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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) Case No. IPC-E-09-28
AUTHORITY TO CONVERT SCHEDULE 54 -)
FIXED COST ADJUSTMENT - FROM A)
PILOT SCHEDULE TO AN ONGOING,)
PERMANENT SCHEDULE.)

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

SCOTT D. SPARKS

1 Q. Please state your name and business address.

2 A. My name is Scott D. Sparks and my business
3 address is 1221 West Idaho Street, Boise, Idaho.

4 Q. By whom are you employed and in what
5 capacity?

6 A. I am employed by Idaho Power Company as a
7 Senior Pricing Analyst in the Pricing and Regulatory
8 Services Department.

9 Q. Please describe your educational background.

10 A. In May of 1989, I received a Bachelor of
11 Business Administration degree in Business Management from
12 Boise State University.

13 Q. Please describe your work experience with
14 Idaho Power Company.

15 A. I became employed by Idaho Power Company in
16 1985 as a part-time mail clerk and have held positions as
17 Meter Reader, Customer Service Representative, Economic
18 Analyst, Human Resource/Compensation Analyst, Pricing and
19 Regulatory Services Analyst, and Resource Planning Analyst.

20 In January of 1991, after two years in the Customer
21 Service Department, I was offered and I accepted a position
22 in the Company's Energy Services Department. My
23 responsibilities over six years in the department varied
24 from conservation program evaluation, special studies, and

1 load forecasting and research. In 1995 I was asked to
2 temporarily transfer to the Human Resources Department to
3 assist with implementation of the Company's reorganization,
4 benefit, and compensation plans.

5 In 1998, I applied for and accepted a position in
6 the Pricing and Regulatory Services Department where I was
7 responsible for reviving the Company's resource planning
8 and integrated resource planning processes. As part of
9 reorganization, I was reassigned to the Power Supply
10 Planning Department in 2001 where I acted as the lead
11 analyst for the Integrated Resource Plan. In July 2003, I
12 left the Company to pursue self-employment in the real
13 estate and construction sectors. I returned to the Company
14 as a Senior Pricing Analyst in the Pricing and Regulatory
15 Services Department in June 2008.

16 Q. What is the purpose of your testimony?

17 A. The purpose of my testimony is to explain
18 why the Company's current Schedule 54 - Fixed Cost
19 Adjustment ("FCA") - should be changed from a pilot
20 Schedule to an ongoing, permanent schedule. As specified
21 in Order No. 30267 issued in Case No. IPC-E-04-15, the FCA
22 mechanism was originally approved as a 3-year pilot running
23 January 1, 2007, to December 31, 2009. My testimony will
24 discuss the FCA mechanism and how it has achieved its

1 stated goals by reducing the Company's financial
2 disincentive to invest in energy efficiency activities.

3 **BACKGROUND**

4 Q. What is the purpose of a Fixed Cost
5 Adjustment mechanism?

6 A. The FCA mechanism quantifies the direct link
7 between the energy consumed by customers and the revenue
8 received from customers in order to remove the financial
9 disincentive that exists when the Company invests in energy
10 efficiency and demand-side management (collectively, "DSM")
11 activities. Under the FCA, rates for Residential Service
12 customers (Schedule 1, Schedule 3, Schedule 4, and Schedule
13 5) and Small General Service customers (Schedule 7) are
14 adjusted annually up or down to recover or refund the
15 difference between the fixed costs authorized by the
16 Commission in the Company's most recent general rate case
17 and the fixed costs that the Company actually received
18 through energy related rate components during the previous
19 year.

20 Through the application of this "true-up" mechanism,
21 the Company is not financially harmed by decreases in
22 energy sales within the Residential and Small General
23 Service customer classes nor is it financially benefitted
24 from increases in energy sales.

1 Q. Why was the pilot FCA limited to the
2 Residential Service and Small General Service customer
3 classes?

4 A. The Company originally proposed an
5 incremental approach to implementation of the FCA mechanism
6 to gain experience and to minimize exposure to potential
7 unintended consequences. The Residential and Small General
8 Service classes were logical places to implement a pilot.
9 Both of these customer classes recover their revenue
10 requirements through two billing components, a service
11 charge and an energy charge. As a result, a significant
12 portion of the fixed costs allocated to serve these
13 customer classes are recovered through the energy charge.
14 Consequently, any reduction in energy sales caused by DSM
15 programs exposes the Company to non-recovery of fixed
16 costs.

17 Q. Please describe the formula used to
18 calculate the dollars associated with the Fixed Cost
19 Adjustment.

20 A. For both the Residential and Small General
21 Service classes, the FCA mechanism is the same. The
22 formula used to determine the FCA amount is:

1 FCA = (CUST X FCC) - (NORM X FCE)

2 Where:

3 FCA = Fixed Cost Adjustment;

4 CUST = Average number of customers, by class;

5 FCC = Fixed Cost per Customer rate, by class;

6 NORM = Weather-normalized energy, by class;

7 FCE = Fixed Cost per Energy rate, by class.

8 Q. How is the FCA true-up amount determined?

9 A. The FCA true-up is the difference between
10 the Company's "allowed fixed-cost recovery" (CUST X FCC)
11 and the "actual fixed-cost recovery" (NORM X FCE). The
12 "allowed fixed-cost recovery" is determined by multiplying
13 the average number of customers for the year times the
14 fixed cost per customer ("FCC") rate established in the
15 Company's general rate cases. The "actual fixed-cost
16 recovery" is determined by multiplying the weather-
17 normalized energy sales for the year times the fixed cost
18 per energy ("FCE") rate. The FCE rate is also established
19 in the Company's general rate cases.

20 Q. Can the FCA be either positive or negative?

21 A. Yes. The FCA true-up amount can be either
22 positive or negative. If the adjustment amount were
23 positive, that would indicate the Company's allowed fixed-
24 cost recovery amount was greater than the fixed costs

1 actually recovered through the energy rate for that class
2 of customers. This would stem from the fact that the
3 growth rate in weather-normalized energy was less than the
4 growth rate in customers, i.e., the use per customer had
5 decreased. The effect of that decrease would be that the
6 Company had under-collected its fixed costs and, therefore,
7 additional dollars need to be collected from the customer
8 class in order to make the Company financially whole. In a
9 similar fashion, if the FCA true-up amount were negative,
10 that would indicate that the Company's allowed fixed-cost
11 recovery amount was less than the fixed costs actually
12 recovered through the class energy rate and this difference
13 would necessitate a refund of the adjustment amount to that
14 customer class.

15 Q. How does the Commission regulate the FCA
16 mechanism?

17 A. In at least two ways. First, the Commission
18 has the discretion to cap rate increases at 3 percent as a
19 rate mitigation tool. Second, as required in Order No.
20 30267, the Company records the FCA deferral balance as a
21 separate line item in the monthly PCA report provided to
22 the Commission. The Company has since created a separate
23 monthly report for recording FCA balances and will continue
24 to provide this report to the Commission.

1 **ENHANCED DEMAND-SIDE MANAGEMENT ACTIVITIES**

2 Q. Has implementation of the pilot FCA affected
3 the Company's efforts toward promoting energy efficiency
4 and demand-side management activities?

5 A. As described in previous FCA case filings,
6 Case Nos. IPC-E-08-04 and IPC-E-09-06, the Company has
7 actively pursued new opportunities to promote energy
8 efficiency and demand-side management since the inception
9 of the pilot FCA. By removing the financial disincentive
10 to invest in DSM programs, the FCA has provided the Company
11 an opportunity to enhance and expand its portfolio of cost-
12 effective demand-side resources.

13 Q. Please summarize the Company's DSM
14 investments and energy savings since inception of the FCA
15 pilot.

16 A. In total, the Company substantially
17 increased its level of investment toward energy efficiency
18 and demand response programs annually since the inception
19 of the FCA pilot on January 1, 2007. The following table
20 demonstrates the Company's enhanced demand-side management
21 investment and energy impacts from 2006 through 2008.

1

Demand-Side Management Activities

| | New Investment | Annual Percent Increase | MWh Savings | Percent Increase | Total # of DSM Programs | Percent Increase |
|------|----------------|-------------------------|-------------|------------------|-------------------------|------------------|
| 2006 | \$11,484,013 | | 70,766 | | 17 | |
| 2007 | \$15,662,378 | 36% | 91,145 | 29% | 18 | 6% |
| 2008 | \$21,193,520 | 35% | 140,156 | 54% | 22 | 22% |

Source: 2006, 2007, 2008 Demand-Side Management Annual Reports

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3

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A complete description of all energy efficiency activities can be found in the Company's *Demand-Side Management Annual Reports*.

5

6

Q. What types of programs has the Company utilized to promote energy and demand savings by customers?

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A. Idaho Power has utilized four types of programs to promote energy and demand savings: (1) Demand Response, (2) Energy Efficiency, (3) Market Transformation, and (4) Other Programs and Activities.

11

12

Q. How has the Company enhanced its efforts in Demand Response and Energy Efficiency programs?

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A. The Company has enhanced its efforts to acquire Demand Response and Energy Efficiency by continuing to support existing and proven programs and by aggressively pursuing new cost-effective DSM programs. For instance, from 2006 to 2008, the estimated reduction in demand related to the Company's Demand Response programs increased from 37 megawatts ("MW") to 58 MW, a 57 percent increase.

1 Energy savings resulting from the Company's Energy
2 Efficiency programs increased from 48,409 megawatt-hours
3 ("MWhs") in 2006 to 107,484 MWh in 2008, a 122 percent
4 increase.

5 Q. How has the Company enhanced its efforts in
6 Market Transformation and Other Programs and Activities?

7 A. The Company continues to financially support
8 Market Transformation through membership and coordinated
9 activities with the Northwest Energy Efficiency Alliance
10 ("NEEA"). The Company's membership and participation with
11 NEEA has enhanced the Company's ability to pursue appliance
12 code standards and increased energy efficiency requirements
13 in Idaho building codes.

14 The Company has enhanced its involvement in Other
15 Programs and Activities through research, development,
16 education, and program marketing. More specifically, the
17 Company has increased the broad availability of efficiency
18 and load management programs, increased customer awareness
19 through the Residential Energy Efficiency Education
20 Initiative, and contracted with third-party consultants to
21 verify program specifications and energy savings. In
22 addition, Idaho Power has updated Company facilities with
23 energy efficient equipment and building products to
24 internally promote and encourage energy efficiency.

1 Q. What other initiatives has the Company
2 pursued to encourage energy efficiency since inception of
3 the pilot FCA?

4 A. In the Company's last general rate case,
5 Case No. IPC-E-08-10, several new price-based rate designs
6 were approved in support of the Company's objective of
7 encouraging the wise and efficient use of electricity.
8 Year-round tiered block rates, expanded time-of-use
9 pricing, and the introduction of load-factor pricing were
10 all efforts toward encouraging the efficient use of
11 electricity. These new rate designs went into effect
12 February 1, 2009.

13 Q. Are there any external indicators that
14 demonstrate the success of the Company's enhanced
15 commitment to energy efficiency?

16 A. Yes, based on Idaho Power's customer
17 satisfaction survey results, customers' positive perception
18 of the Company's energy efficiency efforts increased from
19 39 percent in early 2003 to 49 percent in late 2008.

20 In 2008, the American Council for an Energy-
21 Efficient Economy ("ACEEE") identified Idaho as the "most
22 improved" state in the nation in regards to commitment to
23 energy efficiency. As the largest utility in the state,

1 Idaho Power's enhanced commitment to energy efficiency no
2 doubt played a large part in this distinction.

3 **FCA PILOT RESULTS**

4 Q. Were the Company's proposed rate adjustments
5 in the first two years of the FCA approved by the
6 Commission?

7 A. Yes, both adjustments were approved with
8 minor modifications.

9 Q. What were the annual rate adjustment results
10 of the FCA pilot?

11 A. For the 2007 FCA accounting period, the
12 combined rate adjustment for the Residential and Small
13 General Service classes was a negative \$2,400,558. This
14 resulted in a decrease in the average monthly residential
15 bill of \$0.48. In contrast, the combined rate adjustment
16 in 2008 was a positive \$2,714,915, which resulted in an
17 increase to the average monthly residential bill of \$0.56.
18 The table below outlines the results of the 2007 and 2008
19 fixed cost adjustments. The 2009 year-to-date results
20 through August are also shown.

1

Fixed Cost Adjustment Pilot Results

| Year | Residential | Small Commercial | Commission Order | FCA Rate | Monthly Residential Impact |
|---------------------|--------------|------------------|------------------|-----------|----------------------------|
| 2007 | -\$3,587,592 | \$1,187,034 | -\$2,400,558 | -0.000457 | -\$0.48 |
| 2008 | \$1,320,749 | \$1,394,167 | \$2,714,915 | 0.000529 | \$0.56 |
| 2009 through August | \$3,243,953 | \$794,947 | \$4,038,900* | | |

* This amount has not been ordered by the Commission.

2 Q. Do the rate adjustment results you describe
3 provide any information as to the effectiveness of the 3-
4 year FCA pilot?

5 A. Yes, the results show that the mechanism is
6 in fact "truing up" the Company's recovery of fixed costs
7 for the Residential and Small General Service classes by
8 adjusting rates downward as the overall use per customer
9 increased in 2007 and upward as the overall use per
10 customer decreased in 2008.

11 Q. In your opinion, did the pilot FCA aid in
12 making the Company indifferent to choices between demand-
13 side and supply-side resources?

14 A. Yes. Although Idaho Power has long valued
15 DSM in its planning process, with the inception of the
16 pilot FCA, the Company has pursued and valued load
17 reduction activities similarly to supply-side resources
18 when setting financial planning goals. This is evidenced

1 and supported in the Company's integrated resource planning
2 process.

3 **COMPANY PROPOSAL**

4 Q. What is the Company proposing to change in
5 Schedule 54 - Fixed Cost Adjustment?

6 A. The Company is proposing to remove the
7 temporary "pilot" status of Schedule 54 - Fixed Cost
8 Adjustment - and convert it to an ongoing, permanent rate
9 schedule.

10 Q. Why is the Company proposing to make
11 Schedule 54 - Fixed Cost Adjustment - an ongoing, permanent
12 rate schedule?

13 A. The purpose of the pilot was to test a fixed
14 cost adjustment mechanism designed "to true-up the
15 collection of fixed costs per customer to recover the
16 difference between the fixed costs actually recovered
17 through rates and the fixed costs authorized for recovery
18 in the Company's most recent rate case" (Order No. 30267).
19 Results from the first two years of the pilot indicate that
20 the true-up mechanism is working as intended and operating
21 to mitigate adverse effects of DSM by ensuring that the
22 fixed costs authorized for recovery are being trued-up via
23 the FCA mechanism. The mechanism has proven to be fair to
24 both the Company and the customer, providing a refund in

1 one year and a surcharge in the next year. The mechanism
2 has also been proven to be reasonable as the individual
3 customer bill impacts, both up and down, have been
4 relatively small.

5 Q. During the first two years of the pilot, the
6 annual FCA balances for the Residential and Small General
7 Service customer classes were combined to create an equal
8 adjustment for both classes. Is this how the Company
9 originally intended the FCA balances to be distributed
10 under the pilot FCA?

11 A. No. The annual FCA deferral balance for the
12 residential customer class was originally intended to be an
13 adjustment for the Residential class only. Likewise, and
14 separately, the annual FCA deferral balance for the Small
15 General Service customer class was intended to be an
16 adjustment for the Small General Service class only.

17 Q. Why were the annual FCA balances for the
18 Residential and Small General Service customer classes
19 combined to create one adjustment for both customer
20 classes?

21 A. Originally, in the first year of the FCA,
22 the Commission's Staff recommended, and the Commission
23 ultimately approved, a combined adjustment for the
24 Residential and Small General Service customer classes to

1 help offset a FCA rate increase to Small General Service
2 customers. By combining the FCA balances for both customer
3 classes, the Commission was able to balance a rate increase
4 of \$1,187,034 to Small General Service customers with a
5 refund of \$3,587,592 to Residential customers. The result
6 was rate reduction to both customer classes in the amount
7 of 0.0456 cent per kilowatt-hour.

8 During the second year of the FCA pilot, the FCA
9 balance for the Residential customer class was a positive
10 \$1,320,749, which, if collected individually, would have
11 resulted in a 0.42 percent increase in residential rates.
12 The FCA balance for the Small General Service customer
13 class was \$1,394,167, which, if collected individually,
14 would have resulted in a 10.29 percent rate increase for
15 these customers.

16 Consistent with the distribution methodology
17 utilized in the first year of the FCA pilot, the Company
18 recommended a combined annual adjustment of \$2,714,914 to
19 help mitigate the individual rate increase to the Small
20 General Service customer class. In turn, the Commission
21 approved a combined rate increase for the Residential and
22 Small General Service customer classes of 0.0529 cent per
23 kilowatt-hour or 0.82 percent.

1 Q. How does the Company propose to distribute
2 the annual Residential and Small General Service FCA
3 balances if Schedule 54 is changed to a permanent tariff?

4 A. Under the proposed permanent tariff, the
5 Company proposes to true-up the Residential and Small
6 General Service FCA balances individually by customer
7 class. The Company supports a FCA distribution methodology
8 that separately adjusts customer class rates in accordance
9 with the FCA balances, whether refund or surcharge, for
10 each customer class. Adjusting rates by individual class
11 will provide a distribution methodology that is more
12 representative of the actual fixed costs recovered by each
13 customer class. The Company does not propose to combine
14 the Residential and Small General Service FCA balances to
15 determine one equal rate adjustment for both classes as was
16 done in the first two years of the pilot.

17 Q. Upon conversion to a permanent FCA, are you
18 proposing any other changes to the pilot FCA provisions set
19 forth in Order No. 30267?

20 A. Yes. Under the pilot, the Company was
21 required to document each year specific ways it had
22 increased its investment in energy efficiency and DSM as a
23 result of the FCA mechanism. The Company believes that
24 this increased commitment to invest in energy efficiency is

1 now evident and a separate annual reporting requirement is
2 no longer needed with the permanent rate Schedule 54. The
3 Company will continue reporting the monthly FCA balance as
4 it now does and will continue to file annual applications
5 seeking approval of the FCA true-up balances. All other
6 provisions will remain the same.

7 Q. What effective date is the Company proposing
8 for converting Schedule 54 from a pilot schedule to a
9 permanent schedule?

10 A. The Company is proposing to make Schedule 54
11 an ongoing, permanent schedule on January 1, 2010.

12 Q. Does this conclude your testimony?

13 A. Yes it does.