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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) CASE NO. IPC-E-11-19
54 - FIXED COST ADJUSTMENT - FROM)
A PILOT SCHEDULE TO AN ONGOING,)
PERMANENT SCHEDULE.)

IDAHO POWER COMPANY

SUPPLEMENTAL 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,
6 California 94104.

7 Q. Are you still testifying in this proceeding as
8 an uncompensated witness for Idaho Power Company ("Idaho
9 Power" or "Company")?

10 A. Yes.

11 Q. Have there been any changes in the
12 qualifications you reported previously?

13 A. No.

14 Q. Why are you submitting this testimony?

15 A. My testimony supplements the Company's
16 compliance filing in this proceeding, and specifically
17 supports the Company's proposal (framed in the alternative)
18 that the Idaho Public Utilities Commission ("Commission")
19 retain the Fixed Cost Adjustment ("FCA") without change at
20 this time.

21 Q. Please summarize your involvement with the
22 development and implementation of the FCA.

23 A. I have been working with the Company and other
24 Idaho stakeholders on FCA-related issues for a decade,
25 including the four workshops in 2004 that helped launch the

1 initial FCA. I have also worked on revenue decoupling
2 issues with many other utilities across the country, and I
3 was a reviewer of Pamela Morgan's comprehensive assessment
4 of the structure and impact of these mechanisms nationwide
5 (published in October 2009).¹

6 Q. Do you agree with the Commission's decision to
7 "approve Idaho Power's Schedule 54, Fixed Cost Adjustment,
8 as a permanent program?"²

9 A. Yes, and I had filed testimony on the
10 Company's behalf in support of that result.³ There I
11 provided extensive evidence that the FCA had succeeded
12 resoundingly in its objective to "remov[e] a disincentive
13 inherent in Idaho Power's pursuit of energy efficiency
14 programs,"⁴ while remaining always within strict annual rate
15 impact limits.

16 Q. The Commission has called for "further
17 discussion by the parties and review by the Commission" of
18 "possible adjustments to the FCA," and has directed "Staff,
19 and the Company, and other parties" to "continue discussing

¹ Pamela Lesh, "Rate Impacts and Key Design Elements of Gas and Electric Decoupling: A Comprehensive Review," *Electricity Journal* (Oct. 2009).

² Case No. IPC-E-11-19, Order No. 32505 (March 30, 2012), p. 5.

³ Case No. IPC-E-11-19, Direct Testimony of Ralph Cavanagh on behalf of Idaho Power Company.

⁴ *Id.* at 6.

1 possible adjustments to the FCA."⁵ Have you been a
2 participant in those discussions?

3 A. Yes.

4 Q. What do you conclude?

5 A. I have participated in thoughtful and extended
6 discussions with Commission Staff, the Company, and other
7 parties, and I conclude that the FCA should not be adjusted
8 further at this time. I also reaffirm my appreciation for
9 the Commission's sustained attention to FCA implementation,
10 which has helped move Idaho unambiguously into a regional
11 and national leadership position on energy efficiency, to
12 the enduring benefit of both its economy and environment.

13 Q. What is the basis for your conclusion?

14 A. The primary issue raised by the Commission's
15 order is whether the FCA "as structured is imperfect," in
16 that it "responds to all changes in load" and consequently
17 may inappropriately eliminate risks associated with
18 economic trends unrelated to energy efficiency progress.⁶
19 But in fact the FCA is structured to allocate these
20 unrelated risks directly and thoughtfully, through an index
21 that combines simplicity and rigor better than any
22 available alternative.

⁵ Case No. IPC-E-11-19, Order No. 32505 (March 30, 2012), p. 6.

⁶ *Id.*

1 Q. What is the index used by the FCA to allocate
2 risks of economic change appropriately?

3 A. When the original FCA proposal was crafted,
4 the parties (me included) worked together through a series
5 of four workshops in Boise on its design, and we discussed
6 the issue of economic risk allocation in particular. We
7 chose annual changes in the Company's customer count as the
8 best available proxy for annual changes in the economy,
9 recognizing (in the Commission's phrase) that this was
10 "imperfect," but that we could identify no better
11 alternative. Pamela Morgan's comprehensive nationwide
12 assessment of revenue decoupling (reinforced by my own
13 experience) shows that most states and utilities have
14 followed the same path when adopting revenue decoupling
15 mechanisms (starting with Puget Sound Energy in 1991).
16 Specifically, based on a review of every revenue decoupling
17 mechanism in place nationwide circa 2009, Ms. Morgan found
18 that the per-customer index led all competing indices of
19 economic activity by a margin of 27-7.⁷ The Company's
20 compliance filing confirms the clear correlation between
21 trends in its annual customer count and the health of

⁷ Pamela Lesh, "Rate Impacts and Key Design Elements of Gas and Electric Decoupling: A Comprehensive Review," *Electricity Journal* (Oct. 2009), p. 70.

1 Idaho's economy.⁸ Recent discussions among the parties have
2 not identified a better alternative. In sum, the FCA
3 already captures and appropriately allocates the risk of
4 fluctuations in economic activity, independent of the
5 Company's energy efficiency efforts, and no further
6 adjustments are needed to achieve this objective.

7 Q. What is your final recommendation, based on
8 all these considerations?

9 A. I urge the Commission to leave the FCA intact
10 at this time, rather than adopting changes that would make
11 the mechanism more complex and potentially reduce its
12 effectiveness (which is a risk if, for example, the
13 Commission amends the FCA to block some cost recovery or
14 customer refunds as a result of significant shifts in
15 electricity use).

16 Q. Does this conclude your testimony?

17 A. Yes.

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⁸ "Idaho Power Company Report on Adjusting the Fixed Cost Adjustment Mechanism," p. 2.