

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) CASE NO. IPC-E-06-17
REVISION OF SCHEDULE 84 – NET)
METERING) ORDER NO. 30227
)

On August 17, 2006, Idaho Power Company (Idaho Power; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting authority to revise net metering requirements in the Company's Schedule 84 – Net Metering tariff.

On December 13, 2006, Idaho Power filed a Motion to amend its Application in Case No. IPC-E-06-17 by removing from further Commission consideration the Company's request to modify the compensation paid to Schedule 1 (Residential Service or R1) and Schedule 7 (Small General Service or R7) net metering customers who generate electricity in excess of their usage. In this Order the Commission approves the Company's amended Application. Because we permit the Company to withdraw its excess energy pricing proposal, we have shortened the description of the Company's proposal and do not discuss the related comments.

Addressing the remainder of the Company's Application, in this Order the Commission expands authorized recovery of net metering excess generation expense through the Company's annual Power Cost Adjustment (PCA) mechanism to Schedules 1 and 7 net metering. We also reduce financial barriers and impediments to net metering for non-R1/R7 customers by approving use of single meters for qualifying net metering systems.

Background – Schedule 84 Net Metering

On February 13, 2002, the Commission issued Order No. 28951 (Case No. IPC-E-01-39) authorizing the net metering option for customers taking service under the Company's Schedule 1 – Residential Service (R1), and Schedule 7 – Small General Service (R7).

On August 21, 2002, the Commission issued Order No. 29094 (Case No. IPC-E-02-4) authorizing other retail customers not receiving service under Schedules 1 and 7 (non-R1/R7) the option to also participate in a net metering program.

The Company's current net metering program credits residential and small general service customers at full retail rates for all kilowatt hours (kWh) generated. This pricing, the

Company contends, pays customers more than the actual value of the generation itself. Net metering, the Company states, allows Idaho Power to avoid some generation costs and perhaps some transmission costs, but few, if any, other costs. Idaho Power therefore contends that the Company does not recover its full costs of providing service from net metering customers.

Idaho Power contends that there is a major difference between the energy provided to customers by the Company and energy provided to the Company by net metering customers. Energy offered to customers by Idaho Power is firm, meaning that it is available at all times whenever customers desire to make use of it. Net generation, on the other hand, is provided by customers to Idaho Power on a non-firm basis, or on an "if and when available" basis. The difference between the value of firm vs. non-firm energy, the Company states, is not recognized under the Company's current net metering tariffs for Schedule 1 and Schedule 7 customers. The Company in its initial program offering recognized that its net metering proposal would result in some subsidy to those residential and small general service customers that chose to develop net-metered generation projects. However, the Company reasoned that as long as the eligibility for net metering was limited to small projects utilizing watt-hour meters and capped at a reasonable level, the subsidy would be small and would be partially offset by savings resulting from simplification of the net metering program.

Idaho Power has now had the opportunity to examine over the last four years how its customers have actually utilized the net metering option. As a result, the Company is proposing some modifications to its net metering program to provide what it contends is a more equitable result for its customers.

Modifications to Reduce Cost-Shifting (Excess Generation Pricing Proposal)

Under the net metering tariff for Residential and Small General Service customers, all customer generation is credited at full retail rates; uncollected costs are shifted to the respective customer classes. When the generation merely offsets usage, the dollar impacts, the Company contends, are relatively small. However, when generation exceeds usage, the resultant cost-shifting may become much more material. All costs outside of the value of the generation received from net metering customers, the Company contends, are being shifted to customers within the residential and small general service customer classes.

Idaho Power believes the primary purpose of net metering is to allow customers to realize the value of their generation by directing and immediately offsetting part or all of their

energy consumption. The net metering program's current provisions immediately compensate customers for the generation. However, the Company contends that generation in excess of consumption should be viewed differently.

Power purchased under net metering, the Company contends, is non-firm energy and is of less value for meeting system loads than would be an alternative wholesale purchase of firm energy. Net metering customers are frequently being paid higher prices for this non-firm energy than Idaho Power would have otherwise paid for energy purchased on the wholesale market. Idaho Power contends that generation in excess of consumption should not receive compensation in excess of the value provided at the expense of customers who do not choose to develop generation facilities.

Net metering customers with significant generation in excess of usage, Idaho Power notes, have other alternatives available under the Company's tariffs to develop small-renewable energy projects. For non-firm energy generation, customers have the option to participate under Schedule 86, Cogeneration and Small Power Production Non-Firm Energy. For firm energy generation, qualifying facilities (QFs) are entitled to published avoided cost rates under the Public Utility Regulatory Policies Act of 1978 (PURPA). Therefore, if customers are not satisfied with a credit they receive through the net metering option, Idaho Power contends that the customers could apply to be a firm or non-firm PURPA QF project.

Under the Company's Application proposal, Schedule 1 and Schedule 7 customers who generate electricity in excess of their usage would be treated the same as non-R1/R7 net metering customers who provide a non-firm energy product to the Company. They would be credited an amount per kilowatt hour equal to 85% of the most recently calculated monthly per kilowatt hour Avoided Energy Cost as defined in Schedule 84. On December 13, 2006, Idaho Power filed a Motion to amend its Application by removing its excess energy pricing proposal.

Modification to Recover All Net Metering Excess Generation Expense in PCA

Under the Company's proposal, excess generation provided by Schedule 1 and Schedule 7 net metering customers would be considered an energy resource with the cost to be spread to all retail customers through the Power Cost Adjustment (PCA) mechanism, the same treatment as is currently afforded excess generation provided by non-R1/R7 customers.

Modifications to Eliminate a Financial Barrier

Currently, non-R1/R7 customers are required to have a meter that is separate from the retail load metering at the point of delivery. Some of these customers, the Company contends, find the requirement for a separate meter to be a financial barrier to installing a small net metering system. To encourage participation among non-R1/R7 customers, the Company is proposing to expand the options for these customers through changes to Schedule 84. If a non-R1/R7 customer's generation facility has a total nameplate capacity rating which is no more than 2% of their Basic Load Capacity (BLC) and the system is 25 kW or smaller, the customer could participate in net metering on the same basis as the Company's residential and small general service customers. (Basic Load Capacity is the average of the two greatest non-zero monthly billing demands established during the 12-month period which includes and ends with the current billing period.) As proposed, all energy received and delivered by the Company could be through the single existing retail meter. This one-meter option, the Company contends, would make the installation of small net metering systems much easier for non-R1/R7 customers. Since one of the criteria is the generation facility's capacity cannot be more than 2% of the customer's BLC, Idaho Power contends that it is unlikely that a customer exercising this option would ever have excess net generation. However, if such were the case, under the Company's proposal excess energy would not receive any net metering program financial credits.

On August 31, 2006, the Commission issued a Notice of Application and Modified Procedure in Case No. IPC-E-06-17. The deadline for filing comments was October 13, 2006. Comments were filed by Commission Staff, net metering program participants and a number of other interested parties. Idaho Power requested the opportunity to file a reply. On December 13, 2006, Idaho Power filed a Motion to Amend Application.

Staff Comments

Staff recommends approval of Idaho Power's proposal to spread to all retail customers through the PCA mechanism all costs of excess generation provided by Schedule 1 and Schedule 7 net metering customers. In addition, Staff recommends approval of Idaho Power's proposal to revise metering requirements for non-R1/R7 customers.

PCA – Cost Recovery of Excess Generation Expense – Schedules 1 and 7 Net Metering

Staff agrees with the Company's proposal that excess generation provided by Schedule 1 and Schedule 7 net metering customers be considered an energy resource with the cost to be spread to all retail customers through the PCA mechanism, the same treatment as is currently afforded excess generation provided by non-R1/R7 customers. Staff has no objection to this proposed ratemaking treatment.

Modifications to Metering Requirements

Currently, non-R1/R7 customers are required to have a meter that is separate from the retail load metering at the point of delivery. Some of these customers, the Company contends, find the requirement for a separate meter to be a financial barrier to installing a small net metering system. To eliminate this barrier, the Company is proposing that all energy received and delivered by the Company could be through the single existing retail meter if a non-R1/R7 customer's generation facility has a total nameplate capacity rating which is no more than 2% of their Basic Load Capacity (BLC) and the system is 25 kW or smaller. Staff has no objection to eliminating the requirement for a separate meter for all non-R1/R7 customers. Staff believes that a single meter should be used for net metering whenever reasonably possible.

Public Comments

Comments received run the spectrum from those opposed to any tariff change to those who object to the continued subsidization of net metering customers. The following is a sampling of comments received:

- I relied on the tariff retail rate for my investment decision.
- The relatively small amounts we have received for [solar] generation in excess of consumption improved the buy back economics of our system and provided us an incentive to invest in the system in the first place.
- It is in the State of Idaho's best interest to encourage and reward small power producers to add sustainable, non-polluting power sources to the power grid.
- We and all other net metering customers made our investments based on assumptions about the rate for excess generation and it would be unfair to change the rules in the middle of the game.
- I paid for all the installation and connection including a \$100 fee to Idaho Power. I am complying with all the rules and regulations. I still pay a monthly service charge. Idaho Power incurs no generation, transmission,

or distribution costs as my surplus power is used and billed to my neighbor.

Idaho Power Motion to Amend Application

On December 13, 2006, Idaho Power filed a Motion to amend its Application in Case No. IPC-E-06-17 by removing from the Company's request to modify the compensation paid to Schedule 1 and Schedule 7 net metering customers who generate electricity in excess of their usage.

Despite the requested modification, the Company continues to urge the Commission to authorize the Company to (1) implement the one-meter option for those non-Schedule 1 and 7 customers who meet certain requirements set forth in the Company's Application and (2) consider the excess generation provided by Schedule 1 and Schedule 7 net metering customers as an energy resource with the cost to be spread to all retail customers through the Company's PCA mechanism.

Commission Findings

The Commission has reviewed the filings of record in Case No. IPC-E-06-17 including the underlying Application, the filed comments and recommendations and the Company's proposal to amend its Application. We have also reviewed our underlying Orders approving the Company's Schedule 84 net metering program, Order No. 29851 (Case No. IPC-E-01-39) and Order No. 29094 (Case No. IPC-E-02-4). Based on our review of the record we find that no further notice or comment is required. We continue to find it reasonable to process this case pursuant to Modified Procedure, i.e., by written submission rather than by hearing. Reference Commission Rules of Procedure, IDAPA 31.01.01.204.

Idaho Power in its original Application in this case proposed that Schedule 84 – Net Metering excess generation for Schedule 1 residential and Schedule 7 small commercial customers be priced at a market based rate rather than the current retail rate. Addressing the Company's excess generation pricing proposal, Staff and some members of the public recommended that excess generation be measured and priced on an annual rather than on a monthly basis for all net metering customers in all customer classes. The Company in its Motion to Amend proposes to withdraw its pricing proposal for excess energy. The Company contends that the recommendation of annual measurement poses certain operational and philosophical challenges for the Company that will require additional analysis and examination to better assess

the overall impact of that recommendation on the Company's net metering program. It is for this reason that the Company requests that it be permitted to amend its Application.

The Commission finds it reasonable to grant the Company's Motion to Amend. The excess generation of net metering customers must be kept in perspective. The total cumulative capacity of the existing net metering projects is approximately 336 kW, and the total amount paid for the projects' excess generation over the past 12 months was \$23,102. If this increased substantially, it would be necessary to reconsider the pricing of the excess generation. There is no need for that reassessment at this time. In granting the Company's Motion to Amend we affirm that the net metering rate for residential and small general service customers will continue to be the retail rate. The withdrawal of the excess generation pricing proposal by the Company, we find, makes moot the proposal of Staff and others to measure and price net excess generation on an annual basis and we need not address it at this time.

Idaho Power's net metering tariff is a proven method of encouraging customer investment in distributed/alternative and renewable energy technologies. As reflected in the comments received, 27 net metering customers are now connected; an additional 13 customers have pending requests for net metering generator interconnects. We continue to support net metering as an alternative to the firm or non-firm energy purchase contracts available to PURPA qualifying facilities.

In response to the comments of some program participants, however, we must note that the net metering program price is a tariff rate. It is not a contract rate. As a tariff rate, it is subject to change. An impetus for future change is recognition that in addition to the customer charge, the Company recovers some of its fixed costs for serving customers in its energy charge. A persuasive argument could be made that net metering customers are being subsidized by other customers. Indeed in our Order approving net metering we recognized that the full cost of the program may not be borne by participants. Order No. 28951. The Company pursuant to Commission direction continues to monitor net metering program costs, cost recovery and related issues of subsidization. Customers therefore should not rely on continuation of the tariff rate in cost effectiveness calculations to justify net metering equipment investment decisions.

The primary benefit of net metering continues to be providing electric customers with the opportunity to offset their own load and energy requirements. We note, however, that the Company is far from approaching the initial 2.9 MW cumulative cap on net metering purchases

we accepted in 2002 in Order No. 28951. As the cap is approached, the program components will be reviewed.

We find the remaining elements of the Company's Application, PCA cost recovery and modification of metering requirements, to be reasonable and acceptable changes. Under the Company's proposal, excess generation of Schedule 1 and Schedule 7 net metering customers will be accorded the same PCA regulatory treatment provided for excess generation of non-R1/R7 net metering customers. We find the Company's proposal to be fair and equitable. Financial impediments to program participation by non-R1/R7 customers are reduced in the Company's proposal to extend the one-meter option to qualifying net metering systems. We commend the Company for making its program more affordable.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over Idaho Power Company, an electric utility, and the issues raised in this Application pursuant to Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

ORDER

In consideration of the foregoing and as more particularly described and qualified above, IT IS HEREBY ORDERED and the Commission does hereby approve the amended Application in Case No. IPC-E-06-17 and resultant revisions to the Company's Schedule 84 – Net Metering tariff. Idaho Power is directed to file an amended tariff conforming with this Order.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

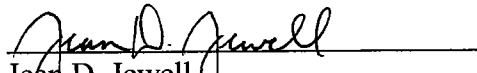
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 25th
day of January 2007.


PAUL KJELLANDER, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


DENNIS S. HANSEN, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

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