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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF IDAHO POWER COMPANY TO STUDY THE COSTS, BENEFITS, AND COMPENSATION OF NET EXCESS ENERGY SUPPLIED BY CUSTOMER ON-SITE GENERATION	)	**CASE NO. IPC-E-18-15** **COMMENTS OF COMMISSION STAFF IN SUPPORT OF SETTLEMENT AGREEMENT**

BACKGROUND

On May 9, 2018, in Docket No. IPC-E-17-13, the Commission ordered Idaho Power Company ("Idaho Power" or "Company") to "initiate a docket to comprehensively study the costs and benefits of on-site generation on Idaho Power's system, as well as proper rates and rate design, transitional rates, and related issues of compensation for net excess energy provided as a resource to the Company." Order No. 34046 at 31. The Commission encouraged the parties to work through these issues together in compromise. *Id.* at 22.

On October 19, 2018, the Company petitioned the Commission to open this docket to comply with the Commission's directive in Order No. 34046.

On November 9, 2018, the Commission issued a Notice of Petition and Notice of Intervention Deadline, notifying the public that the petition was filed and establishing an intervention deadline. Order No. 34189. The Commission directed Commission Staff to confer with parties regarding the procedural and substantive scope of the docket and to periodically

report back to the Commission. *Id.* at 4. In total, one pre-hearing conference and eight settlement conferences were held by the parties.

On October 11, 2019, Idaho Power and Commission Staff jointly submitted a Motion to Approve Settlement Agreement. The proposed Settlement Agreement is signed by the Company, Commission Staff, Idaho Clean Energy Association ("ICEA"), Idaho Irrigation Pumpers Association, Inc., Idahydro, City of Boise, Idaho Sierra Club, Industrial Customers of Idaho Power, and Russell Schiermeier (collectively, the "Signing Parties"). One issue the Signing Parties did not resolve in the Settlement Agreement was whether existing customers with on-site generation would be subject to the terms of the Agreement. The Signing Parties decided to submit this issue to the Commission for determination.

Under the proposed Settlement Agreement, if approved by the Commission, residential and small general service customers ("R&SGS customers") with on-site generation who export energy to the grid ("Schedule 6 and Schedule 8 customers") would transition from retail rate monthly net metering to net hourly billing at an Export Credit Rate. The transition to the Export Credit Rate would occur in increments over the next eight years. The Export Credit Rate would be determined by the methodology set out in the proposed Settlement Agreement. Inputs to the Export Credit Rate would be updated biennially in conjunction with the Company's Integrated Resource Planning ("IRP") process.

The proposed Settlement Agreement would make changes to the rate paid to Schedule 6 and Schedule 8 customers for the energy that they export to the grid. No changes to rates for consumption of electricity are included in the Settlement Agreement. Further, the proposed Settlement Agreement would prevent Idaho Power from proposing to change consumption rates for Schedule 6 and Schedule 8 customers until the Commission examines whether to change rates or rate designs for all Idaho Power customer classes.

The Settlement Agreement contains a non-export option for Schedule 6 and Schedule 8 customers that would allow those customers to move to Schedule 1 or Schedule 7, as appropriate, if they so choose.

The Settlement Agreement calls for the Commission to open an investigative docket within 120 days of an Order approving the Settlement Agreement to examine whether it would be reasonable to establish a single avoided cost methodology that could be applied to different

load-serving resources on the Company's system, such as energy efficiency, demand response, and small and large qualifying facilities under the Public Utility Regulatory Policies Act of 1978.

The Settlement Agreement acknowledges that the Commission is not bound by the Signing Parties' Agreement. The Commission will independently review the Settlement Agreement consistent with Commission Rules 271-280, IDAPA 31.01.01.271-280, to decide whether to approve or reject it, or state conditions under which to accept it. The proposed Settlement's proponents ultimately bear the burden to prove that it is just, fair, and reasonable, in the public interest, and otherwise in accordance with law and regulatory policy.

There are pertinent legal and policy questions that impact whether the terms of the Settlement Agreement can and should be applied to existing customers with on-site generation. *See also* Order No. 34046 at 24. The Signing Parties did not reach agreement on these issues, and agreed to make legal and policy arguments to the Commission for its consideration and determination.

If this Settlement Agreement is approved by the Commission it will go into effect, regardless of the Commission's determination as to whether and under what terms the Settlement Agreement applies to existing customers. The Commission will also determine how to define an existing customer with on-site generation.

STAFF REVIEW

Staff recommends that the Commission approve the Settlement Agreement as filed by the Signing Parties and Staff as a reasonable resolution of many of the issues associated with on-site generation from R&SGS customers. As instructed by the Commission in Order No. 34604, all parties to the case worked diligently to reach compromise on the long list of complicated and sometimes contentious issues. As a result, Staff believes that the solutions reached here are sound, robust, and will preserve the right of customers to offset their electric consumption while holding all other customers harmless.

Although not specified in the language of the Settlement, the methodology established within it is based on a "bright line at the meter" concept: What happens behind the meter is the customer's concern and the Company's concern is with those things that are measurable at the meter. That means that billing for imported energy and compensation for exported energy should be determined solely using information measured at the point of delivery, the meter.

With a host of related and sometimes overlapping issues, this principle was central to the discussions.

Under the bright line at the meter concept, rates for consumption are appropriately separated from the credit paid for exported energy ("Export Credit Rate"). This Settlement does not include a change to rates for consumption; however, it does replace retail monthly net metering for Schedule 6 and Schedule 8 customers with a bill credit for net hourly exported energy based on the avoided cost.

The crux of this Settlement is the move from retail monthly net metering to hourly net billing at the Export Credit Rate, with a bright line at the meter to distinguish imports from exports. Staff explains these and other substantive elements of the Agreement below.

Net Hourly Billing

Under the Agreement, Schedule 6 and Schedule 8 customers will move from net monthly billing to net hourly billing. Net hourly billing more accurately measures the energy Schedule 6 and Schedule 8 customers consume from and export to the Company than net monthly billing by more closely aligning the time period of imported and exported energy. Staff believes that net hourly billing is appropriate because it aligns with the functionality of the Company's meters and it preserves the ability of customers to offset their consumption, which is the intent of on-site generation.

Under net monthly billing, customers could use kilowatt hours produced anytime in the month to offset kilowatt hours consumed from the Company anytime in the month. This long netting period does not accurately reflect the customer's consumption of Company-supplied energy because exported energy can "mask" consumption on a customer's bill. Shortening the billing interval from net monthly to net hourly drastically decreases this problem and effectively eliminates any meaningful amount of "masking."

Signing Parties agreed that after imports and exports are netted for each hour, net energy exports will be compensated at the Export Credit Rate, which Staff believes more reasonably represents the value of the net energy exported to the grid.

Methodology to Determine the Export Credit Rate

Signing Parties agreed to determine the Export Credit Rate based largely on the Company's demand-side management ("DSM") avoided cost structure. Although there are several methods for determining avoided cost values, Staff believes this is a reasonable approach because, consistent with the bright line at the meter concept, both DSM and on-site generation resources exist on the customer's side of the meter. Staff believes that the energy exported by on-site generation customers is a resource that contributes to the Company's electric grid, and therefore it is important to value the credit paid to customers for exported energy in alignment with the value of that resource to the Company's system. Staff also notes that the Commission approved use of the DSM avoided cost structure as a basis for the energy that was to be exported from the Company's proposed community solar project, thus demonstrating that the Commission has found it reasonable to value solar through the DSM avoided cost structure previously. *See* Order No. 33638.

Determining the appropriate value of customer-generated exported energy, including both the energy and capacity values, was one of the most difficult and contentious aspects of moving from retail net metering to an avoided cost structure. While parties generally agreed that the Export Credit Rate should be based on avoided cost, a significant amount of time and effort was spent exploring a variety of methods and inputs to calculate a fair compensation value.

Avoided Energy Value

Signing Parties agreed to use the DSM avoided cost structure and actual exported energy—rather than modeled data—to determine the compensation Schedule 6 and Schedule 8 customers should receive for the avoided energy value of energy that they export. Staff believes it is reasonable to use DSM avoided cost rates for the avoided energy value because 1) the DSM avoided energy values are determined through the Company's IRP process, which provides an integrated assessment of the Company's resource options and is developed through a public process, and 2) the DSM avoided energy cost rates segment the year into five pricing periods, which is intended to reflect the differing seasonal value of the resource. The Export Credit Rate paid to Schedule 6 and Schedule 8 customers will be a flat rate calculated using the energy weighted value of the five seasonal pricing periods currently used to value DSM resources.

As part of the compromise, the DSM avoided cost energy value was decreased by 10% to reflect the non-firm availability of exported energy from on-site generators. The methodology

used to calculate this adjustment is not specified as part of this Settlement. Staff believes it is reasonable to provide parties an opportunity to advocate for a methodology to determine this value in a future proceeding.

Avoided Capacity Value

The method for determining the avoided capacity value component of the Export Credit Rate is based on the DSM Capacity Resource identified in the most recently approved IRP. The DSM Capacity Resource is currently a Simple Cycle Combustion Turbine ("SCCT"), but the identified resource may change in future IRP's.

In the DSM pricing methodology, the capacity value is determined by applying the SCCT value to the approximately 520 hours that constitute the DSM Summer On-Peak pricing period. The load shape of each DSM measure determines how much capacity value, or peak contribution factor, is assigned to each measure.

However, Signing Parties agreed to a different method for calculating the capacity value of on-site generation; they agreed to determine Schedule 6 and Schedule 8 on-site generation's peak contribution factor using the highest 100 hours of marginal system load. Those highest 100 hours of system load were then netted of large-scale solar resources to determine the capacity value of on-site generation exported energy.

The value of the DSM Capacity Resource was calculated using the Company's first capacity deficit year and levelized over the presumed 25-year life of the resource. Although there are a variety of methods for calculating the capacity value of exported energy from Schedule 6 and Schedule 8 on-site generation, Staff believes this approach is a reasonable compromise that fairly reflects the value these customers provide to the system.

Avoided Transmission & Distribution Line Losses

Both the energy value and the capacity value were increased by 8.1% to reflect avoided transmission and primary distribution line losses. This adjustment was based on the Company's 2012 System Losses study and is part of the Company's standard methodology for valuing DSM resources. Staff believes that this adjustment is appropriate because Schedule 6 and Schedule 8 on-site generation is co-located with customer consumption at the secondary distribution level, which means it avoids primary distribution and transmission line losses associated with transporting energy from generating locations to load centers. Because the energy produced by Schedule 6 and Schedule 8 customers is used by other customers at the secondary distribution

level, secondary distribution line losses are not avoided and therefore not included in the adjustment.

Additional Inputs to the Export Credit Rate

Staff notes that some important, but likely lower dollar components of the Export Credit Rate, specifically avoided transmission and distribution capacity, integration costs, and environmental benefits, were included as zero-dollar placeholders with the specific amounts to be determined in future proceedings. Staff believes that conducting the necessary analysis to include the fair values for these line-items would have greatly delayed, and perhaps derailed, the parties agreeing to a Settlement. Staff maintains that assigning zero-dollar placeholders for now, but preserving the opportunity for parties to advocate for different values in future proceedings, is the most efficient way to expeditiously resolve the larger and more critical issues in this case.

Based on this methodology and inputs derived from the Company's 2017 IRP, the Export Credit Rate, were it not subject to the transition period to be discussed later, would initially be set at $44.06/MWh for Schedule 6 customers and $49.56/MWh for Schedule 8 customers.

Updates to the Export Credit Rate

The avoided cost inputs to the Export Credit Rate will be updated every two years in a separate docket to become effective concurrent with or shortly after each new IRP is acknowledged. Staff believes that these regular updates and associated reviews will provide timely data to maintain a current Export Credit Rate, and transparency to help ensure that Schedule 6 and Schedule 8 customers are fairly compensated for the resource they provide to the system.

Export Credit Rate Offsets

Signing Parties agreed that credits for exported energy can offset energy and Power Cost Adjustment ("PCA") charges on Schedule 6 and Schedule 8 customer bills, but the export credits cannot offset service charges, the Fixed Cost Adjustment ("FCA"), the Energy Efficiency Rider, or franchise fees. Staff believes these limits are reasonable.

Export Credit Rate Expense

Signing Parties agreed that the Export Credit Rate paid to on-site generators would be collected through the PCA. Because the Export Credit Rate for the power supplied by Schedule 6 and Schedule 8 customers is generally outside the control of the Company and may vary from year to year, Staff believes it is reasonable to collect this expense through the PCA.

As later explained, this Settlement Agreement includes an eight-year transition period from the Blended Base Energy Rate[1] to the Export Credit Rate. During that transition period, the difference between the Blended Base Energy Rate and the Export Credit Rate will be collected through the FCA. Because the FCA only applies to R&SGS customers, no other customer classes will be impacted by this transition. Staff believes this is a reasonable way to ease rate shock for on-site generating customers while restricting those impacts to only those customers eligible to participate in Schedules 6 and 8.

Rate Stability

Signing Parties agreed that the Company would not propose modifications to rates or rate design for Schedule 6 and Schedule 8 customers until a future proceeding in which the Commission determines whether to change rates or rate design for all customer classes. Staff believes this provides time for Schedule 6 and Schedule 8 customers to adjust to the Export Credit Rate and net hourly billing before being faced with the possibility of changes to rates for consumption as well.

Transition Period

The Settlement Agreement includes an eight-year transition period from compensation at the Blended Base Energy Rate to compensation at the Export Credit Rate. Beginning on January 1, 2020, Schedule 6 and Schedule 8 customers will receive the Blended Base Energy Rate as compensation for net hourly exports. Every two years beginning January 1, 2022, the difference between the Blended Base Energy Rate and the Export Credit Rate will be reduced by 25%. Beginning January 1, 2028, all Schedule 6 and Schedule 8 customers will be compensated for exported energy at the Export Credit Rate.

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[1] The Blended Base Energy Rate is determined by dividing the dollar value of the energy billed to the customer by the total number of consumed kWh. This is, effectively, an energy-weighted average of the Company's tiered rates.

Staff understands that any decrease in the compensation rate for exported energy is difficult for on-site generation customers because it materially impacts the economics of their investment. However, Staff believes that a reasonable transition period with incremental, but substantial, movement toward the Export Credit Rate provides gradualism for customers and will allow installers time to adapt their business models to the new value propositions associated with on-site generation in Idaho Power's service territory.

Smart Inverters

While smart inverters have the potential to provide valuable benefits to the Company's system, Staff remains concerned that some functions of smart inverters could allow the Company to dramatically limit behind-the-meter energy production without the customer's knowledge or permission. To allay these concerns, Idaho Power agreed to use only the default settings until the Commission approves alternate settings. Staff believes that requiring Commission approval before altering the default settings will provide Staff and other interested stakeholders an opportunity to study and make recommendations about how to reasonably optimize smart inverters to benefit the Company's system while not harming R&SGS customers.

Return Trips

The Company has become concerned that the number of return trips it is required to make to approve new on-site generation systems has been increasing. In order to reduce the number of return trips, the Company and ICEA have agreed to work together to help installers understand how to improve the process so multiple trips are not required. Signing Parties agreed that if the number of return trips is not reduced, Idaho Power will file a tariff advice asking the Commission to implement a cost-based charge for this service. Staff believes it is not only reasonable, but preferable, to address this issue with process improvements first, and only implement an additional fee if those process improvements are not successful in reducing the number of return trips.

Non-Export Option

Consistent with the direction in Order No. 34147, parties considered the feasibility, safety, and operational issues associated with creating a non-export option for R&SGS customers

with on-site generation who do not export any energy to the Company's system. Although some details of the interconnection process for these customers are left to a separate proceeding, Signing Parties agreed that non-exporting R&SGS customers should be allowed—at their discretion but with proper equipment verification—to move back to Schedules 1 and 7 from Schedules 6 and 8.

Staff believes this is consistent with the Commission's determination that the distinguishing characteristic of net metering customers is their bi-directional relationship with the grid. *See* Order Nos. 34046 at 17-18, 34147 at 15-16. Because non-exporters do not have a bi-directional relationship, Staff believes it is reasonable they remain in the same customer class as other customers who have a one-way relationship with the grid.

<u>Existing On-Site Generation Customers</u>

While Signing Parties recommend that the Settlement Agreement apply to new R&SGS on-site generation customers, this Agreement does not provide any recommendations on whether its terms apply to existing Schedule 6 and Schedule 8 customers. Staff believes it is reasonable for parties to make arguments regarding that issue to the Commission in a separate proceeding.

If the Commission determines that this Settlement applies to existing Schedule 6 and Schedule 8 customers, Signing Parties agree that those existing customers will be converted to Net Hourly Billing and that any existing kilowatt hour credits earned by those customers will be converted to bill credits at the Blended Base Energy Rate.

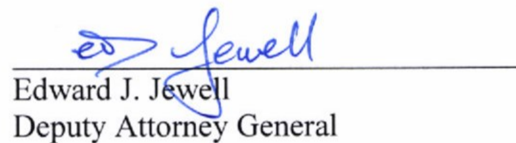
<u>Follow-on Docket Regarding Avoided Cost Methodology</u>

Settlement discussions on how to calculate the avoided cost of Schedule 6 and Schedule 8 customers' exported energy deepened the realization among parties that there are currently several significantly different ways to calculate the avoided cost value for resources on the Company's system. Staff believes it is reasonable to investigate the possibility of a single avoided cost methodology that can be adjusted based on the specific attributes of each resource in order to more accurately and evenly value the resources on the Company's system. If that investigation results in a method for calculating avoided costs that is subsequently approved by the Commission, Staff anticipates that the new method would apply to the value of exported energy supplied by Schedule 6 and Schedule 8 customers.

STAFF RECOMMENDATION

Staff recommends that the Commission approve the proposed Settlement Agreement without modification or amendment as just, fair, reasonable, and in the public interest. Staff recommends that the Commission issue this approval by December 27, 2019, to be effective on January 1, 2020.

RESPECTFULLY submitted this 6th day of November, 2019.



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Umisc/comments/ipce18.15ejsd Settlement comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 6TH DAY OF NOVEMBER 2019, SERVED THE FOREGOING **SETTLEMENT COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-18-15, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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