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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AN ORDER REVISING THE RATES, TERMS, AND CONDITIONS UNDER WHICH IDAHO POWER PURCHASES NON-FIRM ENERGY FROM QUALIFYING FACILITIES.	CASE NO. IPC-E-95-15 REPLY COMMENTS OF IDAHO POWER COMPANY

Idaho Power Company ("Idaho Power" or "Company") hereby submits the following comments in response to the comments of Commission Staff and interested parties.

BACKGROUND

Rate Schedule 86 was originally filed in 1981 in response to Commission Order No. 16025. Order No.16025 was the first Order issued by the Commission to implement PURPA in

Idaho. Since 1981, Idaho Power and the Commission have both gained a better understanding of the costs and benefits associated with the development of PURPA resources in Idaho. For example, Order No. 16025 is replete with references to the need to stimulate and encourage the development of QF resources. However, since the issuance of Order No. 16025 the Commission has recognized in several subsequent orders that the QF industry in Idaho has matured to the extent that it no longer needs the same degree of stimulation and protection from competition.

Despite the significant changes that have occurred as the QF industry has evolved and matured, the one constant has been the requirement of PURPA embodied in 18 CFR § 292.304(d) that utilities *cannot* be required to pay more than their avoided costs for purchases of power from QF's. Several recent FERC cases have strongly reinforced this basic principal of ratepayer protection. (See So. Cal. Edison, San Diego Gas & Electric, 70 FERC ¶ 61,215 and Conn. L&P, 70 FERC ¶ 61,012.) This reaffirmation of the avoided cost cap by the FERC is consistent with current discussions on the national level of "stranded cost" and other fundamental changes in the structure of the electric utility industry as it exists today.

STANDARD RATE OPTION

The FERC's regulations implementing PURPA provide, *inter alia* that rates for purchases from QF's will satisfy PURPA's requirements if they are based on either: (1) the avoided cost calculated at the time of delivery; or (2) the avoided cost calculated at the time the obligation is incurred. (18 CFR § 292.304(d).) In the specific case of non-firm purchase prices the FERC regulations state:

> (d) Purchases "as available" or pursuant to a legally enforceable obligation. Each qualifying facility shall have the option either:

(1) to provide energy as the qualifying facility determines such energy *to be available* for such purchases, in which case the rate for such purchases shall be based on the purchasing utility's avoided costs *calculated at the time of delivery*; or . . . (Emphasis supplied)

(2) to provide energy or capacity pursuant to a legally enforceable obligation for the delivery of energy or capacity over a specified term, in which case the rates for such purchases shall, at the option of the qualifying facility exercised prior to the beginning of the specified term, be based on either:

(i) the avoided costs calculated at the time of delivery; or

(ii) the avoided costs calculated at the time the obligation is incurred.

Because the specific intent of Schedule 86 is to address non-firm, *as available* energy purchases, Idaho Power originally proposed to delete the existing Option A, <u>Standard Rate</u> and retain only the existing Option, B <u>Actual Avoided Energy Cost at Time of Delivery</u>. Under Option B the Company determines the average cost of energy used to serve the Company's marginal 200 MW's of load during the preceding calendar month and pays that amount to the non-firm energy producer. This provides an accurate determination of the actual value of non-firm QF energy "at the time of delivery." Staff characterizes Idaho Power's Option B as a "new method of calculating avoided cost." (Staff comments p.4 and 5) In fact, this same purchase option has been in place since the original Schedule 86 was filed in 1981. While this method of pricing QF energy is certainly different from the estimated avoided costs traditionally associated with firm energy QF contracts in Idaho, it is consistent with the FERC's regulations governing purchases of "as-available" energy. Idaho Power does not believe that it represents a new method of calculating avoided costs for non-firm energy.

Idaho Power also proposed to eliminate the "standard rate option" because it involves estimating the future value of non-firm energy. As the Commission knows, much of the difficulty associated with developing avoided cost rates arises out of the process of trying to estimate future energy costs. This is particularly true today in light of the substantial changes that are occurring in the wholesale power markets. In its Application, Idaho Power opted to reduce forecasting risk and limit payments for non-firm energy to actual values at the time of delivery.

Staff recommends that the standard rate option be retained in order to allow QF developers to obtain financing and to plan future production. Idaho Power questions whether non-firm energy prices play much of a role in the evaluation of the long term viability of a QF project by potential project financiers. Nevertheless, Idaho Power is willing to accept the Staff's proposal to retain the standard rate option in Schedule 86 as an alternative to purchases based on actual avoided costs at time of delivery. This acceptance is conditioned on the Company's ability to revise these estimated rates on a regular basis. Staff's proposal that the rates be revised every two years is reasonable. In light of the volatility of the current market for non-firm energy, any longer interval between revisions would not be prudent.

ELIMINATION OF RATE OPTION C- NET METERING, (RUNNING THE METER BACKWARDS)

Idaho Power's Application proposes to eliminate the purchase arrangement identified in the existing Rate Schedule 86 as "Option C." Under the current Option C, very small QF projects are permitted to "run the meter backwards" and thereby sell their power at retail rates rather than at avoided cost. This purchase arrangement should be eliminated for at least two reasons. First, retail rates exceed Idaho Power's Commission approved avoided power supply costs. As a result, purchasing non-firm energy at retail rates clearly violates the PURPA proscription on above-

avoided cost purchase prices. As the Commission Staff correctly notes in its comments on page 3, "Rate Option C in its current form, creates a situation where the Company may have to buy electricity at prices well in excess of either current generation costs or avoided costs."

The second reason that Option C should be eliminated is that it prevents the Company from recovering all of its cost of serving those retail customers that sell power under Option C. In their comments, the Staff noted that by allowing a customer to "run the meter backwards" the Company will be under earning on its investment required to serve a particular customer. The Staff's comments identify this under earning on the portion of the distribution system and service drop required to provide self-generators with full back up power. In fact, Staff's comments understate the extent of the under earning problem. The retail rates Idaho Power charges its retail customers cover more than just the Company's generation costs. Retail rates include costs associated with the Company's transmission system, its distribution system and all of the other costs associated with providing retail electric service. If the self-generator "runs the meter backwards" to zero, none of these non-generation costs are recovered from the self-generator. Staff's proposal to modify Option C to require purchases of *net* generation at avoided cost rather than at retail rates does not avoid the under earning problem.

The O&M charges under Schedule 72 are designed for QF projects generating in parallel with the Company's system and will not recover all of the system costs attributable to self-generators. These cost recovery issues for self-generators are not new. Utilities and Commissions have dealt with them for years. Traditionally utilities and Commissions have resolved these problems by means of a standby or back-up charge. This allows the utility to recover, from the self-generator, the self-generator's fair share of the costs of the back up it is

receiving from the utility system. Standby charges are intended to minimize the risk that other customers will be disadvantaged by a self-generator's decision to generate to its own load.

As the Commission is well aware, there is a substantial push currently to "unbundle" the delivery of electrical services in order to send the right price signals to customers. Net metering or running the meter backward allows one group of customers to shift system costs to other customers and sends price signals that are inconsistent with "unbundled" electrical service.

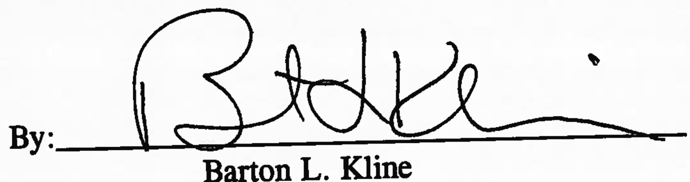
Idaho Power is certainly willing to accommodate small QF projects within its system. In fact, Idaho Power has signed contracts with nine QF developers for projects smaller than 100 KW. However, QF purchases should not be made if they require Idaho Power to pay more than its avoided costs for QF energy and, in the case of Option C, if the purchase arrangement does not even allow Idaho Power to recover all of its costs.

CONCLUSION

Idaho Power is willing to retain the standard rate option and the option to sell power at Idaho Power's avoided energy costs at the time of delivery. Idaho Power believes that unless provision is made for a standby charge that allows Idaho Power to recover all of its costs, both the current Option C and the Commission Staff's modified Option C should be rejected.

RESPECTFULLY SUBMITTED this 28th day of May 1996.

IDAHO POWER COMPANY



By:____________________
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