

DEC 30 1991

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF IDAHO POWER COMPANY FOR AP-)	CASE NO. IPC-E-90-20
PROVAL OF AN INTERCONNECTION)	
TARIFF FOR NON-UTILITY GENERA-)	ORDER NO. 24025
TION--SCHEDULE 72.)	
)	

On April 12, 1991, the Idaho Public Utilities Commission (Commission) in Case No. IPC-E-90-20 issued final Order No. 23631 approving Idaho Power Company's (IPCo; Company) proposed Tariff Schedule No. 72 - Interconnection Tariff for Non-Utility Generation for effective date April 15, 1991.

On April 19, 1991, A.W. Brown, a protestor in the underlying case, filed a timely Petition for Reconsideration. In Order No. 23718 the Commission granted Reconsideration on two of the issues raised by A.W. Brown:

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.

By this final Order on Reconsideration, the Commission with only slight modification reaffirms Tariff Schedule 72.

The Commission initially scheduled the public hearing on reconsideration for July 11, 1991. Pursuant to the motion of Independent Energy Producers of Idaho (IEPI) and the written stipulation of the parties to waive statutory time limits for reconsideration, the Commission in Order No. 23770 on July 5, 1991 vacated the July 11 hearing and rescheduled the hearing for November 7, 1991.

On November 7, 1991, the public hearing on reconsideration in Case No. IPC-E-90-20 was held in Boise, Idaho. The following parties appeared by and through their counsel of record:

Idaho Power Company	Barton L. Kline
Independent Energy Producers of Idaho	Peter J. Richardson
Commission Staff	Scott D. Woodbury

The remaining parties of record elected not to appear. Because Brown had previously submitted pre-filed testimony but did not appear to sponsor the testimony, it is therefore accorded no more weight than unsupported public written comment.

1. The Inclusion of Interconnect Costs in the Administratively Determined Avoided Cost Rate.

FERC regulations at 18 C.F.R. § 292.101(b)(7) define "interconnection costs" as:

The reasonable costs of connection, switching, metering, transmission, distribution, safety provisions and administrative costs incurred by the electric utility directly related to the installation and maintenance of the physical facilities necessary to permit interconnected operations with a qualifying facility, to the extent such costs are in excess of the corresponding costs which the electric utility would have incurred if it had not engaged in interconnected operations, but instead generated an equivalent amount of electric energy itself or purchased an equivalent amount of electric energy or capacity from other sources. Interconnection costs do not include any costs included in the calculation of avoided costs.

FERC regulations at 18 C.F.R. § 292.306 regarding interconnection costs states as follows:

(a) **Obligation to pay.** Each qualifying facility shall be obligated to pay any interconnection costs which the State regulatory authority (with respect to any electric utility over which it has ratemaking authority) or non-regulated electric utility may assess against the qualifying facility on a non-discriminatory basis with respect to other customers with similar load characteristics.

(b) **Reimbursement of interconnection costs.** Each State regulatory authority (with respect to any electric utility over which it has ratemaking authority) and non-regulated utility shall determine the manner for payments of interconnection costs, which may include reimbursement over a reasonable period of time.

Commission Staff:

Staff concludes after investigation that Idaho's avoided cost rates include reasonable interconnect costs as envisioned by PURPA. Tr.p.73.

Although its research indicated that Colstrip interconnection substation (step-up) costs were excluded from the avoided cost computations, Staff contends that the omitted portion, which amounts to less than five percent of total interconnect costs, is insignificant and inconsequential. Tr.p.76. The reasonable range of interconnect costs considered in IPC-E-89-11 was approximately plus or minus thirty percent of the ordered amount (Order No. 23357, pp.17-19). Summarized, the interconnection costs associated with IPCo's SAR are as follows:

Colstrip step-up costs	\$18.56/kW/2 =	\$9.28/kW
Valmy step-up costs	\$9.53/kW/2 =	\$4.77/kW
Transmission costs		<u>\$213.00/kW</u>
	Total interconnection costs...	\$227.05/kW
	Total included in avoided costs...	\$217.77/kW

Tr.p.79.

If the Commission were to recompute avoided cost rates for the purpose of capturing the omitted component, Staff calculates that the change would be less than one half of one percent, ranging from less than one tenth of a mill for short term contracts to slightly more than three tenths of a mill for long term contracts. Tr.p.81. Staff contends that to re-open avoided cost calculations for the sake of what is a relatively insignificant oversight in the development of estimates would be both unreasonable and counterproductive. To simply make a mathematical adjustment, it states, would also ignore the interrelated nature of the components and the variables that make up avoided costs. Tr.p.82. Staff recommends no change. Tr.p.81.

Idaho Power:

Idaho Power agrees with Staff testimony and conclusions. The interconnection cost component of the generic avoided costs (-170), it states, is a just and reasonable representation of total SAR interconnection costs. Tr.pp.158, 159.

IEPI:

The inclusion of interconnect costs in the administratively determined avoided cost rate is not challenged by IEPI. Tr.p.51.

Based on the evidence of record and its analysis of same, the Commission finds that reasonable interconnect costs were included in the administratively determined avoided cost rates as required by FERC regulations. We further find the omitted portion associated with Colstrip to be relatively insignificant in relation to the aggregate avoided cost rate established. We conclude that no adjustment in avoided cost rates paid to QFs is warranted at this time; nor is a related adjustment required in the utility interconnect costs charged to QFs.

2. The calculation and reasonableness of the Schedule 72 Operation and Maintenance Service Charges.

The monthly operation and maintenance (O&M) service charges for QF interconnection facilities under Idaho Power's proposed Schedule 72 as a percentage of actual interconnection investment are 0.7% for distribution facilities and 0.4% for transmission facilities. The Schedule 72 O&M percentages are based on the current average O&M costs for Idaho Power's distribution and transmission facilities. Tr.p.157.

Staff:

Based on its analysis of Idaho Power calculations and methodology for computing Schedule 72 O&M rates, Staff concludes that the Company's calculations are reasonable and based on correct data; and that the methodology used is both logical and appropriate. Tr.p.64. The cost allocation method used by the Company for O&M rates is based on investment. This method, Staff contends, is logical and verifiable; simple to derive and to understand; and results in the most realistic and fair allocation. Tr.pp.64, 65. It is also a common methodology used by other Idaho and northwest utilities, with the exception of the Washington Water Power Company. Tr.p.66; IPCo Exhibit 3.

As pointed out by Staff, the Uniform System of Accounts which Idaho Power follows does not separate QF interconnect costs or O&M expenses from general utility expenses of the same type. Tr.p.64. Although an

incremental cost study would permit a more precise definition of O&M costs, it was generally agreed by the parties that the cost of performing such a study would be prohibitively expensive. Tr.pp.68; 46 (IEPI).

Although agreeing with the Company's underlying methodology and results, Staff contends that Idaho Power should charge non-level (escalating) O&M rates rather than the essentially level O&M rates included in Schedule 72. Tr.pp.73, 186. The basis for Staff's proposal is the relationship of cost inflation to the application of the rates. QFs, Staff contends, are disadvantaged in the early years of the contract by IPCo's methodology. Tr.p.192. The question, Staff states, is "who pays too much, and when?" Staff assumes that if the QF contract term is less than the average asset life, the QF pays too much immediately. Conversely, if the QF contract term is greater than the average asset life, the rate payer pays too much eventually. Tr.pp.84, 193. Staff recommends using non-level rates that reflect the approximate inflation rate over the average asset life of the appropriate accounts. The method proposed by Staff as reflected in Exhibit 105 would reportedly eliminate the over payment requirement; would more accurately match IPCo's O&M revenues with O&M expenses; and would help encourage the QF industry by reducing QF expenses during the early debt service years.

Staff envisions that the O&M rate will change whenever IPCo's O&M costs change by more than about seven percent relative to capital costs. The probability of this happening, Staff states, is identical under both IPCo's and Staff's proposed methodologies. Tr.p.190

IPCo Response:

Implementing Staff's O&M recommendation, the Company states, would require separate O&M accounting for every QF and if IPCo is to remain revenue neutral would entail unnecessary administrative complexity. Tr.p.158. The associated administrative and regulatory burden would entail periodic approval of changes in variables introduced into the equation. The added cost the Company contends is not supported by benefit/burden analysis. Tr.p.160.

Countering the Company's objections Staff contends that the issue is not whether the tariff requires individual application to each QF, but whether the increased costs and difficulties are reasonable relative to the

increased accuracy that will result. Tr.p.187. Staff concludes that the difference is negligible (Tr.p.187); implementation will not be unduly burdensome (Tr.187); billing will be computerized (Tr.p.188); billing non-level O&M rates would be no more complicated than paying non-level QF rates (Tr.p.188); and that it is unlikely that the total direct cost increase for converting to non-level O&M rates would exceed \$100/year (in 1991 dollars) for all QF purchases combined. (Tr.p.189). Addressing the perceived issue of increased administrative and regulatory burden associated with maintaining IPCo's revenue neutrality, Staff contends that precise revenue neutrality should not be the goal, rather the goal should be approximate neutrality. What we are talking about, Staff states, is a small part of an approximation that is an approximation in itself, and if we're only talking about a minuscule degree of non-neutrality, then that should be ignored in order to maintain the underlying simplicity. Tr.p.196.

The Commission approves the calculation and reasonableness of the underlying Schedule 72 operation and maintenance service charges. We find Staff's proposal that O&M charges escalate over the life of each contract to more reasonably represent reality than IPCo's proposed level O&M charge. We further find the additional administrative burden associated with implementing Staff's proposal to be relatively insignificant. We therefore require Idaho Power to submit a revised Schedule 72 tariff that includes escalating O&M rates determined by the methodology proposed by Staff in this case. Idaho Power may use the Consumer Price Index (CPI) or may use some other indicator of actual inflation that is reasonably applicable to the type of equipment being considered. In either case, the Company should use the weighted average asset life of the equipment being considered, as determined by its normal accounting practices, and should apply the average inflation rate incurred over that period of time as the escalation rate for contractual interconnect O&M rates.

IEPI:

IEPI takes issue with the underlying methodology used by IPCo to calculate monthly O&M charges for interconnection equipment. The average embedded cost calculation used by the Company, IEPI states, is a violation

of the spirit, if not the letter, of FERC Rules relating to the appropriate cost basis for interconnection charges. Tr.p.33. It is also, IEPI states, in contravention of what the Commission intended in Commission Order No. 15746, p.38. Tr.pp.34, 35. FERC Rules and IPUC Order, IEPI contends, clearly presume an incremental as opposed to an average costing approach, since they focus on the increased costs of connection. Tr.p.36. IEPI indeed contends that the correct methodology to follow in the calculation of monthly O&M charges is an incremental approach. Tr.p.46. All parties agreed, however, that an incremental cost study would entail a rather sophisticated, expensive and involved calculation; and that such a study, while valuable, would not be cost justified. IEPI Tr.pp.46, 180; IPCo; Staff Tr.p.68.

To arrive at what it believes is a surrogate or proxy for an incremental cost study, IEPI eliminates A&G expenses from the Company's calculation of O&M and also excludes A&G related payroll taxes. Tr.pp.38, 41, 47, 59. The Company's A&G cost figures, IEPI argues, were the best proxy it could find for fixed costs (which are included in average costs but excluded from incremental costs). A&G expenses were eliminated not because such figures would give us mathematically precise incremental costs; not because A&G costs are totally unaffected by interconnection decisions --- but because, IEPI contends, they are less affected by those decisions than other costs and thus removing them is the best available method for estimating incremental costs, short of doing an expensive study. Tr.pp.172, 179.

Company data, IEPI concedes, yields reasonable figures (albeit total system) for an approximation of incremental costs. Tr.p.170. IEPI's recommended monthly O&M charge for distribution facilities is 0.5%.

IPCo Response:

Regarding the underlying methodology, Idaho Power admits that it did not perform an incremental cost study analysis. However, Idaho Power contends that such an analysis is not necessary. If the incremental plant is fairly similar to the existing plant, then Idaho Power states that it is acceptable to use that ratio, i.e., a percentage multiplied by the cost of the incremental plant to estimate the O&M or A&G. Tr.p.126. It was generally agreed that we are dealing with approximations and estimates. Not all of the

associated adjustments, both additions and reductions, that could have been made have been made. Tr.pp.56, 58, 148. With respect to A&G expenses, this is true for both the setting of avoided cost rates and the calculation of interconnect O&M. Tr.p.122.

Idaho Power contends that if A&G costs are included in the avoided cost rates paid to QF's, then they ought to be included in calculating the O&M expenses associated with interconnect rates. Tr.pp.121, 139. Consistency and common sense, it states, requires no less. Tr.pp.115, 125, 146. All things being equal, the Company believes that it is worthwhile to treat the same issue on both sides of the equation the same way. Tr.p.146. It is undisputed that A&G costs are included in the setting of IPCo avoided cost rates; indeed it is standard practice in the industry. Tr.p.114. It is also common practice for utilities to charge QF's for both capital and O&M costs of interconnection. Tr.p.112; Exhibit 3.

What this case has to do with, Idaho Power states, is what happens to IPCo's A&G plant when they have to increase the size of their distribution system or the size of their transmission system to bring the QF power to their load center. Tr.p.127. Transmission and distribution investment are the accounts to which interconnect investment are booked. Tr.p.133. A&G varies with the level of production, transmission and distribution plant. Tr.p.129. Increased interconnection investment increases A&G expenses. Tr.p.133. The degree or level of increase arguably varies depending on whether or not the resources added are Company or QF. IEPI Tr.pp.178, 179.

Staff Response:

Staff disagrees with IEPI's proposal to eliminate A&G. Tr.p.67.

The Commission finds the underlying methodology used by IPCo to calculate monthly O&M charges for interconnection equipment to be reasonable. Under the facts of this case we find a strict incremental cost study to be contraindicated and not justified on a cost/benefit basis. We further find the Company's reasoning on inclusion of A&G expenses in O&M interconnect rates, as expressed above, to be persuasive. Based on our analysis, we are satisfied that the Company's proposal, without change, establishes a reasonable proxy for incremental O&M costs.

CONCLUSIONS OF LAW

I

The Idaho Public Utilities Commission has jurisdiction over the Idaho Power Company and The Washington Water Power and PacifiCorp Companies pursuant to the authority and power granted it under Title 61, *Idaho Code* and pursuant to the Rules of Practice and Procedure of the Idaho Public Utilities Commission, IDAPA 31.A.

II

The Idaho Public Utilities Commission has authority under the Public Utility Regulatory Policies Act of 1978 (PURPA) and implementing regulations of the Federal Energy Regulatory Commission (FERC) to set avoided costs, to order electric utilities to enter into fixed term obligations to purchase energy from qualifying cogeneration and small power production facilities, and to implement FERC rules. PURPA Sections 210, 210(a), 210(f), 16 U.S.C.A. Sections 824-A-3, 824-A-3(a), (f); *Afton Energy, Inc. vs. Idaho Power Company*, 107 Idaho 781, 693 P.2d 427 (1984).

O R D E R

In consideration of the foregoing and as more particularly described above and based on the Commission's review of the petition for reconsideration, its prior orders and the record, it is the final Order of the Commission on reconsideration that tariff Schedule 72 as submitted by the Company in Case No. IPC-E-90-20 be reaffirmed subject to the Commission's revision requirements regarding use of non-level *vis-à-vis* level O&M charges. The Company is directed to submit a revised tariff.

THIS IS A FINAL ORDER ON RECONSIDERATION. Any party aggrieved by this Order or other final or interlocutory Orders previously issued in this Case No. IPC-E-90-20 may appeal to the Supreme Court of Idaho pursuant to the Public Utilities Law and the Idaho Appellate Rules. See *Idaho Code* § 61-627.

DONE by Order of the Idaho Public Utilities Commission at Boise,
Idaho, this 30th day of December 1991.


MARSHA H. SMITH, PRESIDENT


DEAN J. MILLER, COMMISSIONER


RALPH NELSON, COMMISSIONER

ATTEST:


MYRNA J. WALTERS, SECRETARY

SW:jr/O-1634