DECISION MEMORANDUM

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FROM:BRAD PURDY

DATE:September 3, 1997

RE:CASE NO. IPC-E-97-10

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-95-15.

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 cost 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 of each resource on the Company’s system used to serve the marginal 175 MW of 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 that 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.  Idaho Power 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 simply streamline 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.

On July 24, 1997 the Commission issued a Notice of Modified Procedure soliciting comments and response to the Company’s proposed changes to Schedule 86.  The only party to comment was the Commission Staff.

Using information provided by the Company, Staff conducted an analysis to determine the effect that the proposed change in Idaho Power’s avoided energy cost computation would have on rates paid to Schedule 86 customers.  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.  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 mils/kWh to 12.0 mils/kWh.  On a month to month basis, the difference ranges from less than 1 mil to more than 17 mils.  Staff believes that the proposed method will consistently yield higher average annual rates but is uncertain as to the expected magnitude of the difference.

The new proposed method captures the generating cost of the most expensive 117, 600 megawatt hours during the month.  The old method captures the cost of the resources needed to meet the marginal 175 megawatts of firm load in each hour during the month.  Because many of the hours used in the computations under the old method are low load hours or hours when load can be met using less expensive generation, the rates computed under the old method will generally be lower.  Nonetheless, Staff notes that even though the proposed change yields rates roughly 3.5 mils higher, the total rate paid to Schedule 86 customers is only 1/3, approximately, of the Company’s published avoided cost rate.  Staff believes that the computation method proposed by the Company results in fair and reasonable rates.

Commission Decision:

Does the Commission wish to approve the proposed changes to the calculation of Idaho Power’s Schedule 86 rates?

Brad Purdy

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