MEMORANDUM

TO:COMMISSIONER HANSEN

COMMISSIONER NELSON

MARSHA SMITH

DAVE SCHUNKE

RANDY LOBB

BEVERLY BARKER

FROM:SCOTT WOODBURY

DATE:JANUARY 8, 1998

RE:CASE NO. WWP-E-97-2

RECONNECTION CHARGES (SEASONAL/TEMPORARY DISCONNECTS)

On January 29, 1997, The Washington Water Power Company (Water Power; Company) filed a letter request with the Idaho Public Utilities Commission (Commission) seeking authority to  amend its electric Rules and Regulations regarding reconnection charges.  The proposed tariff revision discourages disconnection and eliminates the financial incentive for customers to discontinue and re-establish service within a twelve-month period to avoid paying monthly minimum charges. The proposed revision to sheet 70-g requires that if a customer discontinues service and then re-establishes service within a twelve-month period, the customer is required to pay an amount equal to the monthly minimums that would have been billed had service not been discontinued as well as pay a re-establishment charge.  Customers disconnected for more than twelve months will only have to pay the re-establishment fee.  The re-establishment charge proposed is the same as the currently effective reconnection charge (currently $16.00 and $32.00 on overtime).  The Company states that there are approximately 300 residential customers, primarily owners of vacation homes and other temporary dwellings, who will be affected by this new policy and estimates it will gain $8.50 per customer per month for eight months of the non-vacation season for a total of $20,000 annually.

The Company maintains that when customers request disconnections to avoid paying monthly minimum charges, the Company fails to recover costs associated with the distribution facilities that were installed to provide service to the dwelling.  When a disconnection/reconnection occurs, the Company states that it may also incur additional costs because, in many instances, a crew has to visit the dwelling twice; once to disconnect service and again to reconnect service.  The Company notes that its Schedule 71 tariff covering residential service in the Sandpoint area contains a provision that was carried over from the PacifiCorp tariff which states:  “Disconnect and reconnect transactions shall not operate to relieve a customer from monthly minimum charges.”

The Commission by Order No. 26831 issued March 6, 1997, suspended the effective date for 90 days.  The Commission requested further and more complete analysis of the Company’s proposal by Commission Staff.  Staff completed its analysis and was unable to support the Company’s Application.

Notices of Application and Modified Procedure in Case No. WWP-E-97-2 were subsequently issued on June 5, 1997.  The deadline for filing written comments was June 27, 1997.  Comments were filed by Commission Staff and the owner of a trailer court in Wallace, Idaho.  Reply comments were filed by the Company.  Based on its review of the filed comments in Case No. WWP-E-97-2 the Commission determined that the public interest in this matter required a hearing.  Reference IDAPA 31.01.01.204.

The prefile of testimony, pursuant to scheduling, is now completed.  Water Power in its cover sheet to its rebuttal testimony stated as follows:

While the Company is prepared to have a hearing in this case, the Company would be agreeable to have the Commission decide the case on the merits of the testimony and exhibits which have been submitted without the need for a hearing.  Idaho Power Company, the only intervenor in this case, has indicated that they have no objection to not having a hearing.

With the acquiescence of Commission Staff, the Commission in open decision meeting agreed to consider the matter fully submitted and the record closed.

The testimonies filed by Water Power and Commission Staff can be summarized as follows:

Water Power

Water Power interprets the Commission’s language in Order No. 16829 in Case No. U-1008-155 (10/20/81) as supporting the notion that vacation homes and other temporary dwellings should be required to pay monthly minimums due to the costs they impose on the system.  McKenzie Direct, p. 3.  The Commission’s Order language states as follows:

The Company proposed raising the existing $2.80 per month customer service charge for the residential class to $3.00 on the grounds that even the higher charge still does not recover costs that are properly attributable to customer service.

In our most recent Idaho Power Company rate case (Order No. 16688), we ordered the elimination of customer charges for both residential and commercial service and replaced the residential charge with a $6.00 per month minimum bill.  Our rationale for eliminating the charge was that the charge created a “declining block” element in the residential rate structure, and that this was contrary to the Commission policy of structure and rates to reflect the direct relationship between energy consumption and the need for construction of expensive new facilities.  Retention of a minimum monthly bill would nevertheless indicate to affected customers the costs imposed on the system by vacation homes and other temporary dwellings.

The same rationale holds for WWP. . . .

Order No.  16829, pp. 23, 24.

For greater context, the Commission’s relevant discussion regarding residential rate design in the referenced Idaho Power Order No. 16688 is attached.  Interestingly, despite the Commission’s language in IPCo’s Order regarding elimination of customer charges in favor of a minimum bill and its noting that “such charge will more accurately reflect the costs imposed on the system by vacation homes and other temporary dwellings”, IPCo had and has no policy of charging minimums during periods of seasonal disconnection.  Idaho Power presently has a residential customer charge of $2.50.

As further reason supporting its Application, Water Power represents that the Company’s Sandpoint area residential tariff does not allow a customer to avoid monthly minimums by disconnecting service.  McKenzie Direct, p. 3.  The Sandpoint area was recently acquired by Water Power  from PacifiCorp.  The Company’s Schedule 71 Sandpoint tariff contains the following language:

Continuing Service

This schedule is based on continuing service at each service location.  Disconnect and reconnection transactions shall not operate to relieve a custo­mer from monthly minimum charges.

As reflected in the Company’s prefiled direct testimony, in response to a WWP production request Staff interprets the Schedule 71 language as follows: “Staff’s understanding of the continuity of service language is that it was meant to preclude customers who had been involuntarily disconnected and subsequently reconnected from seeking a waiver or proration of monthly minimums.  Water Power disputes Staff’s interpretation and contends that PacifiCorp’s practice was to collect monthly minimums for periods of disconnection, regardless of whether the disconnect was voluntary or involuntary.  McKenzie Direct, pp. 5, 6.

The Schedule 71 tariff language tracks verbatim prior PacifiCorp tariff language but, based on a review of Commission records, excludes the related language in PacifiCorp’s general rules and regulations, i.e.,

7.  Basis of Rates

(e)Continuing Service: except as specifically provided otherwise, the rates of this tariff are based on continuing service at each service location.  Disconnect and reconnect transactions shall not operate to relieve a customer from minimum monthly charges except as may be provided in seasonal service agreements between the customer and company.  (Emphasis added)

Water Power believes that in requesting seasonal disconnections to avoid paying monthly minimum charges, customers are essentially, “gaming” the system.  The Company does not believe that the Commission had the intention of allowing seasonal disconnection to avoid paying monthly minimum charges when it did away with the Company’s electric residential customer charge and ordered a per month minimum bill.  McKenzie Direct, p. 4.  In its Order No. 16829 in Case No. U-1008-155 dated October 20, 1981, the Commission stated:

Retention of a minimum monthly bill would nevertheless indicate to affected customers (emphasis added) the costs imposed on the system by vacation homes and other temporary dwellings.

Water Power contends that the Commission has authority to approve the reestablishment charge even though approval could result in additional revenues to the Company of approximately $20,000.  The Commission can and does, it states, approve minor tariff changes outside of a general rate case.  McKenzie Direct, p. 6.  The additional income if realized, the Company states, would be “de minimus” and would not affect the Company’s percentage rate of return.  McKenzie Direct, pp. 6, 7.

Water Power contends that the estimated cost to reconnect a seasonally closed account at a remote location is $86.95 based on two hours of labor and 20 miles of travel.  If the estimate were to reflect the cost associated with disconnecting service (even though the Company concedes that it does not normally disconnect seasonal customers), the estimate would double.  McKenzie Direct, p. 7.  The Company further contends that the $8.50 minimum recovers only a fraction of the average fixed costs per month to serve a residential customer (calculated $29.61) irrespective of the fact that seasonal customers generally have higher costs than average costs to serve due to remoteness and low customer density.  McKenzie Direct, p. 8.

Seasonal customers, the Company contends, should be required to pay monthly minimums because seasonal use customers impose year-round costs to the Company, generally have higher cost to serve due to remoteness and low customer density but pay postage stamp rates based on average costs, and generally have lower annual usages to recover costs through rates than do non-seasonal customers.  McKenzie Direct, p. 8.

With respect to the customer who earlier commented on the Company proposed reestablishment charge, the Company provides the following detail: the customer owns a 38 space trailer court on the Coeur d’Alene River.  Of the 38 spaces, five are separately metered with year-round tenants, seven are separately metered with seasonal tenants, 15 spaces are served by master meter with no submetering, and 11 spaces are served by another master meter with no submetering.  The Company also described the potential impact of the reestablishment charge on the customer.  McKenzie Direct, p. 10.

The Company proposes two acceptable options to its proposed reestablishment charge:

1.  Charging a fee to reconnect a seasonally closed account which is high enough to discourage a customer from disconnecting—WWP suggests that a reconnection fee of $68 would be high enough and would be cost justified.  McKenzie Direct, pp. 11, 12.

2.  Adopt the Sandpoint-area tariff language.

“Disconnect and reconnect transactions shall not operate to relieve a customer from monthly minimum charges.”  —Whether the disconnection is voluntary or involuntary.  McKenzie Direct, p. 12.

Bottom line, the Company does not want an alternative which requires or promotes an actual physical disconnection and reconnection of service, and the Company goes so far as to suggest that customers requesting reconnection would likely be dissatisfied with the delay from request to actual reconnect.  McKenzie Direct, p. 12.

Commission Staff

Staff disputes the Company’s contention that it is incurring a revenue loss of $20,000 by not collecting $8.50 monthly minimums from seasonal customers.  Seasonal residential customers, Staff asserts, are a part of the residential class and are not a separate class of customers.  When the “cost to serve” the residential class was calculated in the Company’s last rate case, the costs were factored into residential rates.  There was no revenue loss attributed to any particular subclass of residential customers.  Oliason Direct, p. 2.

Water Power in rebuttal contends that Staff’s statement may not be entirely true, as the 1985 test period used in the Company’s last rate case reflected a level of minimum bills that are no longer being collected.  The Company admits that there is no way to be certain as to the precise level of lost revenue.  McKenzie Rebuttal, pp. 3-4.  The estimate of $20,000 was derived by assuming 300 customers avoiding the $8.50 minimum for eight months during the year.  McKenzie Rebuttal, p. 4.

Staff argues that the extra cost to serve seasonal customers is being collected through existing rates as part of the “cost to serve.”  Staff also argued that seasonal customer’s usage would tend to occur during off peak periods, in the summer and on weekends.  Oliason Direct, p. 3.  The Company in rebuttal disagrees with Staff, notes the increased cost in serving remote locations and asserts that if the Company is required to do the physical disconnections that it has not normally been doing, then the related costs are not being recovered in existing rates.  McKenzie Rebuttal, p. 5.  Staff contends that because the $8.50 minimum charge is well below the plant-related fixed costs for residential customers (in the last WWP rate case $33.17/month; 1996 study $29.61—McKenzie Rebuttal, p. 6) that these costs are collected in the energy charge.  The Company, Staff states, has never attempted to collect the “average costs” from the lowest paying customer by a customer charge, minimum charge or connection fee.  Oliason Direct, p. 3.  The Company in rebuttal disagrees stating that there has not been a definitive ruling as to what costs are or are not included in the minimum charge.

Regarding rural customers, Staff notes that there has never been any attempt to de-average the cost to serve on the basis of density.  Within a class of customers, it states, there will always be some that cost more to serve than the average and some that cost less.  Oliason Direct, pp. 3, 4.  For now, Staff proposes that the residential class not be further divided into rural and urban or by end use of the residence.  The Company in rebuttal responds that one does not have to de-average costs to be aware of cost differences between types of customers within a class.  McKenzie Rebuttal, p. 6.

Staff recommends a “reestablishment” charge of $16.00, as the Company has proposed.  For those seasonal customers that normally close their account Staff recommends an alternative rate with a monthly minimum of $2.50 (with no energy allowance) for the six months covering the winter period.   For the other six months of the year the customer would pay the $8.50 minimum.  Oliason Direct, p. 5 (see discussion re: billing.  Oliason Direct, pp. 6, 7).  The Company on rebuttal points out that Staff’s proposal is discriminatory, as it provides a lower rate to a group of customers which have higher costs to serve than other non-seasonal customers within the customer class, creates cross-subsidization, is not cost-based, and runs counter to Staff’s argument that seasonal customers should not be de-averaged.  McKenzie Rebuttal, pp. 7, 8.  Staff, the Company states, in its recommendation further assumes that the Company would not read meters during winter months.  The Company in response states that it does in fact read meters that are accessible.  McKenzie Rebuttal, p. 7.  In addition, the Company states that if energy is used by a seasonally closed account, that account becomes active and regular billings apply.  McKenzie Rebuttal, p. 7.  Staff argues that under Staff’s proposal, if a seasonal customer did use energy in excess of 720 kWh during the winter period, that customer would find it cheaper to stay with the Company’s residential rate with its $8.50 minimum.

Commission Decision

Should the Company’s Application regarding seasonal/temporary discounts be approved as filed (i.e., re-establishment charge of $16.00 ($32.00 overtime) plus $8.50 per month for months of disconnect)?

Company alternatives:

●  $68.00 reconnection fee

●  Sandpoint-area tariff language:  “Disconnect and reconnect transactions shall not operate to relieve a customer from monthly minimum charges.”

Re: Staff alternatives:

●  $16.00 re-establishment charge — no minimum charges for months of disconnect

●  $2.50 monthly minimum (no energy allowance) for seasonal customers who choose to remain connected.

Scott Woodbury

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