the earliest reasonable date to begin amortization of the program costs is July 1, 1999.

The Company agrees with Staff’s remaining recommendations.

Commission Decision

Should the MOPS pilot be approved?  With or without modifications proposed by Staff and opposed by Company, i.e., reciprocity; amortization of program costs?  With or without modifications proposed by Staff and agreed to by Company?

                                                                              Scott D. Woodbury

bls/M-wwpe971.sw3