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IDAHO PUBLIC
UTILITIES COMMISSION

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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 SCHEDULE TO AN ONGOING, PERMANENT SCHEDULE	**CASE NO. IPC-E-11-19** **SUPPLEMENTAL REPLY OF THE IDAHO CONSERVATION LEAGUE**

This critical issue in this case is not whether the Staff proposal or the Company proposal best isolates "cost recovery solely associated with the Company's energy efficiency programs."[1] Rather, the critical issue is whether this isolation is the best means to serve the pubic interest. The Idaho Conservation League maintains that the current Fixed Cost Adjustment (FCA) achieves a broad set of policy goals that ultimately benefit ratepayers. These goals include: (1) removing an inherent disincentive for Idaho Power to promote energy efficiency; (2) reducing Idaho Power's cost of capital by mitigating the risk imposed by revenue volatility; and (3) using economic incentives to focus Idaho Power on controlling costs. Ratepayers benefit from all three of these goals by aligning the utility's financial incentives with customers' interest in controlling energy bills and keeping rates low. This alignment serves the public interest.

[1] *Staff Comments* at 1 (filed December 7, 2012)(hereinafter *Staff Supplemental Comments*).

I. The Record Shows the FCA Mitigates Risk; Future General Rate Cases Can Quantify This.

The Staff's most recent comments in this case continue to misinterpret the risk mitigation function of the FCA. According to Staff, "the existing FCA simply assigns the risk of under recovery of fixed costs to customers irrespective of the underlying cause."[2] But the FCA does not just assign risk; it mitigates risk by stabilizing cost recovery. In our opening comments ICL referred to the National Association of Regulatory Utility Commissioners who state: "As noted before, decoupling can reduce risk for the utility by ensuring that its revenues and return on investment remain stable. A lower risk-profile should make the cost of capital lower for the utility."[3] We also pointed to the Regulatory Assistance Project's recent treatise on decoupling, which states: "Economic theory supports the notion that risk mitigation is valuable to investors and that that value will (eventually) be revealed in some way in the market — through a lower cost of equity, a lower cost of debt, or a lower required equity capitalization ratio. Any of these will eventually produce lower rates for consumers, in return for the risk mitigation measure."[4] There is no evidence or argument in the record refuting the notion the FCA mitigates risk. And mitigating risk serves ratepayers by reducing utility costs.

These benefits exist in practice too. The Commission recognized the risk mitigation feature of the FCA when originally approving the pilot, stating: "The annual FCA true-up mechanism assures a more stable utility recovery of fixed costs that are now recovered in the energy rate component[.]"[5] Idaho Power agrees the FCA stabilizes the fixed cost revenue portion of the revenue requirement.[6] As stated in ICL's Supplemental Comments, Standard and Poor's

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[2] *Staff Supplemental Comments* at 3
[3] NARUC *Decoupling for Electric and Gas Utilities: Frequently Asked Questions* at 4, 9 (2007) (Available at: http://bit.ly/NARUCDecoupleFAQ)..
[4] Regulatory Assistance Project, *Revenue Regulation and Decoupling: A Guide to Theory and Application* at 39(June 2011) (Available at: http://bit.ly/RAPdecouple); NARUC at 9.
[5] Order No. 30267 at 13.
[6] *Idaho Power Reply* at 17.

and Moody's both specifically call out the FCA as an important means to mitigate fixed cost recovery risk, which supports a stronger credit profile for Idaho Power.[7] The leading regulatory advisors in America, NARUC and RAP, along with Idaho Power, the investment community, and the Commission all recognize the risk mitigation value of the FCA. Again, the record is devoid of any evidence or argument refuting this benefit.

There remains a valid question of how to quantify this risk mitigation value and the most appropriate way to translate this value to customers. As stated in ICL's Supplemental Comments, the FCA is one part of a broader package of risk mitigation tools.[8] Due to this complexity and recognizing the capital cost reduction benefits may take time to materialize, ICL agrees with Idaho Power that a general rate case is the appropriate forum to quantify this benefit.[9] But one thing is sure, if the FCA is changed to exclude factors that cause revenue volatility, the benefit of reducing capital costs may never materialize and ratepayers will never benefit. The better course of action is to maintain the current FCA and address the risk mitigation value in the next general rate case. This can be accomplished by requiring Idaho Power, in the next general rate case, to justify whether factoring the FCA into the cost capital is warranted or not based on: (1) the investment community's statements on the value of the FCA; (2) any change in the need for working capital due to decreased revenue volatility; (3) a comparison of the cost of capital for utilities with decoupling mechanisms in place. This course of action, maintaining the current FCA and directly addressing the risk mitigation value in the next rate case, is the best method to align Idaho Power's financial incentives with ratepayers' interests in controlling energy bills and keeping rates low.

[7] *See ICL Supplemental Comments* at 4 – 5, Exhibits 3 and 4.
[8] *ICL Supplemental Comments* at 5.
[9] *Idaho Power Reply* at 19.

II. The Record Does Not Support the Staff Proposal.

Staff continues to propose a 50/50 sharing mechanism, despite this number being arbitrary. Staff does quantify Idaho Power's programmatic savings as constituting 24 – 43% of reduced consumption.[10] Then, Staff attempts to capture non-programmatic savings from energy education, market transformation, building codes and appliance standards, and rate design. But the Staff does not attempt to justify why all of these activities would account for, at times, only 7% of reduced consumption. ICL agrees these efforts may be difficult to quantify, but submits that some evidence is required to establish a reasonable amount. Unfortunately, instead of responding to the Commission's statement that the record is not sufficient to support the proposal, Staff does not offer any additional evidence. Instead, they merely clarify the source of the previous data and add nothing further than "Staff believes the five years of experience with the FCA has provided ample evidence to support its position."[11] These five years of experience existed when Staff first proposed the 50/50 sharing scheme. This experience remains insufficient to support Staff's arbitrary quantification of non-programmatic energy efficiency savings.

Staff's proposal also injects unnecessary complexity and contention into the FCA. Staff states they "did not presume that the sharing ratio would remain fixed," but they provide no guidelines or criteria for making this adjustment.[12] Staff complains that Idaho Power's proposal "introduces another contested element that further complicates the methodology," but their arbitrary method of rounding up from programmatic savings suffers from the same flaw.[13] Instead of basing this decision on a slim record and adding complexity to the FCA, ICL urges the Commission to maintain the current structure. The current FCA best serves ratepayers by virtue

[10] *Staff Comments* at 8, *Staff Supplemental Comments* at 6.
[11] *Staff Supplemental Comments* at 6.
[12] *Staff Supplemental Comments* at 6.
[13] *Staff Supplemental Comments* at 5.

of the relative simplicity and by delivering additional benefits to customers – risk mitigation and cost control.

III. Maintaining the Current FCA Benefits Ratepayers.

Modifying the Fixed Cost Adjustment to "isolate cost recovery solely associated with the Company's energy efficiency programs" is not in the ratepayers' interest.[14] Instead, ratepayers benefit by aligning Idaho Power's financial interests and incentives with customers interest in controlling energy bills and keeping rates low. The current FCA is an important component of aligning these interests. Ratepayers are better off when a utility aggressively pursues energy efficiency because this helps individuals control their bills and defers or avoids the need for additional energy infrastructure. Ratepayers benefit when a utility's cost of capital is low because this reduces the overall revenue requirement.[15] Ratepayers benefit when a utility controls cost, which becomes the best way for the utility to meet revenue targets when energy sales are decoupled.[16] Changing the FCA to isolate the effects of Company sponsored efficiency programs will deprive ratepayers of these benefits.

For the past five years, the mechanism has worked as intended. Idaho Power has increased the pursuit of energy efficiency and the investment community has recognized the FCA mitigates the cost recovery risk associated with these pursuits. While the FCA goes beyond just capturing company sponsored energy efficiency, this too benefits customers by reducing capital costs and focusing the Company on controlling costs. The Commission should not abandon these benefits by changing the FCA. Instead, ICL recommends the following:

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[14] *Staff Supplemental Comments* at 2.
[15] RAP at 39; NARUC at 4., 9; *ICL Comments* at 6- 8; *ICL Reply* at 2 – 3; *ICL Supplemental Comments* at 3 – 5.
[16] RAP at 45; NARUC at 9; *ICL Comments* at 5; *ICL Reply* at 3 – 4; *ICL Supplemental Comments* at 5.

- Maintain the current FCA as a permanent schedule with a 3% cap on annual adjustments.
- Reaffirm the enhanced commitment to energy efficiency,[17] including:
    - Publicly advocating for updating and adopting Idaho building codes on a regular schedule, along with other legislative measures such as tax code changes, and procurement policies;
    - Demonstrating a consistent effort with Idaho's federal delegation to support appliance codes, tax code changes, budget proposals, and other federal programs that promote energy efficiency;
    - Continuing to work with educational institutions at all levels to educate Idahoans regarding energy efficiency and develop a knowledgeable and trained workforce;
    - Continuing to implement and strengthen rate designs for all customer classes that drive customers towards energy efficiency; and
    - Establishing a long-term, comprehensive strategy to close the gap between the achievable and economic energy efficiency potential identified in the most recent DSM potential study.
- Require Idaho Power to justify, the next general rate case, whether factoring the FCA into the cost capital is warranted or not based on:
    - The investment community's statements on the value of the FCA;
    - Any change in the need for working capital due to increased revenue stability;
    - A comparison of the cost of capital for utilities with decoupling mechanisms in place.

Respectfully submitted this 21st day of December 2012,

Benjamin J. Otto
Idaho Conservation League

[17] These efforts must be balanced with the goals of cost-effectiveness, prudency, and other obligations. ICL envisions this to be a more qualitative than quantitative effort.

CERTIFICATE OF SERVICE

I hereby certify that on this 21st day of December 2012, I delivered true and correct copies of the foregoing SUPPLEMENTAL REPLY COMMENTS OF THE IDAHO CONSERVATION LEAGUE to the following via the method of service noted:

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