DECISION MEMORANDUM

TO:COMMISSIONER HANSEN

COMMISSIONER NELSON

COMMISSIONER SMITH

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WORKING FILE

FROM:BRAD PURDY

DATE:JANUARY 15, 1999

RE:CASE NO. IPC-E-98-15; IDAHO POWER’S APPLICATION FOR APPROVAL OF PURCHASE AGREEMENT WITH TASCO

BACKGROUND

On November 12, 1998, Idaho Power Company (Idaho Power; Company) filed an application seeking approval of an agreement between Idaho Power and The Amalgamated Sugar Company, LLC (TASCO) under which Idaho Power would operate in parallel with TASCO and purchase surplus electric energy generated by TASCO at its refined sugar production facility in Nampa.

TASCO owns and operates electric generating facilities at its refined sugar production facility in Nampa.  TASCO supplies a portion of its electric loads at the Nampa Plant with its own on-site generation, while its remaining electrical loads are supplied by Idaho Power under Idaho Power’s Schedule 19.

On October 31, 1998, Idaho Power and TASCO entered into an agreement for the sale and purchase of surplus energy under which Idaho Power will purchase surplus electric energy from TASCO at market-based prices.  The energy to be sold by TASCO is non-firm and will only be available when TASCO does not consume the energy at the Nampa Plant.  The purchase price for the energy provided by TASCO under the sales agreement will be set on a per kilowatt-hour basis and will be equal to the daily on-peak and off-peak Dow Jones Mid Columbia Index prices less four mills per kilowatt-hour.  Under the surplus energy agreement, TASCO has reimbursed Idaho Power for the actual cost of disconnection and interconnection facilities required to allow parallel operation between TASCO and Idaho Power.  In addition, TASCO will pay Idaho Power a monthly charge to compensate Idaho Power for the cost of operating and maintaining the Idaho Power owned interconnection facilities.

STAFF COMMENTS

Purchase of non-firm energy by Idaho Power from one of its customers would normally be made under Idaho Power’s Schedule 86.  Under this agreement however, purchase would be made at market-based rates.  Idaho Power admits that the rates to be paid under this agreement have been negotiated, and that they would likely differ from the rates which would otherwise be paid under Schedule 86.

The Company has informed Staff that the reason the rates were negotiated stems from earlier negotiations between the parties under which TASCO would purchase energy from Idaho Power at market-based rates, similar to the arrangement made with FMC for a portion of their load.  As part of the negotiation, surplus energy sold by TASCO back to Idaho Power would also be at market-based rates.  Apparently, the negotiation for purchase of energy by TASCO fell through.  TASCO still purchases energy under Schedule 19.  The parties did still agree, however, to pursue the agreement for sale of energy by TASCO to Idaho Power at market-based rates.

Staff believes that the agreement between the parties is reasonable.  Market-based rates, especially for non-firm energy, are an accurate way of valuing the surplus energy which would be purchased by Idaho Power.  The four mill reduction from market prices is also reasonable, since it closely represents the cost Idaho Power would incur if it was necessary to sell TASCO’s generation off-system should it not be needed to serve Idaho Power’s loads.

Using information provided by Idaho Power, Staff has made a historical comparison of  the rates that would have been paid under this agreement versus the rates that would have been paid under Schedule 86.  The comparison of these rate is attached.  The comparison shows that there is not necessarily good correlation between Schedule 86 rates and Mid-Columbia prices.  At times, the prices are relatively close, but at other times, there is a marked difference.  Over the 21 month period examined, on average, Schedule 86 rates were approximately 20 percent less than Mid-Columbia prices less four mills.

Staff believes it is likely that market-based non-firm energy prices will, on average, usually exceed Schedule 86 rates, although there can be no certainty since neither set of rates can be known in the future.  Nevertheless, Staff believes market-based rates for non-firm energy are an accurate means of valuing energy purchased from TASCO.  Furthermore, using market-based rates is simpler, and the rates are more easily determined than Schedule 86 rates since Mid-Columbia rates are now published daily.

Staff is concerned, however, that permitting the use of market-based rates for this agreement, while requiring existing customers to be paid according to Schedule 86 is discriminatory.  There are currently five customers selling non-firm energy to Idaho Power under Schedule 86.  For these customers, there would likely be some advantage to being paid according to market-based rates rather than Schedule 86 rates.  The relatively small difference in the rates, however, combined with the few customers on Schedule 86, would have a relatively minor impact on Idaho Power and its ratepayers.

Idaho Power has informed Staff that it would prefer to eventually use market-based rates as the basis for payment to all customers under Schedule 86.  Staff therefore recommends that the agreement between TASCO and Idaho Power be approved, contingent upon a requirement that Idaho Power be ordered to file within 30 days an application to revise the method used for establishing rates under Schedule 86.

More specifically, necessary changes to Schedule 86 would include changing the definition of Avoided Energy Cost, and changing language under Option A and Option B of the Purchase Price section of the tariff.  The net metering provision of Option B would remain in place; only the basis for establishing the Monthly Charge would change.

IDAHO POWER REPLY

On January 13, 1999, Idaho Power Company filed a reply to Staff’s comments in this case.  Idaho Power states that it “has no objection to the Commission including in the final TASCO Order the requirement that Idaho Power file new Schedule 86 purchase prices along the lines described in Staff’s comments.”  The Company agrees that basing non-firm energy purchases on a regional market index is “the correct approach to take.”  The Company concludes that the current methodology for developing avoided costs for pricing non-firm energy under Schedule 86 has been “effectively superseded by the ready availability of market prices for non-firm energy in the Pacific Northwest.”

The Company states that it could comply with a 30-day filing requirement to make the changes to Schedule 86 proposed by Staff.

COMMISSION DECISION

Does the Commission wish to grant Idaho Power’s Application for approval of its Purchase Agreement with TASCO subject to the condition that the Company file an amended Schedule 86 with the Commission within 30 days as discussed above?

Brad Purdy

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