DECISION MEMORANDUM

TO:COMMISSIONER NELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

MYRNA WALTERS

TONYA CLARK

DON HOWELL

STEPHANIE MILLER

DAVE SCHUNKE

RANDY LOBB

TONY JONES

KEITH HESSING

RICK STERLING

GARY RICHARDSON

WORKING FILE

FROM:BRAD PURDY

DATE:APRIL 2, 1996

RE:CASE NO.  IPC-E-95-15

APPLICATION OF IDAHO POWER COMPANY FOR AN ORDER REVISING THE RATES, TERMS AND CONDITIONS UNDER WHICH IDAHO POWER PURCHASES NONFIRM ENERGY FROM QFS.

On October 5, 1995, the Idaho Power Company (Idaho Power; Company) filed an Application for an Order (1) approving revisions to the Company’s current Schedule 86 entitled “Cogeneration and Small Power Production—Nonfirm Energy”; (2) approving revisions to the rates to be paid for nonfirm energy sold to Idaho under Schedule 86, and; (3) authorizing the Company to file documentation supporting the computation of purchase rates under Schedule 86 on a semiannual rather than a monthly basis.

In 1980, in Order No. 16025, Case No. P-300-12, the Commission directed Idaho Power to purchase nonfirm energy from QFs based on system avoided energy cost plus a small amount in consideration of system capacity benefits. In compliance with the Commission’s directive, Idaho Power files, each month, a schedule with the Commission showing nonfirm energy prices based on the Company’s monthly incremental variable cost of energy used to serve the marginal 175 MW increment of system load.  The filed schedule is based on data for average fuel cost, operating and maintenance expenses (which vary with the output of thermal plants), firm power purchases and spot market purchases.  In addition to the monthly variable energy cost, Idaho Power adds a three mill per kWh “aggregate capacity” amount to represent the “system capacity benefits as required by Order No. 16025.”

The Company contends that in 1980 when the Commission was considering the matter, a number of parties argued that in the future there would be a sufficient number of QFs selling nonfirm energy at all times to justify a capacity payment based on an aggregation of nonfirm energy resources.  The Commission accepted the argument at that time and required the Company to include the three mill aggregate capacity adder to nonfirm rates.  Idaho Power contends that actual experience has shown that an aggregation of nonfirm resources has not materialized.  According to the Company, nonfirm sales to Idaho Power are generally of short duration and occur on an intermittent basis.  The Company states that 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.  Furthermore, only two QF projects are currently selling nonfirm energy on a regular basis under Schedule 86.   Those two projects have capacities of 110 kW and 261 kW, respectively.  The Company argues that nonfirm energy purchases under Schedule 86 have never provided any actual capacity to Idaho Power’s system.  Because the Company does not avoid any capacity purchases as a result of nonfirm energy purchases from QFs under Schedule 86, it asserts that it would be appropriate to eliminate the three mill aggregate capacity adder.

Idaho Power further proposes to reduce the number of compliance filings it makes with the Commission under Schedule 86.  The Company would still compute the incremental variable cost of energy on a monthly basis for purposes of paying QFs selling under Schedule 86 but would only file the rate computation data with the Commission semiannually.  The Company suggests that this is reasonable considering the small number of QFs selling to Idaho Power under Schedule 86.

Idaho Power also proposes to eliminate the existing standard rate option contained in paragraph A of Schedule 86.  Only two small QFs are currently being paid under this rate option.  The Company notes that nonfirm energy purchases from these two smaller projects could continue at the variable energy rate proposal under the revised Schedule 86.  Idaho Power asserts that the variable energy rate more accurately reflects the actual costs the Company can avoid by purchasing  nonfirm energy from QFs and, therefore, elimination of the standard rate option would benefit Idaho Power’s customers.

Finally, the Company proposes to eliminate the existing rate option C entitled “Offset Against Retail Rates.”  This option allows a QF developer to be paid for nonfirm energy by running the meter backwards.  This option was designed to be available only to very small facilities (under 100 kW) and only one QF ever elected to utilize the option.  The single QF currently selling under this option would be grandfathered under the Company’s proposal but no new QFs could elect option C.

Following the filing of the Company’s Application, Staff met with Idaho Power to discuss the issues raised in the revised Schedule 86.  Staff proposed several changes to the Company’s Application including the elimination of Idaho Power’s provision for “after the fact” pricing, maintaining a fixed price option and modification of the timing of calculating prices under option B.

Staff is prepared to state its position on the Application in greater detail at the appropriate time believes that the matter would appropriately be handled under Modified Procedure.

Commission Decision

Does the Commission wish to handle this matter under Modified Procedure?

Brad Purdy

vld/M:IPC-E-95-15.bp