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IDAHO PUBLIC
UTILITIES COMMISSION

Attorney for Idaho Conservation League

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE)	
APPLICATION OF IDAHO POWER)	CASE NO. IPC-E-10-07
COMPANY FOR AUTHORITY TO)	
IMPLEMENT FIXED COST)	COMMENTS OF
ADJUSTMENT (FCA) RATES FOR)	IDAHO CONSERVATION LEAGUE
ELECTRIC SERVICE FROM JUNE 1,)	
2010, THROUGH MAY 31, 2011.)	

Please consider the following comments of the Idaho Conservation League. As Idaho's largest state-based conservation organization, we represent over 9,500 members many of whom are customers of Idaho Power. As customers of Idaho Power, ICL and its members have a deep interest in promoting the efficient use of our energy resources in order to protect clean air, water, and open space. While not an official intervenor in this case, ICL has played an active roll in the administration of the FCA.

BACKGROUND

As we argued in Case No. IPC-E-09-28, ICL believes the FCA is an important tool for removing the disincentive to reduce energy demand inherent in traditional rate making. Because of this importance, ICL is pleased the Commission extended the FCA pilot for an additional two years. See Order No. 31063. However, In that case, ICL raised three significant issues regarding the details of the FCA mechanism. The Commission summarized these as "how to address the conflicting price signal sent to ratepayers when reduced energy consumption results in a rate

increase; how to ensure consistent, verified, and auditable data is used in computing the FCA; and whether to allocate the FCA to the residential and small general service classes together or separately.” *Id.*, at 8. In considering the FCA program generally, the Commission ruled these “issues have not been addressed or . . . remain unresolved[.]” *Id.* By approving the FCA rates in this case without indicating how or when these issues will be resolved, the Commission will turn the theoretical impacts of these problems into the practical.

ISSUES

ICL believes Idaho Power’s current application to implement fixed rates for 2010-2011 implicates the exact same issues. Furthermore, because this case focuses on the practical impact of the mechanism, these issues are more sharply defined than before. First, the rates Idaho Power requests are the precise price signal consumers will receive. For three years now residential customers have reduced their average energy consumption and been rewarded by an increase in rates. ICL firmly believes that this reduction is more than offset by lower bills and the avoided costs of new supply side resources. To address this issue, ICL submits the Commission should require Idaho Power to better articulate the benefits customers receive from the FCA mechanism. For example, the Company could include a notation on the bill explaining the avoided costs caused by reducing individual consumption.

Second, because these rate calculations are not based on verifiable and auditable data isolating the impact of Idaho Power’s DSM investments, these rates do not ensure the mechanism focuses on driving greater investment rather than insulating the company from all fixed costs recovery risks. ICL offers a possible solution for this problem below.

Third, these FCA rates continue to require the residential customers to subsidize the small general service class. To date the Commission has not articulated a reason for this subsidization. In the 2008-2009 FCA rate case, the Staff suggested allocating the FCA equally because the

individual increase to the small general service class would have been over the 3% cap, and the fixed cost numbers were based on an unapproved cost of service study. *Comments of Commission Staff*, Case IPC-E-08-04, at 5-6; *See* Order No. 30556, at 2-3. Idaho Power offered a different justification, that “spreading the deferral equally between the classes recognizes a power supply portfolio approach to energy efficiency[.]” Order No. 30556, at 4. The Commission did not endorse either rationale specifically in finding it “just and reasonable to distribute” the FCA equally. *Id.*, at 5.

For 2009-2010, the Staff explained that individual allocation is “an inexact science” and allocating the FCA equally would have a small impact to residential customers while avoiding a large impact to small general service customers. *Comments of Commission Staff*, Case IPC-E-09-06, at 5. Idaho Power offered no reason other than being “consistent with the methodology applied in the first year of the FCA pilot.” *Application of Idaho Power*, Case IPC-E-09-06, at 4. Again, the Commission offered no rationale for its finding that cross class subsidization was just and reasonable. Order No. 30827, at 3-4.

For 2010-2011, Idaho Power picks up one justification offered by the Staff, that applying the FCA equally prevents “undue hardship” to the small general service class. *Direct Testimony of Sparks*, at 17-18. Further, Idaho Power alleges they are being “consistent with the methodology applied in the first two years of the FCA pilot[.]” *Application*, at 4. But in reality, a new feature has arrived in the methodology, the use of different rate adders for each class. Mr. Sparks explains that “by not applying the same rate adder to the residential and small general service classes as done in the first two years of the FCA pilot, the company collects a more representative amount of required fixed costs from each class.” *Sparks Direct*, at 18. While ICL supports this explanation for applying a different rate adder to each class, we believe it is time for the Commission to explain why some level of cross class subsidization is just and reasonable.

This case also raises the same issues identified by the PUC Staff and other parties in the prior FCA rate cases, IPC-E-08-04 and IPC-E-09-06. First, Staff noted in the 2009-2010 FCA rate case that newly implemented tiered rates and potential rate increases in June of 2009 “could and should” cause per customer energy consumption to decline. Order No. 30827, at 3. For 2010-2011, Mr. Sparks notes these new rate designs, “to encourage the efficient use of electricity,” went into effect in February of 2009. *Sparks Direct*, at 9. However, neither Idaho Power’s application, nor Mr. Sparks’ testimony, explains how these rates may relate to reduced energy consumption measured during the year, or if the forgone fixed costs that might be attributable to these rates should be recovered through the FCA. ICL submits that the new rate designs should have accounted for fixed cost recovery outside of the FCA mechanism.

Second, Staff and the Commission have repeatedly explained that the primary goal of the FCA is to true up authorized fixed costs not collected by Idaho Power due to reduced energy consumption attributable to their DSM activities. However, the current mechanism, and thus the rates proposed in this application, captures forgone fixed costs attributable to any number of factors. In the 2008-2009 FCA rate case Staff calculated that Idaho Power’s DSM investments accounted for 14% of the measured reduction in energy consumption.¹ *See Comments of Commission Staff*, Case No. IPC-E-08-04, at 10-11. For the 2009-2010 FCA rates, Staff calculated that Idaho Power’s DSM activity accounted for 23% of the total decline in consumption for both the residential and small general service customers. *See* Order No. 30827, at 3 n.1. Despite two years of articulating the need for Idaho Power to more clearly delineate the level of reduction attributable to their DSM investments, the Company’s current application continues to recover all forgone fixed costs regardless of the cause.

COMMENTS

¹ Staff calculated that Residential customers accounted for 1% of the decline while small general service consumption dropped by 13%. Idaho Power could not explain what factors drove the decline in the small general service class.

ICL wholeheartedly supports the FCA mechanism, but only in so far as it removes the disincentive to invest in DSM. To the extent the FCA mechanism insulates Idaho Power from the risks of forgone fixed cost recovery caused by other factors, ICL believes the FCA should not shift this risk onto customers as it currently does. To remedy this issue ICL submits two proposals.

One option is the Commission could reduce Idaho Power's authorized rate of return to account for the shareholders' reduced cost recovery risks. In their original application to create the FCA pilot program, Idaho Power argued "that regulatory mechanisms that improve the Company's ability to recover its costs are perceived by the debt rating agencies and financial community as positive attributes and may have the effect of reducing the Company's cost of capital." Order No. 31063, at 7. Since then, Idaho Power has never offered to share this reduced cost with ratepayers.

Alternatively, the Commission could require Idaho Power to bear the burden of proving the percentage of the total reduced consumption attributable to DSM investments, and then calculate FCA rates that return only this portion of forgone authorized fixed cost recovery. ICL prefers this option because it seems to more accurately address the issue at hand, is simpler than calculating a proper reduction of the rate of return, and properly incents the Company to establish that the FCA addresses the inherent disincentive to make DSM investments. This option addresses a primary concern of Staff, that determining the impact of the FCA is exceedingly difficult, by placing the burden on the party who already has the data and capacity to make this determination. Further, if Idaho Power must prove the amount of forgone fixed costs attributable to their DSM investments, then the FCA rates will more accurately align with the overriding goal--removing the disincentive.

ICL acknowledges this is a complicated and novel suggestion and asserts this is precisely why the Commission should either hold a hearing in this case or instruct the Staff to convene a formal workshop on the FCA. Just last month, in extending the FCA pilot for an additional two years, the Commission explained "[t]here must be a demonstrable nexus between the FCA and

the Company's investment in efficiency programs," but that Idaho Power did not provide this nexus. Order No. 31063, at 8. In prior FCA rate cases, and hopefully in the present case as well, the Staff seemed to have identified a nexus represented by their percentage of reduction attributable to DSM measures calculations. Presumably, the Staff uncovered sufficient data to make this calculation with some level of confidence. ICL submits that the identification of this issue for several years and the Staff's apparent ability to determine a nexus during this time should address the Commission's concern "that it is too early to determine specific changes should be made to the FCA[.]" *Id.*, at 9.

CONCLUSION

ICL agrees with the Staff and Commissions repeated finding that traditional ratemaking creates a disincentive for utilities to reduce energy demand. Accordingly, ICL wholeheartedly supports the FCA mechanism, but only in so far as it removes the disincentive to invest in DSM. To address the issue of the FCA capturing all forgone fixed costs regardless of causation, ICL suggests returning only that portion of forgone fixed costs the Company can prove are attributable to their DSM investments. By applying for these FCA rates, the issues are more sharply defined and ICL urges the Commission to indicate precisely when and how it will require all parties to resolve them.

DATED this 5th day of May 2010.

Respectfully submitted,



Benjamin J. Otto
On behalf of the Idaho Conservation League