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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO DISCONTINUE ITS INDUSTRIAL CONSER­VATION PROGRAM FOR SCHEDULE 19 CUSTOMERS AND SPECIAL CONTRACT CUSTOMERS. | ))))))) | CASE NO.  IPC-E-96-22      BRIEF OF THECOMMISSION STAFF |

PURSUANT to the Commission's Order No. 26818 issued in this case on February 28, 1997, the Staff of the Idaho Public Utilities Commission, by and through its Attorney of Record, Brad Purdy, Deputy Attorney General, hereby submits the following brief.

On February 3, 1997, the Industrial Customers of Idaho Power (ICIP) petitioned for reconsideration of Order No. 26753 terminating Idaho Power Company’s (Idaho Power; Company) Partners in Industrial Efficiency (PIE) conservation program.  On February 28, 1997, in Order No. 26818, the Commission granted reconsideration.  The Commission directed parties to submit briefing on the following issues:

(1)Does the Commission’s decision whether to terminate Idaho Power’s PIE program necessitate a review of that utility’s stranded costs?

(2)If the PIE program is terminated, should the industrial customer class be insulated from responsibility for paying rates that help to fund other conservation programs?

(3)Is there an adequate factual basis in the record for supporting the termination of the PIE program?

Following are the comments of the Commission Staff on these issues:

Does the Commission’s decision whether to terminate Idaho Power’s PIE program necessitate a review of that utility’s stranded costs?

Stranded costs are generally defined to be incurred costs in excess of what the market currently will bear.  There has been no definitive analysis completed in this case concluding that Idaho Power will have energy production costs stranded on an average system basis in a deregulated market.  Staff believes such an analysis is unnecessary in the Commission’s decision about whether to terminate the PIE program and is beyond the scope of this case.  At the same time, however, Staff believes there are valid concerns about stranded costs that merit additional discussion.

Staff believes the primary reason PIE program costs will be potentially stranded is because of the program’s cost recovery mechanism, not the program’s cost.  In the PIE program and all others except for Low Income Weatherization, all program costs, except administrative, are capitalized and deferred for future recovery.  Capitalization and deferral of conservation program costs requires a long term commitment from the Company and its ratepayers for cost recovery.  In a deregulated market, the repayment commitment of ratepayers is threatened because ratepayers would no longer be captive.  Customers who receive the benefits of conservation investments made by the utility take those benefits with them if they leave the system, which either strands the conservation costs or leaves remaining ratepayers to pick them up.

The surest way to eliminate the potential that these costs would become stranded is to eliminate the costs entirely by eliminating the conservation program.  This is the alternative Idaho Power has proposed.

Another alternative, however, would be to continue the program, but require future participants to repay any unamortized portion of the Company’s investment if they later leave the

system.  In the Commission’s earlier decision to terminate the program, the same requirement was imposed on those few customers who were allowed to complete the application process.

Another way to eliminate the risk of stranded costs is by expensing the conservation program costs in the year they are incurred.  However, one disadvantage of expensing costs is that it requires today’s ratepayers to pay for the energy conservation benefits enjoyed by future ratepayers.  Moreover, while expensing of conservation costs going forward will eliminate the risk of adding additional stranded costs, it will do nothing to reduce the potential that program costs already accrued will become stranded.  Despite these drawbacks, Staff recommends expensing costs if the decision to terminate PIE is reversed.

Although Staff does not believe the per kilowatt costs of the PIE program are the primary concern, they could be a factor in whether program costs are likely to be stranded.  As long as conservation program costs continue to be capitalized and deferred, whether a customer eventually leaves the system or not, those costs can contribute to overall Company energy costs that exceed market price.  This occurs because the costs incurred by the utility for conservation, in effect, increases the cost per kilowatt-hour without increasing the number of kilowatt-hours that can be sold.  Therefore, while we cannot know with certainty the extent of the Company’s stranded costs, we do know that if the Company does have stranded costs on an average system basis in a deregulated market, conservation program costs will cause those stranded costs to be higher.  If the Company has no stranded costs, conservation program costs will reduce the margin earned by the Company when the conserved energy is sold.

This effect may be enough to justify discontinuing the PIE program.  If it is, then all conservation programs that are not expensed may justifiably be discontinued.  In fact, the Company has indicated a desire to eliminate all conservation programs that are not expensed.

However, the Company has also expressed a desire to participate in future conservation activities and to expense the program costs.  Staff believes the Company should be permitted to change its programs and request a different cost recovery mechanism.  The Commission will still have the authority under current regulation to review the programs established by the Company and evaluate the prudency of eliminating conservation programs relative to other resource acquisition decisions.

In summary, Staff does not believe that a specific determination of potential stranded costs is necessary to address the Company’s request in this case.

If the PIE program is terminated, should the industrial customers be insulated from paying rates that help to fund other conservation programs?

No, DSM program costs have always historically been shared by all customer classes regardless of which specific customer class a particular program is intended to serve.  In terms of resource procurement, acquisition of demand side resources has been viewed no differently than acquisition of supply side resources as long as the costs were comparable.  Consequently, acquisition of DSM has been assumed to benefit all customers, just as new supply side resources go towards serving all customers.  Staff believes this assumption is still valid.

Is there adequate factual basis in the record supporting the termination of the PIE program?

Yes, Staff believes the record is adequate.  The key issue in this case is whether investments made in the PIE program will be recoverable in the future.  Idaho Power, both in its application and in its December 17, 1996 Response to Comments, provided arguments that PIE program costs constitute regulatory assets that may not be recoverable if full or partial deregulation occurs and some of the Company’s industrial customers leave the system.  Staff addressed these same issues in its comments.  Staff has also suggested modifications to the PIE program that could be implemented if the program is not terminated that would help to minimize any potential for stranded costs.  Other issues, such as the extent of potential stranded costs, have not been addressed as thoroughly, but Staff does not believe more thorough examination is needed since they do not appear to be the primary basis for the Commission’s decision.

Staff notes that the Commission’s order terminating the program simply acknowledges the risk that PIE program costs will not be recovered if partial or full deregulation occurs.  Recognition of this risk can certainly be made based on the record in this case.  Furthermore, Staff believes basic fundamentals of utility cost recovery mechanisms dictate that PIE program costs are at risk of being unrecoverable.  In its order, the Commission does not conclude that PIE costs will, in fact, become stranded, as ICIP implies in its petition.  ICIP cannot contend the record does not support a finding which the Commission did not actually make.

While Staff believes there is adequate factual basis in the record to support the Commission’s findings, Staff also wishes to point out that because decisions about the future of DSM programs and funding mechanisms have yet to be made, the possibility exists that Idaho Power could be temporarily relieved of almost all participation in conservation activities.  Staff believes that the recommendations of the Comprehensive Review of the Northwest Energy System, the application for a public purposes charge to fund participation in NEEA, the application to terminate PIE, a pending application to terminate the DEAP (a commercial design program), and an anticipated future filing to terminate the commercial lighting program are closely related matters.  The timing of decisions on these matters is such that decisions must be made regarding whether to terminate specific programs before decisions are made about how conservation will be dealt with in the future (e.g., NEEA and the Comprehensive Review recommendations).

DATED  at Boise, Idaho, this            day of March 1997.

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