

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: October 11, 2005**

REGULAR \_\_\_\_\_ CONSENT  X  EFFECTIVE DATE  October 12, 2005

**DATE:** September 29, 2005

**TO:** Public Utility Commission

**FROM:** Bill McNamee

**THROUGH:** Lee Sparling, Ed Busch and Bonnie Tatom

**SUBJECT:** IDAHO POWER COMPANY: (Advice No. 05-11) Proposes modifications to Schedule 24, Irrigation Service, related to customer deposit requirements.

**STAFF RECOMMENDATION:**

I recommend that the Commission allow Idaho Power Company's Advice No. 05-11 to go into effect on October 12, 2005.

**DISCUSSION:**

Idaho Power Company (IPCo) filed Advice No. 05-11 with the Oregon Public Utility Commission (OPUC) on August 22, 2005, under ORS 757.205. This filing proposes provisions for Schedule 24 (*Irrigation Service*) that are designed to expand protection for the Company and its customers from losses from unpaid irrigation bills. The proposed changes are consistent with irrigation deposit provisions that were approved by the Idaho Public Utilities Commission (IPUC) in late 2004 (*see IPUC Order No. 29639, issued November 23, 2004*).

**OVERVIEW:** Under current Oregon Schedule 24 provisions, a deposit may be required from new irrigation customers with no credit history, as well as existing customers with a history of late payments or who are in bankruptcy proceedings. IPCo states that, while the current deposit provisions are adequate for most irrigation customers, in recent years there has been a significant increase in unpaid irrigation bills (*accounts receivable*) and an associated increase in bad debt (*net write-offs*). The Company indicates that between 2002 and 2004 system-wide irrigation service write-offs doubled from \$426,000 to \$853,000. As shown in the following table, increasing net write-offs are an equally relevant issue in the Company's Oregon service territory.

System/Oregon Net Write-Offs Per \$1,000 of Billed Revenue

Year	Commercial	Industrial	Irrigation
2002	\$2.14 / \$6.80	\$0.00 / \$0.00	\$4.53 / \$0.00
2003	\$2.04 / \$2.04	\$0.00 / \$0.00	\$4.45 / \$4.20
2004	\$1.01 / \$1.99	\$0.00 / \$0.00	\$6.64 / \$8.38

In addition, IPCo points out that there is a trend towards consolidation of irrigation service agreements, which are established for each service point, into the hands of fewer customers. The Company claims that this trend increases its risk exposure, the reason being that the default of a single customer with multiple service agreements has the potential of producing an increasingly larger write-off of bad debt.

**IPCo PROPOSAL:** To address the above concerns, IPCo is proposing to revise its deposit policy for irrigation customers by collecting a higher deposit from those customers who present a high credit risk. Essentially, a customer who has an outstanding balance of over \$1,000 on December 31 (*i.e., end of irrigation year*) or who is in bankruptcy or receivership will be required to pay a new “Tier 2” deposit to receive service for the next irrigation season.<sup>1</sup> The proposed “Tier 2” deposit would be four (4) times the customer’s estimated monthly bill.<sup>2</sup> This compares with the current “Tier 1” deposit of one and one-half (1.5) times the customer’s estimated monthly bill.

IPCo also proposes to apply “Tier 2” deposit amounts and accrued interest to the customer’s account in a different manner. “Tier 1” deposits plus interest will continue to be applied to the customer’s account at the time of disconnection or at the time of the September billing. A portion of “Tier 2” deposits, however, would be applied to the customer’s account each billing month until the deposit account is depleted. Any remaining deposit would be applied to the customer’s account at the time of disconnection or at the September billing.

**REVIEW:** IPCo indicates that in November of 2004, when the “Tier 2” deposit requirement was approved by the IPUC, the total amount in arrears for irrigation customers at risk of having to pay the “Tier 2” deposit for the 2005 irrigation season was \$2.6 million. By December 31, 2004, this group of customers had paid \$1.1 million of their arrearage. Therefore, IPCo concludes that the initiation of the “Tier 2” deposit requirement substantially reduced the Company’s financial risk from delinquent irrigation receivables.

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<sup>1</sup> The irrigation season is generally four months -- June through September.

<sup>2</sup> In essence, the customer’s bill for the next irrigation season is being collected in advance.

Staff agrees that the data provided by IPCo clearly shows a worrisome trend toward increasing bad debt from a small subset of irrigation customers. (*For 2004, of the 1,293 Oregon irrigation customers, the number with bad debt was 12.*)<sup>3</sup> The mentioned evidence from late 2004 demonstrates that the potential of being required to pay “Tier 2” deposit amounts induced a significant reduction in delinquent debt.

Staff notes that while other customer classes may have their service disconnected after two months of unpaid bills, IPCo will not disconnect service to irrigation customers during the irrigation season or while crops are still in the ground. Given the evidence provided by IPCo, Staff believes that requiring irrigation customers who pose the highest risk to pay the highest deposit is a reasonable business policy that will help to minimize bad debt. Minimizing write-offs helps to keep electric rates low for the overall body of customers served by IPCo.

**PROPOSED COMMISSION MOTION:**

Idaho Power Company’s Advice No. 05-11 be allowed to go into effect on October 12, 2005.

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<sup>3</sup> On September 2, 2005, IPCo sent a letter to all its Oregon irrigation customers notifying them of the proposed changes to deposit requirements in Advice No. 05-11.