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IDAHO PUBLIC
UTILITIES COMMISSION

LISA D. NORDSTROM
Lead Counsel
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October 31, 2012

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
Boise, Idaho 83702

Re: Case No. IPC-E-12-24
Custom Efficiency Incentive Payments Recovery in Rates – Idaho Power
Company's Application and Direct Testimony

Dear Ms. Jewell:

Enclosed for filing in the above matter please find an original and seven (7) copies of Idaho Power Company's Application.

In addition, enclosed are nine (9) copies of the Direct Testimony of Matthew T. Larkin filed in support of the Application. One copy of Mr. Larkin's testimony has been designated as the "Reporter's Copy." In addition, a disk containing a Word version of Mr. Larkin's testimony is enclosed for the Reporter.

Lastly, four (4) copies of Idaho Power Company's press release and customer notice are also enclosed.

Very truly yours,

Lisa D. Nordstrom

LDN:csb
Enclosures

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Attorneys for Idaho Power Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) CASE NO. IPC-E-12-24
AUTHORITY TO IMPLEMENT RATES FOR)
ELECTRIC SERVICE TO INCLUDE) APPLICATION
CAPITALIZED CUSTOM EFFICIENCY)
INCENTIVE PAYMENTS.)
)

Idaho Power Company ("Idaho Power" or "Company"), in accordance with Idaho Code §§ 61-502 and 61-622 and RP 52, 121, 123, and 125, hereby respectfully makes application to the Idaho Public Utilities Commission ("Commission") for an order authorizing Idaho Power to include in rates a portion of the regulatory asset associated with capitalized Custom Efficiency incentive payments. The Company is requesting an order authorizing rates to become effective December 1, 2012, with the expectation that the Commission will suspend that date to provide for additional time to review and implement rates on June 1, 2013.

In support of this Application, Idaho Power represents as follows:

I. BACKGROUND

1. On October 22, 2010, the Company filed an application in Case No. IPC-E-10-27 seeking approval of a regulatory framework that it believed would positively impact the business rationale for acquiring cost-effective demand-side resources ("DSR"). One component of the Company's proposal was a request to capitalize direct incentive payments associated with the Company's Custom Efficiency program. The Custom Efficiency program is designed to provide financial incentives to commercial and industrial customers for implementing customized energy efficiency measures at their sites to reduce electrical usage. These projects include motor rewinds, variable frequency drives, and energy efficient refrigeration, among others. Through capitalization, the recovery of direct incentive payments associated with this program is removed from the Energy Efficiency Rider mechanism and into a capitalized regulatory asset, allowing the Company the opportunity to earn a fair and reasonable return on a portion of its investment in DSR.

2. On March 3, 2011, the Company filed a motion to approve a settlement stipulation ("Stipulation") in Case No. IPC-E-10-27 addressing the issues raised in its initial application. Signatories to the Stipulation included the Company, Commission Staff, the Community Action Partnership Association of Idaho, the Idaho Conservation League, the NW Energy Coalition, and the Snake River Alliance (collectively referred to as the "Parties"). In the Stipulation, the Parties agreed that Idaho Power would capitalize Custom Efficiency incentive payments as a regulatory asset.

3. On April 1, 2011, the Commission issued Order No. 32217 in Case No. IPC-E-10-27. The Commission ultimately did not accept the Stipulation entered into by the Parties, leaving the issues raised by the Company to be addressed at a later time. The regulatory treatment of Custom Efficiency incentive payments was not specifically addressed in Order No. 32217.

4. On April 22, 2011, the Company filed a Petition for Clarification ("Petition") in Case No. IPC-E-10-27 requesting further Commission guidance on a number of issues, including the Commission's intent with regard to the regulatory treatment of Custom Efficiency incentive payments.

5. On May 17, 2011, the Commission issued an Order authorizing the Company to account for Custom Efficiency incentive payments as a regulatory asset for all payments made since January 1, 2011, "with an amortization period to be determined later by the Commission" as part of a cost review process. Order No. 32245, p. 6.

6. In case number IPC-E-12-15, on March 15, 2012, Idaho Power requested designation of \$42,641,706 as prudently incurred demand-side management ("DSM") expenditures, including \$7,018,385 of incentive payments in the Custom Efficiency regulatory asset account. These incentive payments were found prudent in Commission Order No. 32667 issued on October 22, 2012.

II. OBJECTIVES

7. In light of the foregoing events and as described in more detail in the Direct Testimony of Matthew T. Larkin that accompanies this Application, Idaho Power requests the Commission:

a. Recognize that the Custom Efficiency incentive payments made in 2011 are “used and useful” and were found to be prudently incurred expenses for purposes of recovery in rates;

b. Consider recovery of Custom Efficiency incentive payments outside of a general rate case proceeding. On page 11 of Order No. 32667 issued in Case No. IPC-E-12-15, the Commission:

. . . believe[d] the interest rate to be applied to the balance—and ultimately included in rates—concerns all customers and should be thoroughly reviewed and determined in a rate case. We thus find it reasonable to defer deciding the interest rate to be applied to the Customer Efficiency Program regulatory asset account, and the resulting interest amount, until the Company seeks to recover the deferral balance in a general rate proceeding.

Although the Commission found it reasonable to defer exercising its decision making authority, review of the issues contained in this filing outside of a general rate case is procedurally within the Commission’s discretion. Moreover, such review is appropriate given that DSM activities are annually reviewed for prudence determination outside the context of a general rate case and have been recovered through the Energy Efficiency Rider, which can be altered either as part of a general rate case filing or as a single issue case filing. These DSM incentive expenditures should be viewed as analogous to supply-side expenses recovered outside of base rates through the Fixed Cost Adjustment (“FCA”) and Power Cost Adjustment (“PCA”). Because this is the first time Idaho Power has requested such rate treatment for energy efficiency expenditures, Idaho Power has filed this case seven months prior to the anticipated June 1, 2013, rate effective date to allow ample time for Commission and public review of its request;

- c. Specify the carrying charge for the Custom Efficiency regulatory asset prior to its inclusion in rates;
- d. Specify a 4-year amortization period for the Custom Efficiency regulatory asset;
- e. Acknowledge that once the Custom Efficiency incentive payments are included in rates, the unamortized portion of regulatory asset will earn the Company's full rate of return ("ROR") in the same manner as other supply-side resources;
- f. Approve Idaho Power's proposed approach to recovering Custom Efficiency incentive payments through annual filings each spring, much like the PCA and FCA; and
- g. Authorize Idaho Power to implement Schedule 56 with an effective date of December 1, 2012.

III. REQUEST FOR APPROVAL OF TARIFF

8. The primary intent of the Company's request described in this Application is to establish a ratemaking methodology that places investment in this demand-side resource on equal footing with investment in supply-side resources from a business evaluation perspective. As described in detail in the Direct Testimony of Matthew T. Larkin, investment in DSR possesses inherently different qualities than investment in supply-side resources that must be recognized through unique ratemaking treatment in order to truly level the playing field between these varying resource types. The Company believes its proposal accomplishes this objective, and allows all stakeholders

to fully realize the benefits of an efficient business model that does not favor one type of resource over another.

9. The Company is proposing to include in rates the portion of the Custom Efficiency regulatory asset associated with incentive payments made during the 2011 calendar year plus associated accumulated carrying charges. As reported on page 135 of the *Demand-Side Management 2011 Annual Report*, incentive payments made in 2011 totaled \$7,018,385 prior to the application of carrying charges. These payments were deemed prudent in Commission Order No. 32667, issued in Case No. IPC-E-12-15, on October 22, 2012.

10. Consistent with the Company's proposal in Case No. IPC-E-10-27 and the subsequent Stipulation of the Parties in that case, the Company calculated the carrying charge using its full authorized ROR on the balance of the Custom Efficiency regulatory asset. Following the Company's 2011 general rate case, Case No. IPC-E-11-08, the carrying charge rate was updated to reflect the newly-authorized ROR with an effective date coinciding with the Commission's final order. The rationale for applying the full authorized ROR as a carrying charge to this account is described in Mr. Larkin's direct testimony. After applying carrying charges to the portion of the regulatory asset associated with 2011 incentive payments, the balance as of May 31, 2013, will be \$8,126,504.

11. At the time of amortization, the Company is proposing to apply its full authorized ROR to the unamortized balance of the regulatory asset, and to recover the return of and return on its investment through a four-year amortization schedule. Applying this methodology to the May 31, 2013, balance of \$8,126,504, results in an

annual revenue requirement of \$2,949,340. The direct testimony of Mr. Larkin that accompanies this Application details the Company's rationale for this proposed ratemaking treatment.

12. The Company is proposing to collect the revenue requirement associated with this Application through a uniform cents-per-kilowatt-hour charge. Dividing the annual revenue requirement of \$2,949,340 by test year energy sales of 13,428,805,375 kilowatt-hours ("kWh") results in a uniform rate of \$0.000220 per kWh. The Company proposes to collect this charge through the new Tariff Schedule No. 56 ("Schedule 56"), attached to this Application as Attachment 1. Charges associated with Schedule 56 will be included on customer bills on the line item labeled "Annual Adjustment Mechanism," which currently reflects charges associated with the PCA and the FCA.

13. Attachment 1 to this Application is a copy of Idaho Power's proposed new Schedule 56, which contains the proposed rate for providing retail electric service to the Company's customers in the state of Idaho.

14. Attachment 2 to this Application shows a comparison of revenues from the various tariff customers under Idaho Power's existing rates and charges with the corresponding proposed new revenue levels resulting from the implementation of Schedule 56. This comparison is based upon forecasted normalized energy sales from June 2013 through May 2014.

15. The Company proposes to update Schedule 56 on an annual basis with an effective date of June 1 according to the methodology described in Mr. Larkin's direct testimony. Because DSM expenses are recovered outside of base rates through the Energy Efficiency Rider and the PCA, it is appropriate to file amortization requests

associated with Custom Efficiency incentive payments in a manner similar to other annual adjustment mechanisms in early spring, thus consolidating rate changes and customer communication to correspond with a simultaneous effective date of June 1. Idaho Power has filed this case to recover its Custom Efficiency incentive payments in the fall of this year, rather than the spring of 2013, to allow additional time for review by the Commission and interested parties.

IV. MODIFIED PROCEDURE

16. Idaho Power believes that a hearing is not necessary to consider the issues presented herein and respectfully requests that this Application be processed under Modified Procedure; i.e., by written submissions rather than by hearing. RP 201 *et seq.* If, however, the Commission determines that a technical hearing is required, the Company stands ready to present its testimony and support the Application in such hearing.

V. COMMUNICATIONS AND SERVICE OF PLEADINGS

17. In conformance with RP 125, this Application will be brought to the attention of Idaho Power's customers by means of both a press release to media in the Company's service area and a customer notice distributed in customers' bills, both of which accompany this filing. The customer notice will be distributed over the course of the Company's billing cycles beginning on November 15, 2012, with the last notice being mailed on December 13, 2012. In addition, a copy of Idaho Power's Application, testimony, and exhibits will be kept open for public inspection at its offices throughout the state of Idaho. Idaho Power asserts that this notice procedure satisfies the Rules of Practice and Procedure of this Commission; however, the Company will, in the

alternative, bring the Application to the attention of its affected customers through any other means directed by the Commission.

18. Communications and service of pleadings with reference to this Application should be sent to the following:

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VI. CONCLUSION

19. Idaho Power respectfully requests that the Commission issue an Order that:

- a. Recognizes that the Custom Efficiency incentive payments made in 2011 are "used and useful" and were prudently incurred expenses for purposes of recovery in rates;
- b. Considers recovery of Custom Efficiency incentive payments outside of a general rate proceeding through Modified Procedure;
- c. Specifies the carrying charge for the Custom Efficiency regulatory asset prior to its inclusion in rates;
- d. Specifies a 4-year amortization period for the Custom Efficiency regulatory asset;
- e. Acknowledges that once the Custom Efficiency incentive payments are included in rates, the regulatory asset will earn the Company's full rate of return;

f. Approves Idaho Power's proposed approach to recovering Custom Efficiency incentive payments through annual updates to Schedule 56 corresponding with a June 1 effective date; and

g. Authorizes Idaho Power to implement Schedule 56 with an effective date of December 1, 2012.

DATED at Boise, Idaho, this 31st day of October 2012.



LISA D. NORDSTROM
Attorney for Idaho Power Company

**BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION**

CASE NO. IPC-E-12-24

IDAHO POWER COMPANY

ATTACHMENT 1

SCHEDULE 56
CUSTOM EFFICIENCY INVESTMENT RECOVERY

APPLICABILITY

This schedule is applicable to the electric energy delivered to all Idaho retail Customers served under the Company's schedules and Special Contracts. This schedule is designed to recover capitalized incentive payments associated with the Company's Custom Efficiency program.

Custom Efficiency Investment Recovery

Effective Date
December 1, 2012

¢ per kWh
0.0220

**BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION**

CASE NO. IPC-E-12-24

IDAHO POWER COMPANY

ATTACHMENT 2

Idaho Power Company
Calculation of Revenue Impact
State of Idaho
Custom Efficiency
Filed October 31, 2012

Summary of Revenue Impact
Current Billed Revenue to Proposed Billed Revenue

| Line No | Tariff Description | Rate Sch. No. | Average Number of Customers ⁽¹⁾ | Normalized Energy (kWh) ⁽¹⁾ | Current Billed Revenue | Mills Per kWh | Total Adjustments to Billed Revenue | Proposed Total Billed Revenue | Mills Per kWh | Percent Change Billed to Billed Revenue |
|------------------------------|----------------------------------|---------------|--|--|------------------------|---------------|-------------------------------------|-------------------------------|---------------|---|
| Uniform Tariff Rates: | | | | | | | | | | |
| 1 | Residential Service | 1 | 404,785 | 4,823,318,996 | \$417,352,484 | 86.53 | \$1,061,130 | \$418,413,594 | 86.75 | 0.25% |
| 2 | Master Metered Mobile Home Park | 3 | 23 | 4,889,668 | \$402,015 | 82.22 | \$1,076 | \$403,091 | 82.44 | 0.27% |
| 3 | Residential Service Energy Watch | 4 | 0 | 0 | \$0 | 0.00 | \$0 | \$0 | 0.00 | 0.00% |
| 4 | Residential Service Time-of-Day | 5 | 1,152 | 13,721,181 | \$1,216,033 | 88.62 | \$3,019 | \$1,219,052 | 88.84 | 0.25% |
| 5 | Small General Service | 7 | 27,998 | 148,988,687 | \$16,233,672 | 108.96 | \$32,778 | \$16,266,450 | 109.18 | 0.20% |
| 6 | Large General Service | 9 | 32,474 | 3,574,963,107 | \$218,289,885 | 61.06 | \$786,492 | \$219,076,377 | 61.28 | 0.36% |
| 7 | Dusk to Dawn Lighting | 15 | 0 | 6,481,376 | \$1,231,311 | 189.98 | \$1,426 | \$1,232,737 | 190.20 | 0.12% |
| 8 | Large Power Service | 19 | 109 | 2,101,607,557 | \$99,574,603 | 47.38 | \$482,354 | \$100,036,956 | 47.60 | 0.48% |
| 9 | Agricultural Irrigation Service | 24 | 17,013 | 1,695,350,452 | \$116,053,614 | 68.45 | \$372,977 | \$116,426,591 | 68.67 | 0.32% |
| 10 | Unmetered General Service | 40 | 1,288 | 15,807,753 | \$1,189,372 | 75.24 | \$3,478 | \$1,192,850 | 75.46 | 0.29% |
| 11 | Street Lighting | 41 | 1,197 | 23,165,568 | \$3,327,180 | 143.63 | \$5,096 | \$3,332,277 | 143.85 | 0.15% |
| 12 | Traffic Control Lighting | 42 | 412 | 2,981,282 | \$155,372 | 52.12 | \$656 | \$156,028 | 52.34 | 0.42% |
| 13 | Total Uniform Tariffs | | 486,451 | 12,411,275,627 | \$875,025,522 | 70.50 | \$2,730,481 | \$877,756,003 | 70.72 | 0.31% |
| Special Contracts: | | | | | | | | | | |
| 14 | Micron | 26 | 1 | 587,867,669 | \$23,828,078 | 40.53 | \$129,331 | \$23,957,408 | 40.75 | 0.54% |
| 16 | J R Simplot | 29 | 1 | 192,687,586 | \$7,389,321 | 38.35 | \$42,391 | \$7,431,713 | 38.57 | 0.57% |
| 17 | DOE | 30 | 1 | 236,974,493 | \$9,390,916 | 39.63 | \$52,134 | \$9,443,051 | 39.85 | 0.56% |
| 18 | Hoku - Retail | 32 | 0 | 0 | \$0 | 0.00 | \$0 | \$0 | 0.00 | 0.00% |
| 19 | Total Special Contracts | | 3 | 1,017,529,748 | \$40,608,315 | 39.91 | \$223,857 | \$40,832,172 | 40.13 | 0.55% |
| 20 | Total Idaho Retail Sales | | 486,454 | 13,428,805,375 | \$915,633,837 | 68.18 | \$2,954,337 | \$918,588,174 | 68.40 | 0.32% |

(1) June 1, 2013 - May 31, 2014 Forecasted Test Year

Idaho Power Company
 Calculation of Revenue Impact
 State of Idaho
 Custom Efficiency
 Filed October 31, 2012

Summary of Revenue Impact - Rates 9, 19, and 24 Distribution Level Detail
 Current Billed Revenue to Proposed Billed Revenue

| Line No | Tariff Description | Rate Sch. No. | Average Number of Customers (1) | Normalized Energy (kWh) (1) | Current Billed Revenue | Mills Per kWh | Total Adjustments to Billed Revenue | Proposed Total Billed Revenue | Mills Per kWh | Percent Change Billed to Billed Revenue |
|------------------------------|----------------------------|---------------|---------------------------------|-----------------------------|------------------------|---------------|-------------------------------------|-------------------------------|---------------|---|
| <u>Uniform Tariff Rates:</u> | | | | | | | | | | |
| 1 | Large General Secondary | 9S | 32,283 | 3,140,350,716 | \$195,058,611 | 62.11 | \$690,877 | \$195,749,488 | 62.33 | 0.35% |
| 2 | Large General Primary | 9P | 189 | 431,899,796 | \$23,086,186 | 53.45 | \$95,018 | \$23,181,204 | 53.67 | 0.41% |
| 3 | Large General Transmission | 9T | 2 | 2,712,595 | \$145,088 | 53.49 | \$597 | \$145,684 | 53.71 | 0.41% |
| 4 | Total Schedule 9 | | 32,474 | 3,574,963,107 | \$218,289,885 | 61.06 | \$786,492 | \$219,076,377 | 61.28 | 0.36% |
| 6 | Large Power Secondary | 19S | 1 | 6,878,959 | \$354,845 | 53.13 | \$1,469 | \$356,314 | 53.35 | 0.41% |
| 7 | Large Power Primary | 19P | 105 | 2,050,443,491 | \$97,221,416 | 47.41 | \$451,098 | \$97,672,513 | 47.63 | 0.46% |
| 8 | Large Power Transmission | 19T | 3 | 44,485,107 | \$1,998,342 | 44.92 | \$9,787 | \$2,008,129 | 45.14 | 0.49% |
| 9 | Total Schedule 19 | | 109 | 2,101,607,557 | \$99,574,603 | 47.38 | \$462,354 | \$100,036,956 | 47.60 | 0.46% |
| 11 | Irrigation Secondary | 24S | 17,013 | 1,695,350,452 | \$116,053,614 | 68.45 | \$372,977 | \$116,426,591 | 68.67 | 0.32% |
| 12 | Irrigation Transmission | 24T | 0 | 0 | \$0 | 0.00 | \$0 | \$0 | 0.00 | 0.00% |
| 13 | Total Schedule 24 | | 17,013 | 1,695,350,452 | \$116,053,614 | 68.45 | \$372,977 | \$116,426,591 | 68.67 | 0.32% |

(1) June 1, 2013 - May 31, 2014 Forecasted Test Year