(text box: 1)BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE IDAHO POWER COMPANY’S APPLICATION FOR AUTHORITY TO IMPLEMENT A PUBLIC PURPOSES CHARGE TO FUND THE COM­PANY’S PARTICIPATION IN THE NORTHWEST ENERGY EFFICIENCY ALLIANCE. | )))))))) | CASE NO. IPC-E-96-26ORDER NO.  27045 |

On December 31, 1996, the Idaho Power Company (Idaho Power; Company) filed an Application for an Order approving the implementation of a “public purposes charge” to allow for recovery of the Company’s contemplated participation in the Northwest Energy Efficiency Alliance, Inc. (NEEA), an organization formed for the purpose of transforming markets for selected electric conservation products and services on a regional basis.

The Company states that it has agreed to participate in and support NEEA, a non-profit regional corporation consisting of northwest energy users represented by (1) northwest utilities, both public and private, (2) state and local governments, (3) public interest groups, and (4) private sector interests founded to improve the efficiency of electric use and to reduce the cost of energy efficiency products and services through market transformation.

Idaho Power contends that the proposed public purposes charge is not a request for a general rate increase pursuant to Rule 122 of the Commission’s Rules of Procedure, IDAPA 31.01.01.  Rather, it is an Application for a specific charge, the revenues of which will be used for a specific purpose.  Idaho Power further contends that the proposed charge falls within a specific exception to the rate moratorium settlement agreement approved by the Commission in Order No. 26216, Case No. IPC-E-95-11, allowing Idaho Power to file an Application requesting changes in the manner in which demand side management charges are recovered.

Idaho Power proposes to recover the costs of participation in NEEA on a pay as you go, dollar-for-dollar cost recovery basis.  The Company proposes a flat charge (not specifically based on usage or total bills) within particular customer groups applicable to all of its retail customers in Idaho including those served under the Prairie service area rate schedules.  The maximum NEEA funding level for Idaho Power for 1997 is $857,000 and is $1,700,000 for each of the two subsequent years for a total over the period of $4,250,000, of which $4,050,00 is attributable to its Idaho service area.

On January 21, 1997, the Commission issued a Notice of Modified Procedure and Order No. 26769 suspending the proposed effective date of the public purposes charge and soliciting comments in response to the Company’s Application.  Written comments in response to Idaho Power’s Application were filed by 35 individuals, groups or entities including residential users, senior citizens, irrigation customers, conservation groups, large industrial users and the Commission Staff.  Those opposing the public purposes charge cited a variety of reasons.  Primarily, however they centered around concern about the financial effect of a rate increase.  Some expressed concern over the lack of details regarding NEEA.  Many suggested that funding of such a non-profit organization should come from the Company’s shareholders and not its customers.

The industrial customers of Idaho Power objected to the public purposes charge on the basis that it will generate “new” revenues and is more than a change in the “manner” in which demand side charges are recovered.  The ICIP argues, consequently, that the charge does not fall within one of the three exceptions to the rate moratorium imposed by the Commission in Order No. 26216.  The ICIP also questions the legitimacy of Idaho Power’s investment in NEEA and contends that it will not benefit Idaho’s ratepayers.

Micron Technology questions the effectiveness of any conservation program implemented by Idaho Power.  It notes that the Company’s Partners in Industrial Efficiency program was cumbersome and slow, making it impractical for Micron to utilize the program due to the speed in which technology changes in the semi-conductor industry occur.  Micron is concerned that NEEA is governed by an 18 member board whose goal is consensus decision-making, concerned with appeasing disparate factions rather than quickly and efficiently implementing specific targeted conservation measures.

The Commission Staff supports Idaho Power’s participation in NEEA.  Staff contends that transforming markets to make the use of electricity more efficient is a worthwhile endeavor and that such market transformation can better be accomplished at the regional level rather than separately within each utility’s service area.  Staff recommends that Idaho Power’s public purposes charge be based on a uniform percent of each customer’s total bill rather than the Company’s proposed per customer flat rates.

The Northwest Conservation Act Coalition (NCAC), whose members range from environmental and consumer protection groups to energy efficiency businesses and utilities, asserts that because markets generally cut across utility, state and regional boundaries, it is important to leverage local and state efforts with a comprehensive approach at the regional level.  The NCAC   contends that NEEA will provide a cohesive and effective force in the regional implementation of conservation measures.  Like the Commission Staff, the NCAC supports a charge based on a uni­form percent of total bills rather than Idaho Power’s proposed rate design.

Idaho Rivers United (IRU) supports Idaho Power’s proposal in concept.  IRU states that the Company’s participation in a regional market transformation effort is important to ensure that energy efficiency technologies and conservation will be available to Idaho residents and consumers in the future.  IRU also suggests that Idaho Power’s costs be collected through a uniform percent increase rather than through the Company’s proposed rate design.

On June 25, 1997, the Commission conducted a prehearing conference in this case.  These parties who previously filed comments reiterated their position at the conference.  In addition, the Idaho Citizens Network spoke in favor of Idaho Power’s participation in NEEA.

Issues

Idaho Power’s Application raises the following issues:

I.Would the funding of Idaho Power’s participation in NEEA by the Company’s ratepayers constitute a violation of the rate moratorium agreement approved by the Commission in Order No. 26216?

IIShould Idaho Power’s participation in NEEA be encouraged?

III.Should Idaho Power be allowed to recover the cost of its participation in NEEA from its ratepayers?  If so, how should these costs be recovered?

FINDINGS

Idaho Power’s Rate Moratorium

In Order No. 26216, issued in Case No. IPC-E-96-11 on October 20, 1995, the Commission approved the settlement agreement (attached to that Order as Exhibit 1) entered into between the parties in that case establishing a rate moratorium for Idaho Power Company for the years 1995 through 1999.  The settlement agreement contained three exceptions, however, to the rate moratorium.  Section IV(b) of the settlement agreement states that the moratorium does not prohibit an “application by Idaho Power, or any other party, requesting changes in the manner in which demand side management charges are recovered.”  Several parties submitting comments in this case have taken the position that the proposed public purposes charge violates the rate moratorium.  We find, however, that it does not.

Historically, Idaho Power has capitalized and deferred recovery of its investment in DSM until it filed its next general rate case.  At that time, the Commission would conduct an analysis to determine whether the program was cost-effective and should be recovered through rates.  Idaho Power is now proposing a different methodology similar to that approved by the Commission for The Washington Water Power Company.  In approving the settlement agreement, it was not our position that the Company should be precluded from seeking the recovery of investments in DSM programs simply because they constitute “new” programs as suggested by the ICIP.  At the time we issued Order No. 26216, we had already approved a DSM surcharge for The Washington Water Power Company similar to that now requested by Idaho Power.  Moreover, the restructuring of the electric industry had begun and it was well known that Idaho Power, along with all other investor-owned utilities, was becoming increasingly concerned about the future recovery of its regulatory assets, especially its capitalized and deferred investment in conservation.  Consequently, we anticipated in approving the settlement agreement, that the DSM exception to the rate moratorium was to allow Idaho Power the opportunity to continue to invest in DSM and to be free to seek cost recovery in a more timely manner than in the past.

We find it noteworthy that Idaho Power has recently sought and received the approval to terminate several of its existing DSM programs including the Partners in Industrial Efficiency program, the Good Sense program and the Design Excellence Award program.  We view the Company’s participation in NEEA as a continuation of its overall commitment to DSM and not as some new program not envisioned at the time of the settlement agreement.  We find, therefore, that Idaho Power’s participation in NEEA and request for a public purposes charge does not violate the rate settlement agreement approved by the Commission in Order No. 26216.

Idaho Power’s Participation in NEEA

Historically, conservation efforts have occurred throughout the Northwest on an ad hoc basis.  Idaho Power has made the persuasive argument that market transformation needs to be collaborative because the markets typically cut across utility and even regional boundaries.  Idaho Power notes that while there is uncertainty in the region regarding how to implement energy efficiency services in the future, there is widespread agreement that maintaining and building on the region’s success in market transformation efforts should be a priority.  NEEA is based on the belief that by transforming markets, it is possible to achieve improvements in the efficiency of electricity use without the need for long-term utility incentives.  NEEA’s role in achieving greater efficiencies in the use of electricity has been advanced by the Comprehensive Review of the Northwest Energy System after a year-long public debate regarding the future of energy markets in the northwest.

This Commission has been supportive  of investments made by its regulated utilities in conservation programs so long as those programs are prudent for ratepayers.  Prudent conservation makes sense from both a societal and an economic perspective.  We believe that it is one of the responsibilities of this Commission to encourage and facilitate the investment by the utilities we regulate in such programs.

We concede that NEEA is a relatively young organization and the various programs it proposes to fund have not yet proven their cost-effectiveness.  For that reason, as discussed below, we are not approving Idaho Power’s proposed public purposes charge at this time.  Rather, we are authorizing the Company to capitalize and defer its investment in NEEA and to bring it before this Commission for cost recovery at a future date when the prudency of the expenditures can be determined.  In the meantime, however, we encourage the Company to participate in NEEA and work to ensure that NEEA’s investments in market transformation are prudent.

Recovery of Idaho Power’s Investment in NEEA

Initially, we wish to address those comments suggesting that Idaho Power’s participation in NEEA should be funded by the Company’s shareholders rather than its ratepayers.  The fact is that Idaho Power’s shareholders reap financial benefits from the sale of electricity; not its conservation.  The Company’s ratepayers, by contrast, benefit financially when their use of electricity is reduced and when the acquisition of new resources can be avoided because of the overall reduction in the use of electricity.  To suggest, therefore, all funding of cost-effective conservation measures should come from shareholders, is counter intuitive.

While we are convinced that, at the outset, NEEA appears to be a worthwhile endeavor and that recovery by Idaho Power of its investment in that organization would not violate the rate moratorium, our analysis does not end there.  Any DSM investment the Company wishes to recover from its ratepayers must also be prudent.  It is premature at this juncture to determine whether any or all of the various programs funded by NEEA will ultimately prove to be prudent.  In the meantime, therefore, the Company is authorized to capitalize and defer the recovery of its investment in NEEA until additional data regarding the prudency of the various programs is available.  We give Idaho Power the assurance that we will provide for some form of rate recovery of any prudent DSM program and in determining whether NEEA has been prudent, we will consider all of its various projects as a whole rather than make a cost recovery determination on a project-by-project basis.

Although we deny current recovery of Idaho Power’s NEEA expenditures at this time, we believe it would be timely and appropriate to review the Company’s existing deferred DSM investment to determine whether the manner and timing of recovery is reasonable given the recent movement toward competition in the electric industry.  We encourage the Company to initiate a proceeding that would permit a comprehensive review of its existing DSM investment and recovery.  We believe that such a review would be consistent with the settlement agreement approved by the Commission in Order No. 26216.

Finally, because we are authorizing Idaho Power to capitalize and defer its NEEA investment, it is unnecessary for us to decide, at this time, the appropriate rate design for any recovery of NEEA costs ultimately approved.

O R D E R

IT IS HEREBY ORDERED that Idaho Power’s Application for approval of a public purposes charge to fund the Company’s participation in the Northwest Energy Efficiency Alliance is granted in part and denied in part as set forth in this Order.

 THIS IS A FINAL ORDER.  Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. IPC-E-96-26  may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this Case No.  IPC-E-96-26 .  Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration.  See Idaho Code § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this                  day of July 1997.

                                                                                                                                       DENNIS S. HANSEN, PRESIDENT

                                                                                            RALPH NELSON, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

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**COMMENTS AND ANNOTATIONS**

Text Box 1:

**TEXT BOXES**

Office of the Secretary

Service Date

July 16, 1997