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Attorney for the Commission Staff

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

**COMMENTS OF
THE COMMISSION
STAFF**

PURSUANT to the Commission's Notice of Modified Procedure issued in this case on April 17, 1996, the Staff of the Idaho Public Utilities Commission, by and through its Attorney of Record, Brad Purdy, Deputy Attorney General, hereby submits the following comments in response to Idaho Power Company's application.

BACKGROUND

On October 5, 1995, Idaho Power Company (IPC), in Case No. IPC-E-95-15, filed an application with the Idaho Public Utilities Commission (Commission) proposing a revision to the

Company's Electric Tariff Schedule 86 entitled "Cogeneration and Small Power Production - Non-Firm Energy." In particular, the Company requests that the Commission issue an order, 1) approving the Company's revisions to the current Schedule 86; 2) approving revisions to the rates to be paid for non-firm energy sold to Idaho Power under Schedule 86; and 3) authorizing the Company to file documentation supporting the computation of purchase rates under Schedule 86 on a semi-annual, rather than monthly, basis.

In summary, the Company's proposal:

- I. Eliminates the 3-mill "aggregate capacity" adder.
- II. Eliminates the Standard Rate Option.
- III. Eliminates Rate Option C (running the meter backwards).
- IV. Introduces a new method of calculating avoided cost.
- V. Reduces co-gen and small power production incentives.

The Company points out that in 1980, when the Commission was considering Order No. 16025 that established Schedule 86, a number of parties argued that in the future there would be a sufficient number of QF's selling non-firm energy at all times to justify a capacity payment based on an aggregation of non-firm energy resources. The Commission accepted that argument at that time and required the Company to include a 3-mill "aggregate capacity" adder to non-firm rates. Actual experience has shown that an aggregation of non-firm resources has not materialized. Non-firm sales to Idaho Power are generally of short duration and occur on an intermittent basis. Only one large QF has received regular payments under Schedule 86 for more than a few months, and that QF has now converted its sale to a long-term firm sale. Only two QF project are currently selling non-firm energy on a regular basis under Schedule 86. Those two QF's have capacities of 110 kW and 262 kW respectively.

In support of its proposal to eliminate Rate Option C, "running the meter backwards," the Company states that Rate Option C was designed to be available to only very small facilities (under 100 kW) and only one QF ever elected to utilize the option. The Company suggests "grandfathering" the single QF currently selling under this option but not allowing new QF's to select this option.

STAFF ANALYSIS

I. ELIMINATION OF THE 3-MILL "AGGREGATE CAPACITY" ADDER.

At the inception of Schedule 86, the Commission envisioned that it would stimulate the development of a number of small power producers with a resulting reduction in required capacity on the part of IPC. The fact is that development in this area has not been robust. Staff agrees with the Company that capacity benefits of Schedule 86 generators are minimal or nonexistent. Staff therefore does not oppose the elimination of the 3-mill "aggregate capacity" adder.

II. ELIMINATION OF THE STANDARD RATE OPTION.

Staff feels that the Standard Rate Option is needed to allow small producers to obtain financing and plan production. Staff also feels that there needs to be a provision for the timely updating of the amount of the standard rate. To accomplish these two ends, Staff recommends the maintenance of the current Standard Rate Option with the following modifications. 1) To bring the standard rate into line with current costs and provide for timely updates, Staff proposes basing the standard rate on the avoided cost as calculated and published in the Company's IRP and updated by successive IRP's. 2) To prevent QF's from abusing periodic swings in the difference between the IRP avoided costs and the spot market, the proposed standard rate would only be available to firms contracting to sell the power exclusively to Idaho Power for a 24-month period.

III. ELIMINATION OF RATE OPTION C (NET METERING; RUNNING THE METER BACKWARDS).

The elimination of this option is the most contentious part of IPC's application as evidenced by comments already received. 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. Realistically, the current Option C should be called Net Metering at a Single Rate. By this it is meant that, in the case of a residence, if the site is a net user of electricity over the course of a month it pays the residential rate and if it is a net producer of electricity over the same period it gets paid the same residential rate.

Staff recommends keeping Option C but changing it to a method that could be called Net Metering at Alternate Rates. By this it is meant that when the residence is a net user of electricity over the course of a month it continues to pay the residential rate. However, if it is a net producer of electricity over the same period it will only be paid the standard (avoided cost) rate. This proposal has the benefit that producers will not be required to add any additional switching, metering, or storage devices that are not otherwise required. The only downside to the producers is that they will

no longer be subsidized by the amount that their regular rate exceeds the avoided cost rate when they generate a surplus.

Public comments on file with the Commission have focused on, and are unanimously in favor of, maintaining Option C. The salient points raised by the supporters of the current Rate Option C are, 1) "Net Metering" is common in other states; 2) "Net Metering" is intended for small generators (less than 100 kWh); 3) "Net Metering" is inexpensive because it does not require a switching mechanism, dual meters, additional accounting procedures, or on site storage systems; 4) "Net Metering" provides a (small) subsidy and thereby sends the right message to the public. In other words, it encourages people to continue to experiment with alternative, politically and environmentally correct, means of generation; and 5) Option C proponents claim the physical size of the subsidy, because of the paucity of generators involved, is sufficiently small as to be inconsequential.

Staff concedes all of these points but counters with the following observations, 1) Staff's proposal requires no additional equipment that is not required under the current Option C; 2) Staff believes that the programming required to implement Staff's proposal is minimal. The only requirement on the part of IPC's billing department is for the billing computer to recognize that credits (net production) are paid at a different rate than debits (net consumption) are charged; and 3) Staff's modified Option C continues to give the generator the benefit of offsetting electrical consumption at the charged rate, but only up to the point that that person's monthly generation equals that person's monthly usage. Beyond that point, the Company would pay a lower avoided cost rate for any surplus electrical production. Staff believes this approach continues to "send the right message" while at the same time eliminating a subsidy.

As an aside, Staff notes that as an individual's electrical bill approaches zero by the process of self generation, the Company will be under-earning on the portion of the distribution system and service drop required to provide those locations with full backup power. The amount of this under-earning also constitutes a small subsidy that is ignored by both the Company and the proponents of Rate Option C.

IV. A NEW METHOD OF CALCULATING AVOIDED COST.

In particular, the definition used here bases the avoided cost rate on the top 200 MW of electricity actually purchased, rather than avoided, in the preceding month. This means that the companies producing under this option will not know the value of their generation until well after

it has been produced thus presenting a situation where it is possible for a company to produce power at a loss without realizing it until after the fact.

Staff notes that this approach is a substantial change from the traditional concept of avoided costs. By not opposing the use of this definition in this situation, Staff does not signify a change in its traditional position on this subject.

As to the effect of this section, Staff envisions that these avoided cost rates will have limited appeal to energy producers. Staff believes that rates based on such avoided costs will appeal primarily to firms in transition to providing firm energy or to others who are comfortable with the highly speculative nature of this rate. To that end, on the belief that most non-firm producers will choose the Standard Rate discussed earlier, Staff does not oppose these provisions.

V. CO-GEN AND SMALL POWER PRODUCTION INCENTIVES.

Schedule 86 was founded on the principle of actively stimulating the production of electricity from co-gen and small power producers.

Staff recognizes the need to change with the times. Stimulating the production of electricity from co-gen and small power producer is still a laudable goal but a good deal less pressing than it seemed in 1980 to a country in the throws of an oil embargo.

DATED at Boise, Idaho, this 4 day of May 1996.


Brad Purdy
Deputy Attorney General


Tony Jones
Economist

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 8TH DAY OF MAY 1996,
SERVED THE FOREGOING COMMENTS OF THE COMMISSION STAFF, IN CASE
NO. IPC-E-95-15 BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE
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