DECISION MEMORANDUM

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FROM: SCOTT WOODBURY

DATE: JANUARY 9, 2007

SUBJECT: CASE NO. IPC-E-06-17 (Idaho Power)
SCHEDULE 84 – NET METERING

On August 17, 2006, Idaho Power Company (Idaho Power; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting authority to revise net metering requirements in the Company's Schedule 84 – Net Metering tariff.

Background

On February 13, 2002, the Commission issued Order No. 29851 (Case No. IPC-E-01-39) authorizing the net metering option for customers taking service under the Company's Schedule 1 – Residential Service (R1), and Schedule 7 – Small General Service (R7).

On August 21, 2002, the Commission issued Order No. 29094 (Case No. IPC-E-02-4) authorizing other retail customers not receiving service under Schedules 1 and 7 (non-R1/R7) the option to also participate in a net metering program.

The Company's current net metering program credits residential and small general service customers at full retail rates for all kilowatt hours (kWh) generated. This pricing, the Company contends, pays customers more than the actual value of the generation itself. Net metering, the Company states, allows Idaho Power to avoid some generation costs and perhaps some transmission costs, but few, if any, other costs. Therefore, Idaho Power contends that the Company does not recover its full costs of providing service from net metering customers.

Idaho Power contends that there is a major difference between the energy provided to customers by the Company and energy provided to the Company by net metering 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. The difference between the value of firm vs. non-firm energy, the Company states, is not recognized under the Company's current net metering tariffs for Schedule 1 and Schedule 7 customers. In its initial program offering, the Company recognized that its net metering proposal would result in some subsidy to those residential and small general service customers that chose to develop net-metered generation projects. However, the Company reasoned that as long as the eligibility for net metering was limited to small projects utilizing watt-hour meters and capped at a reasonable level, the subsidy would be small and would be partially offset by savings resulting from simplification of the net metering program.

Idaho Power has now had the opportunity to examine over the last four years how its customers have actually utilized the net metering option. As a result, the Company is proposing some modifications to its net metering program to provide what it contends is a more equitable result for its customers.

Modifications to Reduce Cost-Shifting

By accepting a net metering tariff for Residential and Small General Service, customer generation is credited at full retail rates; uncollected costs are shifted to the respective customer classes. When the generation merely offsets usage, the dollar impacts, the Company contends, are relatively small. However, when generation exceeds usage, the resultant cost-shifting may become much more material.

Citing an example, Idaho Power states that in 2005, one residential customer averaged excess generation of 12,076 kilowatt hours every month. A small general service customer also averaged excess generation of 15,913 kilowatt hours each month. In both cases, there was never a month when either customer registered positive net energy usage. Under current net metering provisions, these customers received full retail rates for their generation. The retail rate, the Company notes, includes recognition of generation, transmission and distribution costs. All costs outside of the value of the generation received from net metering customers, the Company contends, are being shifted to customers within the residential and small general service customer classes.

Idaho Power believes the primary purpose of net metering is to allow customers to realize the value of their generation by directing and immediately offsetting part or all of their energy consumption. The net metering program's current provisions immediately compensate customers for the generation. However, the Company contends that generation in excess of consumption should be viewed differently.

Power purchased under net metering, the Company contends, is non-firm energy and is of less value for meeting system loads than would be an alternative wholesale purchase of firm energy. Net metering customers are frequently being paid higher prices for this non-firm energy than Idaho Power would have otherwise paid for energy purchased on the wholesale market. Idaho Power contends that generation in excess of consumption should not receive compensation in excess of the value provided at the expense of customers who do not choose to develop generation facilities.

Idaho Power requests that its Schedule 84 net metering provisions be revised to treat all customers in a fair and equitable manner. Upon approval of the Company's proposal, Schedule 1 and Schedule 7 customers who generate electricity in excess of their usage will be treated the same as non-R1/R7 net metering customers who provide a non-firm energy product to the Company. They would be credited an amount per kilowatt hour equal to 85% of the most recently calculated monthly per kilowatt hour Avoided Energy Cost as defined in Schedule 84. Furthermore, excess generation provided by Schedule 1 and Schedule 7 net metering customers would be considered an energy resource with the cost to be spread to all retail customers through the PCA mechanism, the same treatment as is currently afforded excess generation provided by non-R1/R7 customers.

Modifications to Eliminate a Financial Barrier

Currently, non-R1/R7 customers are required to have a meter that is separate from the retail load metering at the point of delivery. Some of these customers, the Company contends, find the requirement for a separate meter to be a financial barrier to installing a small net metering system. To encourage participation among non-R1/R7 customers, the Company is proposing to expand the options for these customers through changes to Schedule 84. If a non-R1/R7 customer's generation facility has a total nameplate capacity rating which is no more than 2% of their Basic Load Capacity (BLC) and the system is 25 kW or smaller, the customer could participate in net metering on the same basis as the Company's residential and small general service customers. (Basic Load Capacity is the average of the two greatest non-zero monthly billing demands established during the 12-month period which includes and ends with the current billing period.) As proposed, all energy received and delivered by the Company could be through the single existing retail meter. This one-meter option, the Company contends, would make the installation of small net metering systems much easier for non-R1/R7 customers. Since one of the criteria is the generation facility's capacity cannot be more than 2% of the customer's BLC, Idaho Power contends that it is unlikely that a customer exercising this option would ever have excess net generation. However, if such were the case, under the Company's proposal excess energy would not receive any net metering program financial credits.

Alternatives to Net Metering

Net metering customers with significant generation in excess of usage, Idaho Power notes, have other alternatives available under the Company's tariffs to develop small-renewable energy projects. For non-firm energy generation, customers have the option to participate under Schedule 86, Cogeneration and Small Power Production (CSPP) Non-Firm Energy. For firm energy generation, CSPP qualifying facilities (QFs) are entitled to published avoided cost rates under the Public Utility Regulatory Policies Act of 1978 (PURPA). Therefore, if customers are not satisfied with a credit they receive through the net metering option, Idaho Power contends that the customers could apply to be a firm or non-firm PURPA QF project.

On August 31, 2006, the Commission issued a Notice of Application and Modified Procedure in Case No. IPC-E-06-17. The deadline for filing comments was October 13, 2006. Comments were filed by Commission Staff and a number of interested parties. Idaho Power requested the opportunity to file a reply. On December 13, 2006, Idaho Power filed a Motion to Amend Application.

Staff Comments

Staff recommends that Idaho Power's request to price excess net metering generation at 85% of Mid-C for all customers classes be approved. Staff recommends, however, that excess generation be measured on an annual, rather than a monthly basis for all net metering customers. Under this approach, monthly excess generation would be credited at the full retail rate to the customers' next bill, and that at the end of each year, excess generation would be purchased at 85% of the average annual non-firm Mid-C rate.

Staff also recommends approval of Idaho Power's proposal to spread to all retail customers through the PCA mechanism all costs of excess generation provided by Schedule 1 and Schedule 7 net metering customers. In addition, Staff recommends approval of Idaho Power's proposal to revise metering requirements for non-R1/R7 customers.

Excess Generation – Mid-C Pricing

Staff states that it has always agreed that by paying or crediting net metering customers at full retail rates, the utility is compensating customers for more than the actual value of the generation, at least over the long term. Regarding the excess generation by net metering customers, Staff believes that it is important to keep the size of the problem in fair perspective. Net metering has been available four years. Twenty-seven (27) Idaho Power customers are now connected. An additional 13 customers have pending requests for net metering generator interconnects. The total cumulative capacity of the existing net metering projects is approximately 336 kW, and the total amount paid by Idaho Power for the projects' excess generation over the past 12 months was $23,102. While a problem exists, Staff states that the problem seems to be caused by only two customers. Staff supports the Company's proposed pricing change – extending 85% of Mid-C pricing to residual and small commercial customers for excess generation. Net metering customers who do not generate more than they consume, Staff contends, will be unaffected by the proposed change in pricing.

Annual vs. Monthly Measurement/Pricing – Excess Generation

Staff agrees that offsetting consumption should be the primary objective of net metering, but Staff maintains that the offsetting of energy consumption does not necessarily have to be immediate. Most net metering projects are either intermittent or seasonal or both, and the customer's generation pattern, Staff states, often does not match well with the customer's consumption pattern. Because of this, Staff proposes that Schedule 84 be modified so that generation that exceeds consumption be measured on an annual, rather than a monthly, basis for all net metering customers in all customer classes. If at the end of each year a net metering customer has recorded more generation than consumption, Staff proposes that the excess generation be priced at 85% of the average annual Mid-C rate for non-firm energy.

PCA – Cost Recovery Schedule 1 and 7 Net Metering

Staff agrees with the Company's proposal that excess generation provided by Schedule 1 and Schedule 7 net metering customers be considered an energy resource with the cost to be spread to all retail customers through the PCA mechanism, the same treatment as is currently afforded excess generation provided by non-R1/R7 customers. Staff has not objection to this proposed ratemaking treatment.

Modifications to Metering Requirements

Currently, non-R1/R7 customers are required to have a meter that is separate from the retail load metering at the point of delivery. Some of these customers, the Company contends, find the requirement for a separate meter to be a financial barrier to installing a small net metering system. To eliminate this barrier, the Company is proposing that all energy received and delivered by the Company could be through the single existing retail meter if a non-R1/R7 customer's generation facility has a total nameplate capacity rating which is no more than 2% of their Basic Load Capacity (BLC) and the system is 25 kW or smaller. Staff has no objection to eliminating the requirement for a separate meter for all non-R1/R7 customers. Staff believes that a single meter should be used for net metering whenever reasonably possible.

Public Comments

Comments received run the spectrum from those opposed to any tariff change to those who object to the continued subsidization of net metering customers. The following is a sampling of comments received:

- Propose annual net metering reconciliation rather than a monthly one
- Exempt all net-metering systems under 5 kW
- Exempt solar systems
- Net metering provides a valuable resource and reduces demand at peak times
- Pay solar generators 100% of monthly average non-firm on-peak price
- I relied on the tariff retail rate for my investment decision
- My goal is not to make money selling electricity but to try to break even at the end of the year. According to Scott Gates at Idaho Power, I am the only surplus producer of solar power. I received a $2.05 credit in May, a $1.21 credit in June, a $2.30 credit in July and a $6.04 credit in August. These will all be used up in the first cold month.
- It is not fair, just or equitable to treat all net metering the same. The cost of a solar system is much more than a small wind or hydro system. The benefit is also higher. . . .
- Idaho Power's definition of "avoided energy cost" is the monthly weighted average of the daily on-peak and off-peak Dow Jones Mid-Columbia electricity pricing index prices for non-firm energy. To subscribe to this information costs $1,500 a year.
- Solar distributed peak power should be compensated at greater than the retail rate. It is worth more. . . .

- We spent over $60,000 and three years of labor for net-metering hydro project. Based on the cost of the installation and the income guaranteed under Schedule 84, we figured it could pay back (exclusive of our labor) our costs in six to eight years . . . our project is a completely non-consumptive, non-polluting, renewable source of energy that produces enough electricity to power six to eight average homes.
- The relatively small amounts we have received for [solar] generation in excess of consumption improved the buy back economics of our system and provided us an incentive to invest in the system in the first place.
- Policies for net metering customers who are participating as the program intended should not be based on the conduct of one customer who appears to possibly be abusing the intent of the program.
- It is in the State of Idaho's best interest to encourage and reward small power producers to add sustainable, non-polluting power sources to the power grid.
- Current net metering customers should be grandfathered at the current rate – we and all other net metering customers made our investments based on assumptions about the rate for excess generation and it would be unfair to change the rules in the middle of the game.
- If the Commission believes some change is required, we urge you to investigate a system that would have an annual balancing-out of generation and consumption.
- This change will have a negative impact on my sales of solar and wind systems.
- My inspiration for building my solar house came after a forum at the Discovery Center of Idaho two years ago when Idaho Power was promoting net metering.
- I paid for all the installation and connection including a $100 fee to Idaho Power. I am complying with all the rules and regulations. I still pay a monthly service charge. Idaho Power incurs no generation, transmission, or distribution costs as my surplus power is used and billed to my neighbor.

Idaho Power Motion to Amend Application

On December 13, 2006, Idaho Power filed a Motion to amend its Application in Case No. IPC-E-06-17 by removing from further Commission consideration the Company's request to modify the compensation paid to Schedule 1 and Schedule 7 net metering customers who generate electricity in excess of their usage.

Despite the requested modification, the Company continues to urge the Commission to authorize the Company to (1) implement the one-meter option for those non-Schedule 1 and 7 customers who meet certain requirements set forth in the Company's Application and (2) consider the excess generation provided by Schedule 1 and Schedule 7 net metering customers as an energy resource with the cost to be spread to all retail customers through the Company's PCA mechanism.

Staff's recommendation that excess generation be measured on an annual, rather than on a monthly, basis for all net metering customers, the Company contends, presently poses certain operational and philosophical challenges for the Company that will require additional analysis and examination to better assess the overall impact of that recommendation on the Company's net metering program. It is for this reason that the Company requests that it be permitted to amend its Application.

COMMISSION DECISION

The Company in its original Application in this case proposed that Schedule 84 net metering excess generation be priced at 85% of Mid-C. Staff and others recommended that excess generation be measured on an annual rather than on a monthly basis for all net metering customers in all customer classes. The Company in response indicates the problem it has with the recommendation and withdraws its excess net metering generation price recommendation. The Company continues in its recommendation to implement a one-meter option for those non-Schedule 1 and 7 customers who meet certain requirements and to consider the excess generation provided by Schedule 1 and 7 net metering customers as an energy resource with the cost to be spread to all retail customers through the Company's PCA mechanism.

Staff does not oppose the Company proposed amendment. The withdrawal of the excess generation pricing proposal by the Company makes moot the proposal of Staff and others to measure and price net excess generation on an annual basis. Staff believes the remainder of the Company's Application can be processed without further notice or comment. Does the Commission find it reasonable to process and consider the amended Application without further notice or comment? Does the Commission find the Company's amended Application reasonable?

Scott Woodbury

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