

William M. Eddie (ISB# 5800)  
ADVOCATES FOR THE WEST  
P.O. Box 1612  
Boise, ID 83701  
(208) 342-7024  
fax: (208) 342-8286  
billeddie@rmci.net

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Express Mail:  
1320 W. Franklin St.  
Boise, ID 83702

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE APPLICATION )  
OF IDAHO POWER COMPANY FOR )  
AUTHORITY TO INCREASE ITS INTERIM )  
AND BASE RATES AND CHARGES FOR )  
ELECTRIC SERVICE )  
\_\_\_\_\_ )

CASE NO. IPC-E-03-13

**NW ENERGY COALITION'S POST-HEARING BRIEF**

NW Energy Coalition provides this post-hearing brief to succinctly identify key points of fact relating to: (1) the Coalition's proposal to initiate an investigation into a true-up mechanism for recovery of Idaho Power's fixed costs; (2) Idaho Power's request for an increase in fixed service charges; and (3) issues relating to the Low Income Weatherization Assistance program and demand-side management.

**I. THE COMMISSION SHOULD INITIATE A PROCEEDING TO INVESTIGATE A FIXED COST RECOVERY MECHANISM**

NW Energy Coalition requests the Commission make the policy decision to investigate removal of financial disincentives that hinder Idaho Power's investments in cost-effective energy efficiency and clean distributed generation. In a nutshell, Mr. Cavanagh describes the problem:

After approving a fixed-cost revenue requirement, the Idaho PUC sets rates based on assumptions about annual kilowatt-hour sales. If sales

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lag below those assumptions, the Company will not recover its approved fixed-cost revenue requirement. By contrast, if the Company were successful in promoting consumption increases above regulators' expectations, its shareholders would earn a windfall in the form of cost recovery that exceeded the approved revenue requirement. And whether consumption ends up above or below regulators' expectations, every reduction in sales from efficiency improvements yields a corresponding reduction in cost recovery, to the detriment of shareholders.

Direct Testimony of Ralph Cavanagh ("Cavanagh Testimony"), pages 3-4.

As Idaho Power's Ric Gale stated in rebuttal: "Mr. Cavanagh recognizes the dilemma that the Company faces when fixed costs are not recovered fully through retail sales because sales volumes are lower than projected." Gale Rebuttal Testimony, page 35 lines 5-8.

Mr. Cavanagh's testimony further illustrates the magnitude of these disincentives from a shareholder perspective. The Company's proposed fixed cost revenue requirement is \$303 million, of which \$235 million would be recovered from variable energy charges, and \$55 from variable demand charges, if the current fixed customer charges remain the same as today. Exhibit 601; Cavanagh Testimony at pages 7-8.

Assuming current rate designs remain intact, the impacts to shareholders of a feasibly strong set of energy efficiency programs would be quite significant:

Every one percent reduction in electricity use and demand on the Company's system would cut fixed cost recovery by about \$3 million; every one percent increase would have the opposite effect. Since many efficiency measures last ten years or more, these one-year impacts must be multiplied at least tenfold when assessing shareholder interests.

But the losses get even worse in the context of multi-year programs initiated under a long-term resource plan. Consider a five-year program that pursues annual savings equivalent to one percent of system load, with each year adding new savings equivalent to the savings achieved during the previous year, and all savings persisting

for at least five years. The first year impact on fixed cost recovery is then about three million dollars, followed by six million dollars in the second year (as an equal amount of savings is added), and so on: **the automatic five-year loss to shareholders from this steady-state utility investment program would be about forty-five million dollars**, with shareholder losses continuing to escalate in succeeding years as initial electricity savings persisted (with some gradual erosion) and more savings were added.

Id. (emphasis in original).

This natural tension between Idaho Power's obligation to provide "adequate, efficient, just and reasonable" service to customers, Idaho Code § 61-303 -- while also meeting expectations of the investment community -- can be significantly eased.

Mr. Cavanagh has presented a solution to the problem: the creation of a periodic system of rate true-ups to ensure that Idaho Power recovers its fixed costs of service irrespective of fluctuations in kilowatt-hour sales. Relevant experience in Oregon resulted in minimal rate changes caused by the true-up over a three (3) year period. Indeed, rate changes under PacifiCorp's "Alternative Form of Regulation" increased by no more than 1.9%, nor decreased by more than 0.83% for any particular class. Id. at page 12.

The details of such a true-up mechanism surely will need a full vetting through discussions among the interested parties. At hearing, Staff Witness David Schunke and ICIP witness Dr. Don Reading both supported an investigation into solutions for the problem Mr. Cavanagh identified, although neither committed to a specific solution. In pursuit of a reasonable and feasible solution, NW Energy Coalition, Idaho Power Company, Commission Staff, and the Industrial Customers of Idaho Power have signed and filed with the Commission an agreement to meet in a workshop setting, with a goal toward identifying specific mechanisms to address these disincentives. See Joint

Proposal Regarding Potential Approaches to Removing Disincentives for Idaho Power Company Investments in Energy Efficiency and Clean Distributed Generation.

NW Energy Coalition specifically requests the Commission to determine that the disincentives Idaho Power faces in evaluating demand-side and distributed generation resources are significant, and that an investigation into removing such disincentives should be initiated.

**II. ANY INCREASE IN FIXED CHARGES SHOULD BE MINIMAL**

Idaho Power failed to present a solid factual basis for its proposal to increase fixed customer charges for the residential class from the current \$2.51 level to \$10.00. At most, this request was pitched as a purportedly acceptable first step toward realizing a “philosophy” of collecting fixed costs through fixed charges. Direct Testimony of John R. Gale at pages 9-10. Adherence to such a ratemaking philosophy would drive the fixed charge towards \$25.00. See Idaho Power Exhibit 42 (identifying a total residential cost of service of \$24.61). NW Energy Coalition submits that sound, accepted ratemaking policy calls for a firm rejection of fixed charges at the level requested by Idaho Power. See Direct Testimony of Nancy Hirsh, pages 6, and 10-13.

NW Energy Coalition witness Nancy Hirsh, as well as Staff witness David Schunke, and AARP witness Thomas Power each presented analyses of this issue grounded on fact and well-accepted rate design policies. Fundamentally, any fixed charge should not exceed a cap of the total “customer-related” costs (*e.g.* meter reading, billing, and similar costs).<sup>1</sup>

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<sup>1</sup> There is some minor debate over what costs could be identified as “customer-related,” with such cost totals calculated at either \$6.77 (by Ms. Hirsh), or \$4.20 (by Messrs. Power and Schunke).

From this starting point, Ms. Hirsh, Mr. Schunke, and Dr. Power each presented reasons why any fixed charge should be less than the total cap of “customer related” costs. Most obviously, a high fixed charge sends an inappropriate price signal to customers. At a time when the marginal cost of power is high and variable, customers should be sent price signals to conserve. See Hirsh Direct Testimony, pages 10-12.<sup>2</sup> Customers generally desire greater ability to control their electric bills through efficiency and conservation, rather than less. Naturally when more of a customer’s bill is set through a fixed charge, the customer’s ability to reduce the bill through conservation is diminished.

High fixed charges also create disparate rate impacts (as a matter of percentage) between high and low usage customers. In that vein, Exhibit 82 (IPC, Average Use per Customer: All Residential Customers and Customers Receiving LIHEAP Funding) and Exhibit 608 (Colton, R. “Energy Consumption and Expenditures by Low-Income Customers”) were the center of a debate concerning whether Idaho Power’s low-income<sup>3</sup> customers generally consume more or less energy than the average customer. Idaho Power essentially has one set of data indicating that, during the winter time, customers receiving Low Income Home Energy Assistance Program (LIHEAP)<sup>4</sup> funds consume somewhat more than the average residential customer. Exhibit 82. During the summer time, LIHEAP recipients consume less than the average residential customer. Id.

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<sup>2</sup> Interestingly, Idaho Power’s two rate design changes for the residential class (fixed charge increase and seasonal rates) could have countervailing effects. The seasonal rate tells customers the amount of energy they consume in the summer matters a great deal; the higher fixed charge sends the opposite signal. Hirsh Direct Testimony, page 11, lines 18-21.

<sup>3</sup> Idaho Power has no internal definition of “low income.” Transcript page 3050, lines 7-10.

<sup>4</sup> LIHEAP is a federally-funded program wherein customers must affirmatively apply for financial relief from energy costs.

The Colton study reviewed three (3) sets of distinct federal data<sup>5</sup>, two (2) of which analyzed consumption at regional levels – to conclude:

The available federal data, on a national and regional basis, supports the conclusion that low-income households consume less energy (whether heating energy or total household energy) than do households on average, and certainly less than non-low-income households. As a result, it is necessary to find that proposals to move a greater proportion of utility bills to fixed monthly charges are regressive in nature and will tend to impose adverse impacts on low-income consumers.

Exhibit 608, page 75.

The Direct Testimony of Teri Ottens (at page 4, line 22 through page 5, line 2), states that less than one-third (1/3) of LIHEAP-eligible households in Idaho Power's service territory actually received LIHEAP assistance. It stands to reason that the eligible customers who are actually motivated to apply for federal assistance have high electric bills because they are at the higher end of the consumption spectrum, and therefore may not be representative of all low-income customers. At minimum, the information presented calls for the Commission to take a cautionary position with respect to the impacts of the fixed charge on low-income customers.

Stepping back to look at the fixed costs issue generally, NW Energy Coalition's proposal to create a fixed cost recovery true-up mechanism would serve the goal of providing revenue certainty to Idaho Power, while also avoiding inappropriate price signals to customers. NW Energy Coalition requests the Commission maintain low fixed charges, and initiate an investigation into creation of a fixed cost recovery true-up mechanism.

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<sup>5</sup> Colton analyzed (a) U.S. Dept. of Health and Human Services LIHEAP Home Energy Notebook for Fiscal year 1999 (July 2001), (b) U.S. Dept. of Labor Consumer Expenditures Survey, and (c) U.S. Dept. of Energy Residential Energy Consumption Survey (1997).

### III. LIWA FUNDING AND DEMAND-SIDE MANAGEMENT ISSUES

At the very end of the hearing, Idaho Power's Ric Gale spoke to a three-pronged approach toward funding and management of demand-side programs. Transcript, page 3195. Mr. Gale outlined the Company's willingness to consider increases to the Low-Income Weatherization Assistance Program, together with increases to the current Schedule 91 Tariff Rider (as may be warranted by findings in the 2004 Integrated Resource Plan, see Transcript at page 3194) and an evaluation of continued commitments to the Northwest Energy Efficiency Alliance. The Company's general proposal would include some degree of oversight of each of these three distinct programs by the Energy Efficiency Advisory Group ("EEAG"). Transcript, page 3195.

NW Energy Coalition agrees that this general approach could be successful. The Coalition, which is represented on the EEAG by Nancy Hirsh, commits to work with the Company as it adds details to Mr. Gale's outline.

Some caution should be exercised, however, in placing the LIWA program under the supervision of the EEAG. In NW Energy Coalition's view, the Company's existing demand-side programs are judged primarily by their cost-effectiveness, including their efficacy at reducing peak demand. LIWA certainly provides system-wide benefits due not only to conservation of energy; but LIWA also uniquely has the effect of reducing arrearages and unpaid bills. Hirsh Rebuttal Testimony, pages 3-4.

LIWA, however, must not be judged solely by cold economic cost-effectiveness, because the program is critical to help low-income customers maintain comfortable homes and affordable electric bills. LIWA should be included within the EEAG's purview if it can be demonstrated that the EEAG will add value to the LIWA program.

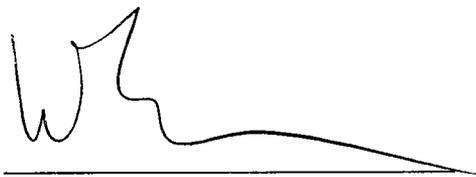
NW Energy Coalition strongly supports an increase in funding for the LIWA program. The Community Action Partnership Association of Idaho (CAPAI) has proposed an increase in funding for the LIWA program from \$212,000 to \$1.2 million annually. Without doubt, this would be a significant increase – but NW Energy Coalition submits that the current level of funding is unreasonably low, while CAPAI’s requested amount is “comfortably within the range of investments by other utilities in this region.” Hirsh Rebuttal Testimony at page 4-5 (including comparative spending by other utilities). NW Energy Coalition supports CAPAI’s specific requests for increases in LIWA funding, as stated in CAPAI’s Post-Hearing Brief.

#### **CONCLUSION**

NW Energy Coalition requests the Commission (a) initiate an investigation into removing disincentives to investment in energy efficiency and distributed generation; (b) reject significant increases in fixed customer charges; and (c) approve increases to LIWA funding as requested by CAPAI.

Dated: April 26, 2004

Respectfully submitted,

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William M. Eddie  
Attorney for NW Energy Coalition

## CERTIFICATE OF SERVICE

I hereby certify that on this 26th day of April 2004, true and correct copies of the NW ENERGY COALITION'S POST-HEARING BRIEF, NW ENERGY COALITION'S APPLICATION FOR INTERVENOR FUNDING, and JOINT PROPOSAL REGARDING POTENTIAL APPROACHES TO REMOVING DISINCENTIVES FOR IDAHO POWER COMPANY INVESTMENTS IN ENERGY EFFICIENCY AND CLEAN DISTRIBUTED GENERATION were delivered to the following persons via hand delivery (for Commission and Idaho Power recipients) and U.S. Mail (for all others):

Jean Jewell Commission Secretary Idaho Public Utilities Commission 472 W. Washington Boise, ID 83702	Don Reading Ben Johnson Associates 6070 Hill Road Boise, ID 83703
Lisa Nordstrom Weldon Stutzman Deputy Attorney Generals Idaho Public Utilities Commission 472 W. Washington Boise, ID 83702	Randall Budge Eric Olsen Racine, Olson, et al. 201 E. Center P.O. Box 1391 Pocatello, ID 83204-1391
Barton Kline Monica Moen Idaho Power Company P.O. Box 70 Boise, ID 83707-0070	Anthony Yankel 29814 Lake Road Bay Village, OH 44140
John R. Gale Idaho Power Company P.O. Box 70 Boise, ID 83707-0070	Lawrence Gollomp Assistant General Counsel U.S. Dept. of Energy 1000 Independence Ave., SW Washington, DC 20585
Peter Richardson Richardson & O'Leary 99 E. State St., Suite 200 P.O. Box 1849 Eagle, ID 83703	Dennis Goins Potomac Management Group 5801 Westchester St. Alexandria, VA 22310-1149
	Dean Miller McDevitt & Miller P.O. Box 2564 Boise, ID 83701

Jeremiah Healy  
United Water Idaho  
P.O. Box 190420  
Boise, ID 83719-0420

Conley Ward  
Givens Pursley  
601 W. Bannock St.  
P.O. Box 2720  
Boise, ID 83701-2720

Dennis Peseau  
Utility Resources  
1500 Liberty St, S.E.  
Suite 250  
Salem, OR 97302

Brad Purdy  
2019 N. 17<sup>th</sup> St.  
Boise, ID 83702

Michael Karp  
147 Appaloosa Lane  
Bellingham, WA 98229

Thomas Power  
Economics Dept.  
Liberal Arts Bldg. 407  
University of Montana  
32 Campus Drive  
Missoula, MT 59812

Michael Kurtz  
Kurt J. Boehm  
Boehm, Kurtz & Lowry  
36 E. Seventh St., Suite 2110  
Cincinnati, OH 45202

A handwritten signature in black ink, appearing to be 'William Eddie', written over a horizontal line.

William Eddie