

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE INVESTIGATION)
OF TIME-OF-USE PRICING FOR IDAHO) CASE NO. IPC-E-02-12
POWER RESIDENTIAL CUSTOMERS.)
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) NOTICE OF FILING
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) NOTICE OF MODIFIED
) PROCEDURE
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) NOTICE OF COMMENT
) DEADLINES
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In Case No. IPC-E-01-13, the Commission directed Idaho Power Company and the Energy Efficiency Advisory Group (EEAG; Advisory Group) in November 2001 to consider implementing a Time-of-Use (TOU) metering pilot program “using private contractors through a Request for Proposals (RFP) process.” Order No. 28894 at 7. Although it did not set a deadline, the Commission further encouraged the Advisory Group to “consider installing time-of-use meters in new subdivisions and the feasibility of allowing existing customers to voluntarily install time-of-use meters and amortize the cost over multiple years.” *Id.*

In Case Nos. IPC-E-02-2 and -3, the Commission reaffirmed this directive in the context of a May 2002 Power Cost Adjustment Order that funded DSM programs. Specifically, the Commission directed Idaho Power and the Advisory Group to “evaluate and report to the Commission on the viability of a Time-of-Use residential metering program by September 12, 2002.” Order No. 29026 at 22. In compliance with the Order, Idaho Power timely submitted its “Report on Residential Time-of-Use Pricing” (Report). In this Notice the Commission elects to process this filing under Modified Procedure and establishes written comment deadlines.

IDAHO POWER’S REPORT ON TIME-OF-USE PRICING

YOU ARE HEREBY NOTIFIED that to evaluate the feasibility of residential time-of-use metering, Idaho Power engaged the services of Christensen Associates. The Company describes Christensen Associates as “an economic consulting firm that has been providing consulting services to the energy industry for more than 25 years and is well known in the

industry for its work with time-of-use and real-time pricing and market-based interruptible load programs.” Report at 2.

Christensen Associates’ Analysis

YOU ARE FURTHER NOTIFIED that *traditional TOU pricing* has typically been characterized by two or three fixed price levels (e.g., peak, shoulder and off-peak) for two seasons (e.g., summer and non-summer). *Id.* at 5. If applied on a mandatory basis to residential customers, conventional TOU pricing would produce “very modest potential benefits.” *Id.* at 23. The Report attributes this to the relatively small differential between average peak and off-peak wholesale costs (and resulting retail TOU prices), as well as the general lack of correspondence between average peak costs and the day-to-day variations in those costs. Although making TOU pricing voluntary produces “somewhat higher consumer benefits,” this would result in “net revenue losses to Idaho Power due to customers self-selecting the TOU rate whenever it offers immediate bill (and revenue) reductions.” *Id.*

YOU ARE FURTHER NOTIFIED that *critical peak TOU pricing* allows the peak-period price to be increased to a higher than normal “critical” level in response to high-cost conditions in the wholesale market. *Id.* at 9. According to the Report, “Critical peak TOU pricing has the potential to produce substantial benefits.” *Id.* at 14. Not only would it produce much larger demand reductions during the most important high-cost hours than does conventional TOU, critical peak TOU pricing would allow higher net customer benefits due to the greater opportunity for benefits from load reductions during critical price periods. *Id.* at 23.

YOU ARE FURTHER NOTIFIED that the Report indicated if made mandatory, critical peak TOU pricing could result in an annual customer benefit of more than \$1 million. *Id.* More importantly, Idaho Power has the potential to avoid \$12 million per year in carrying charges for capital investments in peaking facilities. *Id.* at 22. If offered on a voluntary basis, the Report stated that “careful rate design would be required to limit the extent of revenue losses from customer self-selection.” *Id.* Under the assumptions used in Christensen Associates’ analysis, a market share of 25% would produce load reductions of approximately 40 MW during critical price conditions. *Id.* at 23-24.

YOU ARE FURTHER NOTIFIED that according to the Report, a key factor limiting these potential benefits is the nature of the costs that would be avoided by customers’ load

reductions. Under the Report's base cost scenario, cost reductions fall short of revenue reductions – yielding a large net revenue reduction. *Id.* at 23. However, cost reductions under the high-cost scenario exceed the revenue reductions, producing net gains to the utility. *Id.*

Idaho Power's Metering Capabilities

YOU ARE FURTHER NOTIFIED that the Report discussed the need to consider Idaho Power's cost to install advanced interval metering equipment and modify its billing systems to account for TOU pricing. *Id.* at 32. The analysis performed by Christensen Associates did not include any cost component for the metering equipment necessary to record usage by time period. A standard time-of-use meter records usage during the time-of-use periods and its data retrieved monthly during the Company's standard meter-reading process. The alternative, an automated meter reading (AMR) system, is read remotely via the power line or radio frequency and can be collected at will, allowing customers to receive more timely information.

YOU ARE FURTHER NOTIFIED that according to the Report, the average cost to install a standard time-of-use meter for a residential customer would be about \$145 per customer, or approximately \$47 million for all residential customers system wide. *Id.* The incremental cost of the TOU meter compared to the standard meter now installed for residential customers would result in an increased charge to customers of about \$1 a month. *Id.* The latest cost estimate to install an AMR system across Idaho Power's service territory is approximately \$72 million. *Id.*

PCA Implications

YOU ARE FURTHER NOTIFIED that the Report advocates flowing any power supply related benefits from time-of-use pricing through the Power Cost Adjustment mechanism in a manner that is fair and equitable to customers and the Company. Assuming a time-of-use scenario that successfully addresses the potential revenue attrition problems could be constructed, a time-of-use scenario "cannot be beneficial to Idaho Power without a modification to the manner in which reductions in power supply costs which result from customers' load shifting are treated in the Power Cost Adjustment (PCA) mechanism." *Id.* at 32-33. Under the current PCA methodology, 90% of the reductions in power supply costs that accrue as a result of customers shifting load from the on-peak to the off-peak period are passed through to customers

as a benefit. Thus, Idaho Power is able to retain only 10% of the benefit but absorbs 100% of the reduction in revenue. The Report states that PCA treatment of benefits resulting from reduced power supply expenses “must be addressed to remove the negative impact to Idaho Power’s earnings in order for time-of-use pricing to have the opportunity to be viable.” *Id.* at 33.

Energy Efficiency Advisory Group (EEAG)

YOU ARE FURTHER NOTIFIED that according to the Report, input from the Advisory Group indicates support for implementation of pricing that requires customers to pay what it costs to receive service. *Id.* at 34. The Report also indicated that the Advisory Group was more supportive of increasing the charges for the standard tariff service, and making both the standard service and time-of-use service optional, than it was of making time-of-use mandatory. *Id.*

YOU ARE FURTHER NOTIFIED that the Report states that the EEAG believed it would be “more sensible to pursue a demand response program than a time-of-use program at this time given the investment in metering equipment that would be necessary to accommodate a wide-scale time-of-use program.” *Id.* The EEAG did not support mandatory time-of-use pricing for new subdivisions and housing developments, nor did the EEAG support cost shifting of additional meter-related costs to non-participants. *Id.*

Conclusions of the Report

YOU ARE FURTHER NOTIFIED that Idaho Power’s TOU Report concludes that some new types of time-of-use pricing, particularly the critical peak TOU structure, may have potential as viable pricing options for residential customers at some point in the future. The cost of installing standard time-of-use meters, which would not allow for the “critical peak” design, does not appear to be economical given the potential benefits that might accrue from load shifting given the relatively small loads of residential customers. Until such time as an AMR system is available on Idaho Power’s system, and a PCA methodology is devised to remove the native impact on Idaho Power’s earnings due to the unequal treatment of the revenues and expenses impacted by load shifting, residential time-of-use pricing is not economically viable. *Id.* at 35.

NOTICE OF MODIFIED PROCEDURE

YOU ARE FURTHER NOTIFIED that the Commission has reviewed the filings of record in Case No. IPC-E-02-12. The Commission has preliminarily determined that the public interest may not require a hearing to consider the issues presented in this case, and that the issues raised by the Company's filing may be processed under Modified Procedure. In so doing, the Commission notes that Modified Procedure and written comment have proven to be an effective means for obtaining public input and participation.

YOU ARE FURTHER NOTIFIED that the Commission will not hold a hearing in this proceeding unless it receives written protests or comments opposing the use of Modified Procedure and stating why Modified Procedure should not be used. Reference IDAPA 31.01.01.203.

YOU ARE FURTHER NOTIFIED that if no protests or comments are received within the deadline, the Commission may consider the matter and enter its Order without a hearing. If protests or comments are filed within the deadline, the Commission will consider them and may set the matter for hearing or may decide the matter and issue its Order on the basis of the written positions before it. Reference IDAPA 31.01.01.204.

NOTICE OF COMMENT DEADLINES

YOU ARE FURTHER NOTIFIED that the **deadline for filing written comments or protests** with respect to the Filing and the use of Modified Procedure in Case No. IPC-E-02-12 is **Monday, November 4, 2002**. Reference IDAPA 31.01.01.202.02. Persons desiring a hearing must specifically request a hearing in their written protests or comments.

YOU ARE FURTHER NOTIFIED that the **deadline for Idaho Power Company to file written reply comments** with respect to this case is **Wednesday, November 13, 2002**.

YOU ARE FURTHER NOTIFIED that written comments concerning this Filing must be mailed to the Idaho Public Utilities Commission and the Idaho Power Company at the following addresses:

COMMISSION SECRETARY
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074

Street Address for Express Mail:

LARRY RIPLEY
BARTON L. KLINE
MAGGIE BRILZ
IDAHO POWER COMPANY
PO BOX 70
BOISE, ID 83707-0070

472 W WASHINGTON ST
BOISE, ID 83702-5983

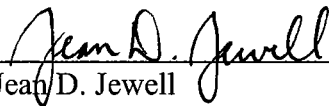
Email: lripley@idahopower.com
bkline@idahopower.com
mbrilz@idahopower.com

These comments should contain the case caption and case number shown on the first page of this document. Persons desiring to submit comments via e-mail may do so by accessing the Commission's homepage located at www.puc.state.id.us under the "File Room" icon. Once at the "File Room" page, select "File a Comment," fill in the case number as it appears on the front of this document, and enter your comments. These comments must also be sent to the Applicant at the e-mail addresses listed above.

YOU ARE FURTHER NOTIFIED that Idaho Power's Time-of-Use Pricing Report can be viewed online at www.puc.state.id.us by clicking on "File Room" and "Electric Cases," or it can be viewed during regular business hours at the Idaho Public Utilities Commission, 472 West Washington Street, Boise, Idaho and Idaho Power Company located at 1221 West Idaho Street in Boise, Idaho (388-2200).

YOU ARE FURTHER NOTIFIED that the Commission has jurisdiction over this matter and Idaho Power Company, an electric utility, pursuant to the authority and power granted under Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

DATED at Boise, Idaho this 26th day of September 2002.



Jean D. Jewell
Commission Secretary

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