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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR APPROVAL OF A NEW SCHEDULE 84—NET METERING.	**CASE NO. IPC-E-01-39** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Application, Notice of Modified Procedure and Notice of Comment Deadline/Protest Deadline issued on November 23, 2001, submits the following comments.

On January 22, 1997, the Commission issued Order No. 26750 authorizing Idaho Power to implement net metering as a pricing option in the Company's Tariff Schedule 86—Cogeneration and Small Power Production—Non-Firm Energy. Net metering was identified as Option B in the purchase price section of Schedule 86 and described as "offset to retail sales." In recent months, the Company states it has received input from potential net metering customers indicating that the current net metering provision of Schedule 86—Option B—is difficult to understand and cumbersome to implement. In response to those comments and in an effort to reduce the administrative requirements of computing individual monthly charges for different generating facilities and multiple customers, the Company is requesting authorization to revise its net metering provisions.

Description of Proposal

The Company is requesting approval of a net metering option that:

a. allows the Company to use its existing billing system;
b. allows the customer to use a single meter to register the energy supplied by the Company and the energy delivered by the customer;
c. charges the customer the rate consistent with its class of service while the meter is running forward;
d. pays the customer the retail rate consistent with its class of service while the meter is running backward, and
e. does not impose any monthly charges other than those provided for on the customer's standard service schedule.

Idaho Power is proposing that its net metering option, the proposed Schedule 84, be available to customers taking service under Schedule 1 or Schedule 7 who own and/or operate a generation facility that is fueled by solar, wind, biomass, or hydro power, or represents fuel cell technology, is rated at 25 kW of nameplate capacity or less, and is interconnected to the customer's individual electric system on the customer's side of the meter. A single meter will be utilized for the net metering service. All energy supplied by the Company to the customer will cause the meter to run forward; all energy delivered by the customer to the Company will cause the meter to run backward. If the energy supplied by the Company exceeds the energy generated by the customer during the billing period, the customer will be billed for the net amount of energy recorded on the meter at the standard Schedule 1 or Schedule 7 tariff rate, as applicable. If the energy generated by the customer exceeds the energy supplied by the Company during the billing period, the customer will be credited for the net amount of energy delivered to the Company at the standard Schedule 1 or Schedule 7 tariff rate, as applicable.

The Company is proposing to make the net metering service under Schedule 84 available on a first come, first serve basis until the cumulative generation nameplate capacity of net metering systems connected to the Company's system equals 2.9 MW. The 2.9 MW limit represents 1/10th of 1% of the Company's retail peak demand for year 2000. The 1/10th of 1%

limit, the Company contends, is considered to be an industry standard and is identical to the limit on net metering capacity the Commission previously approved for Avista Utilities.

Staff Analysis

Staff agrees that Option B under Schedule 86, the net metering option, is confusing to customers and difficult for Idaho Power to implement and administer. Staff supports elimination of Option B from Schedule 86 in favor of a new Schedule 84 that greatly simplifies the Company's net metering rules. However, Staff wishes to make the following comments in support of its positions on various issues.

The Company's proposal to credit customer generators at full retail rates will, in Staff's opinion, pay customers more than the actual value of the generation. Consider, for example, an instance in which a residential net metering customer completely offsets his entire usage during the month. The customer would pay only a basic customer charge ($2.51). Idaho Power would collect no revenue from the sale of kWhs. With only the revenue from the customer charge, Idaho Power cannot recover its full cost of providing service. To provide service, Idaho Power must still have distribution plant in place (poles, wires, transformers, etc.), they must still read meters and send bills, and they still have administrative costs. According to Idaho Power's unbundling report for 1999, of the approximately 4.9 ¢/kWh[1] total cost for residential and small customers, generation costs account for 2.47 ¢/kWh, transmission 0.29 ¢/kWh, distribution facilities 1.38 ¢/kWh, and the remaining 0.8¢/kWh is for meter reading, billing, and other general and administrative costs. Net metering allows Idaho Power to avoid some generation costs and perhaps some transmission costs, but few, if any, other costs. Under Idaho Power's current net metering tariff, the credit allowed for customer generation is discounted to account for this. However, under the proposed new tariff, customer generation is not credited based on the avoided cost of generation and transmission, but at the full retail rate.

For the Commission to accept a net metering tariff where customer generation is credited at full retail rates, it must be willing to accept the fact that Idaho Power may not recover its full costs of providing service from net metering customers. Those costs that are uncollected must either come from Idaho Power through its shareholders or from other customers collectively.

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[1] The current PCA adds 1.72¢/kWh to the base rate. This additional cost is generally considered to be a generation cost.

Initially, the subsidy for net metering customers is paid by Idaho Power through shareholders, assuming no provisions are made in the PCA mechanism to recover lost revenue. After a general rate case, the subsidy of net metering customers would presumably be shifted to the general body of ratepayers.

One distinction worth pointing out, Staff believes, is the difference between energy provided to customers by Idaho Power and energy provided to Idaho Power by customers. Energy offered to customers by Idaho Power is firm, meaning that it is available at all times whenever customers desire to make use of it. Net generation, on the other hand, is provided by customers to Idaho Power on a non-firm basis, or on an "if and when available" basis. While there has always been a difference in the value of firm versus non-firm energy, that difference is not recognized under Idaho Power's Schedule 84 proposal.

Despite Staff's concerns about the likelihood that some of the costs of serving net metering customers will be subsidized by other customers, the overall dollar impacts of net metering will be small if participation levels are restricted. Staff believes Idaho Power's proposal to limit both the maximum size of individual installations to a capacity of 25 kW and the maximum collective capacity of net metering generation on the Company's system to 2.9 MW is reasonable. These participation limits are the same as the limits for Avista's net metering tariff.

If all net metering customers were 25 kW in size, for example, then 116 customers could participate in the program before the limit would be reached. Since most customers would not produce 25 kW, it is more likely that several hundred net metering customers could be accommodated within the proposed 2.9 MW cap.

Staff believes it will be a long time before the 2.9 MW participation cap is reached. Avista's net metering tariff has been in place since October 16, 2000, yet it has failed to attract a single customer in Idaho so far. Idaho Power's existing net metering rules, which have been in place since 1983, have only attracted three net metering customers, two of which were connected in the past six months. Staff recognizes that the new proposed net metering tariff is much more attractive than the old one and that advancements in technology could improve project economics. Both of these factors could greatly increase the number of customers participating in net metering in the future. If the cap were to be reached soon, the Commission could then reexamine whether to increase the cap.

If the cap were to be increased at some point, Staff believes it would also be reasonable to reassess the appropriate rate and charges for net metering at that time. Staff believes that as long as the number of net metering customers is small, then the small subsidy to them may be appropriate in order to promote and sustain a renewable energy-based net metering program. However, if and when there is 2.9 MW of net metering on Idaho Power's system, Staff believes a more accurate cost based rate should be established.

Staff also wishes to point out that net metering is not the only means for generators to sell energy to Idaho Power. For firm energy generation, qualifying facilities (QFs) smaller than one megawatt are still entitled to published avoided cost rates under PURPA. Project-specific rates are available to QFs one megawatt and larger. For non-firm energy generation, Schedule 86 would still set purchase prices.[2] Consequently, even though establishing a limit on the size and collective capacity of net metering customers could restrict the development of small, renewable energy projects installed for net metering purposes, it will not eliminate all opportunities to develop renewable energy projects.

As previously mentioned, Staff believes that the financial impact of net metering will be minimal. For example, if 120 customers participated in net metering, if each generated 2000 kWhs per month, and if all generation was priced at the rate of the highest residential block, then the monthly cost to Idaho Power would be approximately $20,000. If this cost is then netted against the generation and transmission costs avoided by Idaho Power, the overall costs are cut in half. Less conservative estimates, obviously, would result in even lower costs.

Under Idaho Power's proposal, net metering will be restricted to Schedule 1 and Schedule 7 customers only (residential and small commercial). Idaho Power's reason for this restriction is that customers on these two tariffs are the only ones who do not utilize meters capable of measuring both demand and energy. Idaho Power states that the current technology utilized in electronic demand meters does not allow the meter to "run backwards." In order to capture any energy delivered to Idaho Power's system, the energy and demand must be metered separately. This will require either the installation of an additional meter and/or installation of an electronic meter with the capability of measuring multiple inputs and outputs. Either of these installations would require that the customer's meter base be replaced or modified to

[2] Currently, non-firm energy rates are set at Mid-C minus 4 mills. Idaho Power is proposing in Case No. IPC-E-01-40 to set non-firm energy rates at 85% of Mid-C.

accommodate the new meter. In addition, Idaho Power is concerned that if a demand meter could actually "run backwards," the demand component of a customer's bill could potentially be reduced. Idaho Power contends that it would be inappropriate for non-firm energy delivered by the customer to be given credit for capacity by offsetting a demand charge.

Staff agrees that it is inappropriate to credit customers for reductions in demand, unless of course, the reduction in demand endures for the entire month, in which case the customer would be billed for a lower demand anyway. Staff believes this circumstance would be unlikely in most cases for most customers. Staff disagrees with Idaho Power that net metering should be restricted to only Schedules 1 and 7. It is true that a second meter or a more sophisticated meter may be required for demand metered customers. However, Staff believes that demand metered customers should be allowed to participate in net metering, but that it would be reasonable to require them to pay any additional costs to cover necessary meter modifications or additions. Staff proposes that demand metered customers only be credited for generation at the energy rate of the schedule under which the customer is served.

Nevertheless, while critical of some aspects of the Company's proposal, Staff generally supports net metering. Net metering helps to support the continuing development of renewable energy resources. It also helps to advance energy generation technology and may offer environmental benefits.

Staff notes that Idaho Power's net metering proposal is very similar to the net metering rules already in place for Avista. Avista's current net metering rules were approved by the Commission on April 30, 1999. (Reference Order No. 28035).

Staff also notes that the Idaho Energy Coalition along with several other groups in Idaho is pushing a legislative alternative to Idaho Power's proposed net metering changes. As drafted, the legislation would establish net metering rules that would apply to all electric utilities in Idaho. The Idaho Energy Coalition's proposed legislation would permit much larger net metering systems than Idaho Power's proposal. In addition, the legislation would allow irrigators to take advantage of net metering. Like Idaho Power's proposal, the legislation also contains a provision that would authorize the Commission to limit utilities' obligations to purchase to one percent of the utilities' peak hourly load. Staff contends that the proposed legislation should not be considered by the Commission in its deliberations in this case. There is no guarantee that the proposed net metering legislation will pass, will pass in a modified form, or will even be introduced.

Staff Recommendations

Staff recommends that the Commission approve Idaho Power's proposed new Schedule 84, but with the following changes:

- Staff recommends that net metering be made available to all customer classes.
- Staff recommends that demand metered customers desiring to participate in net metering (irrigation, large commercial and industrial) be required to pay any additional costs associated with installing additional metering equipment necessary for net metering.
- Staff recommends that demand metered customers, if allowed to participate in net metering, be credited for the energy they produce at the energy rate applicable to the tariff under which the customer is currently served.

Respectively submitted this 21st day of December 2001.

Scott Woodbury
Deputy Attorney General

Technical Staff: Rick Sterling

SW:RS:i/umisc/comments/ipce01.39swrps

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 21ST DAY OF DECEMBER 2001, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-01-39, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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