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IDAHO PUBLIC
UTILITIES COMMISSION

Attorneys for Idaho Clean Energy Association

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION
OF IDAHO POWER COMPANY TO
STUDY FIXED COSTS OF PROVIDING
ELECTRIC SERVICE TO CUSTOMERS

Case No. IPC-E-18-16

IDAHO CLEAN ENERGY ASSOCIATION
COMMENTS ON IDAHO POWER
COMPANY'S FIXED-COST REPORT

The Idaho Clean Energy Association, Inc. ("ICEA") submits these comments on Idaho Power's Fixed-Cost Report Response to Idaho Power Company's Fixed Cost Report, which was filed on September 30, 2019.¹

INTRODUCTION

Order 34046 (May 19, 2018) put forth that critical questions related to fixed costs should be addressed. ICEA appreciates that the Commission established in that Order a process for giving consideration to the input of interested parties. IPC-E-18-16 opened a venue in which those questions could be raised and contemplated by multiple stakeholders. ICEA appreciates Staff's leadership to guide stakeholders through a process in which the parties defined key attributes to be considered in assessing each rate design and a sampling of rate designs to be

¹ In Order No. 34466 (filed Oct. 24, 2019), the Commission invited comments on the Fixed-Cost Report or responses to the Company's motion to accept Fixed-Cost Report by January 21, 2020. ICEA has elected to comment upon the Fixed-Cost Report rather than respond to the Motion to Accept Fixed-Cost Report. ICEA understands that the Commission's "acceptance" of the Fixed-Cost Report would not reflect acceptance of, or agreement with, any contents of the Report, but would merely recognize that the Report was filed.

studied. An outcome of those efforts, reflecting much thought and debate, were filed with the Commission on 4/30/2019 (Staff Report).

On 9/30/2019, Idaho Power Company (the Company) filed a Fixed Cost Report (the Report) that departed from the approach and interests reflected in the Staff Report. The Company's Report focuses on assessing rate designs based on the alignment of rate components with the cost classification components used to assign costs across customer classes. ICEA is disappointed that the Company's report did not reflect the collective effort of the parties to systematically consider a broader set of attribute categories. For example, a resounding theme from participants in this docket was that the impact of the rate design on future cost growths should be a key consideration in assessing options for rate designs.

ICEA is not asking for a hearing. First, quite frankly, the solar industry in Idaho is facing economic challenges resulting from IPC-E-18-15, thus we lack the financial resources to effectively represent our perspective in a hearing for IPC-E-18-16, a hearing in which we would anticipate the Company would invest significant resources to advocate for its perspective. We believe IPC-E-18-16 provided a venue during which stakeholders presented perspectives which would build a helpful toolkit if those perspectives had been reflected in the Report. Lastly, the Company has not demonstrated that it is unable to recover its fixed costs.

With these comments, ICEA endeavors to put forth a more objective assessment of rate designs. We aim to build on the collective effort of the parties in IPC-E-18-16, and to provide the Commission a toolkit on which future efforts might build.

We ask that the Commission find the Report as insufficient in providing the comprehensive fixed costs analysis requested by the Commission, and that the Commission give significant weight to these comments to inform future decisions.

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I. Comments on Fixed Cost Report Study Design: Too Narrow a Lens

Among the goals of rate design is the ability of the utility to recover its fixed costs. That goal is not the same as, nor is it measured by, the alignment of the percent of costs collected from fixed fees with the percent of costs which the Company considers fixed. Alignment of rate components with cost classifications is not specified among the seventeen attributes identified by the collective parties in this docket for assessing a rate design, as reflected in the Staff Report. Nevertheless, over half the figures in the Company's Report present this comparison.

Aligning rate components with the Company's cost classification components is one approach to rate design, it is not a methodology for assessing a rate design. A misalignment between rate components and the Company's cost classification components, for example, is not evidence of ineffectiveness. The focus on improving alignment distracts from opportunities to address public interests. In addition, as discussed later, fairness in pricing considers both sides of the buyer/seller transaction. **By narrowly framing the lens through which it views rate designs, the Report attempts to build a case to better serve the Company's interest without adequately conveying the detrimental impacts on the public interests.**

In Idaho, there's a strong public interest in maintaining low energy rates. Our state, however, is experiencing the fastest population growth in the nation², and that growth drives up system loads and the associated expenditures to serve them. Given the Company's 2019 IRP projects a 23% increase in billed sales to residents over the planning horizon³, a report on fixed costs in Idaho should pay attention to the public's interest in managing the growth of future fixed costs as well as other factors important to customers. A helpful toolkit should assess rate designs across a set of attributes representative of both Company and public interests.

Recommendations

- To assess rate designs, ICEA asks that the Commission consider a more comprehensive, objective, and multi-attribute approach than that presented in the Company's Report. The public interest in preventing future cost growth should in particular be given greater consideration.

II. Attributes for Assessing Rate Designs: A More Objective Approach

The Staff Report presents five categories of attributes defined through the collective effort of the parties to systematically assess the tradeoffs involved in rate design decisions:

- 1) Impact on Fixed Cost Recovery
- 2) Billing impacts to customers
- 3) Price signaling & behavior
- 4) Fair, just, and reasonable
- 5) Other considerations

These attribute categories were established in an attempt to represent both the Company and the public interests. In this section, ICEA would like to comment on the first four of these categories. In the next section, ICEA will present an assessment of rate designs across these attributes.

² U.S. News & World Report, December 30, 2019, <https://www.usnews.com/news/best-states/slideshows/these-are-the-10-fastest-growing-states-in-america?slide=11>

³ Appendix A, Projected Residential Sales and Load, 2019-2038, page 44.

Attribute Category 1. Impact on Fixed Cost Recovery

The Report does not demonstrate that current rate designs have impeded the Company's recovery of fixed costs. The Report presents theoretical arguments related more to *how* the Company would prefer to recover fixed cost. The Company introduces the study raising its concerns with rate designs which collect fixed costs via volumetric charges, page 1:

For this type of rate design, revenue recovery is at risk of any reduction in usage (e.g., due to variation in weather or demand energy response [DER]) unless there is a mechanism that decouples revenue from customers' usage.

Over the next 20 years, the 2019 IRP does not project a reduction in usage but rather a continual load growth into the future. Meanwhile, Idaho Power has a decoupling since 2007, which has proven to be an effective mechanism to ensure recovery of fixed costs. In applying the FCA, the parties may disagree on the details of what costs are applicable, but the FCA effectively enables the Company to recover fixed costs as they are defined in that process.

Changing conditions are not impeding the ability to recover fixed costs. The Report notes, on page 3,

It is also important to recognize that conditions have changed since the current rate designs were established.

The Report then selectively points to factors enabling customers to reduce their load on the system while omitting the factors increasing the load on the system.

Consider the net impact of changing conditions: The historical residential load rose by less than 1% from 2008 to 2018, yet the IRP projects residential load to rise by 11% from 2018 to 2028⁴. The risk of declining usage is not the top concern, it is the need to manage growth. The Report also highlights a growth in on-site generation, but the Report should provide greater context. For every one new Net Metering customer, the Company expects over three new

⁴ 2019 IRP, Appendix A, p43, Residential Load Historical Residential Sales and Load, 1978–2018 (weather adjusted) and Projected Residential Sales and Load, 2019–2038, p44

residential customers to join its service area and contribute to fixed costs⁵. Fixed costs are being spread over a rapidly growing base of residential customers, and the growth of residential customers outpaces the growth of on-site generation in gross terms.

The Commission and customer have no obligation to provide the Company any specific allocation of cost recovery, only the opportunity to earn its overall revenue requirement. Because the current rate design does so, the Commission should give particular attention to other attributes when considering if changes to rate design are warranted.

Recommendations:

- The Report does not demonstrate that current rate designs have impeded the Company’s ability to recover fixed costs. Analysis that the Company is recovering fixed costs through means other than fixed charges is not an indicator that current rate designs are ineffectively recovering fixed costs.

Attribute Category 2: Billing Impacts to Customers

ICEA agrees that the billing impact on customers is an important attribute category. As proposed in the Staff Report, this category currently includes impact on low income customers. ICEA proposes that the Commission broaden this “low income” attribute in assessing future changes to rate designs to consider other vulnerable populations and the overall affordability of energy for those customers.

Recommendation:

ICEA proposes that the Commission broaden the “low income” attribute to consider impact of a residential rate design on “**Affordability for vulnerable populations**”, a category which would include but not be limited to:

- For low income customers, how would their bills be impacted?

⁵ 2019 IRP Advisory Council October Meeting, slide 32, and 2019 IRP Appendix A, page 44

- For customers unable to access natural gas heat, how would their options for managing high winter electricity bills be impacted?
- For customers who are vulnerable to future cost increases, would they have greater or less ability to reduce exposure to future rate increases?

Attribute Category 3: Price signaling & behavior

Pricing structure drives customer behavior, which impacts the need for future fixed costs. The Report focuses on the assignment of its current fixed costs and does not adequately convey the relationship between rate structures and future costs.

The parties collectively resolved to consider the following attributes in assessing the price signaling & behavior impacts of rate designs:

- a. Conservation (discourage wasteful use of service)
- b. Controllability over billing determinant
- c. Peak Reduction or Other Methods to Decrease Need to Invest
- d. Predictability
- e. Simplicity (customers understand & can act on signal)

Recommendations:

- We ask that this attribute category, price signaling and behavior, be given significant weight in assessing any change to a rate design.
- Given that Idaho Power is successfully recovering its fixed costs, we ask that no changes to rate design should be made that go in the direction of negatively impacting conservation, controllability, peak reduction, or other factors linked to causation of future costs.

Attribute Category 4: Fair, Just, and Reasonable

The Commission challenged the parties to address critical questions with regard to fixed

costs. One such question is – What is fair? This is a question of principle before it is a question of math. The Report on page 3 suggests that fairness is achieved by aligning pricing components with cost classifications. ICEA acknowledges that rate designs should enable the Company to recover fixed costs, which is one of multiple attribute categories. Fairness is a different attribute and cannot be narrowly framed from the Company’s side of the transaction.

Equitable pricing considers what is fair to both relational partners in the transaction given not only the costs from the seller’s perspective but the benefits from the buyer’s perspective. Rates are not more equitable simply by aligning more with cost classifications; rates can only be more equitable if the benefits received by the customer are considered. Customers benefit from a service depending on when, where, and how much they use the service. Volumetric pricing is not unfair when customers who use the system more contribute more to fixed costs. It is fair and equitable to design rates such that individual customers contribute differently to fixed costs based on when, where, or how much they use the services provided by the Company.

With regard to equitable cost allocation, the Regulatory Assistance Project (RAP) has taken a long-term view and published January 2, 2020 *Electric Cost Allocation for a New Era: A Manual*.⁶ The authors observe the changing dynamics of the industry and put forth recommendations on how to navigate the challenges, summarizing -

As a starting point, there are two high-level principles for cost allocation that help guide the way:

Cost causation: Why were the costs incurred?

Costs following benefits: Who is better off because the cost was incurred?

In some cases, these two conceptual frameworks point to the same answer, but in other cases they don’t. When they conflict, we believe that “costs follow benefits” should usually, but not always, take priority.

⁶ By Jim Lazar, Paul Chernick, William Marcus, Mark LeBel, download at <https://www.raonline.org/knowledge-center/electric-cost-allocation-new-era/>

Fairness must consider both the Company's and customer's side of the buyer/seller relationship. Consider a simplified case: Assume that 100% of the Company's costs were fixed. Would the most fair rate design be a single fixed charge per customer? This rate design would seem most fair to a utility that measures fairness by the alignment of the percentage of revenue collected from fixed fees with the percentage of costs that the Company considers fixed for that time period. But that is one side of the transactional relationship – the utility's. A single fixed charge would not be fair from customers' perspectives. For example,

- Customers are not the same in the benefits they receive from the Company's services. A single person consuming little electricity would not consider it fair to pay the same rate as large families who use multifold more electricity.
- Customers who make efforts to lower their usage, and thereby help reduce the need for new fixed costs in the future, would not consider it fair to pay the same rate as customers who waste energy and drive up future costs.
- Customers who prefer to source energy from cleaner resources would not find it fair to be unable to reduce the fees they pay to a utility that sources from fossil fuels.
- Customers who want to invest in energy efficiency or on-site generation in order to reduce their exposure to future rate increases would not find it fair.
- Revenue stability for the Company would come at the cost of controllability for the customer.

The point is that, while the Company has the right to advocate for its interests, the metrics proposed by the Company in the Report do not assess what is fair and equitable.

Recommendations:

- In assessing whether a rate design is fair and equitable, the Commission should consider if

the rate design enables customers to contribute to fixed costs in a manner proportionate to how the customer benefits from the service provided by the Company. Customers benefit from a service depending on when, where, and how much they use the service.

III. Insights from End Points: Directional Impacts of Rate Design Components

To develop a toolkit illustrating the benefits and problems with different components of a rate design, the study designed by the collective parties (Staff Report) included the assessment of simplified, single-determinant rates which could serve as end-points isolating the directional impact of such charges. While this was not ICEA's suggestion, we appreciate the value of gaining insights from exemplary end-points. Given the Company omitted this portion of the study from its report, ICEA is attempting to capture the lessons learned by assessing these simplified rate mechanisms across the attributes identified by the parties. The comments below are followed by a color-coded summary table.

Fixed Charge:

Going in the direction of higher fixed charges is favorable to the Company's interest in revenue stability, but it would reduce customer control, decrease fairness, and signal behavior that increases the need for future fixed cost expenditures. When a restaurant charges a fixed fee for an all-you-can eat buffet, we tend to over eat.

In 2016, Rocky Mountain Institute (RMI) published *A Review of Alternate Rate Designs*⁷, which the Company references in its Report. The study notes on page 15:

Proposals to add or increase fixed charges (mandatory fees regularly assessed on a per customer basis) have proliferated in recent years, with proponents arguing they are needed to provide revenue certainty and ensure customers "pay their fair share" of system costs.

⁷ *A Review of Alternative Rate Designs*, Aman Chitkara, Dan Cross-Call, Becky Xilu Li, James Sherwood (Rocky Mountain Institute, 2016), Download at WWW.RMI.ORG/ALTERNATIVE_RATE_DESIGNS

However, fixed charges are not a solution to the evolving rate design challenges outlined here. Fixed charges decrease the level of rate sophistication, when more is needed. In addition, numerous studies have shown that fixed charges disproportionately impact low-/fixed-income customers and other low-use customers, and remove incentives for customers to reduce energy consumption or peak demand.

Volumetric Charge:

Of the three forms of charges, volumetric provide the most benefits as measured by attributes defined in this docket. While volumetric rates do not improve revenue stability, they increase customer control and encourage conservation. Time of Use (TOU) volumetric charges, to be further discussed later in these comments, can be designed to allocate demand costs across volumetric rates for peak periods. Well-designed TOU rates can enable the Company to recover its costs and enable customers to align behavior with cost causation, thereby helping to prevent increases in fixed costs allocated across all customers over time.

With regard to what is fair and equitable, volumetric rate designs enable customers to contribute to fixed costs in a manner proportionate to when and how much they use the services provided by the Company. When combined with a mechanism such as the FCA, volumetric pricing can balance the interests of both the utility and the customer in a fair and equitable manner.

Demand Charge:

While there are theoretical arguments for Demand charges as a means of cost recovery, the empirical evidence does not demonstrate that the benefits outweigh the problems. The downsides include:

- Increased complexity.
- Decreased predictability.

- Decreased customer control. In one hour, a bill-payer can get stuck with a high demand charge. Perhaps the visiting in-laws went on a cleaning rampage, or the neighbors all came over for dinner (causing one bill-payer's demand to peak, though the neighborhood demand was less in total).
- Potentially discourage conservation. To add a retail demand charge would result in lower rates per kWh, which decreases the controllable motive to conserve. E.g., a household doesn't typically hit peak demand when the residents are gone, but lower volumetric charges mean less motive to cut back the AC when the residents aren't home.

The RMI *Review of Alternate Rate Designs* referenced in the Company's Report provides further insights on Demand Charges. The objective of the report, from page 5, is:

To support informed decision making, this report provides a meta-analysis of numerous existing studies, reports, and analyses to support an objective assessment of the efficacy of time-based rates and demand charge rates for mass-market customers.

In its Key Takeaways for demand charge rates, RMI summarizes on page 76,


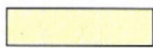


Minimal empirical evidence is currently available to provide insight on the efficacy or impact of demand charge rates on any desired outcomes beyond cost recovery.

To summarize, ICEA puts forth in Figure 1 a matrix consistent in the attributes for rate assessment filed by Staff⁸. The color coding reflects the directional impact of the rate design relative to the current Schedule 1 rate design.

⁸ Implementation Costs & Gradualism were also attributes in that report but are not addressed in this summary table.

Figure 1: Insights from End Points
Directional impacts of rate components relative to Schedule 1

		Single Fixed Charge Only	Volumetric Charge Only	Demand Charge Only
Impact on Fixed Cost Recovery	Revenue Stability			
	Credit Risk			
	Relationship with PCA/FCA	Simplifies recovery of fixed costs	Ability to recover fixed costs remains intact via FCA	Ability to recover fixed costs remains intact via FCA
	Ability to Recover Fixed Costs			
	Impact to future cost causation			
Billing Impacts to Customers	Impact Across Class			
	Low Income Impact	See RMI report	Minimal change	Not evaluated
	Stability for Customers		Minimal change	
Price Signaling & Behavior (to align behavior with cost causation)	Conservation (discourage wasteful use of service)			Not shown to be effective
	Controllability over billing determinant			
	Peak Reduction or other measures to decrease need to invest in fixed plant		If time differentiated	Not yet demonstrated to be effective
	Predictability		Minimal change	
	Simplicity (customers understand & can act on signal)	Customers can understand but not act on signal		
Fair, Just & Reasonable	Fairness	Does not consider customer side of transaction (the more you benefit, the more you pay)	Not unfair. Customers contribute more if they use more.	
	Avoidance of undue discrimination			Not evaluated but poses risks

-  = Positive impact on this attribute
-  = At risk of negatively affecting this attribute
-  = Negative impact on this attribute
-  = No measurable impact or not evaluated at this time

Recommendations:

- Going in the direction of higher fixed fees goes in the direction of signaling behaviors which increase future costs. Increased fixed fees should only be considered if existing or alternative rate designs do not enable the Company to recover fixed costs and the Commission desires to reduce the signal to customers, and their ability, to control energy consumption.
- We oppose the implementation of demand charges for residential and small general service customers (Schedules 1, 6, 7, & 8) as these introduce significant problems with no demonstrated benefits. TOU volumetric charges provide similar benefits with less downsides and offer a better alternative than Demand charges.
- For the above reasons, we oppose the Three Tier Rate design proposed by the Company.

IV. Assessment of Two Rate Designs: Time of Use, & a Three-Tier Rate Structure

Of the opportunities to improve existing rate designs, Time of Use (TOU) rates for volumetric consumption combined with a low fixed monthly charge is most compelling. As the RMI study⁹ referenced in the Report summarized in its “Research Takeaways”:

- Empirical evidence is available for time-based rates, but is limited for demand charge rates.
- A significant amount of research is available on the effects of time-based rates, and there is clear insight on best-practice design choices. This research consistently indicates that well-designed time-based rates are effective at achieving their objective of providing a price signal to customers about when to use energy (and when not to). This has compelled several regions—including California, Massachusetts, and the province of Ontario—to transition toward default TOU rates for all residential customers.
- In contrast, there is limited empirical evidence on the efficacy or impacts of mass-market demand charges on any desired outcome beyond cost recovery. It remains unclear whether demand charge rates effectively communicate price signals to customers about how to change their usage to reduce system cost.

⁹ *A Review of Alternative Rate Designs*, page 79

There are a range of options for TOU rates which merit further consideration leveraging lessons from best practices. Most importantly, TOU pricing can effectively reduce peak load growth and the associated growth in fixed costs for new peaking resources. The Company also noted that TOU is likely to be favorable to low income customers (Report, page 35).

The Company presents its concerns, on page 34 (POPP = Peak to Off Peak Price ratio):

While this type of a rate structure is expected to result in the shifted usage, because the rate structure does not reflect the cost to serve (a POPP ratio of 5:1 is artificially inflated as energy cost differentials are much lower), this design likely will not adequately collect the class's fixed costs when customers shift usage from on-peak to off-peak.²⁴ Furthermore, if the TOU program is offered as an optional TOU offering, it may not be effective in getting customers to shift usage; natural winners are instead able to take advantage of reduced energy bills with no behavioral change and no cost savings.

Footnote 24: According to the referenced study, introducing the 5:1 differential is expected to result in customers shifting approximately 10 percent of usage from on-peak to off-peak

Fortunately, lessons from best practices can address the Company's concerns.

- The POPP need not be "artificially" inflated. Both energy and demand-related costs can be assigned to the peak period, which brings rates closer to marginal costs for each period. Rather than collecting demand costs through a "demand" charge logged within one hour of the month for each customer, demand costs are spread in a fair and equitable manner across volumetric rates for the published peak time periods. The study referenced by the Company recommends achieving a desired POPP by iteratively adjusting four inputs or structural dimensions: peak period duration, peak period frequency, number of pricing periods, and seasonal differentiation.
- While customers who can benefit from TOU rates more likely take advantage of opt-in programs, an opt-out program puts all customers on TOU but allows customers to opt-out. An opt-out is shown to substantially increase participation. This can also help accelerate

technologies which enable customers to save money on their bills and the Company to avoid cost increases over time.

- The FCA would remain an effective mechanism to ensure the recovery of fixed costs.

Current trends further accelerate the need for TOU pricing:

- The Company projects growth of electric vehicles. In the absence of TOU pricing, expect customers will plug in electric vehicles upon arriving home in the afternoon, including during summer system peak periods.
- If customers with on-site generation receive less than retail for energy exported to the grid, those customers will be more motivated to shift consumption to time periods when the sun is at its brightest, including summer afternoons.
- Customers with both on-site generation and electric vehicles would be particularly motivated to avoid charging their electric vehicles at night when they are not exporting.
- Residential customers drive peak load for the Company, and Idaho projects strong growth over the coming years. Behavior changes and technologies could help prevent future costs associated with peak load growth, but these take time to develop and adopt.





We believe a well-designed TOU rate is a compelling opportunity to reduce peak load growth and the associated future fixed costs. A glide path could consider marketing, education, or other approaches to grow participation in the current residential Opt-in rate program and plan for an eventual transition to a well-designed Opt-out program.

We believe it fair and reasonable to allow customers on Schedule 6 to participate in the TOU rates available to residential customers on Schedule 1. This price signal can help mitigate the potential for peak load growth and the associated growth in fixed cost expenditures, which is in the public interest.

To summarize a comparison of TOU rates and the Three Part Tiered Rate, the following is a matrix consistent in the attributes for rate assessment filed by Staff. As before, the color coding reflects ICEA's effort to evaluate the directional impact of the rate design relative to the current Schedule 1 rate design.

Figure 2: Directional Impact of TOU Rates and a 3-Tier Rate relative to Schedule 1

		Time of Use Rates with Low Fixed Charge/ month	3-tier Rate: Fixed, Demand, & Volumetric
Impact on Fixed Cost Recovery	Revenue Stability	Not evaluated. A well-designed rate combined with FCA would enable fixed cost recovery.	By decreasing customers' ability to control bill determinants, this rate design would improve IPC revenue stability. FCA would still be necessary to ensure fixed cost recovery.
	Credit Risk		
	Relationship with PCA/FCA		
	Ability to Recover Fixed Costs		
	Impact to Future Cost Causation		
Billing Impacts to Customers	Impact Across Class		
	Low Income Impact ¹⁰	61% show reductions in bills	55% & 59% show reductions in bills
	Stability for Customers	Varies with rate design	Varies with rate design
Price Signaling (to Align Behavior with cost causation)	Conservation	Empirical evidence demonstrates efficacy	<ul style="list-style-type: none"> Increasing fixed fees discourages conservation Demand charges not shown to be effective
	Controllability over billing determinant	Customers can control bill not only by <i>how much</i> but also <i>when</i> they consume energy	<ul style="list-style-type: none"> Increased fixed fees reduce control. Demand charges difficult to control
	Peak Reduction or other measures to decrease need to invest in fixed plant	Empirical evidence demonstrates efficacy	Not demonstrated to be effective ¹¹
	Predictability	Similar to current.	Fixed charges predictable, Demand charges less
	Simplicity (customers understand & can act on signal)	Understandable and actionable	<ul style="list-style-type: none"> Difficult to understand Monthly demand charge less actionable
Fair, Just & Reasonable	Fairness	Better aligns rates with usage and cost causation	Inadequately considers customer side of the buyer/seller transaction
	Undue Discrimination	An opt-out program would address	Not addressed but poses risks.

-  = Positive impact on this attribute
-  = At risk of negatively affecting this attribute
-  = Negative impact on this attribute
-  = No measurable impact or not evaluated at this time

¹⁰ % of LIHEAP & Weatherization assistance customers, Report, p35 & 31

¹¹ Review of Alternate Rate Designs, p76

Recommendations

- With regard to TOU rates, the Report did not adequately present the benefits, and the concerns presented are addressable. A well-designed TOU rate program, when considered across the multiple attribute categories defined by the collective parties in the Staff Report, provides a compelling opportunity to reduce peak load growth, increase customer control over current and future costs, and more closely align price signals with cost causation.
- As soon as feasible, the Company should allow customers on Schedules 6 the option of participating in TOU rates available to Schedule 1 customers.
- ICEA looks forward to working with Staff to explore the possibilities that TOU provides to incent peak load reductions.

V. Customer Cost of Service: No single correct methodology

Regarding the Customer Cost of Service (CCOS) methodology proposed by the Company in the Report, ICEA does not concur with the CCOS methodology proposed. There are many methodologies for the proper spread of fixed costs, and the Report does not explore the full range of options. Given this docket has not provided a sufficient venue for determining the most appropriate methodology for cost allocations, our comments will not go into detail regarding issues with the specific CCOS method presented in the Report. We expect a more comprehensive consideration of methodologies would be made during a general rate case.

As cost allocations are contemplated in the future, we would note the over-arching guidance presented by the Regulatory Assistance Project in its recent publication, *Electric Cost Allocation for a New Era: A Manual*¹², which emphasizes the allocation of costs based on usage:

¹² By Jim Lazar, Paul Chernick, William Marcus, Mark LeBel, published January 2, 2020, p 18-19.

To begin, there are best practices that apply to both embedded and marginal cost of service studies:

- Treat as customer-related only those costs that actually vary with the number of customers, generally known as the basic customer method.
- Apportion all shared generation, transmission and distribution assets and the associated operating expenses on measures of usage, both energy- and demand-based.
- Ensure broad sharing of overhead investments and administrative and general (A&G) costs, based on usage metrics.
- Eliminate any distinction between “fixed” costs and “variable” costs, as capital investments (including new technology and data acquisition) are increasingly substitutes for fuel and other short-run variable operating costs.
- Where future costs are expected to vary significantly from current costs, make the cost trajectory an important consideration in the apportionment of costs.

VI. Materiality and Volatility: A Call for Caution and Prioritization

The Report does provide data that can inform the scoping of issues related to materiality and volatility.

Volatility. In IPC-E-17-13, one of the concerns raised by ICEA regarding separate rate classes was the increased volatility of rates that results when there are few customers in the rate class¹³:

The number of net metering customers in the proposed classes would be very low relative to standard customers. My perception is that such a small rate class would be more vulnerable to future changes in rates and rate structure. While Idaho Power has raised concerns about the range of predictions of power inflation rates, I perceive inflation rates for standard customers to be more predictable than future rates for net metering if such customers were put in a separate class. As described earlier, the higher the risk involved in any investment, the higher the return needed to motivate an investor. Putting net metering customers into a separate class would burden the market with higher risk regarding future rates, thereby driving down the profitability of the rooftop solar installation industry.

¹³ IPC-E-17-13, White Direct, page 9 Lines 3-11

The Report provides evidence of this problem. For example, the Company presents (Report, Figure 6) what percentage changes would be needed to address deficiencies in revenue collection assuming the Company's proposed CCOS methodology. For Customers on Schedule 8, the change would be 100% (a doubling of revenue collected) in order to address the proposed revenue deficiency of \$18,000.¹⁴ Different assumptions for the CCOS methodology, such as those described but partially presented in the Report, result in significant swings in the revenue deficiency or surplus calculated for on-site generation customers (Schedules 6 & 8). A changing composition of customers can create further swings. This exposure to volatility emphasizes the need for caution and materiality in the contemplation of future changes.

Materiality. Though we do not concur with the methodology, if the purported revenue deficiency from the Residential On-Site Generation Class were spread across Residential Customers, the deficiency proposed by the Company represents \$1 per residential customer¹⁵. This figure would be significantly lower if the CCOS modifications described in the Report were applied, or if changes to Net Metering contemplated in IPC-E-18-15 were in effect. Meanwhile, the Report (p14) presents that revenue from the Irrigator class falls \$21.1 million short of the revenue requirement suggested by the Company's proposed CCOS methodology. For the purposes of scoping materiality, consider that a \$21.1 million revenue deficiency would equal \$49 per residential customer. While again the Company's figures are arguable, we would note that the potential for a \$1/customer cross-class subsidy is not more urgent than a \$49/customer cross-class subsidy.

¹⁴ The Report, Appendix D, Page 67

¹⁵ *Ibid*

Recommendations

- ICEA continues to ask that the materiality of demonstrated issues with rate design be considered in the prioritization and timing of changes.
- ICEA understands that current rate designs provide leniency to the Irrigator class given the industry and its economic viability are valued in Idaho. If rate decisions are to be assessed in the context of their impact on an industry, ICEA asks that consideration be given to the impact on the clean energy industry in Idaho.

VII. Recap of Recommendations

- We ask that the Commission find the Report as insufficient in providing the comprehensive fixed costs analysis requested by the Commission, and that the Commission give significant weight to these comments to inform future decisions.
- To assess rate designs, ICEA asks that the Commission consider a more comprehensive, objective, and multi-attribute approach than that presented in the Company's Report. The public interest in preventing future cost growths should in particular be given greater consideration.
- The Report does not demonstrate that current rate designs have impeded the Company's ability to recover fixed costs. Analysis that the Company is recovering fixed costs through means other than fixed charges is not an indicator that current rate designs are ineffectively recovering fixed costs.
- ICEA proposes that the Commission broaden the "low income" attribute to consider impact of a residential rate design on "Affordability for vulnerable populations".
- We ask that the attribute category "Price Signaling and Behavior" be given significant weight in assessing any change to a rate design.

- Given that Idaho Power is successfully recovering its fixed costs, we ask that no changes to rate design should be made that go in the direction of negatively impacting conservation, controllability, peak reduction, or other factors linked to causation of future costs.
- In assessing whether a rate design is fair and equitable, the Commission should consider if the rate design enables customers to contribute to fixed costs in a manner proportionate to how the customer benefits from the service provided by the Company. Customers benefit from a service depending on when, where, and how much they use the service.
- Going in the direction of higher fixed fees goes in the direction of signaling behaviors which increase future costs. Increased fixed fees should only be considered if existing or alternative rate designs do not enable the Company to recover fixed costs and the Commission desires to reduce the signal to customers, and their ability, to control energy consumption.
- We oppose the implementation of demand charges for residential and small general service customers (Schedules 1, 6, 7, & 8) as these introduce significant problems with no demonstrated benefits. TOU volumetric charges provide similar benefits with less downsides and offer a better alternative than Demand charges.
- For the above reasons, we oppose the Three Tier Rate design proposed by the Company.
- With regard to TOU rates, the Report did not adequately present the benefits, and the concerns presented are addressable. A well-designed TOU rate program, when considered across the multiple attribute categories defined by the collective parties in the Staff Report, provides a compelling opportunity to reduce peak load growth, increase customer control over current and future costs, and more closely align price signals with cost causation.
- As soon as feasible, the Company should allow customers on Schedules 6 the option of participating in TOU rates available to Schedule 1 customers.

- ICEA looks forward to working with Staff to explore the possibilities that TOU provides to incent peak load reductions.
- ICEA continues to ask that the materiality of demonstrated issues with rate design be considered in the prioritization and timing of changes.
- ICEA understands that current rate designs provide leniency to the Irrigator class given the industry and its economic viability are valued in Idaho. If rate decisions are to be assessed in the context of their impact on an industry, ICEA asks that consideration be given to the impact on the clean energy industry in Idaho.

Dated: January 21, 2020.

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CERTIFICATE OF SERVICE

I certify that on January 21, 2020, a true and correct copy of the foregoing was served upon all parties of record in this proceeding via the manner indicated below:

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