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IDAHO PUBLIC
UTILITIES COMMISSION

VIA HAND DELIVERY

March 23, 2010

Ms. Jean Jewell
Commission Secretary
Idaho Public Utilities Commission
472 W. Washington St.
Boise, ID 83702

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

Dear Ms. Jewell:

Enclosed, you will find an original and seven (7) copies of AARP's comments in response to the Commission's Order 31010 in the above referenced case. Please file stamp one copy for our records.

Please contact me at 208-855-4001 if you have any questions.

Sincerely,

James E. Wordelman

James E. Wordelman
State Director

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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 AUTHORITY TO CONVERT SCHEDULE 54 --FIXED COST ADJUSTMENT—FROM A PILOT SCHULED TO AN ONGOING PERMANENT SCHEDULE	)))))	**Case No. IPC-E-09-28**

AARP's COMMENTS IN RESPONSE TO COMMISSION ORDER No. 31010
March 23, 2010

Introduction

Pursuant to Order No. 31010, AARP submits the following comments regarding the application of Idaho Power Co. ("IPC") to Make the Fixed Cost Adjustment Permanent. AARP is a non-profit membership organization for people aged 50 and over. AARP has nearly 185,000 members in the State of Idaho, many of whom are customers of IPC.

AARP is supportive of giving consumers increased access to meaningful energy efficiency programs that will reduce their energy bills as they reduce their usage. Policies should incorporate energy efficiency into utility planning to ensure that costs are minimized and that energy savings are genuine and tied directly to utility sponsored programs. However, energy efficiency programs and policies are not in the best interest of consumers if they shift risk to customers and add new fees and surcharges to customer bills, resulting in higher bills for consumers.

AARP opposes making the Fixed Cost Adjustment (FCA) permanent and recommends the Commission abolish the new surcharge. The FCA is a form of "decoupling" which guarantees a steady stream of revenue for IPC due lost sales, regardless of whether sales decrease due to IPC's energy efficiency programs or for some other factor. The FCA is also unfair to low income and low usage customers, who are less likely to benefit from energy efficiency programs, but will nonetheless pay the FCA. If the Commission allow the FCA to continue, AARP strongly recommends that the current discretionary cap on rate increases via the FCA should not be discretionary and should be both lowered.

Decoupling Should Be Rejected Because it Shifts Risks to Customers

The FCA is described as a type of "revenue decoupling," which refers to when regulators sever the relationship between a utility's revenue stream and volumetric sales. As acknowledged by the Commission and IPC, under the FCA if sales or consumption go down IPC is guaranteed to receive the same level of revenue based on fixed cost recovery per customer, as established in the last rate case. Some who favor revenue decoupling believe a utility will not implement energy conservation programs unless the company is made whole for lost revenue resulting from such programs. Under a decoupling scheme, a surcharge is imposed on electric customers between rate cases.

Despite widespread support for energy efficiency programs, decoupling has been controversial around the country. Decoupling shifts the revenue requirement for a utility to a fixed charge so that the company's revenue no longer fluctuates with the amount of electricity consumed, and the company's incentives to efficiently manage its operations are diminished. Further, non-usage based surcharges disproportionately impact customers who are low or moderate users of electricity, for whom each new surcharge represents a larger percentage of their bill than for higher usage customers.

There are many factors behind fluctuations in energy usage in addition to IPC's energy efficiency programs. These include: weather, the general state of the economy, unemployment levels in the utility's service area, and high fuel prices (which are passed through to customers on their utility bills). Such exogenous factors influence changes in demand levels irrespective of conservation programs. It is also difficult to isolate a drop in demand due to utility energy efficiency programs from a drop in demand due to these other factors. Yet, with decoupling, customers could wind up paying for reductions in usage which occur for reasons wholly unrelated to the implementation of energy efficiency programs. According to IPC witness Sparks, the FCA "is determined by multiply the weather-normalized energy sales for the year times the fixed cost per energy ("FCE") rate." [1] In other words, the FCA adjusts only for weather, and does not limit recovery to only revenue lost due to measurable and verifiable energy savings resulting from utility-sponsored programs.

[1] Case No. IPC-E-09-28, Direct Testimony of Scott D. Sparks for Idaho Power Company, p. 5.

Indeed, IDACORP (IPC's parent corporation)'s recent year-end earnings statement acknowledges that factors other than its own energy efficiency programs accounted for a reduction in sales: "Idaho Power's retail customer sales volumes decreased four percent in 2009 as compared to 2008. Irrigation usage decreased 14 percent primarily due to increased precipitation. Economic factors and energy conservation also contributed to the reduction in sales volume. "[2]

The Link Between the FCA and Energy Conservation is Weak at Best

In support of its application, IPC asserts that the FCA has been a necessary factor in the expansion of the company's energy efficiency programs, and is necessary to "remove the disincentive" for IPC to support energy efficiency programs. AARP does not agree that energy efficiency programs are dependent on the adoption of revenue decoupling, in Idaho, or elsewhere. Several states have implemented successful efficiency programs by creating non-utility entities whose sole mission is to improve energy efficiency. In addition, while some states have indeed adopted "revenue decoupling" others have rejected or terminated decoupling mechanisms, determining that they were not working effectively, and/or were overly compensating the utility for decreased usage due to outside factors, such as the economic downturn. The recent controversy in Ohio over such a rate mechanism that would have cost ratepayers $21.45 for each compact fluorescent light bulb distributed by the utility is a good example of a misguided approach to utility-based energy efficiency programs.[3] Such controversies also serve to erode consumer support for energy efficiency

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[2]IDACORP news release: "IDACORP, Inc. Announces Year-End and Fourth Quarter 2009 Results" February 23, 2010

[3] See for example, PUCO to hear arguments in light-bulb controversy, Oct 15 - McClatchy-Tribune Regional News - Betty Lin-Fisher The Akron Beacon Journal, Ohio

programs that could be designed to be cost effective and benefit both the consumer and the utility.

AARP appreciates that the FCA mechanism resulted in a credit to customers in 2007. However, the fact that the formula produced a surcharge in a year when IPC spent $14 million on energy efficiency programs should give pause to those who claim the FCA is necessary for IPC to engage in energy efficiency. Further, the Commission has taken other steps specifically designed to decrease energy usage, including new rate designs and approval of IPC's request for system wide installation of advanced metering infrastructure (at a cost to ratepayers of $70 million). The new rate designs and dynamic pricing under AMI will result in increased costs to customers who are unwilling or unable to reduce usage. If these additional costs to consumers work as intended, they will have the impact of lowering usage, separate and apart from any impact the FCA may or may not have on IPC's willingness to invest in energy efficiency programs.

If the Commission chooses to continue the FCA, AARP urges that it address this problem by redesigning to FCA formula in such a way that recovery is limited to sales lost directly due to measurable and verifiable energy savings resulting only from IPC's energy efficiency programs.

Low Income and Low Usage Customers Are Disproportionately Hit by the FCA

It is obvious that the less energy a customer uses, the fewer opportunities the customer has to improve efficiency. Moreover, for those same customers each new fee and surcharge represents a relatively larger bill increase than that same surcharge represents for higher usage customers. Thus, the FCA is a relatively larger percentage increase in bills on those customers who may be unable to benefit from the company's energy efficiency programs. The situation for low income customers is similar. AARP appreciates that both IPC and the Commission recognize that energy efficiency efforts must include programs targeted to low income customers. However, it is also not realistic to assume that all low income households who need energy efficiency services will receive them, with many households waiting years before being served. In the meantime the low income customers also pay the FCA as yet another add-on to their bills.

The Proliferation of Costs and Fees Based on Energy Efficiency and Conservation Must Stop

If the Commission does not reject the FCA, AARP urges that annual increases to the FCA be capped at 1.5% and that the cap should not be discretionary on the part of the Commission, but included in the tariff. IPC customers already pay one of the higher energy efficiency riders in the country, at 4.75% of base revenue. That's a significant increase over the fee of 1.5%, which was charged before June of 08. In AARP's experience in other states, most Commissions and Legislatures seek to limit the fees charged to customers for energy efficiency programs, including utility bonuses and incentives. The increased energy efficiency rider and FCA are on top of the additional $10 million per year that customers will pay for AMI. How much more will be added to the bottom line of customer bills in the name of energy efficiency?

Conclusion

AARP supports energy efficiency efforts that help consumers both lower their usage and lower their utility bills. Utilities should be allowed to recover their prudently incurred expenses for approved programs, as well as reasonable incentives that are directly tied to the utility's success in meeting or exceeding pre-determined energy efficiency goals. However, under the FCA, IPC's customers are at risk of falling into a "save more, pay more" trap where ever escalating add-ons to recover program costs and utility incentives overwhelm any savings consumers could see by engaging in energy conservation or making energy efficiency investments. The FCA currently in effect falls far short of ensuring that IPC is not overly compensated. Indeed, even as it claims a need for an FCA to cover reduced sales, IDACORP reported an increase in revenues and earnings in 2009 on its recently filed financial statements. AARP strongly urges the Commission to abolish the FCA. Should the Commission continue the decoupling mechanism, it would be in the best interest of consumers to 1) limit the FCA to recovery of lost sales directly attributable to measured and verified energy savings resulting from ratepayer funded energy efficiency programs, and 2) limit the increase in the FCA to no more than 1.5% each year.

Respectfully Submitted By:

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