

Benjamin J. Otto (ISB No. 8292)
710 N 6th Street
Boise, ID 83701
Ph: (208) 345-6933 x 12
Fax: (208) 344-0344
botto@idahoconservation.org

RECEIVED
2014 MAY -8 AM 11:15
IDAHO PUBLIC UTILITIES COMMISSION

Attorney for the Idaho Conservation League

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE)
APPLICATION OF IDAHO POWER)
COMPANY FOR AUTHORITY TO)
IMPLEMENT FIXED COST)
ADJUSTMENT (FCA) RATES FOR)
ELECTRIC SERVICE FROM JUNE 1,)
2014 THROUGH MAY 31, 2015.)

CASE NO. IPC-E-14-03
THE IDAHO CONSERVATION
LEAGUE
COMMENTS

The Idaho Conservation League (ICL) recommends the Commission approve the Fixed Cost Adjustment (FCA) rate for 2014-2015.¹ The FCA remains an important regulatory mechanism to correct for the inherent disincentive for utilities to pursue reductions in energy sales. Although the current design of the FCA captures the impact of reduced energy sales beyond utility sponsored efforts, ICL maintains this can benefit customers. Allowing Idaho Power the opportunity to collect the authorized fixed costs despite sales volatility reduces financial risks and thereby lowers borrowing costs.² Calculating this risk reduction value remains elusive, but the presence of this value supports maintaining a robust FCA mechanism.

The FCA is an important compliment to the policies underlying current rate designs. As the Commission is well aware, the current rate design for the Residential and Small Commercial customers collects a portion of fixed costs through the volumetric energy charge. While this creates a structural disincentive to pursue energy efficiency, the principles underlying this rate design are sound. First, cost of service methodologies to determine fixed and variable costs are not an exact science, therefore determining the price allocation of costs is an exercise in judgment as much as mathematics. Second, including fixed costs in volumetric rates, particularly with

¹ ICL defers to the Staff calculations of the specific rate.

² NARUC *Decoupling for Electric and Gas Utilities: Frequently Asked Questions* at 9, (2007) (Available at: http://www.naruc.org/Publications/NARUCDecouplingFAQ9_07.pdf)

Idaho Power's low energy costs, sends a price signal to encourage customers to control energy consumption. Sending price signals to control energy consumption is an important tool to encourage customers to implement this Commission's policy to "diligently and vigorously pursue all available, cost effective DSM, conservation, and pricing options that could potentially displace or defer the need for additional future peaking generation."³ ICL continues to support these sound public policy reasons to embed fixed costs recovery in volumetric energy rates.

The FCA is an important compliment to these sound rate design choices. The mechanism allows Idaho Power to track and recover forgone fixed costs associated with lower than expected energy sales. While this structure does require greater regulatory oversight and resources the combination of rate design and the FCA encourages customers to conserve resources and helps Idaho Power to be a willing participant in this effort. Aligning utility incentives with customer's interest in conserving energy is sound public policy.

ICL acknowledges the current design of the FCA captures changes in fixed costs beyond utility supported energy conservation efforts. Since the initiation of the pilot through today, stakeholders have identified the FCA captures changes in consumption due to changing economic conditions. Historically utilities shouldered the risks and rewards of changing consumption attributed to economic conditions. The FCA, in its current form, changes this risk allocation. However, this change is not inherently unfair and can actually benefit customers by reducing revenue volatility. A recent treatise by the Regulatory Assistance Project considered this revenue stabilizing feature and explains the potential benefits to ratepayers as:

"Economic theory supports the notion that risk mitigation is valuable to investors and that that value will (eventually) be revealed in some way in the market — through a lower cost of equity, a lower cost of debt, or a lower required equity capitalization ratio. Any of these will eventually produce lower rates for consumers, in return for the risk mitigation measure."⁴

³ Order 30201 at 12, IPC-E-06-09, *Evander Andrews CPCN* (December 15, 2006); Order 32426 at 21, IPC-E-11-08, *Idaho Power General Rate Case* (December 30, 2011) ("We continue our commitment that the Company should pursue all cost-effective energy efficiencies.")

⁴ Regulatory Assistance Project, *Revenue Regulation and Decoupling: A Guide to Theory and Application* at 39, (June 2011) (Available at: <http://bit.ly/RAPdecouple>); NARUC at 9.

Capturing all economic-related changes in energy consumption aligns the utility's financial interest with ratepayer's interest in controlling energy bills and maximizes its value as a risk mitigation tool.

Despite our overall support for the mechanism and approving the FCA rate for 2014-2015, ICL submits the following recommendations for the Commission's consideration:

1. Proper functioning of the FCA requires regular updates to the underlying components used in the calculation. ICL recommends the Commission encourage Idaho Power to update the fixed costs per customer, fixed costs per energy, and baseline consumption levels through a general rate case.
2. The fundamental reason to adopt the FCA is to ensure utilities pursue all available cost effective energy efficiency. Idaho Power's 2013 Demand Side Management (DSM) report reveals substantially lower energy savings compared to 2012.⁵ Meanwhile the Company's recent DSM potential study, conducted as part of the 2013 Integrated Resource Plan, documents a vast untapped potential for cost-effective energy savings. ICL recommends the Commission require Idaho Power to submit a detailed plan, within 3 months, to increase participation and energy savings specifically in the Residential and Small Commercial classes.

Respectfully submitted this 8th day of May 2014,



Benjamin J Otto
Idaho Conservation League

⁵ While total savings declined, participation in residential programs increased. The 2013 DSM report shows participation by measure installed or participating household depending on program. In 2012 the total was 947,911 "participants" while in 2013 the total was 1,102,935 "participants".

CERTIFICATE OF SERVICE

I hereby certify that on this 8th day of May 2014, I delivered true and correct copies of the foregoing COMMENTS to the following persons via the method of service noted:

Hand delivery:

Jean Jewell
Commission Secretary (Original and seven copies provided)
Idaho Public Utilities Commission
427 W. Washington St.
Boise, ID 83702-5983

Electronic Mail:

Lisa D. Nordstrom
Zachary L. Harris
Greg Said
Idaho Power Company
P.O. Box 70
Boise, Idaho 83707
lnordstom@idahopower.com
zharris@idahopower.com
gsaid@idahopower.com
dockets@idahopower.com



Benjamin J. Otto