

ITEM NO. 1

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 20, 2001**

REGULAR AGENDA X CONSENT AGENDA ___ EFFECTIVE DATE March 21, 2001

DATE: March 14, 2001

TO: Phil Nyegaard through Marc Hellman, Bryan Conway and Lee Sparling

FROM: Stefan Brown

SUBJECT: Idaho Power Advice No. 01-03 – Request for Approval of Schedule 22, Energy Buy Back Program

SUMMARY RECOMMENDATION:

I recommend the Commission approve Idaho Power's requests, and allow Idaho Power Advice No. 01-03 to go into effect with less than statutory notice on March 21, 2001.

DISCUSSION:

On February 15, 2001, Idaho Power filed a request for approval to introduce an Energy Buy Back Program. Schedule 22 is a rider to a standard electric tariff schedule under which customers purchase electric service. Schedule 22 is an optional, supplemental service that allows participating customers an opportunity to voluntarily reduce their electricity usage, at times determined by Idaho Power, in exchange for credits based on prevailing market prices. On March 14, 2001 Idaho Power made a replacement filing to incorporate changes to the tariff recommended by Staff. At that time, the company also requested approval with less than statutory notice. Advice No. 01-03 is very similar to PacifiCorp's Advice No. 00-018 that the Commission approved on December 8, 2000, and modified on March 6, 2001.

Idaho Power made this filing due to recent events in the electricity markets. Specifically, it states that current and projected wholesale energy purchase prices, coupled with predicted below-normal stream flows, are, in Idaho Power's judgment, sufficient bases to support a program to pay industrial and large commercial customers and any customer able to reduce load by 1,000 kW to reduce their electrical usage. Idaho Power believes this program may allow it to cost-effectively reduce its total purchase

power expense during 2001, thereby benefiting all of Idaho Power's customers. In addition, customers are asking for a buy back program. Idaho Power has made a similar filing with the Idaho Public Utilities Commission, Case No. IPC-E-01-04.

In support of its requests, Idaho Power states that Schedule 22 will provide customers with an opportunity to voluntarily reduce their load in exchange for credit on their Idaho Power account. The goal is to make this program economically beneficial to both the customer, the company, and therefore, to the non-participants. Benefits to the company and other customers will result from reduced system costs.

The company's goal in filing Schedule 22 is to target large commercial and industrial customers. Schedule 22 will be available to any customers able to reduce their electric load by at least 1,000 kW at one metering point, and that have meters capable of recording interval usage data for intervals no greater than 60 minutes.

The set of hours that the customer is given the opportunity to exchange electrical load for Exchange Credit is called an Exchange Event. Idaho Power will announce Exchange Events the day of, the day ahead or two days in advance. The announcement will include the hours included in the event and the price to be paid customers (the Bid Price). The Bid Price may vary by hour and the customer may commit to load reductions for specific hours. In most cases the Bid Price will be approximately 50% of the wholesale market price. The minimum time for an Exchange Event will be two consecutive hours for both the customer and the company.

When Idaho Power notifies customers of an exchange event, the customer can choose whether or not to participate in that event, which hours they will curtail load, and the amount to curtail (Committed load). Idaho Power then balances loads and resources taking advantage of cost-reducing opportunities through these load reductions. Nonperformance occurs when a customer does not reduce its load by at least 85% of its commitment. The first time a customer participates in an Exchange Event its credit will be calculated as the product of the bid price and the amount actually curtailed (the Exchange Load) regardless of whether it was within 15% of the Committed Load. In subsequent Exchange Events, if the customer is within 15% of the committed load reduction, the customer will be credited with the product of the Bid Price and the Exchange Load. If the customer's actual reduction is less than 85% of its commitment, the customer will be credited for the reduced load, but will be debited for the product of the Bid Price and the difference between the actual load reduction and the Committed Load. If the load reduction is more than 115% of its Committed Load the customer will be credited for 115% of its Committed Load at the Bid Price, but will only be credited with one half of the Bid Price for everything over 115% of its Committed Load.

STAFF ANALYSIS

Schedule 22 Issues

Schedule 22 is a voluntary program. Since customers are free to decide whether or not to take service under the new rider, they would presumably weigh the potential risks and benefits before electing to take service under the new rider. Non-participants will not be harmed either because participation in Schedule 22 should lead to reductions in Idaho Power net power costs. In addition, participation in this program may improve system reliability.

Staff identified several issues regarding Schedule 22: customer eligibility, load shifting, lost revenue, and the expiration date. These issues are discussed below.

Eligibility

Although Idaho Power does not currently have a daily market price based tariff, the company has included language in its revised tariff that makes load being served under a market priced tariff ineligible for this Energy Buy Back Program; a condition which was included in the corresponding PGE and PacifiCorp programs. Staff believes that the 1,000 kW load reduction threshold for eligibility is perhaps too high. Staff will continue to work with the company to expand the set of eligible customers.

Load Shifting

The revised tariff includes language prohibiting load shifting. Staff feels that prohibiting load shifting may prevent customers from "gaming" the program. For example, assume that an Exchange Event covers four consecutive hours, that the Bid Price and wholesale market price is the same for all four hours, and that a particular customer decides to participate and reduce load for only the first two hours of the event. The customer could reduce load by 10% in each of the first two hours of the Exchange Event, then increase electricity usage in the last two hours of the event by 10%. The net result is that the customer's total usage for the entire Exchange Event is exactly the same as its Base Load. Idaho Power would achieve no net reduction in electricity usage during the event attributable to this customer, but the company would have to pay the customer for its load reduction during the first two hours of the event. Staff believes that this type of behavior should be prohibited.

Lost Revenue

In Advice No. 01-03 the company stated "the Company will book the Exchange Credit given the customer and the lost revenue associated with the load reduction to account 555 as power supply costs." Staff believes that the company is not automatically entitled to recovery of lost revenues, and that the appropriate mechanism in which to set how, and under what conditions, lost revenue can be recovered is a power cost adjustment (PCA) mechanism. Clearly, with current market conditions this program makes economic sense for the company even if lost revenues are not considered, especially

since the company sets the bid price. On December 19, 2000, Idaho Power filed for authorization to defer excess net power costs in calendar year 2001. This filing was docketed as UM 1007. Since UM 1007 is still open, Staff recommends the issue of lost revenue be addressed there or in a PCA filing should the company file for a PCA.

Expiration Date

Schedule 22 as originally filed expired March 21, 2002, unless extended by the company. The company has revised the tariff sheets to eliminate the expiration date, make the program permanent, and change the name to reflect the elimination of the expiration date.

Conclusion

Staff believes that Schedule 22 will have considerable value for both Idaho Power and its customers. This tariff will provide customers the opportunity to share in the market value of electricity through voluntary curtailment. The tariff will benefit Idaho Power in two ways. First, Idaho Power will be able to reduce its energy purchases and power costs during hours when electricity prices are high by calling an Exchange Event during which customers can voluntarily curtail load. Not only will Idaho Power's load be reduced during Exchange Events, but also Idaho Power should have a good idea of the level of load reduction prior to the Exchange Event. Second, Idaho Power will gain useful information on the degree to which customers reduce load when eligible for incentives. Customers that participate in the program will benefit through credits on their Idaho Power accounts for curtailing load during high priced hours. If a PCA is approved in UM 1007 or another docket, then all Idaho Power customers will benefit directly from this program because the Energy Buy Back Program should reduce the amount of excess power costs that are deferred.

Idaho Power's Energy Buy Back Program is very similar to PacifiCorp's Energy Exchange Program, as modified and approved on March 6, 2001. The primary difference is that Idaho Power's program modifies its credit to customers based on how closely each Customer matches its committed load reduction while PacifiCorp pays participants the same price for all energy reductions from Baseline. Idaho Power's customers are monetarily impacted if they miss their commitment target by more than 15 %, while PacifiCorp customers can be eliminated from the Program if they do not reduce usage to their Firm Service Level. Both Idaho Power's and PacifiCorp's approaches encourage customers to reduce usage to the amount committed to. While other differences exist, they are minor. None of the differences affect the basic nature of the Energy Buy Back Program, nor change Staff's belief that this Rider benefits participating customers, all other Idaho Power customers, and Idaho Power.

Finally, I would like to note that Staff encourages Idaho Power to consider developing energy exchange programs that are for longer commitments of energy reductions, such as months. Some customers, such as irrigation, while not of large size in kW demand, may be of considerable value in reducing energy loads on the company.

DETAILED RECOMMENDATION:

Phil Nyegaard
March 14, 2001
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I recommend the Commission approve, subject to the condition listed below, Idaho Power Advice No. 01-03, Energy Buy Back Program and allow Idaho Power Advice No. 01-03 to go into effect on March 21, 2001 with less than statutory notice.

Condition

- Defer consideration of lost revenue associated with load reduction to UM 1007.