**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

Office of the Secretary

Service Date

May 3, 1999

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| **IN THE MATTER OF THE TARIFF ADVICE FILING OF IDAHO POWER COMPANY FOR APPROVAL OF REVISED TARIFFS PERTAINING TO THE COMPANYS SCHEDULE 86  COGENERATION AND SMALL POWER PRODUCTION NON-FIRM ENERGY.** | **)****)****)****)****)****)****)****)** | **CASE NO. IPC‑E‑99‑1****ORDER NO. 28033** |

 On February 19, 1999, the Commission received a Tariff Advice filing (No. 99-02) from Idaho Power Company in which the Company proposes to amend its existing Schedule 86 which contains the rates and conditions for the purchase of non-firm energy from cogeneration and small power producers. The Company’s filing was in response to Order No. 27885 issued by this Commission on January 22, 1999, in Case No. IPC‑E‑98‑15; a case involving the approval of a purchase and sales agreement for surplus energy between Idaho Power Company and the Amalgamated Sugar Company, LLC (TASCO).

 In Order No. 27885, the Commission approved Idaho Power’s proposed special contract between the Company and TASCO but conditioned its approval on the understanding that Idaho Power would file an Application for approval to revise the Company’s Schedule 86 so that all parties supplying non-firm energy under that schedule are treated in a manner similar to that provided by the TASCO agreement, which is based on market prices.

 The Commission ultimately issued a Notice of Modified Procedure soliciting comments in response to Idaho Power’s tariff advice filing. Comments were submitted by the Commission Staff and Vaagen Brothers Lumber, Inc.

## Commission Staff

 Staff notes that the following two contracts currently use Schedule 86 for all of their monthly payments.

 1. Fisheries Development Co—a 261 kilowatt hydro project with total generation in 1998 of 428,175 kilowatt hours

 2. Sunshine Power No. 2—a 110 kilowatt hydro project with total 1998 generation of 214,770 kilowatt hours.

 Staff states that the majority of all of Idaho Power’s cogeneration projects have “surplus” energy clauses that make use of the Schedule 86 rates if the generation is ever classified as “surplus.” Generation would be classified as “surplus” if it exceeds the amount of firm energy generation specified in the contract. Very seldom do any of the projects make use of the “surplus” energy clauses, however, except in the case of the following two projects which frequently make use of the clauses:

 1. Simplot Pocatello—a 12 megawatt cogeneration project with total 1998 generation of 88,735,170 kilowatt hours,

 2. Vaagen Brothers Lumber—a 4.5 megawatt cogeneration project with a total 1998 generation of 20,118,000 kilowatt hours.

 Staff notes that the amendment proposed by Idaho Power in this case to Schedule 86 rates would change the manner in which those rates are determined. Under the current method, the rate paid is equal to the average per kWh cost of energy used to serve the Company’s marginal 200 megawatts of firm load in each month. Under the proposed method, the purchase price for energy would be set on a per kilowatt hour basis and would be equal to the daily on-peak and off-peak Dow Jones Mid-Columbia Index Prices less four mills.

 Staff believes that the Company’s proposed method for determining Schedule 86 rates is reasonable. Market-based rates, Staff contends, are an accurate way of valuing the surplus energy, especially for non-firm 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 generation off-system because it was not needed to serve the Company’s loads.

 Using historical information provided by Idaho Power, Staff has made a comparison of the rates that would have been paid under the current Schedule 86 rates versus the rates that would be paid under the proposed methodology. This comparison shows that there is not necessarily a 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% less than mid-Columbia prices less four mills.

 Staff believes that 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 that market-based rates reflect a fair and accurate value for non-firm energy. Furthermore, using market-based rates is simpler, and the rates are more easily determined than current Schedule 86 rates because mid-Columbia prices are now published daily.

 For those customers now being paid according to Schedule 86 rates, there would likely be some advantage to being paid market-based rates. The relatively small difference in rates, however, combined with the few customers on Schedule 86, would have a relatively minor effect on Idaho Power and its ratepayers.

 Staff notes that when the TASCO agreement was being considered by the Commission, Idaho Power filed comments in response to Staff’s comments stating that basing non-firm energy prices on a regional market index is “the correct approach to take.” The Company concluded 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.”

 Finally, Staff notes that representatives for each of the four Schedule 86 projects listed in Staff’s comments were sent notices of Idaho Power’s filing in this case.

**Vaagen Brothers Lumber, Inc.**

 Mr. Earl Davenport submitted comments on behalf of Vaagen Brothers. He concludes that the Company’s proposed change to Schedule 86 in this case will have benefits for both Vaagen Brothers and for Idaho Power. Mr. Davenport notes that the use of a market index offers the advantage of a more accurate estimate of revenues than provided under the existing Schedule 86 methodology. The Vaagen Brothers support the Company’s Application in this case.

# FINDINGS

 We hereby approve Idaho Power’s proposed Tariff Advice No. 99-02. We find that it provides a mechanism that results in fair and reasonable prices to be paid for non-firm energy provided by cogeneration and small power producers. Moreover, Idaho Power’s proposal will provide greater accuracy for those providers who wish to estimate the revenues that they will receive under Schedule 86 through sales to Idaho Power Company. Finally, Idaho Power’s proposal provides consistency between the treatment offered by this Commission to TASCO in Order No. 27885 and all other Schedule 86 suppliers.

# O R D E R

 IT IS HEREBY ORDERED that Tariff Advice No. 99-02 submitted by Idaho Power in this case is effective as of the date of this Order.

 THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. IPC-E-99-1 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this order or in interlocutory Orders previously issued in this Case No. IPC-E-99-1. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

 DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this

 day of April 1999.

 DENNIS S. HANSEN, PRESIDENT

 MARSHA H. SMITH, COMMISSIONER

 PAUL KJELLANDER, COMMISSIONER

Myrna J. Walters

Commission Secretary

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