- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

Revision's to PacifiCorp's Tariff P.S.C.U.) No. 43, Schedule 71, Re: The Energy) Exchange Pilot Program for Commercial) and Industrial Customers)	DOCKET NO. 00-035-T09 ORDER

ISSUED: January 25, 2001

By The Commission:

BACKGROUND AND PROCEDURAL HISTORY

On December 12, 2000, PacifiCorp, dba Utah Power and Light (Company), filed a revision to its Tariff P.S.C.U. No. 43 for Commission approval. The Company is proposing a new Schedule 71, an energy exchange pilot program for commercial and industrial customers. It is modeled after existing programs in the region and offers customers the choice of curtailing load in exchange for payments from the Company. Due to current wholesale market conditions, the Company requested immediate approval. The program is available to qualifying customers with loads in excess of 4,000kW or to customers with 1,000kW of on-site generation.

On December 13, 2000, the Commission sent an action request to the Division of Public Utilities, Department of Commerce (Division), with a response date of January 3, 2001. The Division sent a data request to the Company seeking more information about the specifics of the program and its rate-making implications. On January 3, 2000, the Division requested that its response to our action request be delayed because the Company had not yet responded to its data request. The Company responded to the Division on January 8, 2001, and the Division's analysis and recommendation were received by the Commission on January 12, 2001. On January 12, 2001, the Commission received an analysis and recommendation from the Committee of Consumer Services (Committee).

The Division recommends approval of the tariff with conditions. The Committee recommends approval as an emergency pilot measure, but suggests a price cap on the purchase of demand reductions.

DISCUSSION

The Western wholesale market is currently experiencing abnormally high prices and the Company expects that these prices will continue throughout most of the year. The Company has indicated that at certain times, it must rely on the wholesale market to meet its firm load obligations. To lessen its dependence on the wholesale market, particularly during periods of high prices, the Company proposes an optional, supplemental service, that allows participating customers an opportunity to voluntarily reduce their electricity usage in exchange for a payment at times and prices determined by the Company. The Company will notify participating customers of the opportunity to exchange electricity by declaring an "event" and posting on an internet site the hours over which the Company expects the event to last and the price it is willing to pay for those hours. Customers can inform the Company regarding the number of Megawatts they are willing to pledge for those hours. The participating customer must execute an agreement prior to its being allowed to receive service under this rider. This tariff is applicable to customers with at least 1000kW of onsite generation and/or a Monthly Demand exceeding 4,000kW at least once during the last 12-month period.

The Division analyzed five areas of this proposed tariff: program definition, costs and benefits, rate-making treatment, economic impacts/unintended consequences, and monitoring and verification. Regarding program definition, the Division recommends a revision to Item 6 of the "Special Conditions" section of the tariff. The Division requests the following change to the tariff so it reads, "Where the Company has terms and conditions in place to interrupt loads for system emergencies, the terms of this schedule are not applicable." The Division also wants to make it clear that Schedule 71 does not involve the purchase of energy from customers, thus it is not intended as a mechanism to bypass Schedule No. 37 Rates, for the purchase of power from Public Utilities Regulatory Policies Act qualifying facilities. The Division recommends other minor revisions to the tariff that are included in its memorandum.

The Division estimates that the total costs of setting up the program and operating it through October 1, 2001, is approximately $339,000, while a conservative estimate of the benefits as measured by avoided wholesale purchases is around $540,000. The Division concludes that the program can be expected to pass a benefit/cost test. This conclusion is based on the assumption that the Market Signal Price, the price paid to customers for load reduction, is approximately 50% of the avoided wholesale price. The Division agrees with the Company that the costs of this program should be allocated on a system-wide basis, although they reserve the right to question the Company's recommended system energy or SE allocation factor in a rate case. The Division also recommends that payments to customers be recorded in a 557 sub-account to facilitate auditing.

The Division and the Committee express concern that the program may cause economic dislocations or unintended consequences. The Division recommends that it be allowed to monitor the program in real-time and further requests a quarterly detailed report on the performance of the program. The Division requests a sunset date of April 15, 2001, rather than the Company's recommended date of October 1, 2001. The earlier sunset date will require an explicit assessment of the program's impacts and allow fine tuning of the program to better meet its objectives. This earlier sunset date is not intended to disrupt a well functioning program but will insure program evaluation and refinement at the earliest possible date. The Division notes that this earlier sunset date is consistent with the sunset dates of March 15, 2001, ordered by the Oregon and Washington Commissions. The quarterly reports should identify the wholesale price at the time of an exchange event along with the corresponding Market Price Signal, the reason for the event, i.e., whether the event was triggered by integrated system shortage or local conditions, and if so where. The duration of the event should be reported along with the amount of kWh pledged and the amount actually curtailed. Canceled events should be reported as well as revenues earned for the sale of curtailed power. This will allow regulators and the Commission the opportunity to evaluate the costs and benefits of the payments to participating customers for their reduction in power usage.

The Committee essentially agrees with the Division's comments and recommends approval of Schedule 71 as an emergency pilot program that will provide cost mitigation and improved reliability. The Committee recommends that the Commission consider a cap on the price offered to participating customers at some percentage of the wholesale market price. This will reduce the likelihood that other customers pay for power they do not receive.

FINDINGS AND CONCLUSIONS

- Extraordinary conditions exist in the Western wholesale market in which the Company is both buying and selling power.
- Voluntary reduction in power use by qualifying customers will reduce the Company's exposure to the wholesale market.
- Customers and the Company may benefit when purchases from the wholesale market, at times of high prices, are avoided through the cost-effective payments for demand reductions from participating customers.
- The Company has requested immediate approval of the tariff in order to provide it with additional options to mitigate the high costs of wholesale purchases.
- The tariff approval does not involve a rate change, rather it is a new service offering that hopefully will lower power costs for the Company.
- The Division and the Committee recommend approval of the tariff subject to minor conditions.
- The Commission approves the tariff revisions recommended by the Division including Item 6 of the "Special Conditions" section of the tariff. The revised tariff should read, "Where the Company has terms and conditions in place to interrupt loads for system emergencies, the terms of this schedule are not applicable." The Commission finds that other minor language revisions to Schedule 71, as shown in the Division's red-lined version of the tariff submitted with its memo, should be incorporated into the final tariff.
- Based on the Division's analysis and recommendation, the Commission finds that at this time, approval of

Schedule 71 pursuant to 54-7-12(4) is in the public interest.
- The Commission finds that a sunset date of April 15, 2001, is appropriate for this tariff. It will mitigate the risk of unintended consequences and allow for refinement of the program, if necessary. The Division has pledged to review the program in a timely fashion after it receives the Company's quarterly evaluation of the program. It is fully expected that the program will continue beyond April 15, 2001, if the program proves effective.
- Quarterly reports will be filed by the Company starting in March 2001. The reports shall include: identification of the short-term firm wholesale price at the time an event is called, the corresponding Market Pricing Signal, identification of the reason for the exchange event, whether the event was triggered by integrated system shortage (if so where) or local conditions (if so, what are the details of the cause). It should include the duration of the event, the amount of kWh pledged, and the amount actually curtailed. Events that are canceled should also be detailed. An assessment of revenues earned from the sale of curtailed power should also be reported. This report should be filed with the Commission by March 15, 2001.
- The Commission finds that the Company shall allow the Division to monitor the program on a real time basis as it provides our investigatory staff with the necessary information to effectively evaluate the program.
- The Commission declines to establish a cap on the price offered to participating customers. Too often a cap can become a floor. The Commission, however, finds that reductions in power usage are not equivalent to the purchase of power. Monitoring problems, as well as reliability of reductions, reduces the value of this source of "supply". The Commission finds that the Division should carefully monitor the prices offered to the participating customers to insure that other customers are receiving reliable delivery of power at the lowest costs possible.

ORDER

- Pursuant to 54-7-12(4), the Commission approves Tariff 71.
- The Company is ordered to produce a quarterly report that will evaluate the operations of the program since its effective date of December 12, 2000.
- The tariff will have a sunset date of April 15, 2001, which may be automatically extended until October 1, 2001, upon receipt by the Commission of a memo from the Division approving the extension, without further Commission order.
- Interested persons who have sought intervention may participate in the review we expect before April 15, 2001.

DATED at Salt Lake City, Utah, this 25th day of January, 2001.

/s/ Stephen F. Mecham, Chairman

/s/ Constance B. White, Commissioner

/s/ Clark D. Jones, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary