

## **DECISION MEMORANDUM**

**TO: COMMISSIONER KJELLANDER  
COMMISSIONER RAPER  
COMMISSIONER ANDERSON  
COMMISSION SECRETARY  
LEGAL  
WORKING FILE**

**FROM: MARK ROGERS**

**DATE: SEPTEMBER 22, 2016**

**RE: IDAHO POWER COMPANY'S TARIFF ADVICE NO. 16-04;  
MODIFICATIONS TO SCHEDULE 72 – INTERCONNECTIONS TO  
NON-UTILITY GENERATION**

On September 2, 2016, Idaho Power Company ("Idaho Power") filed a Tariff Advice with the Idaho Public Utilities Commission ("Commission") to revise its Tariff Schedule 72 Interconnection to Non-Utility Generation. In this Tariff Advice, Idaho Power proposes that when a Seller's interconnection will utilize Interconnection Facilities provided under a prior agreement(s), and the combined term(s) of the prior agreement(s) is greater than 35 years, the operation and maintenance (O&M) charge related to those existing Interconnection Facilities for the Seller's interconnection will be computed at the levelized monthly rate of 0.40% for 138 and 161 kV facilities, and 0.70% for facilities below 138 kV.

### **BACKGROUND**

The current Tariff does not specify how O&M facility charges will be computed beyond 35 years. This tariff advice outlines the methodology for calculating O&M charges for interconnection facilities that have been in place beyond 35 years.

### **STAFF ANALYSIS**

On December 17, 1990 Idaho Power filed an Application, Case No. IPC-E-90-20 with the Idaho Public Utilities Commission for approval of an Interconnection Tariff for non-utility generation (Tariff Schedule 72). On April 12, 1991, the Commission issued Order No. 23631 approving Idaho Power's proposed Tariff Schedule 72 – Interconnection to Non-Utility

Generation with an effective date of April 15, 1991. The approved tariff specified operation and maintenance obligations and expenses for non-utility generation:

The Company will operate and maintain Company furnished Interconnection Facilities as well as any Seller Furnished Facilities transferred to the Company. In consideration of such operation and maintenance services, Seller will pay the Company a monthly operation and maintenance charge equal to a percentage of the Construction Cost and Transfer Cost paid by the Seller. The percentage is 0.4% for 138 kV and 161 kV facilities (transmission facilities) and 0.7% on facilities below 138 kV (distribution facilities).<sup>1</sup>

On April 19, 1991 Petition for Reconsideration was filed. In Order No. 23718 the Commission granted Reconsideration on two of the issues raised:

1. The inclusion of interconnect costs in the administratively determined avoided cost rate; and
2. The calculation and reasonableness of the Schedule 72 operation and maintenance service charges.

During Reconsideration, Staff, although agreeing with the Company's underlying methodology for calculating the 0.4% and 0.7% O&M facility charge, contended that Idaho Power should charge non-level rates rather than the levelized O&M rates previously approved. The Commission found that Staff's proposal to have O&M charges escalate over the life of each contract more reasonably represents reality than a levelized O&M charge. The Commission in Order No. 24025, directed the Company to file a revised tariff with non-levelized rate schedules equal to the levelized O&M charges.<sup>2</sup> Attached as Exhibit No. 1 is a table showing the relationship between the non-levelized and levelized rate for distribution facilities over a 35 year period.

The rationale behind the non-levelized rate was that it would help encourage the QF industry by reducing QF expenses during the early debt years, while maintaining an equalized net present value for the Company.<sup>3</sup> That is, over a 35 year contract the Company would realize equal value whether or not a non-levelized or levelized rate is in place. In light of the

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<sup>1</sup> See Schedule 72 page 5 attached to Order No. 23631.

<sup>2</sup> Order No. 24025 page 9.

<sup>3</sup> Order No. 24025 page 5.

relationship behind the non-levelized and levelized rate, Staff believes it is reasonable that facilities beyond 35 years should be charged the levelized 0.4% or 0.7% facility charge.

If the levelized rate is not adopted, a new incremental schedule would need to be filed for equipment older than 35 years under each expiring contract. Based upon the new contract length, the monthly O&M charges would change for each contract so that they reflect the same value as the levelized rate. Given the administrative burden of such a process, and the fact that both methods for computing O&M rates have equal value, Staff believes it is reasonable to charge the levelized O&M rate for equipment beyond 35 years.

### **STAFF RECOMMENDATION**

Staff has reviewed the Company's revised tariff and believes the calculation for the levelized rate beyond 35 years is consistent with the intent of Commission Order No 24025. Staff recommends approval of the revised tariff as filed by the Company.

### **COMMISSION DECISION**

Does the Commission wish to approve Idaho Power's proposed change to its Tariff Schedule 72 – Interconnections to Non-Utility Generation?



Mark Rogers

Udmemos/IPC Interconnection Charge

# Exhibit No. 1

## Non-Levelized vs. Levelized O&M Facility Charge (Distribution Facility)

Operation and Maintenance Obligations and Expenses - Distribution Facilities		
Contract Year	Non-Levelized Distribution Rate	Levelized Distribution Rate
0	-	
1	0.47%	0.70%
2	0.49%	0.70%
3	0.52%	0.70%
4	0.54%	0.70%
5	0.56%	0.70%
6	0.59%	0.70%
7	0.61%	0.70%
8	0.64%	0.70%
9	0.67%	0.70%
10	0.70%	0.70%
11	0.73%	0.70%
12	0.77%	0.70%
13	0.80%	0.70%
14	0.84%	0.70%
15	0.87%	0.70%
16	0.91%	0.70%
17	0.95%	0.70%
18	1.00%	0.70%
19	1.04%	0.70%
20	1.09%	0.70%
21	1.14%	0.70%
22	1.19%	0.70%
23	1.24%	0.70%
24	1.30%	0.70%
25	1.36%	0.70%
26	1.42%	0.70%
27	1.48%	0.70%
28	1.55%	0.70%
29	1.62%	0.70%
30	1.69%	0.70%
31	1.77%	0.70%
32	1.85%	0.70%
33	1.93%	0.70%
34	2.02%	0.70%
35	2.11%	0.70%
Net Present Value (Non-Levelized)		Net Present Value (Levelized)
5.92%		5.92%