DECISION MEMORANDUM

TO:COMMISSIONER HANSEN

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WORKING FILE

FROM:BRAD PURDY

DATE:JULY 8, 1997

RE:TARIFF ADVICE NO. 97-02

COMPUTATION OF AVERAGE MONTHLY PER KWH COST OF ENERGY FOR SCHEDULE 86-COGENERATION, SMALL POWER PRODUCTION, NON-FIRM ENERGY

On June 9, 1997, the Idaho Power Company (Idaho Power; Company) submitted a letter to the Commission Secretary regarding a change in the methodology by which the Company calculates the rate paid to small generators under Schedule 86.  That methodology was approved by the Commission on March 27, 1997, in Order No. 26850, Case No. IPC-E-96-15.  Under Option A of the recently approved Schedule 86, Idaho Power purchases non-firm energy from qualifying cogenerators and small power producers at an amount equal to the “avoided energy costs” per kWh for that month.  Avoided energy costs in Schedule 86 is defined as “the monthly average per kWh cost of the energy used to serve the Company’s marginal 200 MW of firm load.”

In its June 9 letter, Idaho Power notes that the methodology approved by the Commission in Order No. 26850 produced computations used to compute the monthly average per kWh cost of the energy used to serve the Company’s marginal 175 MW of firm load.  The printout generated by the Company’s program showed the hourly price of energy for each resource on the Company’s system used to serve the marginal 175 MW load.  Idaho Power has determined, however, that it is no longer cost effective to acquire and maintain this large hourly data base which is only used to compute this one figure each month.

In its letter, Idaho Power states that it is giving notice of the procedure it has implemented to simplify the computation of the monthly average cost of energy under Option A of Schedule 86.  Instead of using the hourly cost by resource, the Company will use the monthly average cost for each resource.  The Company will still “stack” the resources used throughout the month from lowest to highest variable cost until enough energy to serve all firm load has been “stacked.”  The cost of serving the marginal 175 MW band will still be determined by adding resources from the top of the stack (the highest cost resource used to meet firm load during the month) downward to lowest cost resources used during the month until enough energy to serve the upper 175 MW band has been reached.  The average monthly cost of the energy used to serve this 175 MW band then becomes the Schedule 86 avoided energy cost for the month.  In its letter, Idaho Power contends that it is not proposing any changes to Schedule 86.  It is only giving notice of the procedure it is using to simplify the recordkeeping and to reduce the data acquisition required to determine the monthly average cost of energy used to serve the marginal 200 MW of load for Schedule 86.

Staff has conducted an analysis to determine the effect that the proposed change in the Company’s avoided energy cost computation will have on rates paid to Schedule 86 customers.  Attached to this memorandum as Exhibit A is an analysis prepared by Staff in both tabular and graphical form, showing the effects of the proposed change.  Staff compared the actual rates paid in 1996 as computed using the old method to what the rates would have been if the new proposed method had been used instead.  As noted, the overall effect of the proposed change is an increase in the average rate paid over the course of the year from 8.4 mills/kWh to 12.0 mills/kWh.  On a month-to-month basis, the difference ranges from less than one mill to more than 17 mills.  Staff believes that the proposed method will consistently yield higher average annual rates, but is uncertain as to the expected magnitude of the difference.  Nonetheless, Staff notes that even though the proposed change yields rates roughly 3.5 mills higher, the total rate paid to Schedule 86 customers is only one-third, approximately, of the Company’s published avoided cost rate.

Commission Decision

Does the Commission believe that the Company’s proposed calculation method yields results acceptably close to results obtained using the old method?  If not, should this case be assigned a formal case number and handled under modified procedure?

Brad Purdy

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