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UTILITIES COMMISSION

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February 11, 2013

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
Customer Efficiency Incentive Payments – Idaho Power Company's Reply
Comments

Dear Ms. Jewell:

Enclosed for filing in the above matter are an original and seven (7) copies of Idaho Power Company's Reply Comments.

Very truly yours,

Lisa D. Nordstrom

LDN:evp
Enclosures

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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)	IDAHO POWER COMPANY'S
CAPITALIZED CUSTOM EFFICIENCY)	REPLY COMMENTS
INCENTIVE PAYMENTS.)	

Idaho Power Company ("Idaho Power" or "Company") respectfully submits the following Reply Comments in response to the Notice of Modified Procedure issued in Order No. 32682 and Comments filed on January 22, 2013, by the Idaho Conservation League ("ICL"), the Idaho Public Utilities Commission ("Commission") Staff ("Staff"), and the Industrial Customers of Idaho Power ("ICIP"). The Company concurs with ICL's contention that the Company's proposal is simple and fair,¹ and believes that its approval would accomplish the objective of placing investment in demand-side resources ("DSR") on equal footing with investment in supply-side resources ("SSR"). Idaho Power respectfully disagrees with Staff's and ICIP's contention that the

¹Case No. IPC-E-12-24, ICL Comments, p. 1

Company's proposal contains several drawbacks, and that the issues presented in this case should be vetted within the context of a general rate case. In the paragraphs that follow, Idaho Power further explains its position.

I. PROCEDURAL BACKGROUND

On October 31, 2012, Idaho Power applied for authority to include in rates a portion of the regulatory asset associated with capitalized Custom Efficiency incentive payments. The Company requested to implement the new tariff Schedule No. 56 ("Schedule 56"), which would result in a uniform rate of \$0.000220 per kilowatt-hour ("kWh") for all customer classes. In its initial Application Idaho Power proposed that the rate change take effect on December 1, 2012, with the expectation that the Commission would suspend that date to provide for additional time to review and implement rates on June 1, 2013. On November 20, 2012, the Commission issued Order No. 32682 setting a comment deadline of January 22, 2013, and suspending the Company's proposed tariff Schedule 56 to allow time for further review.

On January 22, 2013, Staff, ICIP, and ICL filed Comments on Idaho Power's Application. In the paragraphs that follow, Idaho Power indicates its support of the findings and conclusions of ICL and responds to Staff's and ICIP's recommendation that the Commission reject the Company's Application.

II. DISCUSSION

- A. It is appropriate for the Commission to make a determination on the amortization period and carrying charge for the Custom Efficiency regulatory asset outside of a general rate case.**

Through Comments filed January 22, 2013, Staff recommends that the Commission reject the Company's Application on the grounds that the issues presented therein should be addressed in a general rate proceeding.² As stated in Staff's Comments, page 8, "Staff supports the Commission's previous directives that the issue of recovery and carrying charge is best suited for a general rate case." Idaho Power respectfully disagrees with Staff's contention for a number of reasons.

First, the Company feels that the complexity of the issues in this matter are appropriately addressed in a single-matter case in which the various aspects of its proposal can be considered in isolation. On page 5 of Comments filed January 22, 2013, ICL noted that "addressing this issue in a stand-alone case is more appropriate than having the issue lost in the mix of a complex general rate case." The Company agrees with this sentiment, and feels that it is appropriate to address the various components of this Application in a manner that allows for undivided focus on the appropriate mechanism for recovery of this asset. In recent history, complex issues such as those presented in the Company's Application have been removed from the context of a general rate case to allow for more comprehensive investigation without distraction from the broad range of issues associated with a comprehensive general rate filing. In the Company's most recent general rate filing, Case No. IPC-E-11-08, for example, two issues were explicitly removed from the proceeding to facilitate the settlement process and to allow for more extensive review in individual stand-alone cases. Those issues were: (1) increasing the overhead amounts paid by persons or entities requesting new service under the Company's Rule H Line Extension tariff; and

² Staff Comments at 2, Case No. IPC-E-12-24.

(2) whether the Fixed Cost Adjustment pilot program should be made permanent.³ Those components of the Company's general rate filing presented complex issues that were isolated for separate review so that settlement of the IPC-E-11-08 case could be reached. The Company feels that its Application in this case is based upon similar underlying issues, and is concerned that the decision to delay a final determination on these issues until its next general rate case will result in even further delay in the future.

Second, the Company does not believe that determining the appropriate amortization period and carrying charge for this asset within a single-issue case is counter to Commission precedent. Within the context of a general rate case, much of the discussion and debate surrounds the issue of prudence, and whether or not filed amounts should be authorized for inclusion in rates. In the case of 2011 Custom Efficiency incentive payments, prudence has already been determined in Order No. 32667 issued in Case No. IPC-E-12-15.⁴ A second component of ratemaking that is typically determined through a general rate case is the appropriate rate of return to be applied to the utility's rate base. This was recently determined by the Commission in Case No. IPC-E-11-08, Order No. 32426.⁵ Because prudence has already been determined, and because the Commission recently set the appropriate rate of return to be applied to the Company's rate base, the two remaining issues that must be determined in regard to the Company's current proposal are the appropriate carrying charge and amortization period for the Custom Efficiency regulatory asset. As discussed on pages 2 and 3 of ICL's Comments, it is not uncommon for the Commission to determine these specific issues within the context of single-issue cases.

³ Order No. 32380 at 3, Case No. IPC-E-11-08.

⁴ Order No. 32667 at 11, Case No. IPC-E-12-15.

⁵ Order No. 32426 at 35, Case No. IPC-E-11-08.

In 2012, for example, the Commission made determinations through single-issue cases regarding appropriate amortization periods and carrying charges related to decommissioning costs associated with the coal-fired Boardman generation plant,⁶ revised depreciation rates,⁷ removal of accelerated depreciation associated with the Company's investment in Advanced Metering Infrastructure,⁸ and the recovery of costs associated with the Company's Open Access Transmission Tariff resulting from a Federal Energy Regulatory Commission ruling.⁹ Because such issues have been addressed in recent cases, the Company does not understand the rationale for delaying a decision until its next general rate filing. No additional information is required that would enhance the Commission's ability to make an informed decision in regard to the appropriate carrying charge and amortization period for this asset.

The Company believes that the issues addressed in this proposal have been thoroughly reviewed by all parties to this case in multiple settings, and that nothing is to be gained by delaying a decision until a general rate case. The concept of capitalizing investment in DSR was first addressed in a series of three workshops hosted by Idaho Power in late 2009 and early 2010 to investigate recovery mechanisms to improve the business case for these investments. Those workshops, sponsored in part by the Idaho Office of Energy Resources and facilitated by the Regulatory Assistance Project, were attended by all parties to this case, including Staff, ICIP, Micron Technologies, Inc., ICL, and others. Through those workshops a number of mechanisms were modeled and considered, and all parties were provided the opportunity to examine each proposal and

⁶ Order No. 32549, Case No. IPC-E-12-09.

⁷ Order No. 32559, Case No. IPC-E-12-08.

⁸ Order No. 32541, Case No. IPC-E-12-07.

⁹ Order No. 32540, Case No. IPC-E-12-06.

provide input. Following the culmination of those workshops, the Company filed Case No. IPC-E-10-27, which detailed its proposal to capitalize incentive payments associated with the Custom Efficiency program. Parties filed testimony, served discovery, and participated in settlement discussions pertaining to the Company's proposal. As stated in ICL's Comments on page 1, "After three opportunities, all stakeholders have had ample time to weigh in on this issue." The Company concurs with this statement, and believes that no additional information would result from further delay in this matter. Through the series of workshops and the three cases referenced by ICL, the Company believes that the issues have been thoroughly reviewed by all parties, and that ample information has been provided to allow the Commission to make a timely and informed decision in this matter.

B. Delaying a decision on the Company's Application without determining a carrying charge would exacerbate the already-inferior regulatory treatment applied to investment in DSR.

As described above, Staff believes that the issues presented in Idaho Power's Application should be addressed as part of the Company's next general rate filing. Likewise, on page 6 of Comments filed January 22, 2013, ICIP states, "... the Commission should defer selection of an interest rate on the unamortized balance of the Custom Efficiency Programs until Idaho Power's next general rate case." If the Commission chooses to follow the recommendation of Staff and ICIP and defer decision on all aspects of the Company's proposal until its next general rate case, the Company believes it would worsen the business case for DSR and further relegate this investment as inferior to SSR from a financial perspective.

The primary intent of capitalizing incentive payments associated with the Custom Efficiency program is to improve the business case for investment in DSR.¹⁰ As it currently stands, Idaho Power's shareholders have invested millions of dollars in Custom Efficiency projects that are currently providing benefits to all customers through cost-effective energy savings, yet have not been authorized to recover their initial investment or any return associated with that investment. Further, without an approved carrying charge for this asset there is no assurance that shareholders will be compensated for the cost of capital as this asset accumulates on the Company's books. While the Energy Efficiency Rider ("Rider") mechanism offers no opportunity for return, shareholders are at least afforded the assurance that they will be allowed to recover prudently-incurred expenditures in a timely manner. The delays proposed by Staff and ICIP would leave these investment dollars in limbo with no authorization for recovery of the initial investment, no assurance of a reasonable carrying charge that fairly compensates shareholders for the cost of capital, and no approved mechanism to allow shareholders a fair return on investment. In effect, this would not only fail to improve the business case for investment in DSR, but actually worsen the already-inferior position of DSR relative to SSR within the context of the Company's overall business model.

C. The Company's proposed four-year amortization period properly reflects the unique characteristics inherent to demand-side resources.

Both Staff and ICIP believe that the Company's application of a four-year amortization period is inappropriate. On page 4 of Comments, ICIP states, "Idaho

¹⁰ Direct Testimony of Matthew Larkin, Case No. IPC-E-12-24, p. 2, ll. 14-18.

Power offers no reasonable rationale for a four-year amortization period of the value of this regulatory asset.” Staff notes on page 5 of its Comments:

When the Matching Principle is applied to fixed assets, depreciation expense applied to the asset is determined and matched with the projected life of the asset. The same would hold true for the Custom Efficiency program and its amortization expense in order to have treatment similar to supply-side resources.

The Company believes that the concepts proposed by both Staff and ICIP fail to recognize the inherent differences between DSR and SSR. While the Matching Principle discussed by Staff is appropriate for Company-owned assets, the Company does not believe that the same principle should be applied to DSR when the assets are not Company-owned and the Company possesses no marketable value throughout the life of the program. As stated on page 19 of the Direct Testimony of Matthew T. Larkin, lines 1-4, “This lack of ownership makes investment in DSR inherently riskier than investment in supply-side resources because the assets on the Company’s books are not backed by physical property.” In order to fully level the playing field between these varying resource types, these inherent differences must be recognized through unique ratemaking treatment. The Company believes that increasing the amortization period to coincide with the useful life of the customer-owned projects does not recognize this inherent difference and is counter to the overall objective of leveling the playing field between DSR and SSR from a business evaluation perspective.

D. The full rate of return is fair compensation for prudent shareholder investment in DSR.

Absent the Company’s proposed capitalization of Custom Efficiency incentive payments, investment in DSR shifts the entirety of risk to shareholders without providing

any opportunity for return. Under the Rider mechanism, shareholders invest millions of dollars in cost-effective DSR projects in the hope that recovery will be authorized in a timely manner. Investment in DSR is then subject to extensive prudency review on an annual basis, and under a best-case scenario expenditures are deemed prudent and recovery is authorized through the Rider balancing account. If expenditures are deemed imprudent, the Company must write-off these amounts without any further avenue for recovery, resulting in a direct negative impact on shareholders. Customers, however, are afforded no risk, yet receive the benefits of the shareholders' investment in these resources. This business model is asymmetrical and does not effectively align the interests of customers with those of the Company's shareholders. The Company's proposal attempts to remedy this issue by allowing shareholders a fair return on investment in DSR in a manner that adds an element of symmetry to the recovery of these assets in a fair and equitable manner.

E. Allowing shareholders to earn a fair rate of return on investment in DSR aligns the recovery of this investment with the standard framework of regulatory ratemaking.

On page 8 of their Comments, Staff states, "Given [the Company's] admission that DSR is the resource of choice for all stakeholders, and the directive of this Commission to pursue all cost-effective DSM, Staff believes it is inappropriate to provide the Company extraordinary customer-funded incentives for operating a program that it has already been operating for years without incentive." The Company respectfully disagrees with Staff's belief that because the Company has been ordered

by the Commission to pursue all cost-effective DSM,¹¹ that shareholders should not be allowed a fair return on their investment in these resources. Within the fundamental regulatory framework, a utility has the obligation to serve customers within its service area. To meet this obligation the utility makes prudent investments on the customers' behalf and in exchange is allowed a fair rate of return on its investment. Expenditures in resources are subject to Commission review, and once deemed prudent are authorized for inclusion in rates. The Company is proposing in this case to allow shareholders to earn the same return on DSR that is afforded to SSR. This proposal does not provide "extraordinary customer-funded incentives," but rather the same Commission-authorized fair rate of return that is applied to the Company's investment in SSR.

F. Idaho Power does not have an incentive for its Demand-Side Management ("DSM") programs to be unsuccessful in reducing electricity sales.

On page 3 of Comments, ICIP states, "Given that economic reality and the substantial amounts of money involved, ICIP continues to assert that the Commission investigate a system whereby Idaho Power's DSM programs are operated by a third party that does not share Idaho Power's incentive for DSM programs to be unsuccessful in reducing electricity sales." The Company strongly disagrees with this statement by ICIP for a number of reasons.

First, the Company has been ordered by this Commission to pursue all cost-effective DSM,¹² and to date has been commended for its commitment to energy

¹¹ Order No. 30201 at 12, Case No. IPC-E-06-09.

¹² Order No. 30201 at 12, Case No. IPC-E-06-09.

efficiency.¹³ To fail to pursue all cost-effective DSM in an effective manner would be a direct contradiction to a Commission-ordered requirement.

Second, investment in DSM programs is subject to thorough regulatory review, and only amounts that have been deemed prudent are authorized for recovery in rates. Failure to prudently invest in DSM programs, or the determination of imprudent investment or action, results in a write-off having a direct negative impact on shareholders.

Third, in the event that the Company must construct a new supply-side resource to meet the electrical needs of its customers, the Company's comprehensive resource strategy (including the pursuit of DSR) is heavily scrutinized to ensure that the proposed investment is needed and in the public interest. This was apparent in the Company's Application for a Certificate of Public Convenience and Necessity related to its Langley Gulch power plant, Case No. IPC-E-09-03. The Company's DSM strategy was examined in that case by all stakeholders, and the Commission ultimately found in Order No. 30892 that "(1) the Company has been aggressively pursuing cost-effective demand-side management (DSM) options since the Commission issued Order No. 30201" and "(2) that it has implemented its DSM programs as quickly as reasonably possible."¹⁴ The Company is convinced that a lack of a strong commitment to the pursuit of cost-effective DSM would negatively impact its ability to gain regulatory approval for the construction of supply-side resources.

G. Divesting DSM programs to a third-party would not be in the public interest.

¹³ Order No. 32217 at 4, Case No. IPC-E-10-27.

¹⁴ Order No. 30892 at 22, Case No. IPC-E-09-03.

As stated above, ICIP believes the Commission should investigate a scenario in which the utility divests all of its DSM programs to a third-party administrator. The Company believes that ICIP's recommendation to explore the merits of a third-party DSM administrator goes beyond the scope of this docket. The Company's request in this case involves the appropriate regulatory treatment of DSM program costs that have already been identified by the Commission as having been prudently incurred. Notwithstanding that view, the Company feels strongly that such a scenario would not be in the public interest, and that Idaho Power is best-positioned to administer its DSM programs in an efficient manner. In the Company's opinion, divesting its DSM programs would be counter to the interest of the public, and negatively impact program design, implementation, and overall customer satisfaction.

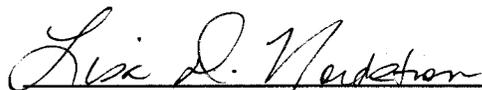
Due to its unique position as the provider of electricity throughout its service area, Idaho Power is able to leverage its existing relationships with customers and its nearly 100 years of experience in meeting the electrical needs of its service area to efficiently implement cost-effective DSM programs in a manner that has proven to be rewarding for both the Company and customers. For example, the Company is able to include DSM as part of its overall Integrated Resource Planning ("IRP") process leveraging organizational expertise and other administrative efficiencies. In addition, the Company has direct relationships with its industrial and large commercial customers through its Major Customer Representatives ("MCR"). Combining the expertise of the Company's energy efficiency staff with its network of MCRs creates an efficient and effective network to promote energy efficiency. Further, customer satisfaction data also demonstrates the Company's ability to offer and implement DSM programs that are valued by customers. Through the implementation of its DSM programs, the Company

has experienced high satisfaction ratings among program participants. The Company is confident that a third-party is not likely to possess this knowledge or experience, and would not be able to offer or promote DSM programs to the Company's customers as efficiently or effectively as Idaho Power.

III. CONCLUSION

The Company believes that its proposal in this case offers a fair, reasonable, and transparent mechanism through which the business case for investment in DSR is improved. For reasons stated above, the Company believes it is appropriate for the Commission to make a determination regarding the proper carrying charge and amortization period for this asset in the current single-issue case, and that delaying decision until a general rate case would provide no additional information to enhance the Commission's ability to make a determination. The Company believes its proposal aligns the interests of customers and shareholders, and allows the business case for investment in DSR to improve by allowing shareholders a fair return on their investment in this cost-effective resource.

DATED at Boise, Idaho, this 11th day of February 2013.



LISA D. NORDSTROM
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 11th day of February 2013 I served a true and correct copy of the within and foregoing IDAHO POWER COMPANY'S REPLY COMMENTS, upon the following named parties by the method indicated below, and addressed to the following:

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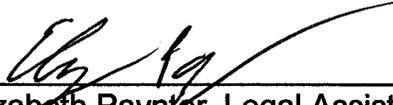
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