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May 20, 2020

VIA ELECTRONIC FILING

Diane Hanian, Secretary
Idaho Public Utilities Commission
11331 W. Chinden Boulevard
Building 8, Suite 201-A
Boise, Idaho 83714

Re: Case No. IPC-E-20-14
Fixed Cost Adjustment Rates for June 1, 2020, through May 31, 2021 – Idaho Power Company's Reply Comments

Dear Ms. Hanian:

Attached for electronic filing in the above matter is Idaho Power Company's Reply comments.

If you have any questions about the enclosed documents, please do not hesitate to contact me.

Very truly yours,

Lisa D. Nordstrom

Lisa D. Nordstrom

LDN:sdh
Enclosures

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER FOR AUTHORITY TO IMPLEMENT FIXED COST ADJUSTMENT RATES FOR ELECTRIC SERVICE FROM JUNE 1, 2020, THROUGH MAY 31, 2021	)	CASE NO. IPC-E-20-14 IDAHO POWER COMPANY'S REPLY COMMENTS

Idaho Power Company ("Idaho Power" or "Company") respectfully submits the following Reply Comments in response to comments filed by the Idaho Public Utilities Commission ("Commission") Staff ("Staff") on May 13, 2020.

Based on its audit and review, Staff recommends the Commission (1) approve the $35,498,856 Fixed Cost Adjustment ("FCA") deferral balance, and (2) approve the requested FCA rates. However, Staff suggests the "current FCA as structured is no longer viable, and the Commission should consider capping FCA recovery in between rate cases beyond the annual 3% cap included in the original FCA design."[1] In its Reply

[1] Staff Comments at 5

Comments, Idaho Power affirms (1) the importance of the FCA mechanism in enabling the Company's pursuit of energy efficiency savings, (2) that the Commission has discretion to limit volatility in its application of the annual 3 percent cap on FCA increases, and (3) that rate design is most appropriately evaluated holistically.

I. THE FCA FUNCTIONS AS INTENDED TO BENEFIT CUSTOMERS BY ENABLING THE COMPANY'S PURSUIT OF COST-EFFECTIVE ENERGY EFFICIENCY.

Beginning in 2001, Idaho Power, the Commission, and other interested stakeholders worked cooperatively to develop a comprehensive, progressive, cost-effective portfolio of energy efficiency programs that benefits Idaho Power's customers. From the Company's standpoint, Idaho Power has consistently argued that there are three essential components to an effective business model for energy efficiency: (1) timely recovery, (2) the removal of financial disincentives, and (3) the opportunity to earn a return.

Recognizing the importance of the second component, the Commission established Case No. IPC-E-04-15 to investigate financial disincentives inherent to the pursuit of the investment in energy efficiency by Idaho Power and ordered parties to "address possible revenue adjustments when energy consumption is both above and below normal."[2] After years of investigation, the Commission ultimately approved an FCA pilot program that was implemented in 2007, stating that in return for the FCA, the Company is expected to demonstrate an enhanced commitment to energy efficiency and

[2] In the Matter of the Application of Idaho Power Company for Authority to Increase Its Interim and Base Rates and Charges for Electric Service, Case No. IPC-E-03-13, Order No. 29505, page 68 (June 2, 2004).

demand-side management ("DSM").[3] The Commission approved the FCA as a permanent mechanism in 2012.[4]

The FCA continues to remove the financial disincentive that exists under the existing rate design when the Company invests in DSM resources and energy efficiency activities. It has produced the intended result -- on a system-wide basis, Idaho Power achieved 203,041 megawatt-hours of incremental annual energy efficiency savings in 2019, which is a 10 percent increase from finalized savings achieved in 2018 and represents the highest single-year savings to date.[5] The Company also invests in significant DSM educational and awareness activities and marketing efforts that are likely to result in energy savings experienced by the customer but are not quantified or claimed as part of Idaho Power's annual savings.

Staff's quantification[6] that only 8 percent of the estimated decrease in Residential sales on a use per customer ("UPC") basis is attributed to the Company's residential and small general service customers' energy efficiency programs since the Company's last general rate case ("GRC") in 2011 is flawed for primarily two reasons. First, the numbers cited by Staff are only the *incremental* savings claimed for the residential and small general service customer segments in 2019 which are not reflective of the cumulative impact of an energy efficiency resource. Energy efficiency savings claimed in 2019

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[3] *In the Matter of the Investigation of Financial Disincentives to Investment in Energy Efficiency by Idaho Power Company, Case No. IPC-E-04-15,* Order No. 30267, pages 13-14 (March 12, 2007).

[4] *In the Matter of the Application of Idaho Power Company for Authority to Convert Schedule 54 - Fixed Cost Adjustment – from a Pilot Schedule to an Ongoing Permanent Schedule,* Case No. IPC-E-11-19, Order No. 32505 (March 20, 2012).

[5] *In the Matter of Idaho Power Company's Application for a Determination of 2019 Demand-Side Management Expenses as Prudently Incurred,* Case No. IPC-E-20-15, DSM 2019 Annual Report at 1.

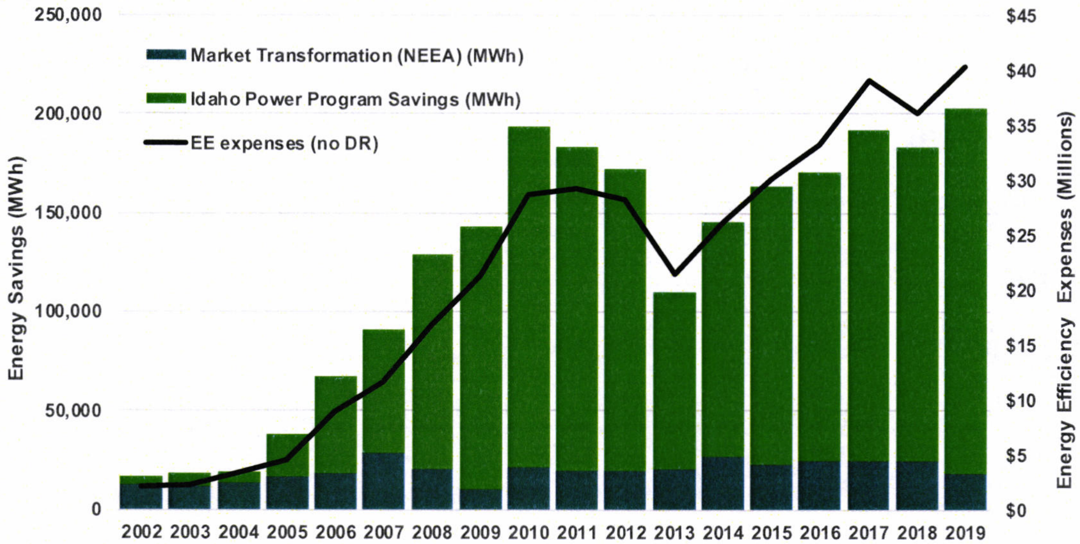
[6] Staff Comments at 5-6.

represent only one year of energy efficiency activity, while actual reductions in residential and small general service UPC since 2011 include the accumulation of prior year's energy efficiency activity continuing to yield energy savings. To illustrate: for a measure installed in 2015 with a 7-year measure life, the Company only claims the savings in program year 2015, however, the 7-year stream of energy savings claimed as part of the 2015 program year will continue to contribute to savings on Idaho Power's system for the life of that measure. That is, the customer (and Idaho Power's system) will continue to experience reduced usage from that measure not only in 2015 when the savings are claimed, but in the remaining years of that measure's life, which will also contribute to reduced use per customer in 2019.

Second, Staff relies only on claimed savings from the Company's DSM portfolio, which ignores any savings achieved on Idaho Power's system as a result of the Company's robust marketing campaigns aimed at educating, raising awareness, and encouraging customers to use energy wisely. The Company believes these activities are likely to result in energy savings experienced by the customer and on Idaho Power's system but are not quantified or claimed in Idaho Power's annual savings.

The Company's pursuit of cost-effective energy efficiency has provided an increased amount of energy efficiency in nearly each of the last seven years, as demonstrated in Chart 1 below.

Chart 1. Incremental Annual Energy Efficiency Savings MWh) and Energy Efficiency Expenses ($ millions) 2002-2019



Note: 2019 NEEA market-transformation savings are estimated.

Further, between 2007 (the first year of the FCA pilot) and 2019, Idaho Power has spent approximately $499 million on energy efficiency activities and has claimed 2,080,486 MWh of incremental savings. The magnitude of Idaho Power's investment in energy efficiency alone is evidence of the Company's commitment to energy efficiency, effectuated by the Commission's support of the FCA mechanism.

Staff's expresses concern that the FCA is unlikely to produce credits for customers,[7] but its position ignores that the FCA was designed to increase as usage per customer decreases. The very intent of the mechanism is to remove the disincentive the Company would otherwise have to pursue programs that reduce customers' usage. The FCA has been and continues to be an effective mechanism that has positioned the Company to continue to grow energy efficiency resources while maintaining a

[7] Staff Comments at 4.

reasonable opportunity to recover its fixed cost of servicing residential and small commercial customers.

II. THE COMMISSION HAS DISCRETION TO CAP FIXED COST RECOVERY THROUGH THE FCA.

In the Company's 2004 investigation of financial disincentives to investment in energy efficiency by Idaho Power, all parties agreed to a 3 percent cap on annual rate increases to be imposed at the Commission's discretion as part of the Settlement Stipulation.[8] The intent of the cap is to reduce volatility in year-over-year changes, with Commission discretion on its application to limit carry-over collection. The Company does not believe it is necessary to implement an additional or different cap than previously approved by the Commission. The Commission has the authority to determine whether a requested rate change is fair, just, and reasonable based on the facts specific at a certain point in time and the Company anticipates the Commission will apply that authority, at its discretion in any case where the Company requests a change in rates.

III. CHANGES TO THE FCA AND THE UNDERLYING RATE DESIGN MUST BE CONSIDERED HOLISTICALLY.

In filing to establish the FCA pilot, the Company expressed that "significant movement in the rate design would address the same issues that a true-up mechanism would"[9] and parties to the 2014 Settlement Stipulation agreed to consider modifications to rate design to address the financial disincentive which exists absent the FCA for the Company to pursue all cost-effective demand-side management.[10] Idaho Power

[8] Case No. IPC-E-04-15, Order No. 30267 at 13.

[9] Case No. IPC-E-04-15, Gale DI at 4

[10] *In the Matter of Staff's Inquiry into Idaho Power Company's Fixed Cost Adjustment Mechanism*, Case No. IPC-E-14-17, Settlement Stipulation at 4.

continues to believe that a thoughtfully implemented rate design could reduce the Company's reliance on a mechanism like the FCA as it relates to removing the financial disincentive associated with pursuing energy efficiency. However, the same basic rate design that existed when the FCA was implemented still exists today and modifying the FCA outside of a general rate review where base rate design can be evaluated would not be appropriate.

The Company disagrees with Staff's concern that the "FCA allows recovery of costs without verification that the Company actually incurred them."[11] While base rates and the FCA components were established in the 2011 GRC, the mere fact that time has elapsed since 2011 doesn't mean that relying on those rates for cost recovery is flawed. That characterization ignores the fundamentals of the utility rate making process. Rates are established at a point in time, and those rates are relied on to collect the revenue requirement authorized at a point in time. Customer counts and energy sales fluctuate over time, and the utility is required to charge customers in accordance with the rates established by the Commission.[12]

It is important to remember that while customer counts and overall energy sales have increased since 2011, the Company's investment in infrastructure to serve customers has also increased, which has increased its overall cost to provide service. The net book value of property, plant and equipment has increased by approximately $1.2 billion (45 percent) since the last GRC and annual depreciation and amortization expense has increased $44 million (36 percent) during the same time period, while the Company's

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[11] Staff's Comments, page 5.

[12] *Idaho Code* § 61-313.

operations and maintenance expense has experienced an annual growth rate of less than 1 percent.

While the fixed costs incurred to provide service to customers have increased since the last GRC, the Company's careful management of operating expenses and reliance on the Commission-approved FCA and revenue sharing mechanism have benefited customers because the Company has not needed to file a GRC. The Company quantified a 2019 Idaho jurisdictional ROE of 9.8 percent as part of its recent power cost adjustment ("PCA") filing.[13] When the Company's Return on Equity ("ROE") exceeds 10 percent, the Company shares a portion of that revenue with customers. Since 2011, revenue sharing in the amount of $126.2 million has been shared with customers either as a direct offset to the PCA or as an offset to amounts that would have been otherwise collected in rates.[14]

The Company believes the Commission has thoughtfully and carefully balanced customer and Company interests through the combination of rate design and adjustment mechanisms that have been established at and since Idaho Power's last GRC. The Company believes modification of any one of those components is only reasonably considered when the entirety can be evaluated.

IV. CONCLUSION

Idaho Power appreciates the opportunity to respond to comments filed in this case and respectfully requests that the Commission issue an order approving its Application

[13] In the Matter of Idaho Power Company's Application for Authority to Implement Power Cost Adjustment (PCA) Rates for Electric Service from June 1, 2020 through May 31. 2021, Case No. IPC-E-20-21, Application at 8.

[14] Case No. IPC-E-20-21, Blackwell DI at 8.

determining the 2019 FCA deferral balance of $35,498,856 and approve the requested FCA rates with an effective date of June 1, 2020.

DATED at Boise, Idaho, this 20th day of May 2020.

Lisa D. Nordstrom

LISA D. NORDSTROM
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 20th day of May 2019 I served a true and correct copy of IDAHO POWER COMPANY'S REPLY COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

Commission Staff	___ Hand Delivered
John R. Hammond, Jr.	___ U.S. Mail
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