BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE ANNUAL RE-)CASE NOS.WWP-E-95-3

VISION AND UPDATED CALCULATION)IPC-E-95-7

OF THE ADJUSTABLE PORTION OF THE)UPL-E-95-2

AVOIDED COST RATES FOR THE WASH-)

INGTON WATER POWER COMPANY, FOR)NOTICE OF APPLICATION

IDAHO POWER COMPANY, AND FOR)NOTICE OF MODIFIED

PACIFICORP DBA UTAH POWER & LIGHT)         PROCEDURE

COMPANY)NOTICE OF COMMENT/

)   PROTEST DEADLINE

)

                                                                   )ORDER NO. 26079

YOU ARE HEREBY NOTIFIED that on May 30, 1995, the Washington Water Power Company (Water Power; WWP) filed with the Idaho Public Utilities Commission (Commission) its annual revised and updated calculations for the adjustable portion of avoided cost rates.  The Commission earlier this year revised the surrogate avoided resource (SAR) methodology for administratively determining avoided cost rates.  The Commission changed the choice of the surrogate used in calculating the published rates under the SAR methodology from a coal to a gas-fired combined-cycle combustion turbine (CCCT) resource.  The change in the surrogate was accompanied by a change in the method for calculating the adjustable portion of avoided cost rates.  Water Power has therefore submitted two sets of adjustable rate calculations, one for coal (Colstrip), the other for gas (Sumas).  Water Power’s filing is the first annual revision to the adjustable rate under the new methodology.  By this Order, we solicit comment on the method of proposed change to the adjustable portion of avoided cost rates under the new methodology (Sumas).  We address the annual adjustable rate calculation based on Colstrip separately in Order No. 26080.

Adjustable Rates–Sumas

By Order No. 25883 in Case No. WWP-E-93-10, 25884 in Case No. IPC-E-93-28, and 25882 in Case Nos. UPL-E-93-3/UPL-E-93-7 issued January 31, 1995, the Commission stated that the adjustable portion of avoided cost rates should be based on annual average gas prices indexed at Sumas, Washington.  Under the present methodology, the adjustable portion of avoided cost rates is the same for all of Idaho’s major electric utilities.  An annual filing is required by Order No. 25883 (WWP), Order No. 25884 (Idaho Power Company; IPCo) and Order No. 25882 (PacifiCorp; PCp).

In its Orders approving the current avoided cost methodology the Commission stated:

Fixed Escalation Rate

PacifiCorp proposed fixing the fuel escalation rate.  The original Commission rationale for adopting a variable rate was that it more realistically reflects avoided costs which, of course, vary over time. Except in the case of non-fueled projects, we find that the adoption of a fixed escalator for fuel price would be inconsistent with that logic and is hereby rejected.  In addition, we find that this issue is also largely mooted by our decision to lower the availability of published rates.  We adopt the price at Sumas, Washington for setting the gas fuel price.  We do not adopt a fixed escalator except for the variable O&M component of the adjustable portion.  Water Power is directed to track the fuel prices and submit them to the Commission concurrently with Colstrip variable prices.

Adjustable Portion

Under the current methodology, using a coal plant as the SAR, the adjustable portion of the rate generally consists of and escalates with coal costs.  All other costs are capitalized and levelized.  Staff proposes to establish an adjustable rate portion for two different situations.  For fueled projects, the adjustable portion during the surplus period would be equal to the surplus rate escalated at a fixed rate until the first year of resource need.  At that point, Staff recommends using a combination of variable O&M costs escalated at a fixed rate and fuel costs tied to gas prices at Sumas, Washington to establish the adjustable portion of the rate for the remainder of the contract period.  No other party addressed this specific issue.

We Find:

It is both reasonable and appropriate to adopt Staff's proposed method for establishing the adjustable portion of the rate.  This change will allow rates to more accurately reflect changing variable costs that would be incurred both during the surplus period and subsequent to CCCT construction.

Non-Fueled Rates

Staff proposes, for non-fueled projects, e.g., wind, solar, hydro, to escalate the variable costs by a fixed amount for twenty years and then levelize both the fixed and variable cost for projects less than 1 MW.

We Find:

It was the original intent of PURPA to promote the development of non-fossil fueled resources.  Consistent with this intent, we hereby adopt Staff's non-fueled proposal for projects smaller than 1 MW.  This meets the goal of encouraging alternative energy technologies without placing the utilities at undue risk of default by a developer receiving a levelized rate.  In addition, our security provisions also address this risk.

The intent of including an adjustable component in the avoided cost rates is to capture annual changes in natural gas fuel costs.  While the Commission believes that its intent has been made clear in previous orders, we recognize that the actual methodology for making annual adjustments has not been addressed directly.  Water Power, in consultation with Commission Staff, has devised a proposed methodology which is described below.  The Commission finds it reasonable that other parties be given the opportunity to comment on the reasonableness of the proposed method.

As reported by WWP, the 1993 and 1994 annual average gas prices indexed at Sumas, Washington as published in “Inside FERC” was $1.86/MMBtu and $1.57/MMBtu respectively, resulting in a reduction of $0.29/MMBtu.  The approved gas price of $2.51/MMBtu less the $0.29/MMBtu reduction results in a gas price of $2.22/MMBtu for the 1995-96 year.  This by Staff calculation equates to an “SAR” fuel cost of 16.32 mills/kWh as used in the model.  Water Power’s calculations are shown on Attachment A.

A proposed schedule of revised rates and a detailed sheet of variables for each utility was prepared by Staff and distributed to the utilities (see Attachment B).  Staff suggests, however, that there are other possible variations in the method that could be proposed.  For example, other sources could be used for tracking gas prices, slight differences in annual or monthly averages may be reported by various sources because some may report first of the month prices, others mid-month prices, and still others average monthly prices.  Another variation in the method could be to use the 12 months prior to the annual adjustment, rather than calendar year averages.  Still another variation might be to make annual adjustments based on the percentage change in gas prices, rather than on the actual change in prices.  Staff, in comments filed on June 2, 1995 in response to Water Power’s March 13 compliance filing in Case No. WWP-E-93-10, advised against this method, however.  Staff contends that a percentage adjustment would be inappropriate if applied to the entire $2.51 gas price, since a portion of the $2.51 price represents commodity costs and the remainder is intended to represent transportation costs.

YOU ARE FURTHER NOTIFIED that the letter filing of Washington Water Power Company together with supporting workpapers have been filed with the Commission and are available for public inspection during regular business hours at the Commission office, 472 West Washington Street, Boise, Idaho.

YOU ARE FURTHER NOTIFIED that the Commission has preliminarily found that the public interest regarding the proposed methodology for the annual revision of the adjustable portion of the avoided cost rate under the present methodology (Sumas) and the related change to such rate for effective date July 1, 1995 may not require a public hearing to consider the issues presented.  The Commission has also preliminarily found it reasonable to process the Application under Modified Procedure, i.e., by written submission rather than by hearing.  Reference Commission Rules of Procedure, IDAPA 31.01.01.201 through -.204.

YOU ARE FURTHER NOTIFIED that the Commission will not hold a public hearing in this proceeding unless it receives written protests or comments opposing the use of Modified Procedure and stating why Modified Procedure should not be used.  Reference IDAPA 31.01.01.203.

YOU ARE FURTHER NOTIFIED that the deadline for filing written comments or protests with respect to the method of proposed adjustment to the variable rate under the present methodology (Sumas), the proposed and related change in the adjustable rate for effective date July 1, 1995 and the use of Modified Procedure in Case Nos. WWP-E-95-3, IPC-E-95-7, UPL-E-95-2 is Friday, July 28, 1995.  Persons desiring a hearing must specifically request a hearing in their written protests or comments.

YOU ARE FURTHER NOTIFIED that if no written comments or protests are received within the deadline, the Commission may consider the matter and enter its Order without a hearing.  If comments or protests are filed within the deadline, the Commission will consider them and may set the matter for hearing or may decide the matter and issue its Order on the basis of the written positions before it.  Reference IDAPA 31.01.01.204.

YOU ARE FURTHER NOTIFIED that written comments concerning Case Nos. WWP-E-95-3, IPC-E-95-7, UPL-E-95-2 must be mailed to the Commission Secretary and to Water Power, Idaho Power and PacifiCorp at the following addresses:

COMMISSION SECRETARY

IDAHO PUBLIC UTILITIES COMMISSION

PO BOX 83720

BOISE, IDAHO  83720-0074

Street Address for Express Mail:

472 W WASHINGTON ST

BOISE, IDAHO  83702-5983

Also:

BARTON L KLINERHONDA R HOROBIOWSKI

JOHN H WILMORTHBLAIR STRONG

IDAHO POWER COMPANYWASHINGTON WATER POWER CO

PO BOX 70PO BOX 3727

BOISE, ID  83707-0070SPOKANE, WA  99220

GREGORY N DUVALLJOHN M ERIKSSON

JIM FELLUTAH POWER & LIGHT CO

PACIFICORP1407 W NORTH TEMPLE

424 PUBLIC SERVICE BLDG.SALT LAKE CITY, UT  84140

920 SW SIXTH AVENUE

PORTLAND, OR  97204

O R D E R

In consideration of the foregoing and as more particularly described above IT IS HEREBY ORDERED that the above procedure in the matter of the first annual revision of the adjustable portion of avoided cost rates under the present methodology be adopted.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this              day of June 1995.

RALPH NELSON, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

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