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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-96-22COMMENTS OF THECOMMISSION STAFF |

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Brad Purdy, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure filed on November 14, 1996 submits the following comments.

BACKGROUND

On November 1, 1996, the Idaho Power Company (Idaho Power; Company) filed an Application for authority to discontinue its Partners in Industrial Efficiency (PIE) conservation program.  The PIE program was implemented on June 6, 1991, when the Commission issued Order No. 23724 approving Idaho Power’s Application.  Originally, the program was available only to customers taking service under Schedules 18 and 19.  It was subsequently amended to include the Company’s special contract customers.

The current PIE program involves the payment of grants to partially cover the costs of installing energy efficient equipment with recovery of the costs occurring over an extended period of time.  The costs of these incentives are deferred for future recovery and classified as regulatory assets.  According to Idaho Power’s Application in this case, the Company is concerned about the potential for stranded investments if a participant in the program were to change electrical suppliers.  The Company also argues that the deferred costs could potentially become stranded assets if deregulation of the generation function of regulated electric utilities were to occur.

Additionally, according to the Company, some of its large industrial and non-industrial customers have commented that programs of this type should be discontinued because they add to deferred costs and, therefore, increase the cost of power over time.  Idaho Power further contends that changes are occurring in the market place that lessen the need for the PIE program.  Several of the technologies funded through PIE, Idaho Power contends, are now becoming commonly used by the Company’s industrial customers including efficient lighting measures, variable speed drives and more efficient refrigeration technologies.

STAFF ANALYSIS

The PIE program has operated without any changes or modifications during a period of declining energy prices.  As prices have declined, overall economic justification for the program has also declined.  Given these circumstances, some changes in the program may be appropriate.  However, while Staff shares the Company’s concern about the potential for stranded investment and about the cost-effectiveness of the incentives provided under this program, we are also concerned about the loss of unquantified societal benefits that will occur when this program and others like it  are terminated.

Moreover, Staff is concerned about the manner in which the Company proposes to handle the termination of this program.  The Company’s application indicated that nine applications for participation in the program had been received but not approved.  The Company indicated it intended to “suspend processing” of these applications, effectively precluding these applicants from participation in the program.

Staff was contacted by one of the applicants, Idaho State University (ISU), which had purportedly proceeded on the basis of verbal assurances that contract signing was imminent, and in a desire to complete the project before winter, had incurred significant obligations.  Staff made an informal inquiry on behalf of ISU, and was informed that the Company had decided to suspend processing of all applications not executed as of November 1, 1996, and that unless the Commission were to direct otherwise, Idaho Power did not expect to fund ISU or the other eight projects pending at that time.  Staff has subsequently learned that the Company reviewed the communications between ISU and the Company, and confirmed that it had given verbal, as well as written, authorization to proceed.  Since ISU had incurred obligations based on that authorization, the Company has decided to approve ISU’s application and fund that project.

Staff has been assured that none of the other eight pending projects were given authorization to proceed, nor had they incurred significant obligations for the work identified in their applications.  Therefore, the Company does not intend to fund those projects.

As of December 2, the Commission had received only one comment in response to the Notice of Modified Procedure.  The party submitting those comments, One Capitol Center, is one of the eight applicants that would not be funded if the Commission approves the Company’s application as submitted. One Capitol Center expressed concerns about the lack of notice to the customers about the termination of the program, and pointed out that when the Company terminated other programs, specifically the Good Cents and MAP programs, customers were provided with notice and an opportunity to participate prior to the program termination.

In addition, the Company indicates that, with the exception of customized services offered to a particular customer, it does not intend to operate a program as a replacement of PIE.  Staff acknowledges that with the Company’s current resource position and the prevailing prices for alternate supplies, it is difficult to economically justify any expenditures for near term electrical energy savings.  Staff supports the Company’s desires for flexibility to provide demand side services in those instances in which such services may be appropriate.  However, Staff is concerned that the lack of  general terms and conditions applicable to all customers may lead to special treatment for some customers.  Staff believes that general guidelines could be developed, with terms that are cost-effective and which protect the Company from stranded investments.

STAFF RECOMMENDATION

Staff supports the Company’s decision to terminate the program, but recommends changes to the manner in which the program is terminated.  Staff recommends that the remaining eight customers that had submitted applications to the Company prior to the date the Company filed to terminate the program be provided an opportunity to participate in the program.  The Company should provide the applicants with an additional 60 days to address any deficiencies the Company has identified, or identifies upon review, in their application.  The applicant should then be provided with a reasonable time period, at least six months after a program agreement is executed, to complete the improvements identified in the applications.

In order to minimize the risk of stranded investments, Staff recommends that the contracts for all future participants, including ISU and the eight pending applications, include language that requires reimbursement of the incentives provided by the Company if the customer chooses to obtain their electricity from another supplier in the future.  Such language should include a schedule in which the amount of the reimbursement required declines for each year that the customer continues to purchase their electricity from Idaho Power.

Additionally, Staff recommends that the Company be directed to develop and provide to the Commission the general terms and conditions that would apply to the “customized services” the Company might provide to their industrial customers.  This information should be submitted to the Commission within 90 days.  In addition, after review by the Commission, the Company should notify all Schedule 18 and 19 or special contract customers of the availability of these “customized services,” and the terms and conditions under which such services would be provided.

DATED  at Boise, Idaho, this            day of December 1996.

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Brad Purdy

Deputy Attorney General

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Wayne Hart

Compliance Investigator

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