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JULIA A. HILTON
Corporate Counsel
jhilton@idahopower.com

December 21, 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
FCA Permanent Program – Idaho Power Company's Reply Comments

Dear Ms. Jewell:

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

Very truly yours,

Julia A. Hilton

JAH:csb
Enclosures

1221 W. Idaho St. (83702)
P.O. Box 70
Boise, ID 83707

LISA D. NORDSTROM (ISB No. 5733)
JULIA A. HILTON (ISB No. 7740)
Idaho Power Company
1221 West Idaho Street (83702)
P.O. Box 70
Boise, Idaho 83707
Telephone: (208) 388-5825
Facsimile: (208) 388-6936
lnordstrom@idahopower.com
jhilton@idahopower.com

Attorneys for Idaho Power Company

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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 IDAHO POWER COMPANY'S REPLY COMMENTS

COMES NOW, Idaho Power Company ("Idaho Power" or "Company"), by and through its undersigned counsel, hereby submits to the Idaho Public Utilities Commission ("Commission") its Reply Comments.

I. BACKGROUND

Beginning in the early 1990s, Idaho Power, with Commission approval, operated several demand-side management ("DSM") programs and activities. These programs were eventually dismantled at the end of the decade in anticipation of deregulation. In 2001, coincident with the California energy crisis, Idaho Power, the Commission, and other interested parties began to rebuild comprehensive energy efficiency policies which addressed all necessary components of a sustainable energy efficiency business model: timely cost recovery, removal of financial disincentives, and the ability to earn a return on energy efficiency investment. The fixed cost adjustment ("FCA") is a critical component of this larger business model.

The FCA was approved in Commission Order No. 30267 as a three-year pilot program and extended for an additional two years in Order No. 31063. The pilot program was set to expire at the end of 2011. In October of 2011, Idaho Power requested that the Commission authorize the Company to remove the pilot status of Schedule 54 and convert the FCA to an ongoing, permanent tariff schedule.

The Commission approved Idaho Power's Schedule 54 as a permanent program for Residential and Small General Service customers, retained the three percent cap on FCA adjustments, ordered the FCA deferral balance be recovered or refunded equally between the Residential and Small General Service customer classes, and directed that the FCA be identified on customer bills as part of the Company's annual Power Cost Adjustment line item adjustment. Order No. 32505. The Commission also ordered Idaho Power to file, within six months, "a proposal to adjust the FCA to address the capture of changes in load not related to energy efficiency programs." *Id.* at 9.

On September 28, 2012, Idaho Power filed a compliance filing and motion as directed in Commission Order No. 32505. As discussed in its compliance filing and motion, Idaho Power explored methods of adjusting the FCA mechanism to address the capture of changes in load not related to energy efficiency programs and presented an alternative methodology in its compliance filing. However, after evaluating alternatives, the Company continues to believe that the existing FCA method allocates risks better than any known alternative. Idaho Power's compliance filing and motion also requested that the Commission, pursuant to RP 56, Order No. 32426, and *Idaho Code* § 61-307 approve Schedule 54, Fixed Cost Adjustment, ("Schedule 54") with an effective date of

November 1, 2012, and adopt a permanent FCA methodology by March 29, 2013, to be effective for the 2013 FCA calendar year.

On December 7, 2012, Commission Staff ("Staff") and the Idaho Conservation League ("ICL") filed comments on the Company's compliance filing. ICL's comments are generally supportive of the Company's position and requests that the Commission approve and retain the existing FCA mechanism. As in earlier comments, Staff continues to advocate for what the Company believes is an arbitrary 50 percent sharing between customers and Idaho Power of fixed cost recovery impacts resulting from load changes. Idaho Power has concerns that if Staff's recommendation is implemented by the Commission, it will undermine the effectiveness of a rate mechanism that has successfully removed the financial disincentives to Idaho Power's pursuit of cost-effective energy efficiency.

II. THE COMPANY'S ALTERNATIVE METHODOLOGY IS RESPONSIVE TO COMMISSION ORDER NO. 32505

Staff characterizes Idaho Power's alternative methodology as unresponsive to the Commission's directive to address changes in load not related to energy efficiency programs. The Company respectfully disagrees with that assertion. As stated in its compliance filing, Idaho Power believes the existing FCA mechanism is effective in its current form and should remain unchanged. However, to address the Commission's directive to capture changes in load unrelated to energy efficiency programs, the Company provided an alternative methodology that introduces a symmetrical cap based on the annual change in use per customer ("UPC cap"). The UPC cap establishes a threshold for fluctuations in the annual change in use per customer that could reasonably be attributed to energy efficiency programs and assumes that any change that exceeds that threshold is attributed to factors other than the Company's energy efficiency activities, acknowledging that other factors influence customers' energy use.

Idaho Power met with Staff on two separate occasions to discuss the difficulty in quantifying the impact of specific drivers of use per customer outside of energy efficiency programs. Staff agreed with the Company and stated that the difficulty in such quantification was the rationale behind its percent sharing proposal. The Company expressed its belief that such an approach was arbitrary and without reasonable basis. The Company was also under the impression that, even though Staff did not embrace the Company's approach to a solution, Staff believed that the Company had made a good-faith effort to address the Commission's concerns. Due to those meetings, Idaho Power was surprised to see the level of criticism of the UPC cap mechanism that was contained in Staff's Comments when Staff seemed neutral to the idea in prior discussions.

III. THE COMPANY'S ALTERNATIVE FCA METHODOLOGY WOULD EFFECTIVELY CAPTURE CHANGES IN LOAD UNRELATED TO ENERGY EFFICIENCY PROGRAMS

Staff describes the Company's alternative FCA methodology as "ineffective." Staff Comments at 7. While the Company believes that maintaining the current FCA mechanism is preferable, the Company believes the UPC cap has merit and would address the Commission's concern of capturing changes in customer usage not related to energy efficiency programs. The symmetrical application of the Company's alternative methodology would limit the FCA collection or refund amounts if the annual change in use per customer exceeds the established threshold, which is intended to represent an upper limit on the potential impact from energy efficiency programs. This limitation would effectively account for extraordinary factors that may influence customers' energy use other than Company promoted energy efficiency initiatives.

Idaho Power and Staff have proposed two vastly different methodologies, which demonstrate the difficulty in trying to isolate and identify every factor that influences customer behavior and energy use. Accurately quantifying the affect of those factors is even more difficult. The Company's alternative methodology acknowledges that those factors and their affects are impossible to quantify and instead focuses on capping the FCA balance due to annual changes in use per customer that are clearly not due to the Company's pursuit of energy efficiency. Though neither proposal maintains the simplicity and effectiveness of the current mechanism, Idaho Power believes that its alternative methodology is closer than Staff's to preserving the intent and integrity of the FCA mechanism without unduly discouraging the further pursuit of DSM programs and activities.

IV. STAFF'S CRITICISM OF THE COMPANY'S ALTERNATIVE METHODOLOGY IS UNDESERVED

Staff critiqued several aspects of Idaho Power's alternative methodology. For instance, Staff expressed concerns that the Company did not propose a methodology to update the historical trend. *Id.* at 5. Idaho Power did not propose to update the historical average annual change in use per customer, but, as stated in the Company's response to Staff's Production Request No. 38, Idaho Power would not be opposed to updating the historical trend if needed or if the Commission so desired.

Moreover, Staff criticized the Company for analyzing annual changes in use per customer from 1992 to 2011. *Id.* Idaho Power began its analysis with 1992 data because it coincides with Idaho Power's active pursuit of DSM activities and 19 years of data provides a significant time frame to derive an appropriate average annual change in use per customer.

Another critique by Staff is that the Company's proposed UPC cap would not have been implemented during the life of the FCA. *Id.* This is true, but it is important to note that the FCA mechanism has only been in place for five years and Staff has provided no rationale as to why it believes the mechanism should have had a different result than it did in any of the last five years. When the data is expanded to include the 19 years of customer data, the UPC cap would have been triggered twice. As described in more detail below, limiting the FCA balance would have material, detrimental effects on the intent, purpose, and integrity of the FCA mechanism.

Staff believes that for the UPC cap to have merit, it should be set at or within the historic year-to-year change in use per customer. *Id.* Idaho Power believes that Staff desires to set the UPC cap threshold at the historical average change in annual use per customer of -0.72 percent. The Company applied a 2 percent deviation from the -0.72 percent to introduce a symmetrical cap that can be applied to both a refundable and collectable FCA balance and to remove the two outlying years representing the largest variations in changes in use per customer. This intended to establish a UPC cap that would encompass the change in annual use per customer in most years. The proposed UPC cap threshold allows the Company to actively pursue all cost-effective energy efficiency activities by removing any financial disincentives to such programs, which a UPC cap of -0.72 percent would reintroduce. Idaho Power believes that a too strict limit on the UPC cap would unduly compromise the effectiveness of the FCA mechanism and introduce the perverse incentive as described in the following section.

Staff's Comments include a table which is intended to contrast the amount of sales falling within the UPC band with lost energy sales recovered through the FCA and annual DSM savings. *Id.* However the figures do not include all necessary data. The "Cumulative Energy Efficiency Savings" numbers on the table do not account for savings from some of the other Company-sponsored activities such as the market transformation organization, Northwest Energy Efficiency Alliance, or the Local Energy Efficiency Funds. Additionally, those numbers do not account for energy use reduction from the Company's educational programs and support of energy efficiency codes and standards. Staff's omission of savings from Company-sponsored programs and efforts is misleading and arises from the difficulty in identifying and quantifying all factors that influence customers' energy use.

The "Effect of Proposed 2.72% UPC Cap" numbers presented on Table 1 assume that use per customer would decrease by the UPC cap amount of 2.72 percent every year, which would lead to a large FCA balance in years further away from the Company's last general rate case. However, the UPC cap is proposed to be used in conjunction with the current rate cap. When coupled, the UPC cap protects customers from the impact of large swings in annual use per customer on the FCA balance, while the rate cap protects customers by preventing the FCA balance from exceeding 3 percent of base revenue.

V. STAFF'S SHARING PROPOSAL UNDERMINES THE PURPOSE OF THE FCA

Staff asserts that the Company has not attempted to reconcile its calculations and has not seriously addressed flaws in the FCA. *Id.* at 6. This assertion implies that flaws in the FCA are "serious." The Company and ICL disagree. The Company and ICL believe that flaws in the FCA are minor and do not require major tweaking. Idaho Power thoughtfully considered Staff's proposal of a 50 percent sharing of the FCA balance, but as previously pointed out in the Company's Reply Comments filed on March 15, 2012, Staff's sharing proposal has two fundamental flaws.

First, the intended purpose of the FCA mechanism is to eliminate the financial disincentives that exist for the Company to pursue DSM programs and activities. The Commission and Idaho Power have worked over the last decade to develop and pursue a 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 a robust energy efficiency portfolio. The removal of financial disincentives through the FCA mechanism provides the Company with the financial assurance necessary to fully and aggressively pursue all cost-effective energy efficiency savings. By sharing the FCA balance, those financial disincentives are no longer removed and the regulatory framework that allowed for the successful pursuit of cost-effective energy efficiency will be compromised.

Second, Staff's proposal introduces a perverse incentive that is detrimental to the purpose of the FCA and the pursuit of energy efficiency. Allowing the Company to retain a percentage of a refundable FCA balance would not only incent the Company to reduce its pursuit of energy efficiency, it could actually incent the Company to encourage customers to use more energy. A refundable FCA balance occurs when the use per customer increases. Staff points out that its sharing proposal recognizes the Company's energy efficiency efforts in times of rising use per customer. *Id.* While Idaho Power understands the value of symmetry and appreciates Staff's effort to introduce a mechanism that shares risks and rewards, the Company believes that it may have the unintended effect of damaging years of progress made toward the successful pursuit of energy efficiency.

Regardless of the percentage or ratio of a sharing proposal, the financial disincentives for pursuing cost-effective energy efficiency would not be fully removed and an unintended incentive for the Company to encourage increased energy consumption could be introduced. The Company is concerned that Staff's sharing proposal undermines the purpose and effectiveness of the FCA mechanism. While the Company's alternative methodology avoids the pitfalls found in Staff's sharing proposal and does not place unwarranted restrictions on the FCA balance, the Company believes that the existing FCA mechanism addresses both of these issues in a more straightforward manner.

If Staff's proposal is accepted, the intended purpose of the FCA mechanism would be compromised and, from a business standpoint, Idaho Power would need to re-evaluate its current energy efficiency business model. Staff states that if the Commission finds its proposal deficient, the existing FCA mechanism should remain unchanged. *Id.* at 2. Idaho Power believes that Staff's proposal is problematic and undermines the intent of the FCA and agrees that the existing FCA mechanism should remain unchanged.

VI. IDAHO CONSERVATION LEAGUE COMMENTS

ICL's Comments point out the effectiveness of the existing FCA mechanism and recommend that the Commission maintain the existing FCA. ICL Comments at 1, 7. Idaho Power appreciates ICL's comments in support of the Company's position. ICL urges the Commission to reinforce the Company's "enhanced commitment" to energy efficiency, which includes five components. *Id.* at 2. Idaho Power is not opposed to the concepts presented by ICL, but must point out that the application of quantifying and measuring compliance with such amorphous concepts would be difficult and may conflict with other Company objectives that are beneficial to customers. For example, ICL's fourth enhanced commitment requests that the Company continue to develop rate designs for all customer classes that drive customers towards energy efficiency. This is one of the Company's regulatory goals for rate design; yet, the Company also designs rates to reflect as closely as possible the cost of service for the specific customer classes. Because these two goals will, at times, be contradictory, Idaho Power does not believe that ICL's enhanced commitments should be mandatory.

VII. CONCLUSION

For the reasons set forth above, Idaho Power requests that the Commission issue an order authorizing the continued use of the existing FCA methodology, or in the alternative, the Company requests that the Commission issue an order implementing the alternative methodology presented by the Company in its compliance filing establishing the use of the UPC cap.

Respectfully submitted this 21st day of December 2012.

JULIA A. HILTON
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 21st day of December 2012 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 Weldon Stutzman Deputy Attorney General Idaho Public Utilities Commission 472 West Washington (83702) P.O. Box 83720 Boise, Idaho 83720-0074	_X_ Hand Delivered ____ U.S. Mail ____ Overnight Mail ____ FAX _X_ Email weldon.stutzman@puc.idaho.gov
NW Energy Coalition Nancy Hirsh, Policy Director NW Energy Coalition 811 First Avenue, Suite 305 Seattle, Washington 98104	____ Hand Delivered _X_ U.S. Mail ____ Overnight Mail ____ FAX _X_ Email nancy@nwenergy.org
Idaho Conservation League Benjamin J. Otto Idaho Conservation League 710 North Sixth Street Boise, Idaho 83702	____ Hand Delivered _X_ U.S. Mail ____ Overnight Mail ____ FAX _X_ Email botto@idahoconservation.org
Carl B. Linvill, Ph.D. Director of Integrated Planning and Analysis Aspen Environmental Group 2655 Portage Bay East, Suite 3 Davis, California 95616	____ Hand Delivered _X_ U.S. Mail ____ Overnight Mail ____ FAX _X_ Email clinvill@aspeneg.com
Micron Technology, Inc. Thorvald A. Nelson Frederick J. Schmidt Brian T. Hansen Mary V. York HOLLAND & HART, LLP 6380 South Fiddlers Green Circle, Suite 500 Greenwood Village, Colorado 80111	____ Hand Delivered _X_ U.S. Mail ____ Overnight Mail ____ FAX _X_ Email tnelson@hollandhart.com fschmidt@hollandhart.com bhansen@hollandhart.com myork@hollandhart.com lnbuchanan@hollandhart.com

Richard E. Malmgren
Senior Assistant General Counsel
Micron Technology, Inc.
800 South Federal Way
Boise, Idaho 83716

____Hand Delivered
_X_ U.S. Mail
____Overnight Mail
____FAX
_X_ Email remalmgren@micron.com

Christa Bearry

Christa Bearry, Legal Assistant