

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

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| <b>IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO ACQUIRE REDUCTIONS IN ELECTRICAL DEMAND AND ASSOCIATED CONSUMPTION OF ELECTRICAL ENERGY FROM ITS IRRIGATION CUSTOMERS.</b> | ) | <b>CASE NO. IPC-E-01-3</b> |
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On February 7, 2001, Idaho Power Company filed an Application seeking Commission authorization to conduct a program ("Program") to solicit competitive offers from its irrigation customers to reduce their electrical demand and associated consumption of electrical energy during the 2001 growing season. Several parties have commented on this Program which is ripe for Commission consideration.

**BACKGROUND**

**1. Idaho Power's Application**

Idaho Power's Application states that current projections of below-normal streamflows in the Snake River and its tributaries, coupled with the volatile wholesale energy market in the western United States, have created a situation where it may be cost-effective for the Company to encourage irrigation customers to reduce their energy consumption during the 2001 growing season in exchange for compensation from the Company. Idaho Power believes this Program will reduce the Company's need to purchase power from the wholesale market at times of peak demand and thus reduce the Company's total purchased power expense for 2001. By reducing this expense Idaho Power states that all of its customers will benefit.

Idaho Power intends to make this Program available to irrigation customers who take service under Schedule 24 and who commit to reduce their electric consumption by a minimum of 100,000 kWh during the 2001 growing season. Idaho Power estimates that approximately 1,700 irrigation customers have historically consumed energy in amounts greater than the 100,000 kWh. This amount would qualify these customers for participation in the Company's Program. To solicit participation in the Program Idaho Power proposes to issue Request for Proposals ("RFP") to its irrigation customers requesting that they submit competitive offers to reduce their energy consumption during the 2001 growing season in exchange for compensation from the Company. Idaho Power states in its Application that once the RFP documents are finalized they will be filed with the Commission and posted on the Company's website. In addition, Idaho Power states that it intends to sponsor workshops at multiple locations throughout its Idaho service territory to explain the Program and answer potential bidder's questions. Idaho Power also intends to communicate

directly with various agricultural groups and agencies of state government that work with the irrigation community to solicit participation in the Program. These efforts will be further supplemented by means of press releases and other media contacts.

Idaho Power states that irrigation customers who offer to participate in this Program must:

1. identify each metered service point for which the bidder is the responsible party on the Idaho Power billing;
2. indicate the amount of both kW and kWh reduction the bidder is offering to provide; and,
3. specify the price per kWh the bidder is offering to accept as compensation for the reduction in consumption.

Application at 3.

The Company states that irrigation customers who participate will be obligated to provide such information as Idaho Power may reasonably require to verify that the reductions they offer will not be offset by an increase in consumption at other metered service points or locations.

The Company states that power reductions for irrigation customers who participate in the Program will be measured in comparison to the five-year average kWh consumption at each metered service point. Those customers who have less than five years of consumption data for their metered service will have energy reductions measured in comparison to the average kWh consumption computed using the available data. In addition, if an irrigation customer's load characteristic demonstrate changes, i.e., additions of pumping capacity, etc., over the historic timeframe, an alternative basis may be used to develop the comparison amount.

The Company states that it will verify the power reductions for irrigation customers on a monthly basis for each metered service point. The Company will make monthly payments to irrigation customers who participate in the Program based on the percentage of energy reductions realized, multiplied by 75%. The Company states that the remaining 25% will be retained and paid to these irrigation customers in November 2001, after confirmation that they have fully performed their individual agreements with Idaho Power. Idaho Power states that customers who do not actually provide the kW and kWh reduction(s) they offered will, at Idaho Power's option, be dropped from the Program and/or pay the Company liquidated damages. Payments to customers who participate will first be netted against any balances that are in arrears and owing to Idaho Power.

Idaho Power states that metered service points included in accepted bids must remain connected for electric service during the full term of the Program. In addition, the Company states that the successful bidder must remain as the responsible party for each of the metered service points.

Idaho Power states that commencement of this Program is dependent upon Commission assurances that it will be entitled to recover through retail rates the payments that the Company will make to irrigation customers and its lost revenues resulting from the implementation of the Program. However, the Company states that it is necessary to ensure that there are sufficient participants for this Program before the Company can determine all of the components for the revenue recovery that is required. Accordingly, the Company believes that implementation of this Program must be conditioned upon the receipt of an appropriate

accounting and ratemaking order which would authorize the utilization of the Company's Power Cost Adjustment ("PCA"). The Company states that if approved these expenses will be reported as a separate line item in the monthly PCA calculation report provided to the Commission.

Finally, Idaho Power requests expedited approval of this Application because potential Program participants need to make final decisions prior to the end of February about the type and amount of crops to plant for the 2001 growing season.

## **2. Commission Staff Analysis**

As the Decision Memorandum noted, increased power supply costs, which are largely passed on to customers through the Company's existing PCA mechanism, have accumulated at an alarming rate during the past year and that electricity prices for the coming year, as reflected in forward markets, are even higher. That, coupled with an extremely low runoff forecast, has the potential to significantly increase Idaho Power's rates. Because of these circumstances Staff supports Idaho Power's proposal in concept as it has the potential to significantly reduce the Company's purchased power costs and minimize the need to increase rates in the spring of 2002. Accordingly, Staff recommended that the Commission approve Idaho Power's Application with certain exceptions, additions and conditions.

Despite its support of this Program in concept, Staff expressed concerns regarding the calculation and recovery of lost revenue and its impacts on the cost effectiveness of the Program. Staff has requested additional information and examples of these calculations from the Company and will continue its evaluation. Based on these concerns, Staff recommended that the Commission establish a comment period and accept comments on lost revenues, cost effectiveness of the Program and any other concerns interested parties may have. Staff also supports a shortened comment period because of the time sensitive nature of this Program.

After Idaho Power has evaluated the bids it receives from irrigation customers, but prior to signing any contracts, Staff recommended that the Company be required to seek Commission authorization to continue to proceed with the Program. Staff believes this filing should include the following information: the amount of kWh proposed to be purchased, the associated number of acres to be taken out of production by county, the average price per kWh that the Company would pay its irrigation customers and the maximum price the Company proposes to accept. The report should also provide monthly energy prices in the forward market for the 2001 irrigation season. Staff also recommended that the Company file a confidential report showing projected loads and resources by month during the irrigation season with and without the proposed Program. Staff believes this information along with comments received will allow the Commission to make a more informed decision on the impact of the Program. Staff recognizes the need to act on the Program in a timely manner and therefore recommends expedited processing of the Company's subsequent filing as well.

In the event the Commission approves continuing this Program, Staff proposed that the Company file a report showing all bids received ordered from lowest bid to highest, the quantity of energy offered by each bidder and whether or not a contract was signed. This same report should show bids rejected by the Company due to defect or withdrawn by the customer for any reason. Staff also recommended that the monthly PCA report to the Commission identify the costs of this Program as a line item. Staff has further recommended that contract costs and lost revenues be reported individually in that report. If information in addition to that described above is used in making decisions that affect customer rates, that information should be kept by the Company for Commission review. Finally, Staff recommended that following the final payments in 2001 but prior to the PCA rate filing in 2002, the costs associated with this Program be subject to a prudence review. A prudence review would determine if the Company made the appropriate decisions

based on the information available at the time of the decision. Staff believes the results of the prudency review will determine what amount of costs or lost revenues, if any, resulting from this Program the Company is entitled to recover from ratepayers through its PCA rate adjustment.

## COMMISSION FINDINGS

After review of Idaho Power's Application and consideration of Staff's recommendations and the thoughtful comments made by interested parties at the Decision Meeting on February 14, 2001, the Commission is prepared to take initial action on this matter.

First, this Program's success in part will depend on the ability of Idaho Power to quickly issue its RFP to solicit bids from its irrigation customers. This is critical because the irrigation customers that this Program is targeting need to make final decisions in the coming weeks about the type and amount of crops to plant for the 2001 growing season. A decision to participate in this Program may impact those decisions. Accordingly, the Commission finds that it is necessary to process this Application in an expedited manner.

Prices for power skyrocketed in June 2000 and have remained high. The Commission must consider any programs that may help to lessen the significant rate increases that seem likely. The Commission finds that the Program proposed by Idaho Power has the potential to substantially reduce the Company's purchased power costs through the summer months. Furthermore, the majority of the interested parties who provided comments to the Commission support this program. These same parties also suggested that more irrigators would participate in the Program if the Company offered irrigators a flat rate and a percentage of the difference between it and the monthly average of the wholesale spot price. In response to questions from the Commission many irrigators stated they would not be willing to accept a percentage of market price decreases below the base level. The one party who did not support going ahead with this Program was the Resources & Environment Committee of the Idaho State Senate. The Committee requested that the Commission delay consideration of Idaho Power's Application until enough information had been compiled to "assess the impacts of this proposal on local economies" and to allow farmers to make informed decisions about whether to submit a bid. Letter from the Hon. Laird Noh, Chairman, Resource & Environment Committee of the Idaho State Senate (February 13, 2001).

The Commission finds that Idaho Power's Application should be approved to the extent that solicitation of competitive bids from irrigation customers are obtained. These bids should identify the type, amount and price expected for demand and energy reduction proposed. This is valuable information regarding the scope of the Program. The Commission will review this information to determine whether the Program will provide benefits to Idaho ratepayers before making a final decision. Although the Commission has not delayed its initial decision on this Application as was requested by the Resource & Environment Committee, it shares the concerns expressed. The Commission believes that the final review and the ongoing monitoring of this Idaho Power Program will address the concerns raised by the Resource & Environment Committee. Furthermore, after considering the irrigators' comments about the bid process the Commission finds the Company's proposed bid process is the best way to proceed with this Program. Our goal is to achieve the least costly energy usage reduction available. A bid process is the best mechanism to discover the lowest costs that can be found.

While Idaho Power is soliciting bids from irrigation customers, the Commission finds that it is also appropriate to accept comments from interested parties about any issues surrounding the Company's Program. Comments should be filed on or before February 28, 2001. The Commission shall also allow reply comments to be filed no later than March 5, 2001.

Once Idaho Power has evaluated all the bids it receives from irrigation customers, but prior to signing contracts, the Commission requires the Company to file for authorization to continue the Program. In its filing Idaho Power is to include the following information as presented in the bids: the amount of kWh proposed to be purchased, the associated number of acres to be taken out of production by county, the average price per kWh that the Company would pay irrigators and the maximum price the Company proposes to accept. This filing shall also provide monthly energy prices in the forward market for the 2001 irrigation season. The Commission also requires Idaho Power to file a confidential report showing projected loads and resources by month during the irrigation season with and without the proposed Program. This information along with comments received will allow the Commission to make a more informed decision on the impact of the Program and whether it will be beneficial for Idaho ratepayers. Idaho Power shall make this subsequent filing with the Commission on or before March 9, 2001.

Finally, the Commission requests comments on the Staff's recommendations for the continued review of Idaho Power's Program. The Staff advocates that the costs of this Program be displayed in the Company's monthly Power Cost Adjustment report to the Commission as a separate line item, and following the final payments in 2001 but prior to the PCA rate filing in 2002, the costs associated with this Program be subject to a prudence review.

## **ORDER**

IT IS HEREBY ORDERED that Idaho Power's Application shall be processed in an expedited manner.

IT IS FURTHER ORDERED that Idaho Power's Application is granted for the sole purpose of beginning its load reduction program by soliciting competitive bids from its irrigation customers to reduce their electrical demand and associated consumption of electrical energy during the 2001 growing season in return for compensation from the Company.

IT IS FURTHER ORDERED that the Commission will accept all written comments from interested parties on Idaho Power's Program which are filed on or before February 28, 2001.

IT IS FURTHER ORDERED that reply comments shall be filed no later than March 5, 2001.

IT IS FURTHER ORDERED that on or before March 9, 2001, Idaho Power shall file for authorization to proceed with its Program. This filing shall include the information that the Commission discussed above in its Findings.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this  
day of February 2001.

DENNIS S. HANSEN, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

PAUL KJELLANDER, COMMISSIONER

ATTEST:

Jean D. Jewell

Commission Secretary

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