

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION OF )**  
**IDAHO POWER COMPANY TO AMEND )** **CASE NO. IPC-E-96-17**  
**SCHEDULE 19 TO PROVIDE FOR A SPECIAL )**  
**CONTRACT OPTION TO CUSTOMERS 10 MW )**  
**AND ABOVE. )** **ORDER NO. 26667**  
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On August 23, 1996, the Idaho Power Company (Idaho Power; Company) filed an Application for approval of revisions to the Company's Schedule 19, which provides service for large customers up to 25 MW. Under the current tariff, when a customer's load exceeds 25 MW, special contract arrangements are required. According to Idaho Power, this special contract provision allows both the Company and its largest customers to customize service provisions to better suit the requirements of the customer and the Company. Idaho Power contends that these special contracts permit an individual cost analysis for these customers during revenue requirement proceedings which allows these largest customers to be evaluated as individual customer classes.

Idaho Power contends that as the electric industry becomes more competitive, it is increasingly important for the Company to ensure that its large customers are neither subsidized by nor required to subsidize other customers. The Company contends that in order to accomplish this cost recognition, it is necessary to move away from a general tariff pricing methodology toward a special contract services pricing methodology. To accomplish this end, Idaho Power requests approval of a revised Schedule 19, which includes a provision for optional special contract service for those customers who contract for 10 MW or more of load from Idaho Power.

The Company notes that it has seven customers in its Idaho jurisdiction that potentially could become eligible for the 10 MW provision including J.R. Simplot Company in Caldwell, Hewlett Packard in Boise, the Mountain Home Air Force Base, Lamb Weston in Twin Falls, Ore-Ida Foods in Burley, Lamb Weston in American Falls, and American Micro Systems in Pocatello.

According to Idaho Power, the intent of the contract option is to mutually negotiate contracts between the Company and its larger customers. If the parties fail to come to a special contract agreement, service would be continued under Schedule 19. The starting point for contract negotiations would be the current terms, conditions and prices provided under Schedule 19. Assuming agreement is reached, each contract would be submitted to the Commission for approval. Idaho Power recognizes that the new contracts are to be viewed in the context of the general rate freeze currently in affect and must be entered into voluntarily.

On September 19, 1996, the Commission issued a Notice of Modified Procedure soliciting

comments in response to the Company's Application. Comments were received from the Idaho Retailers Association, the Industrial Customers of Idaho Power and the Commission Staff. Those comments are summarized below.

### **Idaho Retailers Association**

The Idaho Retailers Association (Retailers) is an Idaho trade association consisting of approximately 150 member companies operating retail outlets throughout the state of Idaho. The vast majority of retailers are general service (Schedule 9) customers of Idaho Power. Consequently, these customers would not be provided with the option of special contracts under the Company's proposal in this case. The Retailers argue that in the last general rate case conducted for Idaho Power and completed in 1995 (Case No. IPC-E-94-5) the Commission used a cost of service study which indicated that Schedule 9 customers were paying rates that were more than 14% in excess of their respective cost of service. The Commission, in Order No. 25880, determined that for the purposes of rate stability and moderation, Schedule 9 customers would not be moved fully to cost of service. Rather, the Commission ordered an 8% reduction for the Schedule 9 class.

Order No. 25880 also recognized that cost of service studies become dated with the passage of time. The Commission stated:

The final revenue allocation among the customer classes resulting from these findings is shown in Appendix 4. We are concerned that the passage of much time between examinations of cost of service and revenue allocation issues prevents an orderly move to cost of service rates. Accordingly, if a general rate case has not been filed by Idaho Power within two years of today's Order, we direct the Company to prepare a cost of service study for Staff review on or before April 1, 1997.

Order No. 25880 at p. 35.

The Retailers note that Idaho Power supports its special contract proposal for larger customers in this case by stating that large customers should neither subsidize nor be subsidized by other customers. In spite of this, the Retailers argue that they continue to subsidize other classes by paying rates exceeding their cost of service. The Retailers object to Idaho Power's Application in this case for two reasons. First, they contend that it violates the intent of Order No. 26555 issued in the electric restructuring case (Case No. GNR-E-96-1) where the Commission stated the following principle to be applied to market-based mechanisms:

Recommendation No. 10: Develop market-based mechanisms that will ensure all customers have the opportunity to participate in greater levels of competition if they so choose.

The point of this recommendation seems to be that to the extent some aspect of the industry is deregulated, that all customers have the opportunity to compete for favorable rates and/or service.

We agree wholeheartedly. Large customers must not be allowed opportunities that are not available to small customers, under the guise of competition. Restructuring should be accomplished in a manner that allows the economic efficiencies of a competitive market to benefit all customers and not just a select few.

Order No. 26555 at p. 8.

The Retailers argue that Idaho Power's proposal is clearly intended to only benefit its largest industrial customers, under the guise of competition, to the exclusion of smaller customers such as the Retailers.

Second, the Retailers question Idaho Power's proclaimed motive to ensure that its largest industrial customers are neither subsidized by nor subsidize other customer classes considering that in the last general rate case, the cost of service study adopted by the Commission indicated that the Company's largest industrial customers on Schedule 19 were brought to cost of service-based rates. Schedule 9 customers, on the other hand, were left paying rates 6% in excess of their cost of service. The Retailers contend, therefore, that the Company should have filed an Application first on behalf of large Schedule 9 customers if, in fact, it had concerns regarding rate fairness and subsidies.

In conclusion, the Retailers request that before consideration of the Company's Application by the Commission, the following conditions occur:

1. Idaho Power prepares and submits its cost of service study as required by Order No. 25880;
2. A hearing is held by the Commission with respect to the cost of service studies;
3. The Commission adopts a new and current cost of service study which best reflects today's cost of providing electrical service to all customer groups and classes, and;
4. The Commission makes appropriate revenue allocation adjustments among all company rate classes in a revenue neutral fashion so as not to violate the currently existing rate freeze so that all rate schedules or customer groups have a cost neutral rate in preparation for a competitive electric utility industry.

### **Industrial Customers of Idaho Power**

The Industrial Customers of Idaho Power (ICIP) is an unincorporated association of large industrial customers of Idaho Power Company. All members of the ICIP receive electric utility service under Schedule 19. The ICIP states that it has consistently supported the use of special rate contracts before this Commission and, consequently, supports the Company's Application in this case. The ICIP qualifies its support of Idaho Power's Application with the caveat that providing for special contracts for large industrial customers is not an adequate substitution for deregulation, which the ICIP advocates. The ICIP views Idaho Power's Application as simply a first step toward the inevitable deregulation of

the electric utility industry in Idaho. The ICIP urges the Commission to free not just those Schedule 19 customers whose load happens to exceed 10 MWs, but all customers. To do so in an orderly fashion, however, the ICIP proposes that the freedom to negotiate special rate contracts first be allowed to those customers whose loads exceed 10 MW as proposed by the Company. Six months later, all customers whose load exceeds 5 MW should be permitted the freedom to negotiate special contracts with the Company. Six months after that, all customers whose loads exceed 1 MW should be permitted the opportunity to negotiate special rate contracts. Finally, the last group of customers whose load is less than 1 MW should be permitted to negotiate special rate contracts. The ICIP suggests that this four tiered phase-in of the freedom to negotiate special contracts allows all parties an opportunity to explore the available alternative rate options and will not overly burden Idaho Power with a rush of Applications.

### **Commission Staff**

Staff notes that the Company's proposal appears to be consistent with Order No. 26555 issued in the electric restructuring case in which the Commission stated:

We can see no reason to discontinue our policy of allowing special contracts for larger customers due to their size and the unusual characteristics of their respective loads. We are supportive of any type of pricing that is responsive to customer needs so long as the net revenues collected from those customers are fair and do not place an undue burden on other customers. Again, we encourage the utilities to be creative in this regard.

Order No. 26555 at p. 8.

Staff concludes that Idaho Power's Application appears to be an attempt to more closely tailor service to individual customers' specific needs in an increasingly competitive industry. As such, Staff believes, it appears consistent with the Commission's vision reflected in Order No. 26555.

Staff notes that the Company is currently in the midst of a rate stability agreement (established in Case No. IPC-E-95-11) that precludes it from changing its base revenue requirement prior to January 1, 2000. This commitment, however, does not prevent the Company, or any other party, from filing to redistribute revenue requirement among customer classes. Special contracts that reduce a Schedule 19 customer's rates without an offsetting reduction in the costs of serving that customer could shift revenue requirement to other customers. Any such shift, Staff asserts, should be closely examined and shown to be in the best interest of the general body of ratepayers prior to contract approval.

Staff observes that another consideration is the sharing provisions of the rate stability agreement. Even if Idaho Power were to agree to absorb a reduction in its revenue requirement caused by lower special contract rates given to a qualifying Schedule 19 customer, other customers could be adversely affected due to the change in actual earnings caused by such a contract. If actual earnings exceed or would have exceeded an 11.75% return on equity, other customers receive less sharing dollars

than they would have otherwise. On the other end of the sharing spectrum, if the actual return on equity is less than 11.5%, additional accelerated deferred income tax credits would be required to bring the Company's actual earnings up to 11.5%.

### **Idaho Power's Response**

On October 21, 1996, Idaho Power filed a response to the comments submitted by the ICIP and the Retailers. Idaho Power contends that both the Retailers and ICIP have missed the point of the Company's Application which is to provide for a voluntary special contract for customers whose loads exceed 10 MW. Idaho Power notes that the 25 MW threshold currently in place requires a special contract for customers whose loads exceed that level. The Company further points out that the original 25 MW threshold was not determined by any cost of service calculation but, rather, based on administrative convenience. The Company argues that there is no reason why this limit cannot be lowered to 10 MW. Idaho Power to the revised Schedule 19 would be subject to Commission review in light of the criteria set forth in *Idaho Code* 61-315.

### **FINDINGS**

We hereby approve the Company's Application. In Order No. 26555, issued in the electric restructuring case, we expressed our support for innovation in the structuring of Idaho Power's pricing and the treatment of its customers. This is particularly essential at a time when Idaho's largest electrical supplier is facing the challenges of an increasingly deregulated electric industry. Furthermore, the interest of Idaho Power's customers, as a whole, will be best served by a utility that is responsive to their needs.

We find that the concerns expressed by the Retailers, regardless of their legitimacy, are premature. By approving the Company's Application, we are simply recognizing the need for flexibility in addressing the needs of the Company's larger customers. The only effect of this Order is to establish the framework for enhancing that flexibility and responsiveness. We will assess the effect that special contracts have on the Company's other customers when those contracts are presented to the Commission for review. At that time, the Retailers will have ample opportunity to challenge the rates and conditions set forth in any proposed special contracts. Furthermore, as the Retailers note, the Company will conduct a cost of service study in early 1997. In the event that adjustments are made to the rates of Idaho Power's various classes as a result of that study, any special contracts executed prior to that time will be subject to such adjustments. Consequently, we find that no party will be adversely affected by our approval of Idaho Power's request to expand the availability of special contracts.

Regarding the ICIP's suggestion that we make the option of special contracts available to all customers, we find that there is not a sufficient factual record in this case to make such a ruling, and decline to do so at this time. The Company is free to make such a proposal if it feels that it would be in the best interests of ratepayers.

We also decline to address the fluctuation in earnings levels that a new negotiated contract

might bring but will consider it further when we have an actual contract presented to us.

**ORDER**

IT IS HEREBY ORDERED that Idaho Power's Application to lower the threshold for the availability of special contracts from 25 MW to 10 MW is hereby approved.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. IPC-E-96-17 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this Case No. IPC-E-96-17. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this day of October 1996.

RALPH NELSON, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Myrna J. Walters  
Commission Secretary

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