**To: Commissioners Jim Kempton, Mack Redford and Marsha Smith**

Ralph Cavanagh

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IDAHO PUBLIC UTILITIES COMMISSION

**Re: Application of Idaho Power Company for Authority to Convert Fixed Cost Adjustment from a Pilot Schedule to an Ongoing Permanent Schedule, Case No. IPC-E-09~~8~~-28**

**Date: April 9, 2010**

I am writing to provide a perspective on the Idaho Power Company's request to make permanent its current fixed cost adjustment (FCA). I direct the Northwest Energy Project of the Natural Resources Defense Council, which has more than 2,600 Idaho members, and I was an uncompensated witness for the company in the proceeding that led to Order No. 30267, establishing a three year pilot program designed to test a crucial principle: recovery of a utility's authorized fixed costs should not be tied to whether and how fast retail electricity use increases.

I urged you to launch this effort in order to help Idahoans secure more of the cost savings and environmental benefits that cost-effective efficiency improvements deliver. As initial evidence of the soundness of your decision, look no further than the front page of the Business Section from the New York Times of January 24, 2010, where Idaho Power is highlighted as "in the vanguard" of utilities that help their customers save energy, and Tom Eckman of the Northwest Power and Conservation Council is quoted as concluding that the company "is clearly iconic in terms of a utility that's turned the corner." (K. Galbraith, *Why Is A Utility Paying Customers?, New York Times, Sunday Business*, January 24, p. 1).

Since your initial order, I have personally addressed meetings of the company's entire energy efficiency team, and had the opportunity to experience first-hand its enthusiasm and commitment; the Snake River Alliance's comments rightly underscore (p. 2) "impressive growth in the company's energy efficiency and demand response measures." I note also that Idaho Power was an early and effective supporter of the U.S. Department of Energy's brand-new efficiency standards for gas and electric water heaters, and that Idaho Power provided crucial leadership in the process that convinced the Regional Council to raise its five-year regional efficiency targets by more than 70% earlier this year (I was a member of the advisory group that provided technical assistance on the targets, which were raised from 700 average megawatts to a minimum goal of 1200 average megawatts over the next five years).

Those last two examples underscore a point that some of the commentators on this Application have missed: Idaho Power's capacity to influence efficiency progress extends well beyond the incentive programs that the company administers (meritorious though they clearly are). Lifting the historic addiction to throughput has freed the company to be a much stronger efficiency educator and advocate as well as investor. Add to this the fact that rate impacts of the FCA pilot have gone in both directions and remained well within the 3% rate impact limit established by the Commission, and the case for granting the company's request is overwhelming.

Some of the objections to the Application appear to reflect simple misunderstandings of its content. I agree with the Community Action Partnership Association that shifting volumetric charges to the fixed portion of utility bills would inappropriately penalize low usage customers and that weather normalization is an appropriate part of a decoupling mechanism (p. 8) -- but of course the Application does not propose to shift volumetric charges to fixed charges, and it already incorporates weather normalization. I also join CAPAI in support of the goal of acquiring all cost-effective DSM resource opportunities (p. 9), but I find in the company's unflinching support of that goal in the recent Regional Council proceedings an additional reason to grant its Application. Finally, while it is true that the FCA raises rates (very modestly) during periods of declining sales (p. 5), CAPAI overlooks the fact that the converse is also true: when sales (and bills) rise faster than expected, the FCA delivers rate reductions (as recent experience with the Idaho Power mechanism confirms). The FCA is not an automatic rate increase, and it protects customers against over-recovery of authorized fixed costs.

Similarly, AARP refers to recent controversies in Ohio (p. 4) that have nothing to do with FCA-style "decoupling." Ironically, the Ohio Commission ran into difficulty by applying the very approach endorsed (p. 5) by AARP: "redesigning the 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." The Ohio payments of which AARP complained did not result from rate true-ups of the Idaho variety; instead, they were designed to reward only verified savings from CFLs distributed by the company, and we agree with AARP that this approach resulted in gross overpayments. But Idaho Power's FCA mechanism is an effective way to avoid this problem, not an illustration of it (as suggested by the lack of any illustrations in the AARP comments of overpayments for Idaho's efficiency gains). AARP also contends that "IPS'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 (p. 7)." But Idaho's experience proves the opposite: trivial decoupling rate adjustments that go both ways, coupled with cost recovery for cost-effective energy efficiency programs, do not materially affect customer benefits. As the Oregon Commission found when it followed Idaho's good example by adopting a decoupling mechanism for Portland General Electric in January 2009, responding to analogous claims that decoupling would rob customers of the rewards of conservation: "We believe the opposite is true: an individual customer's action to reduce usage will have no perceptible effect on the decoupling adjustment, and the prospect of a higher rate because of actions by others may actually provide *more* incentive for an individual customer to become more energy efficient." Oregon PUC Order No. 09-020, p. 28 (Jan. 2009). The comments of the Snake River Alliance make a similar point very effectively (p. 2); any FCA-related "increase is more than offset by a reduction in the bill due to the deployment of Idaho Power's demand-side management measures."

The most important thing for me to say in conclusion is that I had high expectations when this pilot program began, and that the Idaho Power Company has met them fully. The company has earned approval of this Application and I strongly encourage you to grant it.

Cc: Commission Secretary, service list