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UTILITIES COMMISSION

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November 30, 2012

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
Boise, Idaho 83702

Re: Case No. IPC-E-12-27
Net Metering Service – Idaho Power Company's Application and Direct
Testimony

Dear Ms. Jewell:

Enclosed for filing in the above matter please find an original and seven (7) copies of Idaho Power Company's Application.

In addition, enclosed are nine (9) copies of the Direct Testimony of Matthew T. Larkin filed in support of the Application. One copy of Mr. Larkin's testimony has been designated as the "Reporter's Copy." In addition, a disk containing a Word version of Mr. Larkin's testimony is enclosed for the Reporter.

Lastly, four (4) copies of Idaho Power Company's press release and customer notice are also enclosed.

Very truly yours,


Lisa D. Nordstrom

LDN:evp
Enclosures

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UTILITIES COMMISSION

Attorneys for Idaho Power Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) CASE NO. IPC-E-12-27
AUTHORITY TO MODIFY ITS NET)
METERING SERVICE AND TO INCREASE) APPLICATION
THE GENERATION CAPACITY LIMIT.)
)

Idaho Power Company ("Idaho Power" or "Company"), in accordance with Idaho Code §§ 61-502, 61-622, 61-623, and RP 52, 121, and 125, hereby respectfully makes application to the Idaho Public Utilities Commission ("Commission") for an order authorizing Idaho Power to modify its net metering service. If approved, these changes would result in a rate increase for some net metering customers, and a decrease for others; however, the proposed changes only modify the charges through which Idaho Power collects its currently authorized revenue requirement, without changing the level of revenue requirement itself. The Company is requesting an order be issued by July 1, 2013, authorizing tariff revisions and rates to become effective October 1, 2013, and

authorizing modifications to the billing of Excess Net Energy to become effective at the beginning of each customer's billing period for the month of January 2014. In the event the current 2.9 megawatt ("MW") cumulative nameplate generation capacity limit is reached before the Commission issues its order, Idaho Power requests the Commission temporarily waive the limit during the pendency of this case.

In support of this Application, Idaho Power represents as follows:

I. BACKGROUND

1. On October 20, 1983, per Commission Order No. 18358, the Company first offered net metering service to customers through Schedule 86, "Cogeneration and Small Power Production Non-Firm Energy" ("Schedule 86"). Net metering is a service which provides for transfer of electricity to the Company through customer-owned generation facilities with the intent of offsetting all or a portion of a customer's energy usage. At the time net metering service was established, participating customers were charged the full retail rate for net energy consumed and credited the full retail rate for net generation delivered to the Company. Order No. 18358, p. 1.

2. On January 22, 1997, net metering service offered under Schedule 86 was modified to include a formula rate designed to recover certain non-generation costs from net metering customers. Order No. 26750. When the formula rate was created, the Company's net metering service consisted of a single customer with an installed photovoltaic system.

3. On February 13, 2002, net metering service was moved from Schedule 86 to a newly created Schedule 84, "Customer Energy Production Net Metering" ("Schedule 84"). Order No. 28951. The creation of a schedule specific to net metering

service was driven by the complexity of applying the formula-based rate and difficulty in understanding the net metering provision of Schedule 86. *Id.*, p. 2. Through the implementation of Schedule 84, the formula rate was eliminated and participating customers were charged the full retail rate for net energy consumed and credited the full retail rate for net generation delivered to the Company, allowing the Company to use its existing billing system and a single meter for each customer. *Id.* At the time Schedule 84 was created in 2002, three customers on Idaho Power's system were taking net metering service.

4. As described in detail in the Direct Testimony of Matthew T. Larkin, in Case No. IPC-E-01-39 both the Company and Commission Staff ("Staff") recognized the potential for subsidization of net metering customers by standard service customers through the crediting of net metering generation at the full retail energy rate. However, at that time the Company believed that administrative ease and cost savings associated with a simplified pricing structure outweighed the potential for inequities between those customers. To limit potential inequity, the Commission implemented a 2.9 MW cap on cumulative installed net metering generation capacity under the current net metering pricing structure. Order No. 28951, p. 12.

5. In Order No. 29094 issued in Case No. IPC-E-02-04, the Commission directed the Company to make a filing before the Commission when the cumulative nameplate generation capacity limit set forth in Order No. 28951 was reached:

We accept for now the Company's proposed cap to Schedule 84, i.e., the 2.9 MW cumulative nameplate capacity limit. We apprise Idaho Power, however, that when the cap is reached, the Company is to immediately notify the Commission in writing that the Company is in the position of having to refuse further applications. At that point, this Commission will look at the cap

again and determine whether it continues to be reasonable or if there is a better measure of what's appropriate or if there is a need for a cap at all.

Order No. 29094, p. 7.

The Company is making this filing in accordance with the Commission's directive issued in that case. While the Commission's directive states that the Company is to provide notification when the cap is reached, the Company believes the timing of this request is appropriate in order to prevent the refusal of new applications for net metering service.

6. Between 2002 and 2010, installed net metering capacity steadily increased from 39 kilowatts ("kW") to just under 1,000 kW in 2010. Since 2010, growth has increased dramatically, rising by nearly 1,500 kW over two years. As of November 1, 2012, Idaho Power has 353 customers participating in net metering service, accounting for installed generation capacity of interconnected net metering systems of 2.246 MW, with applications pending for an additional .279 MW, for a grand total of 2.525 MW. Given recent growth trends and the current level of installed net metering generation, the Company expects to reach the cumulative nameplate generation capacity limit of 2.9 MW within the next six months.

II. REQUEST TO INCREASE GENERATION CAPACITY LIMIT

7. The Company is proposing to increase the current cumulative nameplate generation capacity limit of 2.9 MW to 5.8 MW. As described in Mr. Larkin's direct testimony, it is important to maintain a capacity limit to provide the Company with the ability to appropriately evaluate this service as it expands.

8. To prevent the Company from turning away new net metering customers, the Company is requesting a temporary waiver of the 2.9 MW cumulative nameplate generation capacity limit if it is reached prior to the Commission's final determination regarding the appropriate capacity limit. Customers acquired during the waiver period will be subject to the terms of the current Schedule 72, "Interconnections to Non-Utility Generation," and Schedule 84.

III. REQUEST TO MODIFY PRICING AND IMPLEMENT NEW TARIFFS

9. Under the current net metering service, customers receive the full retail energy rate for the generation offset provided by net metering systems; however, the full retail energy rate includes cost recovery associated with all components of the Company's electrical system, including transmission, distribution, and customer-related costs. As described in Mr. Larkin's direct testimony, the full retail energy rate creates a potential inequity between net metering and standard service customers because it allows net metering customers to unduly reduce cost recovery associated with non-generation-related components of revenue requirement. The Company proposes to mitigate this potential inequity by modifying the charges through which the Company collects revenue requirement from Residential and Small General Service net metering customers.

10. Under the current rate structure, Residential and Small General net metering customers have a flat monthly service charge and per kilowatt-hour ("kWh") energy charges that vary by total consumption and season. Due to the lack of demand-related charges, energy rates for Residential and Small General net metering service reflect not only the energy-related components of revenue requirement, but fixed costs

associated with generation, transmission, and distribution as well. To reduce the potential inequity between net metering customers and standard service customers, the Company is proposing to remove recovery of all distribution-related fixed costs from the energy charge, ensuring that Residential and Small General Service net metering customers pay a more equitable share of costs associated with the distribution system. To accomplish this, the Company proposes to (1) increase the current monthly service charge from \$5.00 to \$20.92 for Residential Service and from \$5.00 to \$22.49 for Small General Service; (2) institute a Basic Load Capacity ("BLC") charge of \$1.48 per kW for Residential and \$1.37 per kW for Small General Service to reflect the full cost-of-service associated with their use of the distribution system, and (3) uniformly reduce the energy charges for Residential and Small General Service to target the same level of total revenue recovery that would exist under the standard service rate design.

11. To implement the proposed pricing structure, the Company is requesting approval of two new tariff schedules: Schedule 6, "Residential Net Metering Service" ("Schedule 6"), and Schedule 8, "Small General Net Metering Service" ("Schedule 8"). The Company has provided a comparison of current and proposed Residential and Small General Service net metering rates as Exhibit No. 1 to Mr. Larkin's direct testimony. Draft versions of tariff Schedules 6 and 8 are included as Mr. Larkin's Exhibit Nos. 2 and 3, respectively. Idaho Power requests that Schedules 6 and 8 become effective October 1, 2013.

12. Because the proposed rate design addresses much of the same fixed cost recovery concerns that are addressed by the Fixed Cost Adjustment ("FCA"), the Company is proposing that customers taking service under Schedule 6 or Schedule 8

will not be subject to FCA rates contained in Schedule 54. Schedule 54 will continue to apply only to customers receiving service under Schedules 1, 3, 4, 5, or 7.

13. The Company is proposing to maintain the current pricing structure for Schedules 9, 19, and 24. Because a portion of fixed costs are already collected through BLC, billing demand, and customer charges, the cost recovery concerns associated with the current Schedule 1 and Schedule 7 rate designs are much less applicable.

IV. REQUEST TO MODIFY BILLING OF EXCESS NET ENERGY

14. The Company is proposing to modify its current method for billing Excess Net Energy. Schedule 84 defines "Excess Net Energy" as "the positive difference between the kWh generated by a [Customer] and the kWh supplied by the Company over the applicable Billing Period." As described in Mr. Larkin's direct testimony, the Company currently provides financial credits to customers calculated by applying retail or market-based energy rates to the amount of Excess Net Energy measured per billing period. However, the intent of the Company's net metering service is to allow customers to generate electricity to reduce all or part of their monthly energy usage, not to provide customers with an avenue outside of Schedule 86 to sell power generation to the Company in excess of their monthly usage.

15. Further, since the Commission last reviewed the Company's net metering service, decisions issued by the Federal Energy Regulatory Commission ("FERC") have indicated that providing financial payments to net metering customers for Excess Net Energy may be considered wholesale transactions subject to FERC jurisdiction under 16 U.S.C § 824(a)-(b). The FERC noted in Order No. 2003-A, that:

Under most circumstances the [FERC] does not exert jurisdiction over a net energy metering arrangement when the owner of the

generator receives a credit against its retail power purchases from the selling utility. Only if the Generating Facility produces more energy than it needs and makes a net sale of energy to a utility over the applicable billing period would the [FERC] assert jurisdiction.

106 F.E.R.C. ¶ 61,220 at ¶ 747, 2004 WL 436282 (F.E.R.C. 2004). See also *Sun Edison LLC*, 129 F.E.R.C. ¶ 61,146 at 61,620, 2009 WL 3932884 at *4 (F.E.R.C. 2009).

Moreover, "When there is a net sale to a utility, and the individual's generation is not a QF, the individual would need to comply with the requirements of the Federal Power Act." *MidAmerican Energy Company*, 94 FERC ¶ 61,340 at 62, 263, 2001 WL 306484 at *4 (F.E.R.C. 2001). To ensure that its net metering program can be fully administered at the state level in a manner that complies with federal law, Idaho Power believes that it must cease its current practice of providing financial payments to customers in the context of net metering.

16. To address these concerns, the Company is proposing to eliminate the practice of providing financial payments to customers who generate Excess Net Energy. Instead of financial credits, the Company is proposing to provide customers with a kWh credit in the amount of Excess Net Energy accrued during a billing period that can be carried forward and applied against usage in subsequent billing periods. These credits will expire annually at the conclusion of a customer's December billing period. The Company is requesting authorization to implement this change at the beginning of each customer's January 2014 billing period.

17. Customers that wish to continue selling generation to the Company for financial payment can do so as a Qualifying Facility by procuring a sales agreement through Schedule 86.

V. REQUEST FOR TARIFF MODIFICATIONS

18. The Company is proposing to reorganize Schedule 72 to clarify sections applicable to net metering and enhance the ability of the Company to provide net metering service in a safe and reliable manner. These changes, described in detail in Mr. Larkin's direct testimony, include adding a section that defines the net metering application process for the Company and customers, and adding a section governing the treatment of unauthorized installations. The proposed changes to Schedule 72 are provided in draft form as Exhibit No. 4 to the Direct Testimony of Matthew T. Larkin.

19. The Company is proposing to rename Schedule 84 from "Customer Energy Production Net Metering" to "Large Customer Net Metering" and limit its applicability to net metering service for customers taking service under schedules other than Schedule 6 or Schedule 8. The proposed changes to Schedule 84 are provided in draft form as Exhibit No. 5 to the Direct Testimony of Matthew T. Larkin.

VI. MODIFIED PROCEDURE

20. Idaho Power believes that a hearing is not necessary to consider the issues presented herein and respectfully requests that this Application be processed under Modified Procedure; i.e., by written submissions rather than by hearing. RP 201 *et seq.* If, however, the Commission determines that a technical hearing is required, the Company stands ready for immediate consideration of its Application and will present its testimony to support the Application in such hearing.

VII. COMMUNICATIONS AND SERVICE OF PLEADINGS

21. In conformance with RP 125, this Application will be brought to the attention of Idaho Power's net metering customers by means of a customer notice and press release, copies of which accompany this filing. The customer notice will be directly mailed on or about December 10, 2012, to current net metering customers, prospective net metering customers who have provided contact information, dealers and installers. In addition, a copy of Idaho Power's Application, testimony, and exhibits will be kept open for public inspection at its offices throughout the state of Idaho. Idaho Power asserts that this notice procedure satisfies the Rules of Practice and Procedure of this Commission; however, the Company will, in the alternative, bring the Application to the attention of its affected customers through any other means directed by the Commission.

22. Communications and service of pleadings with reference to this Application should be sent to the following:

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IX. CONCLUSION

23. Idaho Power respectfully requests that the Commission issue an order on or before July 1, 2013, that:

- a. Approves a temporary waiver of the capacity limit if the 2.9 MW cumulative nameplate generation capacity limit is reached before the Commission reaches a decision;
- b. Approves the cumulative nameplate generation capacity limit change from 2.9 MW to 5.8 MW;
- c. Approves the proposed changes to net metering rates for Residential and Small General Service net metering customers through the implementation of Schedule 6 and Schedule 8, with an effective date of October 1, 2013;
- d. Approves the proposed changes for the treatment of Excess Net Energy effective with the beginning of each customer's January 2014 billing period; and
- e. Approves the modifications to Schedule 72 and Schedule 84 effective October 1, 2013.

DATED at Boise, Idaho, this 30th day of November 2012.



LISA D. NORDSTROM
Attorney for Idaho Power Company