DECISION MEMORANDUM

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FROM:BRAD PURDY

DATE:DECEMBER 19, 1996

RE:CASE NO. IPC-E-95-15

APPLICATION OF IDAHO POWER FOR APPROVAL TO REVISE THE RATES, TERMS AND CONDITIONS UNDER WHICH IDAHO POWER PURCHASES NON-FIRM ENERGY FROM QUALIFYING FACILITIES

In October 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 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 a monthly basis.

Sellers under Schedule 86 are typically QF generators (“qualifying facilities”) of small amounts of nonfirm power utilizing a variety of sources including, among others, cogeneration, photovoltaic and small hydro.

This matter has been before the Commission on two earlier occasions.  The first was for a decision regarding how to process the case.  At that time the Commission chose to handle the matter under Modified Procedure.  The second occasion (July 17, 1996) was for the Commission to resolve the relevant issues.  At that time, the Commission resolved all issues except one which was remanded to the Company to develop a potential solution.  This memorandum offers comments on that solution.  A brief history and summary of the case, as well as the Company’s original proposal, is also provided.

HISTORY

In 1980, the Commission directed Idaho Power, in Order No. 16025, Case No. P-300-12, to purchase nonfirm energy from Schedule 86 suppliers based on the Company’s 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 Company’s 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 its monthly variable energy cost, Idaho Power adds a 3 mill per kWh “aggregate capacity” amount to represent the “system capacity benefits” provided by Schedule 86 suppliers, as required by Order No. 16025.

IDAHO POWER’S PROPOSAL

The Company contends that in 1980 when the Commission was considering implementing Schedule 86, 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 3 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 under Schedule 86 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 particular QF has now converted its sale to a long term, firm sale.  Furthermore, Idaho Power notes that 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 it does not avoid any capacity purchases as a result of nonfirm energy purchases from QFS under Schedule 86, Idaho Power asserts that it would be appropriate to eliminate the 3 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 but would only file the rate computation data with the Commission semi-annually as opposed to monthly.  Idaho Power suggests that this is reasonable considering the small number of QFS selling to the Company under the schedule.

In its current form, Schedule 86 contains three rate options for suppliers.  Option “A” is a fixed rate.  Option “B” is a variable rate based on the Company’s system avoided energy cost.  Option “C”, known as “running the meter backward” allows suppliers to utilize the power they generate to actually reduce the amount of energy they take from Idaho Power.  Idaho Power  proposes to eliminate the existing Rate Option A.  Only two small QFS are currently being paid under this option.  The Company notes that nonfirm energy purchases from these two smaller projects could continue at the variable energy rate proposal (Option B) 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 Option A would benefit Idaho Power’s customers.

Finally, the Company originally proposed to eliminate the existing Option C titled “Offset Against Retail Rates.”  This option essentially allows a QF developer to be paid the retail rate for nonfirm energy by using her own generation to run her meter backwards.  The option was designed to be available only to very small facilities (under 100 kilowatts) and only one QF ever elected to utilize the option.

On July 17, 1996, the Commission conducted a decision meeting to resolve the issues presented by the Company’s proposal.  The Commission decided three of the issues and deferred making a decision on a fourth pending a subsequent proposal by the Company.  Paraphrasing, the Commission made the following decisions:

1.Eliminate the 3 mil capacity adder.

2.Reduce the number of compliance filings made with the Commission under Schedule 86 from monthly to semi-annually.

3.Eliminate Option “A”, the fixed rate supplier option.

4.Maintain rate Option “C”,  generally known as running the meter backward, with certain modifications.  These modifications entailed calculating a rate structure that captures the following requirements:

A.Allows the Company to use its existing billing system.

B.Allows customer to use a conventional “single meter” metering system.

C.Charges the customer the rate consistent with their class of service while the meter is running “forward”.

D.Pays the customer the avoided cost rate when the meter is running “backward.”

E.Charges the customer a minimum fee that is consistent with the amount of backup supply and capacity they are being provided.

Item Number 4 was remanded back to Idaho Power to develop a proposal that would fulfill these requirements.  Idaho Power subsequently filed an amended proposal changing the proposed revisions to dovetail with the initial conclusions expressed by the Commission in its July 17, 1996, decision meeting.  The Company also made additional changes to Schedule 86, most notably, limiting the availability of Option C to rate Schedules 1 (residential) and 7 (small commercial).  Following the submission by Idaho Power of its amended proposal, the Commission issued a Notice soliciting comments in response to that proposal.  Comments were received by the Commission Staff, the state of Idaho Department of Water Resources, Idaho Rivers United, Idaho Consumer Affairs, Inc., Resource Conservation Management, Inc., Arora Power Design and Mr. Peter Chaffey.  All of the comments made in opposition to the Company’s proposal pertain to Option C.

Commission Staff

Option A.

As indicated, Idaho Power proposes eliminating Option A from Schedule 86.  In the amended proposal, each of the remaining two options have been moved up one position in the lettering order; i.e., the former Option B is now Option A and the former C is now B.  To avoid confusion, the Options will be referred to by their “old”, i.e., still current, designation.

Option B.

This is the variable rate option.   Staff has no comments on Option B other than to say that the Company’s proposal appears to be consistent with the Commission’s July 17, 1996 decision.

Option C.

This is the “running the meter backward” option.  (Also known as “net metering”).  This is the Option that the Commission deferred decision on until such time as the Company could suggest a mechanism for recovering distribution and reserve capacity costs.  The Company has developed a methodology that calculates a monthly charge (net photovoltaic charge) that depends on a number of variables including class of service rate, avoided energy costs, hours of sunlight and rated photovoltaic (PV) output.  As suggested by its name, this monthly charge is unique to PV producers.  It is Staff’s conclusion that, for PV producers, Idaho Power’s proposal for calculating the monthly charge functions in a manner consistent with the Commission’s requirements to (a) allow the Company to use its existing billing system, (b) allow customers to use a conventional single metering system, (c) charge the customer the rate consistent with its class of service while the meter is running forward, (d) pay the customer the avoided cost rate when the meter is running backward and, (e) charge the customer a minimum fee that is consistent with the amount of backup supply and capacity the customer is being provided.

Staff notes that while Option C is not limited to PV suppliers, this particular monthly charge is.  Consequently, the Company will have to revisit this issue each time a customer with a different type of generation technology requests access to Option C.  Given the current and expected workload associated with processing Schedule 86 applicants, however, Staff does not consider the case specific nature of this monthly charge to be a significant problem.  Staff believes that it is possible to develop a monthly charge that is consistent and broad enough to work with all forms of qualifying generation.  The development and use of such a monthly charge in this tariff would be of benefit to the public, the Company and the Commission, Staff contends.

Staff believes that the proposed monthly charge under this Option calculated by the Company performs as desired but is overly complicated.  Staff believes that potential customers cannot immediately discern what their monthly charge will be by looking at the tariff sheet.  Staff suggests that customer understanding of the tariff could be improved by listing a table of monthly charges associated with discrete ranges of installed capacity.  The table could be developed with the same methodology and formulas and would carry the understanding that actual monthly charges will vary depending on the specifics of each customer’s installation.

In its original filing, the Company titled Option C as “offset against retail sales—facilities under 100 kW only.”  In the amended filing, the phrase “rate schedules 1 and 7 only” has been inserted.  While Staff recognizes that this Option has a limited following, it believes that its appeal will be further diminished if limited to classes 1 and 7 as proposed by the Company.  Staff sees no reason to add this further limitation of applicability.

  In the existing tariff, Item 8 of the “Conditions of Purchase and Sale” reads as follows:  “Except under rates, Option C, metering will be provided for recording net output for this facility and will be separate from metering of the seller’s load.”  In the proposed tariff, the qualifying section “Except under rates, Option C” has been removed; an omission that would have the effect of requiring Rate Option C customers to install additional metering equipment.  Staff believes that to the extent that this action is clearly at odds with the Commission’s decision regarding the maintenance of Rate Option C, the phrase exempting Rate Option C customers should be revised to say “except under rates, Option C. . . .”  in recognition of the new listing of rates and reinserted into Item 8 of the conditions of Purchase and Sale.  Aside from the foregoing modifications, Staff concurs with the Company’s revised Application.

State of Idaho, Department of Water Resources (IDWR)

IDWR objects to the Company’s proposal to limit net metering (Option C) to rate schedules 1 and 7.  According to IDWR, other customer classes using net metering will not require a second meter or hand processing of monthly bills; which is Idaho Power’s justification for the limitation.  IDWR believes that net metering offers the greatest promise to customer classes other than schedules 1 and 7.  For instance, integrating PV systems into the architecture of commercial buildings and utilizing the by-products of waste treatment at dairy and livestock operations are just two of the ways net metering can be applied but that would be needlessly eliminated by this restriction.

IDWR also objects to the monthly charge under Option C which purports to recover nongeneration-related costs contending that such costs are already recovered through the line extension fees, monthly service charges and other direct service charges assessed by the Company.  According to IDWR, the fact that the service charge calculation is based on the size of the generating system indicates that it is an assessment for net revenue lost due to reduced sales.  IDWR contends that the monthly charge is analogous to imposing a service charge for the installation of energy efficient light bulbs and that the Commission should encourage rather than penalize the use of alternative energy technologies.

IDWR agrees, in concept, with the Company and Staff proposal that if a customer produces more electricity than is used in a month, the excess energy will be paid for by Idaho Power at avoided cost rates.  IDWR believes, however, that the customer should be given the option to apply net metering on either a monthly or an annual basis.  IDWR contends that some renewable energy sources are cyclical by nature and recommends an annualized net energy measurement similar to Idaho Power’s power cost adjustment (PCA).  Other states, such as California, have set up a similar type of adjustment with their net metering customers, IDWR states.

Finally, IDWR contends that the “Conditions of Purchase and Sale” have been inappropriately applied to the net metering option.  The requirement of installing two meters (Condition No. 8) for instance, should not be applicable to this option, IDWR contends.

Idaho Rivers United (IRU)

IRU believes that the Commission should support the concept of net metering which it contends is one of the simplest ways to encourage renewable energy applications by small scale generators.  IRU contends that Idaho Power’s proposal is unduly complicated and should not be limited to only schedules 1 and 7 since a greater potential for the development of renewable energy lies with other customer classes.

IRU notes that the comprehensive review of the Northwest Energy System is currently considering the role of renewable energy resources in the restructured utility market.  IRU states that a steering committee recommendation may include requiring a small percentage of a utility’s portfolio to be from renewable energy resources.  IRU urges the Commission, therefore, to defer taking any action on Idaho Power’s request until there is more clarity on how renewables will be treated in the region’s restructured system.

IRU made a number of comments with regard to the specifics of the Company’s amended Application.  First, IRU questions the vagueness of the nongeneration-related costs the Company proposes to recover through the monthly charge.  Second, IRU believes that net metering should not be limited to only schedules 1 and 7 and questions why the Company will require a second meter.  IRU also questions the Company’s requirement that QFS under schedule 86 hire an engineer to certify the project given the protections already built into the various conditions in the schedule assuring the safety and design of the system.  Similarly, IRU questions the $1,000,000 insurance requirement which it contends is excessive for residential and small commercial customers.

Idaho Consumer Affairs, Inc.  (ICA)

ICA opposes Idaho Power’s Application contending that the Company has made the use of net metering impractical and even punitive.  ICA contends that net metering is used nationwide and that its development should be encouraged in this state as well.

Resource Conservation Management, Inc.  (RCM)

RCM contends that the Company’s proposal is anti-competitive because it removes renewable energy options to the detriment of citizens and customers and to the benefit of Idaho Power.  RCM contends that the lack of participation in net metering is most likely due to Idaho Power’s deliberate failure to publicize the option.  RCM also questions the Company’s proposal to limit net metering to customers on rate schedules 1 and 7, which would exclude commercial and industrial customers.  RCM argues that it is important to retain net metering as a viable option because of the environmental benefits of renewable energy.

Peter Chaffey

Mr. Chaffey argues that the Company’s monthly charge under Option B cannot be justified.  He suggests that it is tantamount to charging people for using energy efficient appliances considering that it makes little difference in how a person reduces his/her energy consumption.  Nonetheless, Idaho Power actively promotes these latter measures as do many other electric utilities because it reduces the load demand on existing facilities.  Mr. Chaffey proposes to keep the net metering option in place and structure it so that the power produced by a QF is offset against retail rates until there is parity.  Then, any excesses should be paid at the avoided cost rate or a credit should be issued whichever is easiest to calculate for accounting purposes.

Idaho Power Respsonse

On December 19, Idaho Power filed a response to the comments submitted by Staff and IDWR.  First, Idaho Power concedes that a monthly charge universal to all types of generation, and not just PV, could be calculated.  The Company states that unless Staff makes a proposal, however, it will continue to calculate technology-specific charges on an as needed basis.

Idaho Power agrees that it could prepare a chart, as suggested by Staff, to make the monthly charge more comprehensible.  The Company contends, however, that site specific analysis is necessary anyway and that customers will have to provide the Company with basic information, obtained from the vendor of the generation equipment used, in order to calculate the charges.

Regarding Staff’s objection that Option C should not be limited to schedules 1 and 7, the Company states that the reason for limitation is that schedules 1 and 7 are the only schedules that do not have a demand component associated with the retail rate.  They do not utilize meters that measure both demand and energy.  The electricity purchased by Idaho Power under Option B is limited to non-firm energy.  The Company asserts that retail rates designed to recover system costs allocated to both demand and energy make it impossible for Idaho Power to compute an appropriate monthly charge utilizing a single meter that measures net energy and net demand when only non-firm energy is being supplied by the customer.  In other words, running the meter backward for a customer with a demand as well as energy meter could reduce that customer’s demand.  The Company contends that this is inappropriate because the energy supplied by the customer is non-firm and, therefore, Idaho Power must still have in place generation facilities to serve that customer.  The Company concludes that it would not be feasible to attempt to develop a monthly charge that takes into consideration the actual coincidence of generation and demand.

Commission Decision

Does the Commission wish to reconsider any aspect of its initial decision made on July 17, 1996, and outlined on pp. 3-4 of this memorandum?

Should the Commission defer taking any action regarding Option C until there is more clarity on the role of renewable energy technologies in the restructured market as proposed by IRU?

Should Idaho Power be directed to calculate a monthly charge, under Option C, that is applicable to all forms of generation; not just PV?

Should Idaho Power be directed to list examples of minimum monthly charges associated with alternative generators selling power under Option C to make the charges more understandable?

Does the Commission agree with Idaho Power’s proposed monthly charge recovering non-generation related costs?

Should the “Conditions of Purchase and Sale” language be revised to exempt Option C customers from installing a second meter?

Should Option C customers be allowed the option of being billed on an annual as opposed to monthly basis?

Should Option C be made available to only customers under rate Schedules 1 and 7?

Are the certification and insurance requirements of Schedule 86 excessive?  Should they be engineered and insured in a manner consistent with the size and scope of the project?

Brad Purdy

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