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IDAHO PUBLIC UTILITIES COMMISSION

**LISA D. NORDSTROM**  
Attorney II

May 16, 2008

Jean D. Jewell, Secretary  
Idaho Public Utilities Commission  
472 West Washington Street  
P. O. Box 83720  
Boise, Idaho 83720-0074

Re: Case No. IPC-E-08-04  
Fixed Cost Adjustment Rates

Dear Ms. Jewell:

Please find enclosed for filing an original and seven (7) copies of Idaho Power's Reply Comments in the above-referenced matter.

I would appreciate it if you would return a stamped copy of this letter for my file in the enclosed stamped, self-addressed envelope.

Very truly yours,

  
Lisa D. Nordstrom

BLK:sh  
Enclosures

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Attorneys for Idaho Power Company

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Boise, Idaho 83702

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION )  
OF IDAHO POWER COMPANY FOR ) CASE NO. IPC-E-08-04  
AUTHORITY TO IMPLEMENT FIXED-COST )  
ADJUSTMENT (FCA) RATES FOR )  
ELECTRIC SERVICE FROM JUNE 1, 2008 ) IDAHO POWER'S REPLY  
THROUGH MAY 31, 2009. ) COMMENTS  
\_\_\_\_\_ )

COMES NOW, Idaho Power Company ("Idaho Power" or "the Company"), and in response to the Comments of the Commission Staff filed in this docket on May 9, 2008, submits the following Reply Comments.

**RESPONSE TO STAFF'S COMMENTS**

1. Role of the FCA in Idaho Power's Current and Future DSM Activities

Idaho Power has worked with the Commission and members of the environmental community to create a financial and regulatory environment supportive of utility demand-side management (DSM) resource acquisition. As a result of those

collaborative efforts, a framework has been put in place that encourages Idaho Power's support of energy efficiency programs. This framework includes: (1) the DSM tariff first authorized in 2002 to fund energy efficiency expenditures, (2) the Fixed Cost adjustment (FCA) true-up mechanism that "decouples" energy sales from revenue to remove the financial disincentive that exists when Idaho Power invests in DSM resources, and (3) a Performance-Based DSM Incentive mechanism that allows Idaho Power to retain a portion of the financial benefits resulting from DSM activities when energy savings targets are exceeded and a penalty if Idaho Power fails to meet energy savings levels previously achieved. Both the FCA and the Performance-Based DSM Incentive mechanisms are three-year pilot programs that were approved just over a year ago in March 2007.

In response to the Commission's approval of the FCA mechanism, Idaho Power has begun efforts to extend its DSM activities beyond those previously contemplated in its Integrated Resource Plans. As is standard and prudent when considering new efficiency programs, Idaho Power issued a request for proposal (RFP) last fall seeking professional services to measure DSM energy savings potential and peak load reduction potential within Idaho Power's service territory. The primary goal of this study is to identify opportunities for enhancing current DSM program activities and to further develop practical cost-effective energy efficiency and demand response programs. Additionally, the RFP requested development of a DSM simulation model that would allow Idaho Power to update achievable potential given future economic scenarios. San Francisco-based Nexant was selected to conduct the study and create the model, both

of which are expected to be complete by July 31, 2008. The information provided by the study will serve as the basis for new and enhanced DSM offerings going forward.

2. Spread of Deferred Fixed Cost Accrual between Classes

Idaho Power's proposed rate spread complies with the Stipulation approved in Order No. 30267. Although Staff raises concerns regarding the validity of deferred fixed cost accrual and spread of the deferral between classes on page 6 of its Comments, the Company does not believe that either of these issues are solved by Staff's recommendation of spreading the deferral on an equal cents per kWh basis to both classes. However, the Company recognizes that spreading the deferral equally between the classes may have merit, albeit for a different reason. Spreading the deferral equally between the classes recognizes a power supply "portfolio" approach to energy efficiency that reflects the fact that all customers benefit financially from conservation – either through reduced consumption or lower rates from avoiding the construction of additional generation to serve growing loads. For this reason, Idaho Power supports spreading the deferral equally between the classes on a per kWh basis.

3. Resolution of Calculation Uncertainties

To improve its ability to audit the FCA mechanism, Staff recommended that Idaho Power provide customer counts and weather normalized energy data in its monthly FCA report. Idaho Power has no objection to providing this information and will do so going forward.

Idaho Power agrees that the FCC should be established in the context of a general rate case, as should the FCE. The Company agrees that Staff, Idaho Power, and other interested parties should work together to develop a procedure to assign

class fixed cost responsibility during years with no general rate change, for years with a general rate change, and for years when general rate cases are settled (e.g., 2007). Idaho Power intends to specifically identify the FCC and FCE rates in its general rate case direct testimony and is willing to make a post-rate case compliance filing to formally establish these rates.

#### 4. Idaho Power's Enhanced Commitment to DSM

Idaho Power has committed to aggressively pursue all cost-effective demand-side management opportunities. In recent years, this commitment has become increasingly integrated into the Company's corporate culture affecting the strategies and decisions at all levels. The Northwest Power and Conservation Council recently recognized Idaho Power's DSM efforts in the context of regional efforts to ramp up energy efficiency. The Council specifically noted that Idaho Power doubled its annual energy efficiency budget in 2007 and exceeded its 2007 energy efficiency goals by 20%.<sup>1</sup>

The Company is encouraged by the significant progress that has been made toward creating a regulatory model that is supportive of its continued pursuit of that commitment. As mentioned earlier, this regulatory model is comprised of three essential components: DSM program cost recovery, the removal of financial disincentives and the availability of financial incentives. While the current mechanisms being piloted (i.e., the FCA and Performance-Based DSM Incentive Pilot) may or may not ultimately be employed permanently, the Company feels that these efforts are indicative of the long-term sustainability of this type of environment.

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<sup>1</sup> Northwest Power and Conservation Council presentation, *Overview of Conservation in the PNW and Issues for BPA Post-2011 Programs*, slide 13 (March 2008) at <http://www.nwccouncil.org/energy/present/Default.htm>.

As part of this broader effort, the Company is committed to pursuing energy efficiency and DSM in several key areas that were detailed in the FCA Settlement Stipulation and referred to by Mr. Youngblood in his testimony. On page 7 of Mr. Youngblood's testimony and in Mr. Youngblood's Exhibit No. 1, Annual Demand-Side Management 2007 Annual Report, pages 47 through 50, he provided several examples of ways in which Idaho Power pursued these specific objectives during the first nine months of the three-year pilot. While difficult to identify every incidence that demonstrates the Company's enhanced commitment, the Company felt it was important to provide a few examples that demonstrate ways in which the commitments detailed in the Stipulation are being honored. As the three-year pilot progresses the Company plans to take every opportunity to fulfill its commitment in both the key areas detailed by Mr. Youngblood and in the broader sense.

#### **Conclusion**

For the foregoing reasons, Idaho Power respectfully requests the Commission authorize Idaho Power to implement the Fixed Cost Adjustment rates for electric service from June 1, 2008 through May 31, 2009 as set forth in its Application with Staff's recommendation for rate design as discussed above.

Respectfully submitted this 16<sup>th</sup> day of May, 2008.

  
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LISA D. NORDSTROM  
Attorney for Idaho Power Company

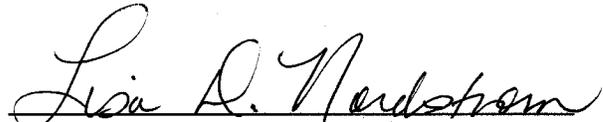
## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 16<sup>th</sup> day of May 2008, I served a true and correct copy of the within and foregoing document upon the following named parties by the method indicated below, and addressed to the following:

**Commission Staff**

Weldon B. Stutzman  
Deputy Attorney General  
Idaho Public Utilities Commission  
472 W. Washington (83702)  
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Boise, Idaho 83720-0074

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 U.S. Mail  
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LISA D. NORDSTROM