



*Case No. IPC-E-17-13*

*Order No. 34046*

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## **Commission rules on Idaho Power Co. net metering proposal**

**BOISE (May 9, 2018)** – State regulators have determined that differences in the electricity usage and load characteristics of Idaho Power customers with on-site generation and customers with standard electric service warrant the separation of the two groups.

As a result, the Idaho Public Utilities Commission ordered the closure of the company's current net-metering classification and the creation of two new classes for customers with on-site generation, Residential and Small General Service.

The Commission also directed Idaho Power to initiate a comprehensive study of the costs and benefits of net metering on Idaho Power's system.

The Commission encouraged the utility to collaborate with Commission staff and other stakeholders in conducting the study and determining proper rates, rate design, and compensation for excess generation for its net-metering customers. The Commission's order does not limit the scope of the study, intending to encourage creativity among the stakeholders and company in developing a successful net metering program.

The Commission's order is not intended to be punitive or discriminatory.

Rather, the creation of separate classifications for net-metering customers without changing rates is intended to facilitate analysis and promote creativity in developing solutions for this "unique, important class of customer," the Commission said.

"The Commission recognizes the intractability these issues have created around the region and the country generally, and would prefer that interested Idaho stakeholders work together in compromise," the Commission said. "All parties, to varying degrees, admit that on-site generation customers both cause costs and create potential benefits to the company's system(s). Again, we agree, and acknowledge that the costs of serving on-site generation customers, when the true value of their interconnection is realized, may be less than the cost of serving standard service customers."

Idaho Power launched its net metering program in 1983.

The name is derived from the fact that those customers are charged for the “net” amount of energy they use each month, since their consumption can be offset or eliminated by exporting excess energy onto Idaho Power’s system.

Until now, the utility’s net metering customers had been included in the same customer class as those who received standard service.

Idaho Power proposed changing that.

In its proposal filed in July 2017, the company contended its net-metering program was outdated and improperly incentivized on-site generation, creating a situation in which net metering customers were subsidized by standard-service customers.

The problem, according to the utility, is that the program allows participants to offset or eliminate their energy usage with their on-site generation. Since a portion of the fixed costs the company incurs providing service is included in variable rates, the company said its net-metering customers were not paying their share of those fixed costs.

This has created an unsustainable “wealth transfer,” according to Idaho Power, with customers who can afford to install on-site generation being subsidized by those who either could not afford to generate their own power or were not inclined to do so.

To resolve the problem, the utility requested Commission approval to create a new customer class for new net metering customers. The company’s proposal called for existing net metering customers to transition into this new class over time, to require smart inverters for its new net metering customers and for the Commission to open a generic case to establish a compensation structure for on-site generators.

Idaho Power’s proposal did not call for a change in rates or compensation.

Though the number of net metering customers on Idaho Power’s system is relatively small today – fewer than 1,500 net metering customers in June 2017, out of approximately 535,000 customers – the utility asserted that the increasing affordability of on-site generation would lead to surges in participation, exacerbating the shifting of costs from net metering customers to standard customers, and eventually killing the net metering program unless it is overhauled.

The Commission agreed, saying “this inequity will only increase as more customers choose on-site generation” and that the outcome of this case will allow potential on-site generators access to reliable information on which to make a decision about whether to install on-site generation.

“While the number of on-site generation customers on the Company’s system is a relatively small percentage of the Company’s total customers, based on the relatively high rate at which customers are installing systems in Idaho and elsewhere, we believe current and prospective on-site generators will be better positioned to analyze the costs and benefits of buying, installing, and maintaining an on-site generation system as a result of this Order.”

The Commission received more than 400 comments in the case, in addition to testimony provided at two public hearings and a technical hearing.

Most of the comments and testimony provided were in opposition to Idaho Power's proposal, with many expressing concern that the Commission's approval would hobble the solar industry in Idaho.

Other commenters expressed skepticism of the company's claims of intra-class subsidization due to the fact that no cost-of-service study had been conducted to determine the costs and benefits that net metering customers impose on the grid.

"The Company must continue to listen to, understand, and address its customers' concerns in these cases," the Commission said.

In its order, the Commission acknowledged concerns about a lack of analysis by Idaho Power quantifying the costs and benefits of on-site generation prior to proposing to overhaul the net-metering program.

"But our decision today does not turn on this issue," the Commission said.

The absence of a cost-of-service study does not negate evidence that revealed different load and usage characteristics between net-metering customers and those with standard service.

In addition, the Commission said, cost-of-service issues will be fully vetted if the company applies to change the rates of customers under the new classifications.

The Commission also addressed criticism that net-metering customers were being unfairly singled out based on evidence indicating cost-shifting among other segments of the Residential customer class, including cabin owners and energy-efficiency adopters.

Net-metering customers are the only segment of the Residential class that exports energy to the grid, the Commission pointed out. This presents unique load and usage characteristics –including increased volatility in demand and load factors, excess net-energy exportation in the spring and summer, and more volatility in contributions to periods of peak energy use among Idaho Power customers – that affect circuits, voltage management, islanding and load cycle adjustments, and make it more difficult for the company to forecast resources and load.

"...Other potential groups may not be paying their fair share of fixed costs being recovered through the variable rate. However, these customers do not export excess energy to the Company's system, and they cannot mask their consumption characteristics with net-energy use," the Commission said. "Nevertheless, we also find it is time for the Company to address fixed-cost apportionment across its system, and we outline a procedure for doing so."

The procedure outlined in the Commission's order directs Idaho Power to undertake a comprehensive analysis of the methodology used to recover fixed costs from customers. The Commission encouraged input from interested parties in determining the scope of the study, and directed Idaho Power to provide status updates to the Commission on a quarterly basis.

The order also acknowledges the aspect of Idaho Power's proposal pertaining to smart inverters, directing the company to potential benefits of requiring that inverters be installed by net metering customers to meet certain standards in order to support the ongoing stability and reliability of the company's distribution system.

Inverters convert solar power from direct current to alternating current typically used in homes and businesses. Inverters also regulate voltage levels.

The Commission's order calls for Idaho Power to work with Commission staff to establish this requirement within 60 days of the adoption of an industry standard by the Institute of Electrical and Electronic Engineers, as the company had proposed.

No timeline was established for submitting solutions resulting from the Idaho Power-specific docket outlined in the order, but the Commission expects a thorough analysis that involves net-metering rates, rate design and compensation for excess energy prior to any proposals to revise the program, including changes to rates or compensation.

The immediate impact of the order is to close Schedule 84, the existing net metering tariff, to new service and create two new schedules, Schedule 6: Residential Service On-Site Generation and Schedule 8: Small General Service On-Site Generation; and for Idaho Power to initiate a docket to begin the comprehensive study on the costs and benefits of on-site generation on the utility's system, in addition to the proper rates and rate design, traditional rates and related issues of compensation for the energy that net-metering customers export to the grid.

"We can also assure the Company's customers that discriminatory rates will not follow from the outcome of this case, as the prevention of discriminatory rates by the utility is the main purpose of this Commission's oversight, Commission Staff's public service, and the many intervenors' and public participants' involvement in these important cases," the Commission said. "We also share with commenters the concern about the future of on-site generation. This Commission views on-site generation as an inevitable part of any utility's future resource portfolio."

The Commission's order and other documents related to the case are available for review on the Commission's website, [www.puc.idaho.gov](http://www.puc.idaho.gov). Under "Open Cases", select "Electric" and scroll down to Case No. IPC-E-17-13. Or go [here](#).

Interested parties may petition the Commission for reconsideration within 21 days. Petitions for reconsideration must set forth specifically why the petitioner contends that the order is unreasonable, unlawful or erroneous. Petitions should include a statement of the nature and quantity of evidence the petitioner will offer if reconsideration is granted.

Reconsideration petitions can be delivered to the commission at 472 W. Washington St. in Boise, mailed to P.O. Box 83720, Boise, ID, 83720-0074, or faxed to (208) 334-3762.