

Idaho Public Utilities Commission

Case No. IPC-E-12-24, Order No. 32766

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PUC denies Idaho Power funding mechanism request

The Idaho Public Utilities Commission has denied an Idaho Power Company request to immediately begin recovering from customers the expenses and carrying charges associated with an energy conservation program geared toward large commercial and industrial customers.

Idaho Power asked the commission to approve a yearly rate mechanism that would be adjusted every June 1 to pay for the program. The first adjustment under the new tariff schedule would have increased average residential rates by about 23 cents a month beginning June 1.

Under the program, eligible energy efficiency projects are customized to serve large customers at each of their sites to reduce electric use. Idaho Power pays financial incentives to these customers to implement efficiency measures such as motor rewinds and energy efficient refrigeration. The cost of the program is included in rates for all customers because all customers benefit from the reduced demand on Idaho Power's generation system. That reduced demand prevents the company from having to generate or buy energy from more expensive sources.

The large commercial and industrial program is Idaho Power's largest energy efficiency program, saving about 68 million kilowatt-hours in 2011, enough energy to serve the average needs of 5,400 residential customers for one year. The commission does not approve demand reduction programs like these unless cost-effectiveness tests show that all customers, not just those participating in the program, pay less for electricity than they would if the programs were not in place.

Idaho Power incurred about \$8.1 million in expenses and carrying charges attributed to the program during 2011. The commission earlier determined the 2011 expenses were prudently incurred, but directed the company to defer the expenses in a regulatory account until it files its next rate case.

That deferral allows the company to accrue annual program expenses for recovery with profit later on. The commission had directed Idaho Power to address the issues of the amount of interest it ought to be allowed to accrue on the deferred balance and the amount of time over which customers would pay down the deferred account in its next general rate case. Rather than waiting for its next rate case, Idaho Power proposed the yearly mechanism to more timely recover the expenses. Under the current method of waiting until a rate case filing, there can be a lag of between 18 and 36 months before Idaho Power is allowed to recover expenses, the company claimed.

The commission disagreed, stating that a rate case provides a forum for all parties to address questions that would not be as thoroughly addressed in an annual rate recovery mechanism. "In fact, the comments filed by the parties demonstrate reasonable disagreements over issues necessarily reviewed when expenditures are placed in customers' rates," the commission said. These issues have direct bearing on the amount of recovery that can be included in rates, the commission said.

One of those issues is the amount of interest the company ought to be allowed on the deferred account. Both Idaho Power and the Idaho Conservation League (ICL) argued that allowing the company to earn the same rate of return on demand-side resources (acquiring energy from conservation programs that reduce demand) as it does on supply-side resources (acquiring energy from power plant production), would further incent conservation measures.

A second issue is about how much time should be allowed for customers to pay back the company's investment. The utility and the ICL also said a four-year amortization period should be allowed to reduce the company's risk because the incentives are not backed by physical assets and Idaho Power doesn't own or have control over the efficiency equipment owned by the large commercial and industrial customers.

Commission staff noted the custom efficiency program is a 12-year program and that a reduced amortization period to four years without a reduced interest rate would result in customers paying \$12 million (after being grossed-up for taxes) for a program that included only \$7 million in direct customer incentives.

Commission staff and the Industrial Customers of Idaho Power advocated that inclusion of these funds should be considered in a rate case. The Industrial Customers also recommended the commission open a docket to investigate whether Idaho Power's demand-side resource programs should be managed by a third-party provider "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."

A full text of the commission's order, along with other documents related to this case, is available on the commission's Web site at www.puc.idaho.gov. Click on "File Room" and then on "Electric Cases" and scroll down to Case No. IPC-E-12-24.

Interested parties may petition the commission for reconsideration by no later than Feb. 2. Petitions for reconsideration must set forth specifically why the petitioner contends that the order is unreasonable, unlawful or erroneous. Petitions should include a statement of the nature and quantity of evidence the petitioner will offer if reconsideration is granted.

Petitions can be delivered to the commission at 472 W. Washington St. in Boise, mailed to P.O. Box 83720, Boise, ID, 83720-0074, or faxed to 208-334-3762.

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