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January 21, 2020

Diane Hanian, Commission Secretary
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IDAHO PUBLIC
UTILITIES COMMISSION

**Re: CASE No.: IPC-E-18-16
COMMENTS RE: FIXED COST REPORT BY IDAHO IRRIGATION
PUMPERS ASSOCIATION, INC.**

Dear Ms. Hanian:

Enclosed you will find the original and seven (7) copies of the following:

1. Comments RE: Fixed Cost Report by Idaho Irrigation Pumpers Association, Inc.

Electronic copies have been served per the Certificate of Service.

Please file these documents in the case file. If you have any questions, please don't hesitate to call. Thank you.

Sincerely,

Eric L. Olsen

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Enclosures
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Attorney for Intervenor Idaho Irrigation Pumpers Association, Inc.

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

CASE NO. IPC-E-18-16

**COMMENTS RE: FIXED COST
REPORT BY IDAHO IRRIGATION
PUMPERS ASSOCIATION, INC.**

COMES NOW the Idaho Irrigation Pumpers Association, Inc. ("IIPA") and pursuant to Commission's Order No. 34466 and provides its comments regarding Idaho Power Company's ("IPC") the Fixed Cost Report ("Report") that has been filed in this case.

I. GENERAL OBSERVATIONS

The Report gives the impression that the information contained therein was the product of a large effort by a number of parties. In fact, there was a great deal of effort by a number of parties, but the bottom line is that the Report is simply a reflection of IPC's position and not a reflection of any joint effort.¹ From the IIPA's perspective (and presumably other parties), these workshops had the appearance of negotiations, where IPC would file a Report that was reflective of the entire group. It was not until late in the process that IPC made it clear that the Report was its responsibility and that it was merely listening to the parties' comments and it was only going to incorporate the comments that reflected its position. Yes, IPC seemed to consider the comments of other parties, but then relatively few of those comments found their way into the Report.

¹ The Report states: "Since the initiation of the 18-16 Case, the company has met with Commission Staff (Staff) and interested parties in five settlement workshops and received feedback and input on issues to be addressed in the company's Report. With consideration of the input received from parties, and in compliance with Order No. 34046, the company has prepared the following Report for the Commission's review." Fixed Cost Report. P. 5 (Emphasis added).

IPC reiterated its concerns from Case No. IPC-E-17-13 with respect to fixed cost recovery for on-site generation customers in its Report:

Because the volumetric rates contained within the company's current retail rate structure include cost associated with all components of the electric system—from generation resources to the meters installed on customers' premises—volumetric rates do not properly assign the costs and benefits of the transaction between Idaho Power and its customers with on-site generation.²

The IIPA does not take the position that costs and benefits for some rate schedules may not be “aligned”, but IPC's Fixed Cost Report does nothing to address or quantify the appropriateness of any alignment. Neither the existing alignment nor IPC's proposal to have more revenue collected on the basis of fixed charges is measured by any criteria demonstrating that one set of ratios is any better than the other. The entire premise of the Report is that IPC would like to have more costs recovered in fixed charges, but the only justification given is that a lot of fixed costs are recovered in the energy rates.

IPC's Fixed Cost Report goes on to state:

The rate design evaluation presented in this Report includes an assessment of the extent to which each rate design option may provide for recovery of fixed costs in a manner that aligns with the underlying cost structure, improved fairness in the assignment of costs to individual customers and appropriately balances a range of policy objectives.³ (Emphasis added)

First, it should be recognized that the “alignment” of the its fixed charges (demand and customer) with its underlying classification of costs, may not be a goal that is worth pursuing. As clearly demonstrated in the Report, all fixed costs are not being recovered in demand and customer charges at the level which fixed costs are being classified/assigned to customer classes. This mismatch, as IPC calls it, has existed since the beginning of utility regulation. There is nothing newly discovered here. IPC merely wants to collect more of its costs within fixed charges and less through energy charges.

Second, “improved fairness” is only in the eye of the beholder. For each rate schedule, IPC admits that increasing demand and/or customer charges will benefit high load factor customers, while placing more of a cost burden on lower load factor customers. Under today's existing rates, high load factor customers already pay less per kWh than lower load factor

² *Id.* At 3.

³ *Id.* At 3.

customers. Other than stating that more of the fixed costs classified/assigned by IPC should be collected in fixed charges, what is to say that this is appropriate or fairer than rates are today? What is to say that the fixed charges should be lower than they are today? Fairness is a good objective, but one needs to ask “fairness” as defined by who and how does this relate to other policy objectives.

Thus, increasing fixed charges does not “balance a range of policy objectives”. The Report goes on to state:

To create a proper rate design, it is important to distinguish between fixed and variable cost—barring other considerations, the company endeavors to collect variable costs (those that can fluctuate with energy consumption) through the volumetric energy charges and the fixed costs (those driven by customer counts or demand) through fixed monthly service charges and demand-related charges...⁴

“[B]arring other considerations” is a gross understatement of what the Report does. The Report is single-minded in its attempt to increase fixed charges (demand and customer) in order to help stabilize its revenue. To give a false sense of inclusion of other ratemaking objectives, the Report lists (but gives little or no weight to) the ratemaking principles put forth by Bonbright.⁵ The first principle listed in its Report is “Effectiveness in yielding total revenue requirements under the fair return standard.”⁶ The second principle listed in its Report is “Revenue stability and predictability.”⁷ These two principles are exactly what increasing or developing a demand charge will do. This is exactly what IPC is proposing. However, IPC gave little or no consideration to Bonbright’s other rate making principles that were implicated by the participating parties’ comments and views that were not ultimately incorporated into or addressed by the Report.⁸

II. IRRIGATION COST STRUCTURE

The IIPA will specifically address issues affecting Irrigation customers and will leave it to others to address how the Report deals with the other customer classes. IPC appropriately recognizes many unique features about Irrigator usage. IPC recognizes that Irrigators are not year-round customers, but have a definite in-season (high usage) and an out-of-season. IPC also

⁴ *Id.* At 7 (emphasis added).

⁵ *Id.* At 8.

⁶ *Id.* Figure 2.

⁷ *Id.* Figure 2.

⁸ Attached hereto as Appendix A is a copy of relevant pages from Bonbright, James C. Principles of Public Utility Rates.

recognizes that Irrigators, unlike any other customer group, have a single demand level—there is only one piece of equipment tied to its system and that equipment is either “on” and using electricity or it is “off” and not using electricity. This is completely different than other customer classes that have a variety of loads/equipment that can be using electricity at any given time. For all non-Irrigation customers, a demand charge may be useful to keep peak demand down, but this does not apply to Irrigators who do not have a “peak demand level.” The Irrigators have the same demand level whenever electricity is used. No matter the time of day or how long an Irrigator takes electricity, the demand level will be the same.

It is often stated that a higher demand charge will promote conservation as customers try to lower their energy costs by reducing their peak demand. With lower peak demands and the same energy usage, a customer will have a higher load factor which is considered to be an efficient use of the electrical system. This works for all customer groups, except the Irrigation customers that have only one piece of equipment/pump and it is either operating or not. Without changes to the basic system, the only way an Irrigator can obtain a higher load factor (and thus a lower overall rate per kWh) is for the Irrigator to increase its usage. This would increase the Irrigator’s bill but decrease the cost per kWh (which could be very beneficial for the Irrigator, but not for IPC’s system).

Why would an Irrigator wish to increase his overall bill in order to lower his cost per kWh? The answer is quite simple. It lies in the cost of taking a small amount of electricity compared to taking more energy that would pump more water and be more beneficial for his crops. For example, if a 100 kW pump is turned on for only one hour during an in-season month, the Irrigator would use 100 kWh of energy and would be charged:

\$ 22.00	Customer charge
\$ 697.00	Demand charge
<u>\$ 5.76</u>	Energy charge
\$ 724.76	Total or \$7.25 per kWh ⁹

⁹ This is dollars and not cents.

If this Irrigator increased his operating time to 100 hours, he would be watering his crops far more during the month. For the 100 kW motor, he would use 10,000 kWh and be charged:

\$ 22.00	Customer charge
\$ 697.00	Demand charge
<u>\$ 576.35</u>	Energy charge
\$ 1,295.35	Total or 12.95¢ per kWh

This is simple economics for the Irrigator. He increases his bill by 78%, but he increases the water for his crops by a factor of 100. Although saving on his electric bill is important, the money he makes is tied to his crops. A decrease in yield is usually far more important than a small increase in the electric bill.

The above example shows what the thought process is in light of the current Irrigator rates. But what happens if the fixed charges are raised and the energy charges are lowered as IPC suggests? Very simply, there would be more upfront charges and lower energy prices. The incentive would be even greater to use more energy because the incremental cost to use more water would be even less. Higher demand and customer charges would discourage conservation during the summer months—at the very time when it would be beneficial to reduce consumption on the system. By the same token, decreasing the demand and customer charges would cause an increase in the energy rates which in turn would promote conservation—each unit of usage would be more expensive and thus, need to be weighed against the water needed.

Presently, the in-season Irrigators have a demand charge and a two-part energy rate that is dependent upon load factor. An Irrigation customer, like any other demand metered customer, is encouraged to increase his load factor by the fact that he gets an overall lower rate per kWh if he does so. But an Irrigator cannot lower his demand in the short run without equipment changes, so all he can do to increase his load factor is to increase his energy usage in order to increase his Load Factor. This is the opposite of what is generally encouraged. Very simply put, the demand charge and the higher first block energy charge designed to collect a portion of fixed costs encourages more Irrigation usage on the system. On the other hand, if fixed costs are kept low, then energy prices would need to be higher in order to collect more of the fixed costs. With higher energy prices and less being collected up front in fixed charges, then more concentration would be placed upon saving every possible unit of electricity compared to low energy rates with high upfront cost recovery.

IPC's Report goes on to introduce a Basic Load Charge ("BLC") to the Irrigation rates. This has the appearance of adding more granularity to rates, thus attributing the collection of production and distribution costs in separate rates. In reality, a BLC would only produce a second component of a demand charge for Irrigators. A BLC for other classes gives the appearance of more appropriately collecting demand charges based on perceived difference in the timing and use of the Distribution and Generation systems. Be that as it may, with Irrigators having essentially the same demand level each month, each day, and each hour, there is no benefit to dividing the fixed cost collection over two mechanisms that would collect the same overall fixed costs as presently collected under a single demand charge.

III. CONCLUSION

IPC's Report is single-minded in its attempt to collect more of its revenue in fixed charges. This proposed move to higher fixed charges was never critiqued against other standard regulatory policy considerations. For Irrigation customers, a demand charge is a disincentive to conservation and increasing the fixed charges would be even more of a disincentive.

DATED this 21st day of January, 2020.

ECHO HAWK & OLSEN



ERIC L. OLSEN

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 21st day of January, 2020, I served a true, correct and complete copy of the aforementioned document to each of the following, via U.S. Mail or private courier, email or hand delivery, as indicated below:

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