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:JANUARY 23, 1998

RE:CASE NO. WWP-E-97-11

MOPS II PILOT

On November 24, 1997, The Washington Water Power Company (Water Power; WWP; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting approval of a proposed pilot program that will allow a portion of the Company’s residential and commercial electric customers to choose from a menu or portfolio of energy service alternatives.  The tariff offerings are intended to provide customers a choice of energy service alternatives without having to change energy service providers.  The MOPS II pilot would run for a two-year period beginning May 1, 1998, and would be available to customers in Deer Park, Washington (2,256 customers; 5.3 aMW), and to the Company’s residential (Schedule 1), commercial (Schedule 11, 21), and pumping service (Schedule 31) customers in Hayden (including Hayden Lake), Idaho (5,570 customers; 10.6 aMW).

Water Power proposes four energy alternatives in addition to traditional service.

1.  Traditional Energy Service: customers may elect to remain with existing pricing.

2.  Monthly Market Rate: energy service based on month-to-month market prices.

3.  Annual Market Rate: energy service based on year-to-year market prices.

4.  Standard Rate Offer: a fixed energy rate for the term of the pilot based on the Bonneville Power Administration’s (BPA) preference (PF) rate.  Customers who choose the monthly and/or annual market rate options may not return to traditional energy service.  Those customers who want to return to a more stable energy service may choose the standard rate offer—the Company states that the purpose of the standard rate offer is to reflect in the pilot the fact that in a customer-choice environment, the customer’s “empty chair” may not be saved for them on the chance that they may someday return to use it.

5.  “Green Resource” Rate: this option allows customers the choice of paying an incremental amount on their monthly bills to contribute toward the development and operation of renewable resources.  The incremental revenue would provide funds to acquire new renewable resources (wind), or increase the output of existing renewable resources (WWP-Kettle Falls) through paying above-market transportation costs to secure fuel from further distances than is currently feasible.  ($1.00 per 73 kWh of wood waste generated electricity, or 50 kWh of wind generated power).

As represented by the Company:

Existing energy commodity rates of electric utilities are based on the cost of providing long term firm resources.  However, the energy “products” that marketers and brokers are offering are different.  Transactions in the wholesale market today are primarily for terms of 5 years or less, from surplus power, and can be as short as trading on an hour-by-hour basis.  Short term energy products today are less costly, yet carry greater risk for future price fluctuation, than the total costs associated with the longer term resources currently held by most utilities.  This is the basis for the MOPS II pricing proposals.  And, thus, participating customers may opt for pricing based on short-term costs that may be cheaper than existing traditional service, but may incur a greater risk for future price changes.

The Company states that its proposal differs from its legislative proposal which, in addition to portfolio access, includes direct access for large use and aggregated customers with reciprocity for service to other utilities’ customers.  The Company is not including direct access provisions in MOPS II.

For customers choosing traditional energy service, the Company proposes to include in their tariff the following commodity rates for informational purposes to show eligible MOPS II pilot customers the rate they would need to “meet” under other energy service alternatives, in order to save money on their electric bill:

|  |  |
| --- | --- |
| Customer Group | Commodity RateCents/kWh |
| Residential—Schedule 1Small Commercial—Schedules 11 & 12Large Commercial—Schedules 21 & 22Pumping Service—Schedules 31& 32 | 2.065¢2.144¢2.081¢2.012¢ |

Customers choosing the monthly or annual market rates must remain on that schedule for a minimum of one year.  Adjustments will be made to the market rate to reflect the average load factor for eligible customers.  The market rate will also be increased by $0.0005 per kWh (0.5 mills/kWh) to compensate the utility for the service being provided, including aggregating and purchasing for customers, the cost exposure to the utility from the difference between the energy actually purchased and the customer’s load, non-delivery by the supplier, etc.

The proposed delivery rates for MOPS II include charges for transmission, distribution, ancillary services, A&G, and one-half of the Company’s estimated lost margins.  Ancillary services (2.00 mills per kWh) include such services as regulation and frequency control, spinning and operating reserves, and supplemental operating reserves.  The Company is proposing to use the delivery service rates developed for the MOPS pilot with two adjustments.  First, the transmission component of the delivery rates would be based on the state-determined revenue requirement and methodology.  Second, the estimated lost margin, 50% of which is included in delivery rates, is recalculated based on an estimated market price of $17.9/MWh rather than the lower $14.7/MWh used in the original MOPS pilot.  The resulting delivery rates for MOPS II are lower than for MOPS.

The Company is proposing to defer the incremental MOPS II pilot costs ($836,500) together with the original MOPS pilot costs through August 1997 ($325,000), and accrued rate of return on the balance, for recovery in its next general rate case.  The Company agrees to cap the deferred pilot costs to a total of $1,161,500 on a system basis, excluding a return component.  Incremental costs ($122,000) associated with the Odessa/Harrington, Washington component of the MOPS pilot will be assigned to Washington customers for future recovery.

The MOPS II pilot, along with the MOPS pilot, the Company contends provide testing grounds to identify and analyze many of the legal, accounting, administrative, and implementation issues surrounding electric-restructuring.  This the Company represents will benefit all customers in the future, and therefore the Company contends that it is appropriate to spread these costs to all customers.

The Company is proposing to accrue a return on the balance of the deferred pilot costs for no more than one year beyond the MOPS II pilot.  If at the end of such time the Company does not file a general rate case, the Company would cease accruing a return on the balance and would start amortization of the balance over a three-year period.  The Company states that it is proposing to absorb one-third of the lost margin associated with the MOPS II pilot.

The Company proposes to prepare and file periodic reports to the Commission summarizing the findings related to the MOPS II pilot.

Water Power requests that the Commission:

1.  Approve the proposed MOPS II pilot, including the tariffs, to become effective (as per agreement) February 1, 1998;

2.  Approve the Company’s proposed accounting treatment to defer the incremental program costs, with a return on the balance through April 30, 2001.  Recovery of the costs would be addressed in the next general rate case.  If the Company does not file a general rate case within one year following the end of the pilot, the Company would cease accruing a return on the balance and start amortization of the balance over a three-year period beginning May 1, 2001.

Commission Notices of Application and Modified Procedure in Case No. WWP-E-97-11 were issued on December 18, 1997.  The deadline for filing written comments or protests was January 14, 1998.  The Commission Staff was the only party to file comments (attached).

Staff expresses several concerns with the MOPS II proposal:

●Beneficiary of MOPS II implementation

It is Staff’s belief that without alternate supplier participation the main beneficiary of MOPS II is the Company.  Information gained through the pilot will improve the Company’s competitive position should full retail access occur rather than the Company’s legislative portfolio access model for electric industry restructuring.

●Scope of MOPS II

A customer electing to participate who subsequently decides that the pilot is not in his or her best interest must stay in the program until it ends.  In a competitive environment, Staff contends that a customer would have more alternatives, including an aggregator or supplier that is willing to assume the risk of market price fluctuations.

●Deferral and recovery of costs

Staff expresses concern as competition looms on the horizon about deferring costs for later recovery.

Staff recommends that the MOPS II proposal be approved with modification.  Staff recommends that the Company not be permitted to defer program costs.  Staff proposes that program costs either be absorbed by the Company or that the Company be allowed to recover them from those customers who choose to participate.  Staff further recommends that the MOPS II program changes adopted in Washington be incorporated in the approved pilot in Idaho.  Reference Attachment 1 Staff Comments.

Water Power in a reply filed January 22, 1998 (attached), disagrees with the Staff recommendation that the Company’s deferral of incremental program costs not be permitted.  The MOPS II pilot, the Company states, is designed to test customer access to choice from the incumbent utility.  The Company has committed to share information with interested parties.  The Company contends that participating customers will benefit by access to discounted market power; that regulators and legislators will benefit from the pilot’s examination of electric restructuring issues dealing with customer choice, power distribution, and customer education; and that through Company education and media coverage, customers and Idaho citizens will learn more about electric restructuring and potential options.

Water Power represents that the level of MOPS II program costs are reasonable.  Using a 33% allocation factor to Idaho, the Company calculates that a total of approximately $218,000 in incremental administration and general costs would be deferred to Idaho from MOPS II for the two-year program.  Further, the Company notes that only 17% of any actual lost margins would be deferred.  The remainder will either be included in the delivery rates to be paid by participating customers or would be absorbed by the Company.  The Company in telephone conversation with Staff on January 23, 1998, represents that it also opposes the recommended spreading of any additional MOPS II costs to program participants.

Commission Decision

Should the Company’s MOPS II pilot be approved?  With or without modification?

Scott Woodbury

vld/M:WWP-E-97-11.sw