DECISION MEMORANDUM

TO:COMMISSIONER NELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

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WORKING FILE

FROM:SCOTT WOODBURY

DATE:JUNE 26, 1995

RE:ANNUAL REVISION OF VARIABLE RATE--AVOIDED COST

CASE NOS. WWP-E-95-3, IPC-E-95-7, UPL-E-95-2

The Washington Water Power Company (Water Power; WWP) on May 30, 1995 filed with the Idaho Public Utilities Commission (Commission) a revised and updated calculation of the adjustable portion of its avoided cost rates.  Pursuant to the Commission’s administrative determination of avoided cost rates, the adjustable portion of avoided cost rates is the same for all of Idaho’s major electric utilities.

The adjustable portion under the previous and recently superseded SAR avoided cost methodology (applicable to existing contracts executed thereunder) is based on the variable costs associated with the operation of Colstrip, a coal-fired generating facility in southeast Montana.  An annual filing is required by Order No. 23349 (WWP), Order No. 23357 (Idaho Power Company; IPCo), and Order No. 23358 (PacifiCorp; PCp).

The adjustable portion under the current SAR avoided cost methodology is based on annual average gas prices indexed at Sumas, Washington.  An annual filing is required by Order No. 25883 (WWP), Order No. 25884 (IPCo), and Order No. 25882 (PCp).

Adjustable Rates–Colstrip

By Order No. 23738 in Case Nos. WWP-E-89-6, IPC-E-89-11, and UPL-E-89-5 issued June 17, 1991, the Commission approved the methodology utilized by WWP for use in future annual adjustable avoided cost rate submittals.  The Commission indicated that future adjustable rate updates would require only a single filing by Water Power, with copies and party status provided to IPCo and PCp.  The Commission directed that all applications for future or subsequent annual updates be filed by June 1 with the effective date for the new adjustable rate to be July 1.  Under established practice the revised updated calculation set forth in Water Power’s May 30, 1995 filing is recognized as being submitted also for approval for Idaho Power Company and PacifiCorp dba Utah Power & Light Company.

Water Power represents that the Colstrip avoided cost adjustable rate calculated on actual 1994 costs decreased $0.72/MWh from $10.89 to $10.17.  Coal costs increased 33% from $9.8 million to $13 million.  Generation increased 33% from $1.2 million MWh to $1.6 million MWh.  Variable O&M costs increased 6%.

Based on its analysis of the calculation and supporting documentation, Staff finds that the methodology utilized by WWP in its filing related to Colstrip is the methodology approved in Order Nos. 23349, 23738 and 23967.  The methodology approved for determining the variable components of the avoided cost rate is a relatively simple arithmetic recalculation.

A review of the record and Water Power’s Certificate of Service reveals that a copy of WWP’s calculation and supporting workpapers were served on all participants in the 1991 adjustable rate hearing.  Staff contends that it is appropriate to process this essentially administrative matter in an expedited fashion without further notice of public hearing.  The Company has requested an approved effective date of July 1, 1995.

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.  In its Orders approving the current 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.

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.

Although a new schedule of rates and a detailed sheet of variables for each utility was prepared by Staff and reviewed by the utilities, Staff suggests that the methodology is in need of further review, definition and refinement.  A review of the record and Water Power’s Certificate of Service reveals also that many parties to the underlying methodology cases were not provided with the Company’s calculation and supporting workpapers.  Staff contends that the matter should be officially noticed, that the methodology should be explained and that comments should be solicited.

COMMISSION DECISION

Re: Colstrip– approve rates?  July 1, 1995 effective date?

Re: Sumas– further procedure? Suspend July 1, 1995 effective date pending further Order?

                                                               Scott D. Woodbury

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