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Attorney for Intervenor Idaho Irrigation Pumpers Association, Inc.

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION
OF ROCKY MOUNTAIN POWER
REQUESTING APPROVAL FOR
ADJUSTMENTS TO THE IRRIGATION
LOAD CONTROL PROGRAM**

CASE NO. PAC-E-24-02

**COMMENTS OF IDAHO
IRRIGATION PUMPERS
ASSOCIATION, INC.**

COMES NOW Idaho Irrigation Pumpers Association, Inc. (“IIPA”) and pursuant to Order No. 36128 provide comments in support of Rocky Mountain Power’s (“RMP”) Application for Adjustments to the Irrigation Load Control Program, as follows:

INTRODUCTION

The IIPA has partnered with RMP for over last two decades to help improve its Irrigation Load Control Program (“Program”). Prior to the filing of its Application, RMP discussed with the IIPA the proposed changes and gave suggestions on the same.

INCENTIVE STRUCTURE

The IIPA generally supports the new incentive structure. However, the IIPA is concerned that the proposed escalation rate of 2.5 percent per year may not be sufficient to reflect annual increases in RMP’s avoided costs, the system benefits of the Program, or the opportunity costs to irrigators from continuing to participate in the program.

The incentive structure should be designed to maximize the Program’s total benefits. Demand response programs can be thought of as an economic market where participants are selling a service and the utility is purchasing a service, and the incentive is the market price. A well established economic principal is that benefits are maximized when the price (incentive) is set such that marginal costs equal marginal benefits. Participating in the expiring Program has been waning because the program incentives were static.

RMP designed the new Program incentives to reflect the benefits of the Program, which will maximize the overall Program benefits. However, under inflation, the benefits to RMP will

increase, suggesting that the Company should seek greater participation. Unfortunately, inflation has the opposite impact on participation by irrigators in general.

As inflation increases the general price levels, the cost to irrigators to participate in the Program increases. Higher crop prices increase the economic loss due to suboptimal crop growth caused by irrigation curtailment. Higher fertilizer and seed cost will increase the risk to participants should a curtailment cause crop failure. Higher wage costs will increase the cost to restart and monitor irrigation systems after a curtailment event. This means that in times of inflation, irrigator participation will decrease. In fact, current participation in the program is lower than optimal precisely because incentives did not increase with benefits during the prior contract period.

Stagnant incentive prices have a secondary affect of cross subsidization. This is because, as prices deviate from benefits, benefit shift from irrigators, who bear the costs of demand response, to other non-participating customers. Thus failing to account for inflation will decrease the total value of the program and unfairly shift the benefits of the program participating to non-participating customers.

While under fixed prices, inflation will cause irrigator participation to decrease, escalating incentives will help ensure continued participation. The proposed escalation rate of 2.5 percent is a reasonable estimate of inflation over the next five years. The table below summarizes the inflation rates implied by bond yields over the next 5 to 20 years.¹

Maturity Period	Yield		
	Treasury Bond	TIPS	Implied Inflation
5 YR	4.69	2.17	2.52
7 YR	4.69	2.2	2.49
10 YR	4.67	2.24	2.43
20 YR	4.88	2.34	2.54

However, current and recent inflation has greatly exceeded the 2.5 percent forecast. The March 2024 12 month increase in the Consumer Price Index was 3.5 percent.² Given the risk that actual inflation could greatly exceed the forecasted inflation rate, the IIPA recommends that the incentive rates be updated annually proportionately to changes in the Consumer Price Index over the prior 12 months.³ This formulaic update will minimize administrative burden while ensuring that the incentive rate keeps pace with both costs and benefits.

¹ <https://home.treasury.gov/policy-issues/financing-the-government/interest-rate-statistics>. A market forecast of inflation can be calculated as the difference between the yield on treasury bonds and inflation protected treasury bonds. The current difference

² <https://www.bls.gov/cpi/>.

³ The initial could should be timed to coincide with the Company’s other annual update filings.

CONCLUSION

The IIPA supports RMP's overall changes to the Program. The IIPA believes that the incentives under the Program need to have an appropriate escalator to ensure sufficient participation over the contract term. Having the escalator tied to changes in the CPI would ensure participation in the Program over this next contract term.

DATED this 18th day of April, 2024.

ECHO HAWK & OLSEN



ERIC L. OLSEN

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 18th day of April, 2024, I served a true, correct and complete copy of the Petition of Idaho Irrigation Pumpers Association, Inc. for Leave to Intervene to each of the following, via U.S. Mail or private courier, email or hand delivery, as indicated below:

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