

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 TO)
INCLUDE CAPITALIZED CUSTOM)
EFFICIENCY INCENTIVE PAYMENTS) ORDER NO. 32766
 _____)

On October 31, 2012, Idaho Power Company filed an Application requesting authority to recover in base rates a portion of a regulatory asset account. Idaho Power’s Custom Efficiency program pays financial incentives to commercial and industrial customers to implement energy efficiency measures, including motor rewinds, variable frequency drives, energy efficient refrigeration, and others. In Case No. IPC-E-10-27, the Commission authorized the Company to account for the incentive payments as a regulatory asset beginning January 1, 2011. Order No. 32245, p. 6.

The Company proposes to include in its base rates the custom efficiency regulatory asset associated with incentive payments made in 2011, plus accumulated carrying charges. Incentive payments made in 2011 total \$7,018,385. The Company calculated a carrying charge using its authorized rate of return, resulting in a balance on May 31, 2013, of \$8,126,504. Application of Idaho Power’s authorized rate of return and a four-year amortization schedule creates an annual revenue requirement of \$2,949,340. The Company proposed to collect this additional revenue requirement through a uniform cents-per-kilowatt-hour charge, identified in a new tariff Schedule No. 56. Idaho Power also proposed to update Schedule 56 on an annual basis with an effective date of June 1 each year.

As noted, the Commission authorized Idaho Power to create a regulatory asset account for Custom Efficiency incentive payments in Case No. IPC-E-10-27, and in Case No. IPC-E-12-15 the Commission determined the Company’s 2011 DSM expenses were prudent, including \$7,018,385 of Custom Efficiency incentive payments. In Case No. IPC-E-10-27, Idaho Power proposed to place demand response incentive payments in annual power supply expenses, and the Commission instead approved the regulatory asset account, stating that the specifics of the Company’s proposal were best reviewed in a rate case. Order No. 32245, p. 5. Likewise in Case No. IPC-E-12-15, where the Commission determined Idaho Power’s 2011

DSM costs were prudent, the Commission declined to determine what carrying charge should apply to the regulatory asset account. In Order No. 32667, the Commission stated it “believe[s] 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.” Order No. 32667, p. 11. We found it “reasonable to defer deciding the interest rate to be applied to the Custom Efficiency Program regulatory asset account, and the resulting interest amount, until the Company seeks to recover the deferral balance in a general rate proceeding.” *Id.*

The Company booked the \$7,018,385 in Custom Efficiency incentive payments during 2011 as a regulatory asset, as authorized. The Company’s Application requests that it earn the full authorized rate of return (currently 7.86%) on the regulatory asset and begin amortization over four years beginning June 1, 2013. The Company believes it should be allowed to reduce its risk in its demand-side resource investment by amortizing annual expenses over a period much shorter than the useful life of the program, and also argues for its full rate of return to earn a profit on its investment. Company witness Larkin states that “the primary objective of the Company’s request is to establish a ratemaking methodology that places investment in this demand-side resource (DSR) on equal footing with investment in supply-side resources from a business evaluation perspective.” Larkin Dir., p. 2.

The Commission issued a Notice of Application and Notice of Modified Procedure on November 20, 2012, establishing deadlines for interested parties to file written comments and reply comments. Written comments were filed by Staff, Idaho Conservation League (ICL), and Industrial Customers of Idaho Power (ICIP). The Company and ICL filed reply comments.

Staff Comments

Staff reviewed the Company’s Application and accompanying testimony and exhibits. Staff believes Idaho Power failed to provide any justification to deviate from three prior Commission Orders stating that recovery of the regulatory asset associated with the Company’s Custom Efficiency DSM program, and the carrying charge accrued to that regulatory asset, should be determined in a general rate proceeding. Staff recommended that the Commission reject the Company’s Application.

In Case No. IPC-E-10-27, the parties signed a stipulated settlement agreeing that Idaho Power should recover incentive payments for the Company’s three demand response programs through the annual Power Cost Adjustment (PCA) mechanism and capitalize the

incentive payments for the Custom Efficiency program. Under the stipulation, the custom efficiency payments would have been amortized over seven years and included a carrying charge equal to the Company's approved rate of return. The Commission issued Order No. 32217 rejecting the stipulation, stating that "the specific proposals, however, raise issues and concerns that are more properly vetted in a rate case. Expenditures that are expected to be included in rate base, or that are included in the PCA after determining a normalized cost for customer base rates, present issues of concern for all customers." Order No. 32217, p. 5. The Commission further expressed its anticipation of reviewing proposals to adjust DSM cost recovery in Idaho Power's next rate case.

Staff also stated concerns about the Company's specific proposals regarding the carrying charge and amortization period. The Company calculates the cost-effectiveness of its Custom Efficiency program based on a 12-year program life, which is intended to replicate as closely as possible the useful life of the energy efficiency measures installed through the program. The Company proposed, however, to amortize the annual expenses of this program over four years. The Company argued it is appropriate to amortize the non-tangible book asset over a shorter period to account for the increased risk of capitalizing intangible assets, but Staff contends the Company did not provide any specific evidence that the four-year amortization is appropriate.

Staff noted that the Commission previously has reduced the amortization period associated with capitalized DSM assets, but at the same time approved a corresponding decrease to the carrying charge on those assets. In Case No. IPC-E-97-12, Idaho Power filed an application requesting the amortization period of the then-capitalized DSM assets be shortened from 24 years (useful life) to 5 years. The Commission stated in the final Order that it found "it would be consistent and reasonable for us to consider the reduction in risk attributable to a shorter DSM recovery period in selecting a carrying charge. Because we have decided to allow the Company to shorten the DSM recovery period to 12 years, we find that a carrying charge of 7.25% based on utility bond rates would be appropriate." Order No. 27660, p. 10.

Staff also argued the Company, in attempting to place DSR on equal footing with supply-side resources, "cherry picks the accounting treatment for supply-side resources that would provide a financial benefit for its DSM program, and ignores the accounting treatments that do not benefit it financially." Staff Comments, p. 6. For example, although supply-side

resources begin depreciating immediately upon being placed in service, the Company proposed to begin amortization of the DSM regulatory asset each year on June 1. Staff asserted that allowing the DSM investment to accumulate and earn a carrying charge before beginning amortization provides the Company with undue profits and does not align with supply-side resource depreciation practices. If the regulatory asset account were to be treated the same as supply-side resources, the Company would begin amortizing projects immediately upon completion, rather than booking those assets and allowing them to earn a carrying charge for up to a year before amortization and recovery in rates. Staff Comments, p. 7.

Staff also argued the Company's proposal places shareholder profits above customers' best interests. The Company paid \$7 million in Custom Efficiency incentives, but with carrying charges would collect over \$8 million beginning on June 1, 2013. Grossed-up for taxes, customers would pay over \$2.9 million per year, which is approximately \$12 million over the proposed four-year amortization period. Staff believes it is unreasonable for customers to pay \$12 million for an annual expense of \$7 million. By Commission action, the rider account balance has gone from a negative \$17 million at the end of 2010 to a surplus balance of \$2.4 million on September 30, 2012. The Company is currently receiving more revenue through the DSM rider than it spends. Staff noted the Company would actually receive more timely recovery of its investment in the Custom Efficiency program if it were paid through the rider and not capitalized.

Finally, Staff believes the Company's proposal constitutes single-issue ratemaking. The Commission has approved single-issue rate cases in the past, but only for significant investments such as a new power plant closely following a general rate case. When the Company makes significant investments in generation, a single-issue rate case may be appropriate to allow recovery of the new generation plant without the scrutiny of a general rate case, but Staff asserted the Company's investment in the Custom Efficiency program is not significant enough to qualify for that special treatment.

Industrial Customers' Comments

The Industrial Customers in their comments stated "that the proper forum for consideration of inclusion of these funds in rates is via a general rate case." ICIP Comments, p. 2. ICIP also expressed concern about Idaho Power's continued management of its conservation and energy efficiency programs and whether those programs should be implemented by a third

party provider and not by the utility. Finally, ICIP stated that if the Commission chooses to include the custom efficiency expenses in base rates, ICIP believes the amortization period for each program should align with the expected useful life of the program.

ICIP believes Idaho Power's management does not view DSM investment as favorably as it does supply-side investment "unless the Commission makes such investment artificially and unnecessarily rich for the Company and artificially and unnecessarily expensive for the ratepayer." ICIP Comments, pp. 2-3. Given the economic reality that utilities profit from selling electricity and from building capital resources to sell electricity, ICIP renewed its earlier assertions that the Commission investigate a system where Idaho Power's DSM programs are operated by a third party that does not share the Company's incentive. ICIP recommended the Commission "use the opportunity presented in this docket to open an investigation into whether Idaho Power's DSM programs should be placed into the hands of an entity that does not demand unnecessary and unwarranted returns in order to bring the correct 'business evaluation perspective' to the task of energy efficiency and conservation." ICIP Comments, pp. 3-4.

ICIP does not support the Company's amortization period, stating that Idaho Power offers no reasonable rationale for a four-year amortization period, calling it arbitrary and wholly unrelated to the nature of the asset or its useful life. ICIP Comments, p. 4. Regarding a carrying charge, ICIP stated that "the decision as to a proper carrying costs should be made in the Company's next general rate case – and not in the vacuum of a single issue line item docket such as this." ICIP Comments, p. 5. Quoting from Order No. 32667, where the Commission stated that the interest rate to be applied to the Custom Efficiency program asset account should be determined in a general rate proceeding, ICIP contends that nothing has changed since the Commission issued that Order in October 2012.

Idaho Conservation League Comments

ICL in its comments urged the Commission to approve Idaho Power's request to include Custom Efficiency program incentive payments in base rates. If Custom Efficiency incentive payments are prudent and useful investments, ICL contends it is appropriate to consider the Company's Application outside of a general rate case because the Commission has considered other single-issue recovery of costs through rates, including approval of recovery of \$60 million of pension payments using a three-year amortization period, the recovery of expenses for Boardman decommissioning, and the ultimate cost recovery of \$400 million

Langley Gulch plant. ICL asserted that addressing Idaho Power's Application in standalone case is more appropriate than having the issue lost in the mix of a complex general rate case. ICL Comments, p. 5.

Regarding an appropriate carrying charge, ICL argued that "consistent with the Commission directive that utilities implement cost-effective DSM programs in order to promote energy efficiency 'is only fair that along with this admonishment comes a regulatory regime that provides equivalent support between supply side and demand side resources.'" ICL Comments, p. 5. ICL asserted allowing Idaho Power to collect its current rate of return on prudent demand-side resources is fair, just and reasonable and in the public interest.

ICL also stated its agreement with Idaho Power's argument for a shorter amortization period, arguing that the amortization period should reflect the fact that Custom Efficiency incentives are not backed by physical assets. ICL does not make a specific proposal for the appropriate amortization period and instead urged the Commission to adopt a reasonable period "that reflects the competing interest of ratepayers in avoiding rate shock while avoiding endless interest payments, against the utility interest in managing the risk of recovering the unamortized portion of prudent investments." ICL Comments, p. 8.

Finally, ICL argued that allowing Idaho Power to recover its energy efficiency incentive payments in rates is appropriate. Collecting Custom Efficiency incentive payments through an energy charge results in large users paying a greater share of the costs than low energy users, but ICL argued this is fair because large users are the primary driver of power costs and should also be the primary contributor to programs that reduce power costs. ICL Comments, p. 9.

Reply Comments of Idaho Power and ICL

Idaho Power and ICL each filed reply comments responding to the issues raised by Staff and the Industrial Customers. ICL reiterated its argument that allowing the Company to earn its current rate of return on demand-side resources is a critical part of aligning financial incentives with the Commission directive to pursue all cost-effective energy efficiency programs. Responding to Staff's point that not all supply-side resources include an ability to earn a return, ICL asserted that "just because some business activities do not include a return on investment is no reason to deny the Application." ICL Reply Comments, p. 7. Staff identified two ways in which the Company's proposals would treat demand-side resources differently than supply-side

resources: (1) supply-side resources are not included in rate base until a rate case while the Company proposes to include custom efficiency payments annually, and (2) supply-side resources begin depreciating immediately while Custom Efficiency program incentives would not. To address this, ICL suggested the Custom Efficiency incentives be booked as a regulatory asset and include a carrying charge at 1%, but after being deemed prudent by the Commission, include a carrying charge at the Company's overall rate of return. ICL Reply Comments, p. 7. ICL contended the concern regarding depreciation would be negligible because the Company proposes an annual cost review. *Id.* ICL agreed with Staff that determining the appropriate amortization period for an intangible asset is difficult, and ICL urged the Commission to exercise its discretion in determining the appropriate amortization period and designate a period no longer than seven years.

Idaho Power in its reply comments responded to Staff's recommendation that the Commission determine these issues, consistent with its previous Orders, in a general rate case. Idaho Power stated that it "feels 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." Idaho Power Reply Comments, p. 3. The Company argued that "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." Idaho Power Reply Comments, p. 3. Idaho Power argued that because the Commission has already determined the incentive payments were prudent, and because the Commission recently set the appropriate rate of return to be applied to the Company's rate base, only two issues remain in regard to the Company's current proposal – the appropriate carrying charge and the amortization period for the custom efficiency regulatory asset. Idaho Power argued that no additional information is required to enhance the Commission's ability to make informed decisions regarding the appropriate carrying charge and amortization period. Idaho Power Reply Comments, p. 5. Should the Commission defer determination of an interest rate and amortization period, "the Company believes it would worsen the business case for DSR and further relegate this investment as inferior to SSR from a financial perspective." Idaho Power Reply Comments, p. 6. The Company stated its 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. Idaho Power Reply Comments, p. 7.

Idaho Power addressed Staff and Industrial Customers' concern that the matching principle should apply in determining an amortization period. Idaho Power argues the matching principle should not apply to DSR programs where the assets are not Company-owned and the Company possesses no marketable value throughout the life of the program. The Company contended that increasing the amortization period to coincide with the useful life of the customer-owned projects is counter to the overall objective of leveling the playing field between demand-side and supply-side resources from a business evaluation perspective. Idaho Power Reply Comments, p. 8.

COMMISSION DISCUSSION

The overarching issue presented by Idaho Power's Application – whether the Company will be allowed to increase base rates outside a general rate case to recover efficiency incentive payments – was decided by the Commission a mere nine days before the Company filed this Application. The issue was squarely presented to the Commission in Case No. IPC-E-12-15, and was explicitly addressed in Order No. 32667. In its review of the question, the Commission considered some of the same arguments made by the Company in this case. For example, Staff argued that the interest rate to be applied to the regulatory asset account, and the amortization period, should not be decided until a general rate case. Idaho Power disagreed that the issue should be resolved in a general rate case, and argued, as it does here, that “using the cost of capital as the interest rate treats the Company's Customer Incentive Program expenditures in the regulatory asset account like the Company's other capital investments.” Order No. 32667, p. 11. The Commission directly decided the question of the appropriate forum for approving a carrying charge, finding “it reasonable to defer deciding the interest rate to be applied to the Custom Efficiency Program regulatory asset account, and the resulting interest amount, until the Company seeks to recover the deferral balance in a general rate proceeding.” *Id.* This is because “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.” *Id.*

Idaho Power filed a Petition for Reconsideration in Case No. IPC-E-12-15 on November 13, 2012, but did not request reconsideration of the Commission's determination that

how efficiency payments would be included in rates would be addressed in a rate case. Instead, the Company had already filed its Application in this case, in effect, asking the Commission to undo the decision rendered on October 22, 2012.

The Commission is not convinced by the record in this case that its decision in Order No. 32667 to defer recovery of efficiency payments until a general rate case was erroneous. In fact, the comments filed by the parties demonstrate reasonable disagreements over issues necessarily reviewed when expenditures are placed in customers' rates. Whether the carrying charge should be the Company's cost of capital or some other rate, whether the amortization period should be based on the expected life of the program or some other time, are issues directly bearing on the amount of recovery to be included in customer rates. Other factors are identified in ICL's comments – should the regulatory asset include a carrying charge of 1% until the efficiency payments are deemed prudent by the Commission, at which time the carrying charge should be higher? ICL noted that collecting incentive payments through an energy charge results in large users paying a greater share of the costs than low energy users, identifying an issue of spreading costs among different customer classes, an analysis normally included in a general rate case.

The Commission has determined to deny Idaho Power's Application to immediately place recovery of efficiency incentive payments in customer rates. The Commission is authorized to change rates and charges upon a determination that existing rates are unjust, unreasonable, discriminatory or preferential, or insufficient. *Idaho Code* § 61-502. Idaho Power has not demonstrated its current rates are unjust or unreasonable or insufficient, and in need of increase to immediately begin recovering efficiency incentive program payments. The Company has established a regulatory asset account, as authorized, and the Commission will address recovery of that account when issues affecting all customers and their rates are reviewed in a general rate case. Alternatively, as Staff noted in its comments, the Company may propose to recover program expenditures through its energy efficiency rider, and thus obtain speedier recovery of those expenditures.

ORDER

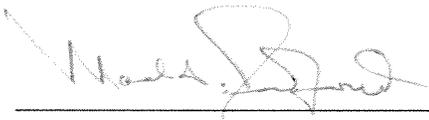
IT IS HEREBY ORDERED that Idaho Power's Application to place recovery of Custom Efficiency incentive payments in customer rates is denied.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 21st day of March 2013.



PAUL KJELLANDER, PRESIDENT

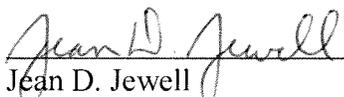


MACK A. REDFORD, COMMISSIONER



MARSHA H. SMITH, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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