

ITEM NO. 1B

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

REGULAR AGENDA X CONSENT AGENDA EFFECTIVE DATE March 21, 2001

DATE: March 15, 2001

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

FROM: Stefan Brown

SUBJECT: PacifiCorp Advice No. 01-007, Request for Approval of Schedule 72—Irrigation Curtailment Program Rider

SUMMARY RECOMMENDATION:

I recommend the Commission approve, subject to conditions listed below, PacifiCorp's request to allow Advice No. 01-007 to go into effect on March 21, 2001 with less than statutory notice.

DISCUSSION:

On March 14, 2001, PacifiCorp filed a request for approval to introduce an Irrigation Curtailment Program Rider (Program) and to waive Statutory Notice. Schedule 72 is a rider to a standard electric tariff schedule under which customers purchase electric service. Schedule 72 is a voluntary, supplemental service that lets eligible irrigation customers reduce their consumption of electrical energy for the 2001 growing season in exchange for payment from PacifiCorp. This Program will terminate on November 30, 2001.

This Program is being offered to irrigation customers currently being served under Agricultural Pumping Schedule No. 41 who agree to disconnect their pumps from PacifiCorp's electrical distribution system throughout the 2001 growing season. The growing season is defined as May 1, 2001 through November 30, 2001. Schedule 41 customers must have no less than 16 kW of total pumping operations to qualify for Schedule 72. In addition, participants will be required to certify that they will not offset electrical usage at other PacifiCorp connections, such as parallel pumping plant systems in common main lines. Customers may use other pumping energy sources to power their existing electric pumps or to directly drive their pumping systems. Any violation of program requirements will result in

forfeiture of customer Program payments. In addition, energy consumed by the Customer in violation of Program requirements will be billed at 25 cents per kWh.

Reconnection fees would be waived for the following year for load that is disconnected under this Program.

PacifiCorp requested expedited treatment of this filing because of the impending need of irrigators to make decisions well before May 1. Specifically, farmers need to determine what crops to plant and the number of acres to irrigate while there is still time to alter their plans.

The purpose of Schedule 72 is to cost-effectively reduce load, thereby reducing the total cost incurred for power purchased in the wholesale market during the upcoming irrigation season. The extreme prices in the wholesale market make load curtailment programs such as proposed Schedule 72, and Schedule 71, viable and cost-effective. Successful implementation of the proposed schedule will reduce the excess power costs, thus reducing amounts that the Company may seek to recover in a future case. On February 23, 2001 PacifiCorp made a similar filing with the Idaho Public Utilities Commission, which was docketed as Case No. PAC-E-01-4.

Payment under this Program will be 12.5 cents per kWh for all qualifying kWh. Payment will be made monthly based on the customer's corresponding calculated qualifying average monthly usage. However, payments under this Program will be adjusted to reflect any outstanding customer balances or arrears to the Company.

STAFF ANALYSIS

Schedule 72 Issues

Schedule 72 is a voluntary program. Since irrigators are free to decide whether or not to curtail load, they would presumably weigh the potential risks and benefits before electing to take service under the new rider. The Program will not harm non-participants because Program participation should lead to reductions in PacifiCorp net power costs, and the Program includes damages to compensate PacifiCorp for Program violations.

Staff identified several issues regarding Schedule 72: eligibility, customer nonperformance, treatment of Program violation payments, and treatment of lost revenue. These issues are discussed below.

Eligibility

PacifiCorp's filing states that in order to qualify for the Program the irrigator must have total pumping operations of no less than 16 kW and must disconnect their pumps from PacifiCorp's distribution system for the 2001 irrigation season. Staff believes that the 16 kW threshold for eligibility is too high. Staff will continue to work with the company to expand the set of eligible customers.

Customer Nonperformance

Since Customers' pumps are disconnected from PacifiCorp's distribution system, they will be in compliance with Program requirements on electricity usage unless they offset electrical usage at other PacifiCorp connections, move the curtailed pumps, or transfer water rights to another user such that the curtailed electricity usage otherwise occurs. However, should a Customer violate the Program requirements they will be billed 25 cents per kWh for any electricity consumed in violation of Program requirements and will forfeit Program payments. Staff concurs with the Company that Customers should be charged a value approximating the wholesale market cost to supply the electricity used.

Treatment of Program Violation Payments

PacifiCorp's filing does not mention accounting or ratemaking treatment of Program violation payments. Staff believes, and the company has agreed, that Program violation payments should offset purchase power expenses.

Treatment of Lost Revenue

PacifiCorp's filing does not mention recovery of lost revenue. While payments to customers for load reduction under this Program should be included as power 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.

On November 1, 2000, PacifiCorp filed an Application for an Accounting Order Regarding Excess Net Power Costs (Application) requesting authorization to defer excess net power costs. This Application was docketed as UM 995. Staff recommends the issue of lost revenue be addressed there or in a PCA filing should the company file for a PCA.

Conclusion

Staff believes that this Program will have considerable value for PacifiCorp, its irrigation customers, and its other customers. The Program will provide participants the opportunity to share in the savings due to reduced electricity consumption through voluntary curtailment. The Program will benefit PacifiCorp because it will be able to reduce its energy purchases and power costs during the typically high price summer months. Customers that participate in the Program will benefit through credits for curtailing load during the growing season. All PacifiCorp customers will benefit directly from this Program because the Irrigation Curtailment Program should reduce power costs. In addition, the reliability of the region's electric system should be improved by load curtailments under this Program.

DETAILED RECOMMENDATION:

I recommend the Commission approve, subject to the conditions listed below, PacifiCorp Advice No. 01-007, and allow the Irrigation Curtailment Program Rider to go into effect on March 21, 2001 with less than statutory notice.

Conditions

- Defer consideration of lost revenue associated with load reduction to UM 995 or a PCA filing;
- Defer treatment of Program violation payments to UM 995 or a PCA filing.