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**JASON B. WILLIAMS**  
Corporate Counsel  
[jwilliams@idahopower.com](mailto:jwilliams@idahopower.com)

March 15, 2012

**VIA HAND DELIVERY**

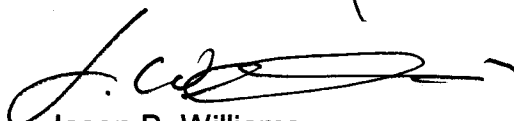
Jean D. Jewell, Secretary  
Idaho Public Utilities Commission  
472 West Washington Street  
Boise, Idaho 83702

Re: Case No. IPC-E-11-19  
*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*

Dear Ms. Jewell:

Enclosed for filing please find an original and seven (7) copies of Idaho Power Company's Reply Comments in the above matter.

Very truly yours,



Jason B. Williams

JBW:csb  
Enclosures

JASON B. WILLIAMS (ISB No. 8718)  
LISA D. NORDSTROM (ISB No. 5733)  
Idaho Power Company  
1221 West Idaho Street (83702)  
P.O. Box 70  
Boise, Idaho 83707  
Telephone: (208) 388-5104  
Facsimile: (208) 388-6936  
[jwilliams@idahopower.com](mailto:jwilliams@idahopower.com)  
[lnordstrom@idahopower.com](mailto:lnordstrom@idahopower.com)

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Attorneys for Idaho Power Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION )  
OF IDAHO POWER COMPANY FOR ) CASE NO. IPC-E-11-19  
AUTHORITY TO CONVERT SCHEDULE )  
54 – FIXED COST ADJUSTMENT – ) IDAHO POWER COMPANY'S  
FROM A PILOT SCHEDULE TO AN ) REPLY COMMENTS  
ONGOING PERMANENT SCHEDULE. )  
\_\_\_\_\_ )

COMES NOW, Idaho Power Company ("Idaho Power" or "Company"), by and through its undersigned counsel, and hereby submits to the Idaho Public Utilities Commission ("Commission") the following Reply Comments in the above-captioned case. Idaho Power has concerns that Commission Staff's ("Staff") recommendation to implement a 50 percent sharing between customers and Idaho Power of fixed cost recovery impacts resulting from load changes, if implemented by this Commission, will undermine the effectiveness of a rate mechanism that has successfully removed the financial disincentive to Idaho Power's pursuit of cost-effective energy efficiency. In particular, Staff's recommendation is a significant reversal from the Commission's and the Company's decade-long march towards placing the state of Idaho among the

leaders in energy efficiency and conservation. Accordingly, Idaho Power strongly urges the Commission to reject Staff's recommendation and make permanent the Fixed Cost Adjustment ("FCA") mechanism for the Company's residential and small commercial customer classes as proposed by Idaho Power in its Application and supporting testimony in this case as well as advocated herein.

## **I. BACKGROUND**

In the early 1990s, Idaho Power first adopted a focused, substantial and increasingly active approach to the development of demand-side resources. During the period between 1990 and 2000, Idaho Power operated approximately 12 programs (plus several pilots) in all customer sectors and began participating in the Northwest Energy Efficiency Alliance in 1997. By the late 1990s, however, increasing discussion of deregulation in the electric industry leading up to the dramatic impacts of the Western energy crisis in 2000 and 2001 led to the eventual dismantling of the Company's energy efficiency efforts.

In 2001, Idaho Power, this Commission, and other interested stakeholders began once again to work cooperatively to develop a comprehensive, progressive, cost-effective energy efficiency program for Idaho Power. From the Company's standpoint, Idaho Power has consistently advocated that there are three essential components to an effective business model for energy efficiency: (1) timely cost recovery; (2) the removal of financial disincentives; and (3) the opportunity to earn a return.

Beginning with Order No. 28722 issued on May 1, 2001, in Case Nos. IPC-E-01-07 and IPC-E-01-11, the Commission directed Idaho Power to file a comprehensive demand-side management ("DSM") plan. After receiving the DSM Plan from the

Company, the Commission issued Order No. 28894 on November 21, 2001, directing implementation of a limited portion of the plan and creating a DSM advisory group. It was this initial case which ultimately led to the establishment of the Idaho Energy Efficiency Rider (“DSM Rider”), which provides Idaho Power with timely cost recovery for energy efficiency expenditures, the first of the three essential components as identified above.

In implementing the second essential component of an effective business model for energy efficiency, the Commission established Case No. IPC-E-04-15 to investigate financial disincentives to investment in energy efficiency by Idaho Power. As part of that proceeding, a series of investigative workshops were held “to assess financial disincentives inherent in Company-sponsored conservation programs. . . .” Order No. 29505 at 68. As part of those investigative workshops, the Commission specifically requested that the parties “address possible revenue adjustment when annual energy consumption is both above and below normal.” *Id.* More specifically, the Commission stated that the scope of the investigation “should be focused on decoupling and performance based ratemaking.” Order No. 29558 at 2. The culmination of those workshops was the filing of a “Final Report on Workshop Meetings,” which was filed with the Commission on February 15, 2005 (“Final Report”). The Final Report called for two action items: (1) the development of a true-up simulation to track what might have occurred if a decoupling or true-up mechanism had been implemented for Idaho Power at the time of the last general rate case and (2) advocacy for filing a pilot energy efficiency program that would incorporate both performance incentives and “lost revenue” adjustments. See Order No. 30267 at 1.

As a result of those investigative workshops, Idaho Power filed an application requesting Commission approval to implement an FCA mechanism for residential and small general service customers on a trial basis. The Company, Commission Staff, and the NW Energy Coalition submitted a stipulation to the Commission asserting that it was in the public interest for the Company to implement the FCA mechanism as a pilot program for residential and small general customer classes. The Commission approved the stipulation which implemented a three-year pilot FCA program in March 2007 stating, "Promotion of cost-effective energy efficiency and demand-side management (DSM), we find, is an integral part of least-cost electric service." Order No. 30267 at 13. The Commission further found that "Making the Company indifferent to reduced energy consumption and demand is but one half of the quid pro quo agreed to by the stipulation parties. In return for the FCA, the Company is expected to demonstrate an enhanced commitment to energy efficiency and DSM." Order No. 30267 at 13-14.

In April 2010, following a request by Idaho Power to make the FCA mechanism permanent, the Commission approved a two-year extension to the original pilot program in order to allow additional data to develop as well as to allow this Commission, Staff, and interested stakeholders an opportunity to evaluate that data and address any areas of concern. Order No. 31063 at 9.

Within a month of approving the original pilot FCA program that went into effect in 2007, in a related case, the Commission approved a three-year DSM incentive pilot program that was geared, in part, at satisfying what the Company believes is the third essential component of implementing a successful business plan for energy efficiency—allowing the Company an opportunity to earn on energy efficiency activities. The

Commission approved the DSM incentive pilot, finding that “the potential benefits of the proposed three-year DSM Incentive Pilot Program outweigh any disadvantages in implementing this pilot contemporaneous with the three-year pilot Fixed Cost Adjustment (FCA) mechanism. . . .” Order No. 30268 at 6. In March 2009, Idaho Power filed an application for authority to terminate this pilot program during the final year of its implementation, primarily based on the complexity of administering the program and the termination of a primary third-party data source. The Commission granted Idaho Power’s request. Order No. 30806. That said, Idaho Power immediately convened another series of workshops to explore the possibility of incentives for Idaho Power’s energy efficiency activities. The culmination of those workshops was the Company’s filing of an application in Case No. IPC-E-10-27 which sought to move the incentive payments for the demand response programs into the Company’s Power Cost Adjustment (“PCA”) mechanism and to establish a regulatory asset for certain Custom Efficiency program incentive costs; this latter proposal affords the Company the ability to earn its authorized rate of return on these energy efficiency activities. The Commission ultimately approved, in part, Idaho Power’s request regarding capitalization of certain Custom Efficiency program incentive costs. Order No. 32245.

As part of its last general rate case filing, Idaho Power submitted a request to make the pilot FCA mechanism permanent. Case No. IPC-E-11-08. While the Company’s rate case was settled, the signing parties to the stipulation could not reach agreement as to whether the FCA mechanism should be made permanent and agreed to remove that issue to a separate proceeding. Pursuant to that understanding, on October 19, 2011, Idaho Power filed an application requesting that the Commission

convert the FCA mechanism from a pilot program to a permanent program. IPC-E-11-19.

To put the evolution of this Commission's and the Company's policies in the field of energy efficiency (inclusive of all three essential components of an energy efficiency business model—timely cost recovery, the removal of financial disincentives, and the ability to earn a return on energy efficiency investment) in perspective, between 1990 and 2000, Idaho Power spent just more than \$41 million on energy efficiency initiatives, which saved a cumulative of 26 average megawatts (“MW”). By comparison, in 2011 alone, Idaho Power spent more than \$46 million dollars on more than 20 different cost-effective energy efficiency programs, demand response programs and education initiatives, saving a total of nearly 180,000 megawatt-hours (“MWh”) of electricity with a total peak reduction capacity of 400 MW. See, generally, Case No. IPC-E-12-15, *Demand-Side Management 2011 Annual Report*. Between 2007, the first year of the FCA pilot program, and 2011, Idaho Power has spent approximately \$164 million on energy efficiency activities with savings totaling approximately 736,000 MWh of electricity. Indeed, the sheer magnitude of the dollars spent and the energy saved on cost-effective energy efficiency activities is strong evidence that the Commission has set in motion a comprehensive energy efficiency policy for Idaho Power that is achieving the desired results.

**II. STAFF'S PRIMARY RECOMMENDATION IS CONTRARY TO COMMISSION AND COMPANY POLICY ADVOCATING THE PURSUIT OF ALL ENERGY EFFICIENCY ACTIVITIES.**

As described above, this Commission and Idaho Power have worked over the last decade to develop a robust, progressive energy efficiency policy within the state of

Idaho. Idaho Power's success in deploying cost-effective energy efficiency initiatives has been premised on the fact that the Commission has allowed the Company to build and maintain a compelling business model for the implementation of robust energy efficiency portfolio. As noted above, the "three-legged stool" of energy efficiency support for Idaho Power—the DSM Rider, the capitalization of expenses associated with certain Custom Efficiency expenses, and removal of financial disincentives through the FCA—provide the Company with the financial assurance necessary to fully and aggressively pursue all cost-effective energy efficiency matters.

Staff's Comments point out the various "shortcomings" of the FCA, citing its primary concern that with the exception of normalization for weather, "there is no regard as to the source of variation in sales per customer." Staff Comments at 4. Thus, Staff's primary concern appears to be that because Idaho Power cannot directly tie reductions to energy consumption to specific energy efficiency initiatives or the Company's other non-DSM programmatic activities, there is an assumption that the FCA mechanism is not working as intended. This fuels Staff's ultimate conclusion to recommend a modification to the existing mechanism which would "subject [the FCA] to a symmetrical 50% sharing between customers and Idaho Power of fixed cost recovery impacts caused by load changes."

As explained below, this recommendation is not only arbitrary, it is unsupported and unsubstantiated by any of the evidence on the record in this case. More significantly, if the Commission Staff's recommendation in this regard is adopted, the regulatory framework that paved the way for Idaho Power's aggressive and successful pursuit of cost-effective energy efficiency will be compromised.



Of particular concern is Staff's recommended reduction in the amount of sharing to 50 percent of the fixed cost recovery impacts caused by load changes. This recommendation appears to be driven by the fact that Idaho Power's loads decreased four of the five years of the FCA pilot, resulting in an upward adjustment on the FCA to allow full-authorized recovery of the Company's fixed cost revenues from the residential and small commercial classes. Idaho Power does not dispute that some of the load reduction it experienced between 2008 and 2011 may have been attributable to the unprecedented, world-wide economic downturn that, by all indications, is starting to turn around. Direct Testimony of Michael J. Youngblood ("Youngblood Testimony") at 15. However, it is also undisputed that during this same time frame, Idaho Power was more aggressive on energy efficiency activities than ever before. As explained in the Youngblood Testimony, between 2007 and 2010, the Company increased the number of DSM programs from 20 to 25 and consistently increased DSM expenditures, which have resulted in increased first year energy savings. Youngblood Testimony at 7, 12-15, and Exhibit No. 1. For example, Idaho Power spent nearly \$46 million on DSM activities for 2010 compared to only \$11 million in 2006, the year before the pilot FCA mechanism was implemented. Further, outside observers have praised Idaho Power and this Commission for contributing to the success of energy efficiency initiatives throughout the state of Idaho. Direct Testimony of Ralph Cavanagh ("Cavanagh Testimony") at 5-6.

In addition, in responding to requests for production from Commission Staff, the Company demonstrated how it has gone above and beyond its obligations specified by the Commission in Order No. 30267, the Commission Order approving the original pilot

FCA mechanism. In particular, the objectives Idaho Power was obligated to fulfill were: (1) to promote the adoption of energy codes to achieve improved levels of efficiency in new commercial and residential construction and appliance standards in Idaho; (2) to promote and support appropriate energy code training programs and advocate the enforcement of energy codes; and (3) to identify ways to support energy code implementation and enforcement in all jurisdictions in Idaho Power's service territory. As described in the Company's response to the Commission Staff's Request for Production No. 4, each of Idaho Power's DSM Annual Reports (including the 2011 DSM Annual Report, which is being filed today with the Commission) contains a section detailing how the Company has fulfilled these obligations. There is no evidence in this proceeding that the Company has failed to do so.

In addition to achieving these objectives, the Youngblood Testimony describes how the pilot FCA mechanism has provided benefits to customers and additional energy efficiency benefits beyond what the Commission contemplated in Order No. 30267. Youngblood Testimony at 9-15.

Moreover, the Cavanagh Testimony highlights the fact that Idaho Power's commitment to energy efficiency helped launch the Pacific Northwest's first Center on Energy Efficiency Research and supported the expansion of the Integrated Design Lab of Idaho, both of which are focused on continuing to explore, support, and develop energy efficiency activities. Cavanagh Testimony at 6-8. As noted by Mr. Cavanagh, this example illustrates "Idaho Power's capacity to influence efficiency progress . . . well beyond the incentive programs that the Company administers. . . ." Cavanagh Testimony at 7-8.

Staff's proposal would effectively allow Idaho Power to keep only 50 percent of any amount in excess of its authorized fixed cost revenues for the residential and small commercial customer classes. Thus, Staff's recommendation turns the very purpose of the FCA mechanism on its head by providing Idaho Power with the unintended incentive to increase its energy sales as it would be allowed to keep 50 percent of any revenues in excess of its authorized fixed cost revenues. This fact is especially troubling given that all state and federal indicators suggest the economic downturn that has been affecting most of the country over the last several years is now on the upswing. Thus, the timing of Staff's proposal should be cause for concern.

In addition, Staff's recommendation reintroduces for the Company a disincentive to pursue broad-based energy efficiency initiatives. Specifically, since Staff's proposal would only allow the Company to recover 50 percent of its authorized fixed costs revenue associated with lost energy sales, Idaho Power would no longer be indifferent to its pursuit of energy efficiency activities, as it would be penalized for pursuing such activities by not being afforded a mechanism whereby it can recover its authorized fixed costs. Thus, from a business standpoint, Idaho Power would need to reconsider its current energy efficiency business model.

From a larger policy perspective, it appears that Commission Staff is the only party or stakeholder that has concerns with the workings of the current pilot FCA mechanism. Besides Staff, only two other parties to this proceeding, Idaho Conservation League ("ICL") and Snake River Alliance ("SNA"), submitted comments. Both sets of comments strongly supported the adoption of the pilot FCA mechanism as a permanent mechanism. In addition, individual Commissioners (in other forums) have

lauded the FCA mechanism. For example, in 2009 Commissioner Marsha Smith told the Wall Street Journal that decoupling is “working extremely well in that it’s increased the company’s enthusiasm and commitment to energy efficiency.” Rebecca Smith, *Less Demand, Same Great Revenue*, Wall Street Journal, Feb. 8, 2009. <http://online.wsj.com/article/SB123378473766549301.html>. In 2009, in his role as Director of the Idaho Office of Energy Resources, current Idaho Public Utilities Commission Commissioner Paul Kjellander oversaw the development of a report touting the Commission for adopting “one of the first electric decoupling mechanisms in the nation designed to remove financial disincentives for Idaho Power Company to implement energy efficiency programs.” Paul Kjellander, *et al.*, Idaho Office of Energy Resources, Idaho Public Utilities Comm.: 2009 Report to the Idaho Legislature at 9.

The executive and legislative branches of Idaho state government are also supportive of the FCA mechanism and the broad policy of promoting energy efficiency in a manner that eliminates disincentives for investor-owned utilities. In a March 19, 2009, letter to Secretary Chu of the U.S. Department of Energy, Idaho Governor Butch Otter, as a condition of receiving funding for the State Energy Program, provided assurances that he requested the Idaho Public Utilities Commission to continue “their successful decoupling efforts and consider additional actions to promote energy efficiency.” Youngblood Testimony at 9.

In the 2007 Idaho Energy Plan, the Idaho Legislature directed the Commission to “establish appropriate shareholder incentives for investor-owned utilities that achieve conservation targets” such as decoupling. Curt McKenzie, *et al.*, Energy, Env’t, and Tech. Interim Comm.: 2012 Idaho Energy Plan at 3. Similarly, the 2012 Idaho Energy

Plan directs the Commission to “seek to eliminate disincentives that stand as barriers to implementing cost-effective conservation measures” such as decoupling of utility revenue from sales. Curt McKenzie, *et al.*, Energy, Env’t, and Tech. Interim Comm.: 2012 Idaho Energy Plan at 12.

Lastly, the Commission Staff’s very own comments concede that while Staff analyzed alternative proposals to recover lost revenues associated with energy efficiency investment, it concluded that “the FCA has merit, and determined that terminating the FCA at this point would be counterproductive.” Staff Comments at 9.

Indeed, the FCA pilot mechanism does have merit. It has been implemented by Idaho Power as directed by this Commission and it has proven results, namely a reduction in energy consumption in Idaho Power’s residential and small general classes and Idaho Power’s aggressive pursuit of a broad range of energy efficiency activities. Thus, there is no merit in adopting Staff’s recommendation to reduce by 50 percent the sharing between customers and Idaho Power of fixed cost recovery due to load impacts. Accordingly, the Commission should reject this proposal by Staff and adopt as permanent the FCA mechanism as described by Idaho Power in its Application and as further detailed herein.

**III. THE TABLE INCLUDED IN STAFF’S COMMENTS WHICH FORMS THE BASIS OF ITS RECOMMENDATION IS FLAWED.**

Page 4 of Staff’s Comments includes a table which allegedly shows the percentage of the reduction in the Company’s energy consumption that is attributable to energy efficiency activities. As described below, this table is not an accurate representation of load reductions attributable to the Company’s overall energy

efficiency activities and should not be used by the Commission in making findings in this proceeding.

First, it is unclear how Staff derived the assumed annual energy efficiency savings as shown in the column labeled "EE Savings (kWh)"; there is no reference to the sources relied upon by Staff for calculating the alleged amount of energy efficiency savings for the residential class. Even a cursory review of the data raises questions as to its accuracy. For example, for 2010, the table in Staff's Comments shows that energy efficiency savings for the residential class were approximately 68.8 million kilowatt-hour ("kWh"). As provided in the Company's response to Staff's Request for Production No. 1 and as detailed in the Company's 2010 DSM Annual Report, total annual energy efficiency savings for the residential class programs in 2010 was approximately 43 million kWh, plus an additional 47 million kWh for the commercial class.

Second, it is unclear how Staff arrived at its calculation in the third column of the table which is labeled "Total Reduced Consumption (kWh)." Footnote 4 of Staff's Comments states: "'Reduced consumption' was calculated by dividing the FCA balance by the FCE for each year." Idaho Power conducted its own analysis based upon this premise and was unable to reproduce the same results shown in Staff's Comments.

The result of using inaccurate and unsubstantiated numbers in the analysis included on the table on page 4 of Staff's Comments is that the fourth column, labeled "% of Reduction attributed to EE," is incorrect. Importantly, Staff's Comments rely on these incorrect percentages as the justification for making its recommendation to reduce by 50 percent the sharing of any FCA balances. See, e.g., Staff's Comments at 5

("Staff has no evidence that DSM savings have contributed to any more than 43% or reduced consumption during the FCA timeframe.") Because it appears that Staff's fundamental calculations are in error, it undermines, from an evidentiary and factual standpoint, its recommendation to change the sharing components of the FCA mechanism.

More importantly, the table in Staff's Comments attempts to capture the amount of reduced energy consumption that is attributable to all of the Company's energy efficiency activities that impact the residential class. As Staff is aware and as described by Idaho Power in responding to Staff's Request for Production No. 2, it would be extremely difficult, labor intensive, and expensive to attempt to quantify exactly how much energy savings occur as the result of non-DSM program energy efficiency activities. As described in the Youngblood Testimony and in each of the Company's annual DSM Annual Reports over the last five years, there are a number non-DSM program load reducing activities, including the Company's advocacy for energy efficiency building code changes, federal weatherization programs, tax incentives and appliance rebates, federal marketing programs, technological changes, substitutions between natural gas and electric equipment, rate design changes consistent with this Commission's energy efficiency policies, customer education and information and other customer behavioral changes. Youngblood Testimony at 15. Thus, even if the numbers used in Staff's table were accurate, those numbers would not accurately capture the Company's non-DSM programmatic energy efficiency activities. Put differently, Staff's conclusion as to the total annual "EE Savings (kWh)" for the residential class in column 2 of its table would, if accurate to begin with, underestimate

the total amount of energy efficiency savings that result from the broad range of the Company's energy efficiency activities (both DSM programs as well as the non-program activities identified above).

**IV. STAFF'S COMMENTS IDENTIFY AN ALLEGED "NEW CUSTOMER" ISSUE BUT THEN FAIL TO PROPOSE A REMEDY.**

Commission Staff takes issue with Idaho Power's Application because it fails to address what Staff perceives as the "new customer" issue. Staff Comments at 5-6. Staff's Comments assert there are two categories of "new customers": (1) those that occupy existing premises (like an existing home) and (2) those that require the construction of new distribution facilities. Staff Comments at 5. Staff suggests that:

[i]f it is entirely possible that the fixed costs for new customers is higher than that embedded in rates, such as new home construction requiring distribution and metering equipment. Conversely, a new customer may require virtually no additional fixed costs, such as a customer moving into an existing home." Staff Comments at 5-6. Staff's Comments further allege that the "Company was unable to provide the level of fixed costs associated with new customers, both existing and new homes.

Staff Comments at 6.

In responding to the criticism levied against Idaho Power of being unable to provide requested data, as explained in its response to Request for Production No. 12, Idaho Power does not currently track the number of meters installed for new construction for purposes of the pilot FCA program. Instead, the Commission-approved pilot FCA methodology uses actual year-end customer count figures for purposes of determining the FCA.

More substantively, Idaho Power disagrees with Staff's contention that a distinction should be made for the two categories of "new customers" it identifies in its



Comments. Specifically, Idaho Power disagrees with Staff's premise that the incremental cost of generation and transmission for new-build customers is less than for those "new customers" that move into an already existing metered location. For ratemaking purposes, Idaho Power allocates its revenue requirement equally among all customers within the same customer class. No distinction is made within a class for new-build metered customers versus new existing metered customers. To create such a distinction for purposes of the FCA would be contrary to existing ratemaking principles as well as add an unnecessary layer of complexity to the FCA mechanism.

In addition, Staff's Comments raise the "new customer" issue but do not provide a proposed solution. Assuming a distinction between the two categories of new customers does exist (which Idaho Power is not conceding), Idaho Power is at a loss as to how such a distinction would be calculated and implemented as part of a revised FCA methodology. Since Staff has provided no insight into this either, the Commission should not consider the issue as part of its determination in this case.

ICL tees-up the "new customer" issue in a slightly different way than does Staff. In pointing to previous Staff concerns, ICL suggests that it may be possible that "new customers" may have different energy consumption patterns than existing customers. ICL Comments at 10. However, ICL concedes that "it is not at all clear that new customers have a *meaningful* difference from existing customers." *Id.* (Emphasis in original). Interestingly, even though ICL concedes there is no "meaningful" difference, they propose a solution should the Commission wish to address the issue. Specifically, ICL advocates that its "new customer" issue could be addressed by not adding to the complexity of the existing FCA by requiring a separate rate for new customers ,but to

instead “require regular updates, such as every third year, to the cost of service study inputs and results used to calculate the FCA.” ICL Comments at 10.

While Idaho Power understands the issue as presented by ICL, the Company is reluctant that the Commission should implement ICL’s suggestion when ICL itself admits there does not appear to be a “meaningful” problem. Accordingly, the Commission should disregard ICL’s suggestion to require the Company to update its cost-of-service study inputs and results used to calculate the FCA for the purpose of calculating the FCA. Instead, Idaho Power suggests the appropriate time for updating these inputs is each time the Company files a general rate case with this Commission.

**V. THE COMMISSION SHOULD NOT ADJUST THE COMPANY’S CAPITAL STRUCTURE AS PART OF THIS PROCEEDING.**

ICL argues that the “risk mitigating” nature of annual true-up mechanisms like the FCA provides benefits to a utility’s shareholders by reducing revenue volatility. ICL Comments at 6. ICL suggests that this benefit for the utility’s shareholders warrants an adjustment to the Company’s debt-to-equity ratio, stating that the “Commission can immediately reduce the equity ratio without disturbing the utility’s authorized rate of return and thereby deliver immediate benefits to ratepayers.” ICL Comments at 7. ICL concludes by stating that the Commission can order “Idaho Power to issue debt rather than equity for new capital or paying a dividend and replacing the equity with debt,” but does not prescribe any specific adjustment to the Company’s most recently approved capital structure.

While the FCA provides stability for only the fixed cost revenue portion of its revenue requirement for the residential and small commercial classes, such stabilization does not warrant an adjustment to the Company’s currently authorized capital structure,

which, contrary to ICL's assertion, would mean an adjustment to the Company's authorized rate of return. As explained in the Cavanagh Testimony, "rate impacts this modest simply do not imply appreciable consequences for Company-wide cost of capital." Cavanagh Testimony at 10. "Any gains to utilities in the form of insurance against lower sales are offset by reduced opportunities for financial gains when sales increase, and it seems unreasonable to prejudge how that tradeoff might affect the Company's overall risk profile and cost of capital." Cavanagh Testimony at 11.

As mentioned above, ICL contends that an adjustment can be made to the Company's debt-to-equity ratio without impacting the Company's overall rate of return. This is simply not the case. In calculating the Company's rate of return, a percentage of weighted long-term debt costs is multiplied by a percentage of the authorized return on equity. An adjustment to increase the amount of lower-cost debt, as advocated by ICL, will result in lowering the Company's authorized rate of return.

As noted in the Youngblood Testimony, "the FCA is recognized by the financial community as a positive indication of proactive regulation." Youngblood Testimony at 10. An adjustment to the Company's capital structure resulting in a reduced rate of return could have a negative impact in the financial community, thus directly impacting Idaho Power's standing and potentially its credit ratings. Further, issuing more debt in and of itself will impact the Company's credit ratings, ultimately driving up the cost of debt over time.

More importantly, the Company does not believe this proceeding is the appropriate forum to make a determination as to whether the Company's overall risk profile has changed since the last general rate case proceeding (which was concluded

less than four months ago) to warrant a change to the Company's authorized rate of return. Without conceding that the FCA does warrant any type of adjustment to the Company's cost of equity, capital structure or rate of return, Idaho Power suggests that a general rate case is the appropriate forum for such an analysis and determination so that all of the Company's risks can be examined. Accordingly, Idaho Power urges the Commission to reject ICL's suggestion that an adjustment to the Company's capital structure is warranted by making the FCA permanent.

**VI. IDAHO POWER AGREES WITH CERTAIN ASPECTS  
OF STAFF'S COMMENTS AND ENCOURAGES  
THE COMMISSION TO ADOPT THOSE ASPECTS.**

During the five years of the pilot FCA mechanism, any modifications made in adjusting the FCA amount have had a discretionary cap of 3 percent over the amount contained as the previous year's FCA adjustment. Order No. 30267 at 13. In the event adjustment amounts were to exceed 3 percent, the amounts in excess of 3 percent would be carried over to the next FCA year. *Id.* This three percent cap was not applied during the five-year pilot period. That said, Idaho Power asserts that it is an important aspect of the mechanism and encourages the Commission to adopt the discretionary 3 percent cap as a potential rate mitigation tool for the Commission's use.

Further, and as explained in the Youngblood Testimony, during the first four years of the pilot, either the Commission ordered or the Company proposed to recover or refund the FCA deferral balance equally between the residential and small commercial customer classes. Youngblood Testimony at 17. In its Application, Idaho Power proposes to continue this methodology of recovering or refunding the deferral

