DECISION MEMORANDUM

TO:COMMISSIONER HANSEN

COMMISSIONER NELSON

COMMISSIONER SMITH

MYRNA WALTERS

TONYA CLARK

DON HOWELL

STEPHANIE MILLER

DAVE SCHUNKE

KEITH HESSING

DAVID SCOTT

WORKING FILE

FROM:SCOTT WOODBURY

DATE:OCTOBER 22, 1997

RE:CASE NO. WWP-E-97-10

POWER COST ADJUSTMENT METHODOLOGY

WWP PETITION FOR CLARIFICATION

On September 25, 1997, The Washington Water Power Company (Water Power; Company; WWP) filed a Petition in Case No. WWP-E-97-10 regarding the Company’s Power Cost Adjustment (PCA) methodology and the appropriateness of excluding Palo Verde trading from the secondary price calculation used in determining monthly PCA deferrals.

Water Power’s PCA mechanism was established in Case No. WWP-E-88-3, Order No. 22816 issued October 31, 1989, extended in Case No. WWP-E-93-3, Order No. 24874, and extended and modified in Case No. WWP-E-94-4, Order No. 25637 issued July 18, 1994.  The PCA was further modified in Case No. WWP-E-94-4, Order No. 26881 issued April 11, 1997 to record PCA accounting entries with a one month lag using actual data from the preceding month.

Water Power contends that it is appropriate to exclude Palo Verde trading because trading at Palo Verde consists of speculative wholesale transactions that have no connection to the Company’s system requirements or to its system resources and because prices at Palo Verde are not reflective of the load or resource conditions in the northwest or the value of surplus hydro generation.

Water Power reports that it began trading activities at the Palo Verde switch yard in Arizona in June of 1995.  Water Power contends that trading at the Palo Verde delivery point is not a result of the Company selling its surplus hydro generation, but rather reflects speculative wholesale power trading.  All sales, the Company maintains, are covered by an equal purchased amount of energy, so that sales energy and purchased energy are equal each month.  The power purchased at Palo Verde, the Company represents, is never used to cover WWP’s system requirements nor are sales at Palo Verde ever covered by WWP’s system resources.  The prices at Palo Verde, the Company contends, are not reflective of the load or resource conditions in the northwest and are therefore not representative of the market value of the Company’s system generation.. Water Power reports that it has not sold any of its system hydro generation of the past two years at Palo Verde.

As reported by the Company, the PCA accounting entry for the month of August 1997 based on July 1997 actuals contain a prior period correction to exclude Palo Verde trading from the calculation of secondary energy prices for the period June 1995 through June 1997 amounting to $856,000 in the surcharge direction.  Also the PCA entries for August 1997 and September 1997 based on July 1997 actuals and August 1997 actuals, respectively, have excluded Palo Verde trading.

Staff Analysis

Staff has reviewed the Commission’s prior Orders establishing the WWP PCA methodology.  It is Staff’s contention that since the inception of the Company’s PCA methodology the electric industry has changed, as has the way Water Power does business.  No longer are utility off-system sales reflective merely of sales of surplus generation from system resources.  It is Staff’s belief that the trading engaged in by the Company at Palo Verde was never envisioned when the PCA methodology was established and that it is reasonable to exclude same from PCA secondary price calculations.  Staff accordingly recommends that the Commission issue an Order clarifying the appropriateness of excluding Palo Verde trading from the secondary price calculation used in determining monthly PCA deferrals.

Commission Decision:

How does the Commission wish to process the Company’s Petition for Clarification?

Scott Woodbury

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