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LISA D. NORDSTROM
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May 15, 2014

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
P.O. Box 83720
Boise, Idaho 83720-0074

Re: Case No. IPC-E-14-03
Fixed Cost Adjustment Rates for June 1, 2014, Through May 31, 2015 – Idaho Power Company's Reply Comments

Dear Ms. Jewell:

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

Very truly yours,

Lisa D. Nordstrom

Lisa D. Nordstrom

LDN/kkt

Enclosures

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Attorney for Idaho Power Company

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR AUTHORITY TO IMPLEMENT FIXED COST ADJUSTMENT RATES FOR SERVICE FROM JUNE 1, 2014, THROUGH MAY 31, 2015.	)))))))	CASE NO. IPC-E-14-03 IDAHO POWER COMPANY'S REPLY COMMENTS

On March 14, 2014, Idaho Power Company ("Idaho Power" or "Company") applied to the Idaho Public Utilities Commission ("Commission") for an order allowing the Company to increase its Fixed Cost Adjustment ("FCA") rates for electric service provided from June 1, 2014, through May 31, 2015. The total FCA balance the Company is proposing to collect from the Residential and Small General Service customers is $14,912,442.

Idaho Power respectfully submits the following Reply Comments in response to the comments filed by Commission Staff ("Staff") and the Idaho Conservation League ("ICL") on May 8, 2014. In these Reply Comments, the Company does not respond to every issue raised by the parties; silence on an issue should not imply agreement.

I. IDAHO POWER CORRECTLY CALCULATED THE PROPOSED FCA RATES ACCORDING TO THE COMMISSION-APPROVED METHODOLOGY

Staff reviewed the Company's filing and verified the Company correctly calculated the proposed FCA deferral balance and associated rates according to the Commission-approved methodology. Based on its review, Staff recommends that the Commission approve the proposed FCA rates effective June 1, 2014. Staff Comments at 14. ICL expressed overall support for the mechanism and also suggests the FCA rates as proposed by the Company be approved. ICL Comments at 1. Idaho Power continues to recommend the Commission approve the proposed 2014-2015 FCA rates as filed.

II. THE FCA IS FUNCTIONING AS INTENDED ACCORDING TO THE COMMISSION-APPROVED METHODOLOGY

While Staff recommends approval of the FCA rates as proposed, Staff also mentions perceived "fundamental flaws" it believes exist in the FCA. In general, the Company disagrees with Staff's characterization of the FCA mechanism. Staff identifies four areas of concern: (1) the weather normalization adjustment, (2) the customer count methodology, (3) the calculation of the 3 percent cap, and (4) an issue related to cross-subsidization. Staff Comments at 3. Each of the four aspects of the FCA methodology Staff has identified in this case as "flaws" were thoughtfully considered during the FCA's initial design. These four aspects of the FCA methodology have been appropriately and consistently applied in every annual FCA determination since the Commission approved the pilot mechanism in 2007 (Order No. 30267 in Case No. IPC-E-04-15) and then subsequently approved as a permanent mechanism in 2012 (Order No. 32505 in Case No. IPC-E-11-19).

When considering whether to remove the FCA's provisional status in Case No. IPC-E-11-19, the FCA mechanism received an exhaustive review by the Company, Staff, and a number of intervening parties. Through multiple rounds of testimony and comments, the Commission was presented with a number of alternatives to the FCA for its consideration. Ultimately, on January 31, 2013, after five years of implementation in a pilot status, the Commission ordered that the FCA mechanism continue unchanged as a permanent mechanism. Order No. 32731 at 4. The Commission further stated it "welcomes closer scrutiny of the effectiveness of the FCA in Idaho Power's next general rate case." *Id.* Just one year after that order was issued, Staff is requesting the Commission open a separate docket with workshops to investigate the FCA mechanism and reevaluate its intended purpose and performance, and whether the FCA should be discontinued or altered.

The Company agrees with the Commission that the appropriate venue for assessing the effectiveness of the FCA is as part of a general rate case, or at a minimum, a case where cost-of-service and rate design issues can be comprehensively examined. This treatment would be similar to that identified in the recent Commission net metering order in Case No. IPC-E-12-27. Order No. 32846 at 12-13. Staff suggests that issues such as weather normalization, cross-subsidization, and proper rate design be addressed in workshops. Modifying the aspects of the FCA methodology identified by Staff without the benefit of a comprehensive cost-of-service study and rate development process may result in unintended financial impacts to customers and/or the Company.

III. PROPER RATE DESIGN IS AN APPROPRIATE ALTERNATIVE TO THE FCA

Staff suggests that a demand charge may be an option for modifying or replacing the FCA. The Company agrees that proper rate design is an appropriate alternative to the FCA that would address the effective recovery of fixed costs. In fact, in Case No. IPC-E-04-15, the case that initially established the FCA, Company witness John R. Gale addressed the issue of rate design in his testimony. Mr. Gale stated that significant movement in the rate design would address the same issues that a true-up mechanism would. Case No. IPC-E-04-15, Direct Testimony of John R. Gale at 4. A straight fixed-variable rate design based on the cost-of-service analysis with a demand charge and appropriate service charge would effectively allow the Company to recover the fixed costs incurred to serve a customer and mitigate the need for the FCA mechanism.

While Idaho Power agrees with Staff that thoughtfully implemented rate design changes could modify or eliminate the need for the FCA, the Company believes that such rate design changes are more appropriately addressed in a general rate case or cost-of-service/rate design specific case. The Commission recently articulated a similar view with regard to the Company's proposal to implement rate design changes for approximately 350 net metering service customers in Case No. IPC-E-12-27. On pages 12-13 of Order No. 32846 issued in this case the Commission stated:

> Further, we believe dramatic changes such as those proposed in this case – including increasing the monthly customer charge, imposing a new BLC charge, and reducing the energy charge for the residential and small general service customers – should not be examined in isolation but should be fully vetted in a general rate proceeding.

The Company believes that the Commission should apply this same rationale to any proposed modifications to the FCA mechanism.

IV. THE COMPANY HAS NOT DIMINISHED ITS EFFORTS IN PURSUING DEMAND-SIDE MANAGEMENT ("DSM") ACTIVITIES

The intent of the FCA is to remove the financial disincentive that exists for the Company to pursue DSM activities. The Company has developed a healthy DSM portfolio that offers cost-effective energy efficiency programs available to all customer classes, including Residential and Small General Service customers. Staff implies that, because energy savings have declined in recent years, the Company has diminished its efforts in pursuing DSM activities. Staff Comments at 8-9. This is simply not true. The decline in energy savings in recent years is due partially to Idaho Power's and the region's increased evaluation, measurement, and verification activities, including new lower estimated or deemed savings amounts approved by the Regional Technical Forum ("RTF"). This decline in energy savings may give the perception the Company has diminished its efforts in pursuing DSM activities. However, in this case, perception is not reality.

Idaho Power's *Demand-Side Management 2013 Annual Report* ("DSM Report"), filed with the Commission on March 14, 2014, shows the annual energy savings attributable to the multiple DSM programs offered by Idaho Power. These savings are the incremental savings isolated to one year and do not reflect the cumulative effect these programs have over time. These savings also do not reflect the impact of the Company's outreach and educational programs that primarily affect the Residential and Small General Service customer classes. The Company's continued support and pursuit of cost-effective energy efficiency activities is evidenced by the customer participation in the available DSM programs. Of the 12 energy efficiency programs available to the Residential customer class, eight programs experienced an increase in customer participation in 2013. Energy Efficient Lighting and See ya later, refrigerator®, the two programs with the largest energy savings for Residential customers in 2013, experienced increases in customer participation but also had a decline in annual energy savings. As discussed earlier, this decline is due to the lower deemed savings amounts by the RTF. The lower deemed savings amounts by the RTF are impacting the determination of energy savings of other utilities in the region and are not exclusive to Idaho Power.

The FCA is critical to the sustainability of Idaho Power's efforts to seek out and achieve continued energy savings. When cost-effective energy savings are becoming more difficult to achieve with energy efficiency, the Company believes that jeopardizing the business model that supports DSM endeavors by altering or discontinuing the FCA would not be prudent.

V. THE COMPANY'S DSM REPORT EFFECTIVELY IDENTIFIES FUTURE STRATEGIES

ICL expressed overall support for the FCA mechanism and recommends approval of the FCA rates as filed. In its comments, ICL recommends the Company file a detailed plan, within three months, to increase participation and energy savings for Residential and Small General Service customers. The Company believes ICL's proposal is unnecessary and duplicates reporting that already exists. As mentioned earlier, Idaho Power files its DSM Report annually, and recently submitted its 2013 DSM Report to the Commission under docket IPC-E-14-04 in March of this year. In accordance with the Memorandum of Understanding signed by Idaho's investor-owned utilities and Idaho Commission Staff in January 2010, the DSM Report already outlines all of the activities the Company is pursuing regarding DSM programs as well as strategies for the upcoming year. The DSM Report identifies the Company's current and continued pursuit of cost-effective energy efficiency activities. Idaho Power believes a separate plan, as requested by ICL, is not necessary.

VI. CONCLUSION

All parties agree the Company correctly calculated the FCA deferral balance and recommend the Commission approve the proposed FCA rates to become effective June 1, 2014. The other comments and concerns expressed are better addressed in a general rate case or cost-of-service/rate design specific case, or are already addressed in the Company's annual DSM Report. The Company recommends the Commission approve the FCA rates as filed and address the other concerns during a future proceeding where issues related to cost-of-service and rate design are appropriately explored.

Respectfully submitted this 15th day of May 2014.

Lisa D. Nordstrom

LISA D. NORDSTROM
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 15th day of May 2014 I served a true and correct copy of IDAHO POWER COMPANY'S REPLY COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

Commission Staff Karl T. Klein Deputy Attorney General Idaho Public Utilities Commission 472 West Washington (83702) P.O. Box 83720 Boise, Idaho 83720-0074	_X_ Hand Delivered ____U.S. Mail ____Overnight Mail ____FAX _X_ Email karl.klein@puc.idaho.gov
Idaho Conservation League Benjamin J. Otto Idaho Conservation League 710 North Sixth Street Boise, Idaho 83702	____Hand Delivered _X_ U.S. Mail ____Overnight Mail ____FAX _X_ Email botto@idahoconservation.org

Kimberly K Towell

Kimberly Towell, Executive Assistant