

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: SCOTT WOODBURY

DATE: DECEMBER 22, 2006

RE: CASE NO. IPC-E-04-15 (Idaho Power)
JOINT MOTION FOR APPROVAL OF STIPULATION

Background

On August 10, 2004, the Idaho Public Utilities Commission (Commission) in Order No. 29558 established Case No. IPC-E-04-15 for an investigation of financial disincentives to investment in energy efficiency by Idaho Power Company (Idaho Power; Company). In its Order the Commission approved a series of workshops and directed the participating parties to provide a written report to the Commission no later than December 15, 2004 to update the Commission on the status of the workshops.

On December 15, 2004, workshop participants in Case No. IPC-E-04-15 filed a status report with the Commission. A final report on workshop proceedings was filed on February 14, 2005. The final report called for two action items: (1) the development of a true-up simulation to track what might have occurred if a decoupling or true-up mechanism had been implemented for Idaho Power at the time of the last general rate case, and (2) advocacy for filing a pilot energy efficiency program that would incorporate both performance incentives and “lost revenue” adjustments.

Application to Implement a Decoupling Mechanism

On January 27, 2006, Idaho Power filed an Application in Case No. IPC-E-04-15 requesting authority to implement a rate adjustment mechanism that would adjust the Company’s rates upward or downward to recover the Company’s fixed costs independent from the volume of the Company’s energy sales. This type of ratemaking mechanism is commonly referred to as a “decoupling mechanism.” However, Idaho Power in its Application believes that a more

accurate description of what the Company is proposing is a “true-up mechanism.” The true-up mechanism, entitled “Fixed-Cost Adjustment” (FCA) would be applicable only to Residential Service (Schedule 1, Schedule 4 and Schedule 5) and Small General Service (Schedule 7) customers.

As reflected in the Company’s decoupling proposal, the fixed-cost recovery portion of the Company’s revenue requirement allowed for recovery in rates would be established for these two customer classes at the time of a general rate case. Thereafter, the FCA would provide the mechanism to true-up the collection of fixed costs to recover the difference between the fixed costs actually recovered through rates and the fixed rates that were allowed to be recovered. As proposed in the Application, accounting for the FCA would be effective as of January 1, 2006, and the first FCA rate change would occur on June 1, 2007.

The Company represents the FCA would work identically for both the residential and small commercial classes. For each class, the actual number of customers would be multiplied by the fixed cost per customer rate (calculated as a part of determining the Company’s allowed revenue requirement in a general rate case). This product would represent the “allowed fixed-cost recovery” amount. This amount would be compared with the amount of fixed costs actually recovered by the Company. To determine this “actual fixed-cost recovered amount,” the Company would take weather-normalized sales for each class and multiply that by the fixed-cost per kilowatt-hour rate (again, established in the Company’s general rate case). The difference between these two numbers (the “allowed fixed-cost recovery” amount minus the “actual fixed-cost recovered” amount) would be the fixed-cost adjustment for each class. The FCA could be either positive or negative.

The FCA is proposed to change rates coincidentally with Idaho Power’s Power Cost Adjustment (PCA) and Idaho Power’s seasonal rates. Although the FCA would be timed to adjust on the same schedule as the PCA, the accounting for the FCA will be completely separate from the PCA. Additionally, the Company proposes to include a discretionary cap of 3% as a potential rate mitigation tool for the Commission’s use.

The purpose of the FCA, the Company contends, is to remove the financial disincentive to the Company’s investing fully in energy efficiency activities embedded in current rate design. Limiting implementation to only residential and small general service customers, the Company states, allows for an incremental approach for evaluating a new type of mechanism for the Company and its customers.

The Company in its Application details proposed FCA accounting entries for monthly deferrals plus interest. The Company in its Application has filed the supporting testimony and exhibits of Ralph Cavanagh, Michael J. Youngblood, and John R. Gale.

To facilitate consideration of the proposed FCA mechanism the Company proposed that the parties resume the workshop process that was conducted earlier in this case. The Company stated its belief that such a workshop process could culminate in a settlement stipulation that would provide a consensus agreement on the technical details necessary to the operation of a tracking adjustment, such as the specifics of deferral methodology, the weather normalization process, and specific provisions to be included in implementing the FCA.

On March 6, 2006, the Commission issued a Notice of Application in Case No. IPC-E-04-15 and established a March 17, 2006 deadline for intervention. Intervenor status was granted to the Industrial Customers of Idaho Power (ICIP) and the NW Energy Coalition (NWECC). In its Notice, the Commission acknowledged the intention of the Company and Commission Staff (together with other parties of record) to initiate and engage in settlement discussions. Reference Commission Settlement Rules of Procedure, IDAPA 31.01.01.272-276.

Joint Motion for Approval of Stipulation

Based on settlement negotiations a Joint Motion for Approval of Stipulation was filed with the Commission on December 18, 2006 by Idaho Power, Commission Staff and the NW Energy Coalition. Reference Commission Rule of Procedure 274. Other than the parties signing the Stipulation, the only other party to this proceeding, the Industrial Customers of Idaho Power (ICIP) has advised the parties that even though it has not signed the Stipulation, the ICIP will not actively oppose it.

Terms of Stipulation

The stipulation parties agree that it would be in the public interest for the Company to implement, as a pilot program the FCA mechanism proposed by the Company in its Application in Case No. IPC-E-04-15 with the following conditions and provisions.

- a. Any differences between Schedules 1 and 7 class revenue requirements and the corresponding fixed cost per customer approved by the Commission in Case No. IPC-E-05-28 (2005 general rate case) must be reconciled with the fixed cost per customer and fixed cost per energy utilized in the approved FCA mechanism.
- b. To determine the actual number of customers determined by class on a monthly basis, the Company will utilize the same customer count methodology used in the Company's 2005 rate case filing.

- c. The methodology used to weather-normalize actual monthly energy used in the FCA will be the same weather normalization methodology used in the Company's filing in the 2005 rate case.
- d. The FCA mechanism will be implemented on a pilot basis for a three-year period beginning January 1, 2007 and running through December 31, 2009 plus any carryover. The first rate adjustment will occur June 1, 2008, coincident with the 2008-2009 PCA and subsequent rate adjustment will occur on June 1 of each year during the term of the pilot.
- e. Calculation of the monthly FCA deferral will be recorded as a separate line item in the monthly PCA report provided to the Commission. The Commission approved FCA adjustment will be combined with the Conservation Program Funding Charge for purposes of customer bill presentation. There will be no separate line item for the FCA on customers billing statements.
- f. The Company will file its FCA adjustment request on March 15th of each year. Staff's audit of the FCA adjustment request will include review of deferral balances, comparison of actual energy savings to DSM energy savings estimates as normally provided in the DSM Annual Report and load growth forecasts and verification of the resulting FCA adjustment.
- g. Either Staff or the Company can request the Commission to authorize discontinuance of the pilot program during the three-year period. Requests to discontinue the pilot program, with supporting justification must be filed with the Commission during the March 15 to June 1 review period.

The Company will provide with its annual March 15 filing a detailed summary of DSM activities that demonstrate an enhanced commitment to DSM resulting from implementation of the FCA mechanism and removal of the financial disincentive to DSM. Evidence of enhanced commitment will include, but not be limited to, a broad availability of efficiency and load management programs, building code improvement activity, pursuit of appliance code standards, expansion of DSM programs, pursuit of energy savings programs beyond peak shaving/load shifting programs and third party verification. As part of this commitment, the 2008 Integrated Resource Plan will include an evaluation of the costs and potential for energy savings that would occur if the appliance and equipment efficiency standards adopted by the State of Oregon were applicable in the State of Idaho. In addition, the Company will make the following specific commitments in regard to building code improvements, and enforcement of such standards:

- a. The Company will promote the adoption of energy codes to achieve improved levels of efficiency in new commercial and residential

construction and appliance standards in Idaho consistent with the Model Conservation Standards released by the Northwest Power and Conservation Council or that exceed the 2003 IECC and ASHRAE 90.1 codes.

- b. As part of its enhanced commitment to DSM described above, the Company will promote and support appropriate energy code training programs and advocate the enforcement of energy codes. Idaho Power will identify ways to support energy code implementation and enforcement in all jurisdictions in Idaho Power's service territory.

The parties to the Stipulation agree that the Stipulation represents a compromise of the positions of the parties of the case. The Stipulation is supported by the filed testimony of the Stipulation parties.

COMMISSION DECISION

Filed in Case No. IPC-E-04-15 is a Joint Motion for Approval of Stipulation together with supporting testimony. Reference IDAPA 31.01.01.274 (Consideration of Settlements). The parties recommend that the matter be processed pursuant to Modified Procedure, i.e., by written submission rather than by hearing. Reference Commission Rules of Procedure, IDAPA 31.01.01.201-204. The parties stand ready for a more formal hearing should the Commission require same. A related DSM incentive pilot program (ENERGY STAR Homes Northwest program) has been filed in Case No. IPC-E-06-32. Does the Commission find it reasonable to process the Company's Stipulation in Case No. IPC-E-04-15 pursuant to Modified Procedure? Does the Commission find it reasonable to establish a hearing date following the comment deadline for purposes of spreading testimony and providing the Commission the opportunity to ask questions of the parties to the Stipulation?

Scott Woodbury

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