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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 INCREASE ITS RATES ) CASE NO. IPC-E-11-08  
AND CHARGES FOR ELECTRIC SERVICE )  
TO ITS CUSTOMERS IN THE STATE OF )  
IDAHO. )  
\_\_\_\_\_ )

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

RALPH CAVANAGH

1 Q. Please state your name, address, and  
2 employment.

3 A. My name is Ralph Cavanagh. I am the Energy  
4 Program Director for the Natural Resources Defense Council  
5 ("NRDC"), 111 Sutter Street, 20th Floor, San Francisco, CA  
6 94104.

7 Q. Please outline your educational background and  
8 professional experience.

9 A. I am a graduate of Yale College and Yale Law  
10 School, and I joined NRDC in 1979. I am a member of the  
11 faculty of the University of Idaho's *Utility Executive*  
12 *Course*, and I have been a Visiting Professor of Law at  
13 Stanford and the University of California. From 1993-2003,  
14 I served as a member of the U.S. Secretary of Energy's  
15 Advisory Board, and I am now a member of the DOE  
16 Electricity Advisory Board. My current board memberships  
17 include the Bonneville Environmental Foundation, the Center  
18 for Energy Efficiency and Renewable Technologies, the  
19 Bipartisan Policy Center, the Renewable Northwest Project,  
20 and the Northwest Energy Coalition. I have received the  
21 Heinz Award for Public Policy (1996) and the Bonneville  
22 Power Administration's Award for Exceptional Public Service  
23 (1986). I first appeared before the Idaho Public Utilities  
24 Commission ("Commission") in 1987 as a Commission Staff-  
25 sponsored witness on energy conservation issues in Case No.

1 U-1500-165. In 2004, I was a witness for the Northwest  
2 Energy Coalition in Case No. IPC-E-03-13, and I appeared  
3 subsequently as a witness for the Idaho Power Company  
4 (hereafter either "Idaho Power" or "the Company") in Case  
5 No. IPC-E-04-15. A Biographical Summary is attached as  
6 Exhibit 40.

7 Q. On whose behalf are you testifying?

8 A. I am testifying for Idaho Power.

9 Q. Are you being compensated for this testimony  
10 by the Company, or have you or NRDC ever received any  
11 compensation or financial contributions from the Company?

12 A. No.

13 Q. What is the purpose of your testimony in this  
14 proceeding?

15 A. My testimony supports the Company's proposal  
16 to convert the Fixed Cost Adjustment ("FCA") mechanism that  
17 the Commission established on a pilot basis in 2007 and  
18 extended for two years in 2010 to an ongoing, permanent  
19 tariff schedule.

20 Q. Summarize your conclusions and  
21 recommendations.

22 A. In 2007, the Idaho Commission adopted a Fixed  
23 Cost Adjustment Mechanism on a pilot basis for Idaho Power  
24 (IPC-E-04-15, Order No. 30267), which subsequently was  
25 extended for two years in 2010 (IPC-E-09-28, Order No.

1 31063). My testimony supports the Company's proposal to  
2 end the FCA's "pilot" status, based on its obvious success  
3 in supporting the Company's improved energy efficiency  
4 performance, and make it permanent.

5 I agree strongly with Idaho Power that the FCA  
6 should remain simple in design, and not be burdened with  
7 unnecessary and inevitably contentious determinations of  
8 what precisely accounts for increases and reductions in  
9 electricity sales between rate cases. The principal  
10 rationale for the FCA is not somehow to compensate the  
11 Company for particular kinds of reductions in electricity  
12 use, but rather to break the linkage between its financial  
13 health and its retail commodity sales. FCA adjustments  
14 were never intended to reward or penalize the Company for  
15 particular actions, but rather to remove a potent  
16 disincentive to the Company's engagement with all forms of  
17 energy efficiency progress, by ensuring that the Company  
18 recovers no more and no less than the fixed costs  
19 previously authorized by the Commission, notwithstanding  
20 any short-term fluctuations in electricity use. My  
21 testimony shows that efforts to link FCA adjustments to  
22 energy efficiency program impacts would have perverse  
23 consequences and impede statewide progress in achieving  
24 cost-effective savings.

25

1           My testimony also anticipates and rebuts claims that  
2 extending the FCA should be linked to reductions in Idaho  
3 Power's return on equity. I am aware of no evidence that  
4 decoupling mechanisms have reduced Idaho Power's or any  
5 other utility's cost of capital, and Idaho Power's  
6 sacrifice of the upside from increased electricity sales  
7 constitutes an offset, in terms of shareholder welfare, for  
8 increased certainty about recovery of authorized costs.  
9 Customer benefits from the FCA are being abundantly  
10 delivered in the form of cost-effective savings (up more  
11 than ninefold from 2004 - 2010). Reducing the Company's  
12 authorized return on equity ("ROE") would send the perverse  
13 signal to management that no good deed goes unpunished,  
14 even as it undercuts the principal rationale for the FCA,  
15 which was to remove a financial barrier to the Company's  
16 energy efficiency progress.

17           Q.       What is the basis for your conclusion that the  
18 FCA is achieving the Commission's objectives?

19           A.       It rests both on personal engagement and a  
20 review of results achieved by the Company's programs and  
21 other efforts. Since the Commission's initial order, I  
22 have addressed meetings of the Company's entire energy  
23 efficiency team, and had the opportunity to experience  
24 first-hand its enthusiasm and commitment. I have also

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1 worked with the Company's leadership directly on  
2 enhancement of Idaho's energy efficiency infrastructure.

3           When the Commission adopted the FCA, it noted that  
4 "Promotion of cost-effective energy efficiency and demand-  
5 side management (DSM), we find, is an integral part of  
6 least-cost electric service . . . Making the Company  
7 indifferent to reduced energy consumption and demand is but  
8 one half of the quid pro quo agreed to by the stipulating  
9 parties. In return for the FCA, the Company is expected to  
10 demonstrate an enhanced commitment to energy efficiency and  
11 DSM. Evidence of enhanced commitment will include, but not  
12 be limited to, . . . efforts to improve and enforce state  
13 building codes and appliance efficiency standards, as well  
14 as expansions and improvements to its load efficiency, load  
15 management and DSM programs." [Order No. 30267, pp. 13-  
16 14.] On all these counts, I believe that the Company has  
17 met and surpassed the Commission's expectations.

18           Q. Summarize the "evidence of enhanced  
19 commitment" that has emerged since the Commission  
20 established these goals.

21           A. As a powerful indication of the Company's  
22 "enhanced commitment" to energy efficiency, one need look  
23 no further than the front page of the Business Section from  
24 the New York Times of January 24, 2010, where Idaho Power  
25 was highlighted as "in the vanguard" of utilities that help

1 their customers save energy, and Tom Eckman of the  
2 Northwest Power and Conservation Council was quoted as  
3 concluding that the Company "is clearly iconic in terms of  
4 a utility that's turned the corner." (K. Galbraith, *Why Is*  
5 *A Utility Paying Customers?*, New York Times, Sunday  
6 Business, January 24, p. 1. Eckman's conclusion is  
7 abundantly supported in the Company's *Demand-Side*  
8 *Management 2010 Annual Report* (March 15, 2011), which  
9 chronicles the evolution of a modest program that was  
10 saving less than 20,000 megawatt-hours ("MWh") in 2004 to a  
11 robust portfolio that was reaching toward 200,000 MWh by  
12 the close of 2010 (id., p. 4), with an increase of more  
13 than 30% in just the past year (id., p. 3). Today Idaho  
14 Power's energy efficiency programs address all major  
15 economic sectors and represent, by any measure, an  
16 aggressive and innovative effort to capture all available  
17 cost-effective energy efficiency. For load management, the  
18 Company's progress is equally impressive; a 43 megawatts  
19 ("MW") demand reduction capability for 2005 had grown to  
20 336 MW by 2010. Id., p. 4.

21 Q. What energy efficiency progress has the  
22 Company contributed to outside the specific context of its  
23 programs?

24 A. Idaho Power was an early and effective  
25 supporter of the U.S. Department of Energy's new efficiency

1 standards for gas and electric water heaters, and Idaho  
2 Power provided crucial leadership in the process that  
3 convinced the Regional Council to raise its five-year  
4 regional efficiency targets by more than 70 percent in  
5 2010. I was a member of the advisory group that provided  
6 technical assistance on the targets, which were raised from  
7 700 average megawatts to a minimum goal of 1,200 average  
8 megawatts over the next five years.

9 In October of last year, in a huge coup for the  
10 state of Idaho, Idaho Power helped launch the Northwest's  
11 first Center on Energy Efficiency Research (see Exhibit 41,  
12 a copy of the proclamation by Governor Otter, memorializing  
13 an event in which I was proud to participate in also).  
14 Boise's newly expanded Integrated Design Lab is an  
15 important part of that initiative and another illustration  
16 of the robustness of an energy efficiency infrastructure  
17 that Idaho Power helped create. And in 2011 the Company  
18 was a leader in the effort to redesign and upgrade the  
19 Regional Technical Forum of the Northwest Power and  
20 Conservation Council, which makes a crucial contribution to  
21 low-cost validation and evaluation of energy efficiency  
22 savings from both programs and standards in Idaho.

23 Those examples underscore a point that figures  
24 clearly in the Commission's initial goals for the FCA:  
25 Idaho Power's capacity to influence efficiency progress

1 extends well beyond the incentive programs that the Company  
2 administers (meritorious though they clearly are).  
3 Lifting the historic addiction to throughput has freed the  
4 Company to be a much stronger efficiency educator and  
5 advocate as well as investor.

6 Q. What do you say to those who are concerned  
7 that the FCA significantly reduces incentives to save  
8 energy, by raising rates in the aftermath of consumption  
9 reductions?

10 A. Idaho's experience proves the opposite: the  
11 FCA resulted in trivial rate adjustments that went both  
12 ways, and did not materially affect rewards for saving  
13 electricity. As the Oregon Public Utility Commission found  
14 when it followed Idaho's good example by adopting a  
15 decoupling mechanism for Portland General Electric in  
16 January 2009, responding to analogous claims that  
17 decoupling would rob customers of the rewards of  
18 conservation: "We believe the opposite is true: an  
19 individual customer's action to reduce usage will have no  
20 perceptible effect on the decoupling adjustment, and the  
21 prospect of a higher rate because of actions by others may  
22 actually provide more incentive for an individual customer  
23 to become more energy efficient." Oregon PUC Order No. 09-  
24 020, p. 28 (Jan. 2009).

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1 Q. Describe experience with revenue decoupling  
2 elsewhere in the country.

3 A. In the West, Hawaii, California, and Oregon,  
4 like Idaho, have adopted decoupling for at least one  
5 electric utility. The Washington and Arizona Commissions  
6 have adopted policy statements broadly supportive of the  
7 policy and invited filings by their electric utilities (and  
8 in Arizona's case, by natural gas utilities as well).  
9 California, Utah, Oregon, and Washington have adopted gas  
10 decoupling mechanisms. New Mexico's Public Service  
11 Commission has left open "the determination of whether a  
12 decoupling mechanism should be approved or required for any  
13 utility," and the New Mexico Legislature has underscored  
14 the urgent need to "identify regulatory disincentives or  
15 barriers for public utility expenditures on energy  
16 efficiency and load management measures and ensure that  
17 they are removed in a manner that balances the public  
18 interest, consumers' interests and investors' interests."  
19 Nationally, the count of states with decoupling for at  
20 least one utility stands at 14 for electricity and 22 for  
21 natural gas.

22 Q. What about rate impacts of revenue decoupling?

23 A. Neither revenue decoupling in general nor the  
24 FCA in particular add any additional costs to utility  
25 bills; they simply ensure that previously approved fixed

1 costs are neither over- nor under-recovered. In terms of  
2 rate adjustments to achieve this objective, Idaho's  
3 experience is typical: effects are minimal in practice,  
4 with adjustments that go in both directions. (See Exhibit  
5 42.) A comprehensive industry-wide assessment found that,  
6 of 88 gas and electric rate adjustments from 2000-2009  
7 under decoupling mechanisms, less than one-seventh involved  
8 increases exceeding 3 percent. (Refunds accounted for a  
9 much larger fraction.) Typical adjustments in utility  
10 bills "amount[ed] to less than \$1.50 per month in higher or  
11 lower charges for residential gas customers and less than  
12 \$2.00 per month . . . for residential electric customers."  
13 That represents about a dime a day for the average  
14 household, which hardly seems like dangerous rate  
15 volatility, particularly since it sometimes comes in the  
16 form of a rebate - and serves only to ensure that the  
17 utility recovers no more and no less than the fixed costs  
18 of service that regulators have reviewed and approved.

19 Q. Explain your conclusion that extending the FCA  
20 should not result in an adjustment in Idaho Power's  
21 authorized return on equity.

22 A. The data that I just presented are part of the  
23 basis for my recommendation here: rate impacts this modest  
24 simply do not imply appreciable consequences for Company-  
25 wide cost of capital. For example, I have seen no

1 empirical evidence that revenue decoupling has changed any  
2 utility's cost of capital by "reducing risks." Reducing  
3 ROE in the aftermath of decoupling would overlook both what  
4 shareholders give up when utilities lose the capacity to  
5 profit from electricity sales increases, and what customers  
6 stand to gain from accelerated progress in energy  
7 efficiency (and protection from higher utility bills linked  
8 to extreme weather). Any gains to utilities in the form of  
9 insurance against lower sales are offset by reduced  
10 opportunities for financial gains when sales increase, and  
11 it seems unreasonable to prejudge how that tradeoff might  
12 affect the Company's overall risk profile and cost of  
13 capital.

14           Appropriately, then, commissions typically have not  
15 linked revenue decoupling to reductions in ROE. Aside from  
16 Maryland and the District of Columbia, I am aware of only  
17 one downward adjustment specifically associated with  
18 revenue decoupling for an electric utility, and that was  
19 the 10 basis point (0.1 percent) adjustment for Portland  
20 General Electric that the Oregon Public Utility Commission  
21 adopted in January 2009 as a severe recession deepened.  
22 As to the District of Columbia, although a recent revenue  
23 decoupling order reduced PEPCo's ROE by 50 basis points, it  
24 also noted pointedly that the Company's decoupling

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1 application did not include any enhanced energy efficiency  
2 efforts.

3           On the other hand, the Maryland Public Service  
4 Commission recently ordered a 50 basis point ROE reduction  
5 for BG&E, PEPCo and Delmarva, subsidiaries of PEPCO  
6 Holdings, based on contentions that revenue decoupling  
7 reduced financial risks for the utility. In these  
8 decisions, the Maryland Commission is an outlier among its  
9 peers.

10           Q.       Why shouldn't the Commission amend the FCA so  
11 that adjustments track only electricity savings  
12 attributable to the Company's energy efficiency programs?

13           A.       This would undercut the whole purpose of the  
14 mechanism, while introducing a whole new set of perverse  
15 incentives. It would reintroduce automatic penalties, in  
16 the form of reduced fixed-cost recovery, for all cost-  
17 effective electricity savings not directly associated with  
18 Idaho Power's programs, even when the Company by action or  
19 inaction could make a material difference in prospects for  
20 those savings (see my earlier discussion of all Idaho  
21 Power's contributions to energy efficiency outside the  
22 context of specific programs). It would create a powerful  
23 and perverse new incentive for the Company to promote  
24 programs that looked good on paper but delivered little or  
25 no savings in practice. And it would ensure adversarial

1 discord over every savings calculation, since significant  
2 financial stakes would then hinge on the results.

3 Q. But doesn't your recommendation risk paying  
4 Idaho Power for savings that it didn't help achieve?

5 A. No, because the FCA doesn't "pay" Idaho Power  
6 any incremental amount for anything; it is simply a  
7 mechanism that allows the Company to receive no more and no  
8 less than the fixed-cost revenue requirement per customer  
9 that the Commission has reviewed and approved.

10 Q. Does this conclude your testimony?

11 A. The most important thing for me to say in  
12 conclusion is that I had high expectations when the FCA  
13 pilot program began, and that Idaho Power has met them  
14 fully. The Company has earned a long-term FCA as part of  
15 its appropriately aggressive energy efficiency initiative,  
16 and I strongly encourage the Commission to approve it.

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IDAHO PUBLIC UTILITIES COMMISSION**

**CASE NO. IPC-E-11-08**

**IDAHO POWER COMPANY**

**CAVANAGH, DI  
TESTIMONY**

**EXHIBIT NO. 40**

## **BIOGRAPHICAL SUMMARY FOR RALPH CAVANAGH**

RALPH CAVANAGH is a senior attorney and co-director of NRDC's energy program, which he joined in 1979. Ralph has been a Visiting Professor of Law at Stanford and UC Berkeley (Boalt Hall), and a Lecturer on Law at the Harvard Law School; he has also been a faculty member for the University of Idaho's Public Utility Executives Course for more than fifteen years. From 1993-2003 he served on the U.S. Secretary of Energy's Advisory Board. His current board memberships include the Bipartisan Policy Center, the Bonneville Environmental Foundation, the California Clean Energy Fund, the Center for Energy Efficiency and Renewable Technologies, the Northwest Energy Coalition, and the Renewable Northwest Project. Ralph has received the Heinz Award for Public Policy, the National Association of Regulatory Utility Commissioners' Mary Kilmarx Award, the Yale Law School's Preiskel-Silverman Fellowship, the Lifetime Achievement in Energy Efficiency Award from California's Flex Your Power Campaign, the Northwest Energy Coalition's Headwaters Award, and the Bonneville Power Administration's Award for Exceptional Public Service. He is a graduate of Yale College and the Yale Law School. He is married to Deborah Rhode, who is the MacFarland Professor of Law at Stanford Law School.

### **CONTACT INFORMATION:**

Natural Resources Defense Council, 111 Sutter Street, 20<sup>th</sup> Floor  
San Francisco, CA tel. 415-875-6100 [rcavanagh@nrdc.org]

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**CAVANAGH, DI**  
**TESTIMONY**

**EXHIBIT NO. 41**



Executive Department  
State of Idaho

# The Office of the Governor Proclamation

State Capital  
Boise

WHEREAS, the State of Idaho has demonstrated its commitment to provide a comprehensive and clear approach to Idaho's energy future; and

WHEREAS, the Center for Advanced Energy Studies is a public/private partnership comprised of Boise State University, University of Idaho and Idaho State University, private industry, and the Idaho National Laboratory; and

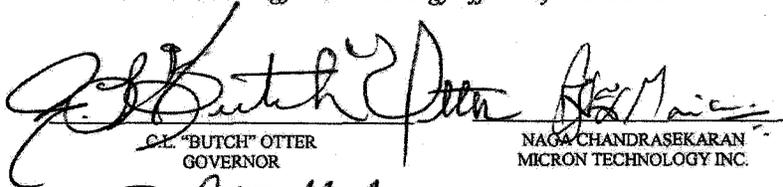
WHEREAS, the Center for Advanced Energy Studies integrates resources, capabilities and expertise to create new research capabilities, expand researcher-to-researcher collaborations, and enhance energy-related educational opportunities; and

WHEREAS, the Center for Advanced Energy Studies' newly formed Energy Efficiency Research Institute will be a core element to accelerate collaboration, leverage resources and maximize capabilities across the member institutions; and

WHEREAS, the Energy Efficient Research Institute will focus on science, implementation and policy at the intersection of energy generation and utilization, sustainability, environmental science, design, measurement and materials; and

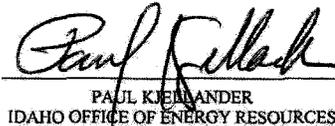
WHEREAS, the Energy Efficiency Research Institute will be a leading a recognized interdisciplinary entity that will enhance the Center for Advanced Energy Studies' delivery of innovative, cost effective and relevant energy research leading to sustainable technology-based economic development and industrial competitiveness;

NOW, THEREFORE, the parties below do hereby proclaim support for the Center for Advanced Energy Studies' Energy Efficiency Research Institute in Boise, Idaho.

  
C.L. "BUTCH" OTTER  
GOVERNOR

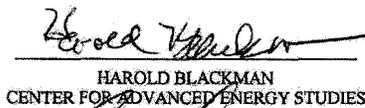
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MICRON TECHNOLOGY INC.

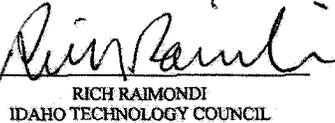
  
MARY GIVENS  
BOISE STATE UNIVERSITY

  
PAUL KJELLANDER  
IDAHO OFFICE OF ENERGY RESOURCES

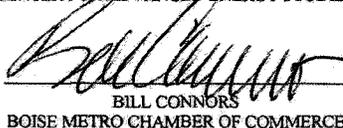
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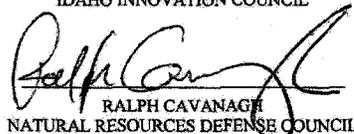
  
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IDAHO TECHNOLOGY COUNCIL

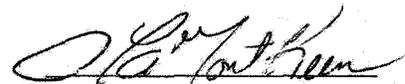
  
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BOISE METRO CHAMBER OF COMMERCE

  
JEFFERSON JEWELL  
IDAHO INNOVATION COUNCIL

  
RIC GALE  
IDAHO POWER

  
RALPH CAVANAGH  
NATURAL RESOURCES DEFENSE COUNCIL



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**EXHIBIT NO. 42**

# FCA 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	\$5,173,650	\$1,165,110	\$6,338,761	0.001218 Residential 0.001535 Small Comm.	\$1.28
2010*	\$7,943,259	\$1,397,834	\$9,341,093	0.001801 Residential 0.002273 Small Comm.	\$1.89

\*Proposed