DECISION MEMORANDUM

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WORKING FILE

FROM:SCOTT WOODBURY

DATE:AUGUST 3, 1995

RE:ANNUAL REVISION OF VARIABLE RATE

AVOIDED COST–SUMAS

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

On May 30, 1995, the Washington Water Power Company (Water Power; WWP) filed with the Idaho Public Utilities Commission (Commission) the 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 (Sumas).  The annual adjustable rate calculation based on Colstrip was separately addressed by the Commission in Order No. 26080.

Adjustable Rates–Sumas

By Order No. 25883 in Case No. WWP-E-93-10 (WWP), 25884 in Case No. IPC-E-93-28 (Idaho Power Company; IPCo), and 25882 in Case Nos. UPL-E-93-3/ UPL-E-93-7 (PacifiCorp; PCp) 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.  The intent of including an adjustable component in the avoided cost rates is to capture annual changes in natural gas fuel costs.  Under the present avoided cost methodology, the adjustable portion of avoided cost rates is the same for all of Idaho’s major electric utilities and an annual filing is required.

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.

Water Power, in consultation with Commission Staff, has devised a proposed methodology for making annual adjustments.  As reported by WWP in its first annual filing, 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 base 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 (Attachment A) and a proposed schedule of revised rates and a detailed sheet of variables for each utility prepared by Staff (Attachment B) were distributed to the utilities.

On June 30, 1995, the Commission made a preliminary finding that it was reasonable to process the Application in this case under Modified Procedure, i.e., by written submission rather than by hearing.  Reference Commission Rules of Procedure, IDAPA 31.01.01.201 through .204; Order No. 26079.  Commission Notices of Application and Modified Procedure were issued regarding the proposed method for revising the adjustable rate under the new methodology (Sumas), the calculated change in the adjustable rate, and the proposed effective date July 1, 1995.  The deadline for filing written comments was July 28, 1995.  Commission Staff was the only party to submit written comments (attached).  Staff agrees with the updated calculations, both in terms of the number submitted and in terms of the methodology employed.

COMMISSION DECISION

Should the annual revised and updated calculation for the gas (Sumas) related adjustable portion of avoided cost rates be approved for effective date July 1, 1995?

Scott D. Woodbury

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