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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

The NW Energy Coalition appreciates the opportunity to file these reply comments in this proceeding. We have been engaged with the Commission, staff and stakeholders in the discussion around decoupling and a fixed cost adjustment mechanism since 2004. These reply comments will address issues raised in comments submitted by Commission Staff, Idaho Conservation League (ICL) and Snake River Alliance (SRA).

We agree with the comments filed by Commission staff, ICL and SRA and the original application of the Company that the Fixed Cost Adjustment (FCA) addresses a very specific problem – recovery of fixed costs is linked to sale of electricity, encouraging increased use and discouraging investments in energy efficiency or any other program (like distributed generation) that reduces electricity throughput. By calculating the per-customer revenues needed to cover specific fixed costs, the FCA removes the disincentive for demand-side investments that help customers use less electricity. The FCA also helps ensure the Company’s timely recovery of the fixed system costs regardless of sales volumes.

COMMENTS OF COMMISSION STAFF

Commission Staff’s Concerns with the FCA

1) The mechanism captures sales reductions beyond those driven by energy efficiency. This is true, but by design. From the beginning, everyone appreciated the difficulty of determining exactly which factors (eg. economic conditions, energy efficiency) and by how much they impact changes in sales. Adding to the complications is the challenge of fully

quantifying all the impacts of Company efficiency efforts beyond specific program savings. But differentiating energy efficiency-driven savings from economy-driven demand reductions is not critical when the goals are to reduce the incentive to sell more, to reduce the disincentive to save more and to protect the utility and its customers from the risks associated with rising and falling sales volumes.

The page 4 table showing savings vs. reduced consumption and the Staff conclusion provide only part of the picture. Staff's argument that 50% recovery gives plenty of headroom given that the past few years of energy efficiency efforts have accounted for a maximum of 43% of load reduction in any given year. We are encouraged that staff included energy code and market transformation savings in the savings calculation. However, the calculations don't fully account for the broad array of Company education and marketing efforts that may significantly drive energy efficiency investments. We acknowledge that these efforts are hard to quantify, but the value surely is greater than zero and could be more than 7%. Whether or not usage reductions due to broad conservation messaging or economy-related belt-tightening are linked to direct participation in a Company program the revenue impact is the same. Since Staff attributes a percentage of sales reductions to energy efficiency and uses that calculation to establish its proposed 50% solution -- its approach undervalues the importance of freeing the Company to aggressively market and deploy its programs to increase savings.

Furthermore, the significant sales reductions detailed in the page 4 table highlight the unusual utility load circumstances of the past two-three years. The FCA is designed to ensure recovery of approved fixed costs and to avoid both over-recovery during times of good sales growth and under-recovery in times -- such as the last few years -- of dramatic sales decline. The Commission should assume that once the economy stabilizes, loads will increase and decrease on a more measured basis and the Company's ever increasing energy efficiency efforts will comprise a larger percentage of the consumption reductions.

2) Staff characterize the Company's 2007 rebate to customers as a penalty on the Company. On page 6, Staff refer back to comments they filed in Case No. IPC-E-09-28 expressing concern that the Company had to pay customers over \$2 million when energy use increased, thus penalizing the Company. It is important to remember that the Company paid the rebate to customers because its fixed cost revenues exceeded those approved by the Commission. It is not clear to us why Staff call this a penalty. The Coalition supports an adjustment

mechanism that pivots from rebate to surcharge based on the approved fixed cost marker set by the Commission in a rate case. The current pilot FCA provides this symmetry – the utility is assured revenues to cover costs and customers are protected from over-recovery of revenues.

Staff state, on page 10 of their comments, that their research has shown that a broadly applied FCA can provide “found” revenue unrelated to energy efficiency activities. These “found” revenues arise when sales decline and the FCA increases rates to cover costs that remain unchanged from those set in the most recent rate case. Not recovering this revenue in an annual adjustment most likely means that these “found” revenues will be recovered in the next formal rate case. The oft-quoted book by the Regulatory Assistance Project explains that no matter what drives the sales changes, the previously authorized revenue is collected:

“With full decoupling, all changes in units of consumption, regardless of cause, are translated into price changes to maintain the allowed revenue level. Thus, no matter the amount of consumption, the utility and the consumers as a whole will receive and pay the allowed revenue. Neither the company nor its customers are exposed to weather or economic risks in this case.”
Revenue Regulation and Decoupling, Regulatory Assistance Project, June 2011, page 35.

Staff Proposal for Changes to the FCA

We appreciate the Staff’s commitment to maintain a simple mechanism and to avoid a lost margin recovery approach that relies heavily on savings calculations. While we agree that the FCA may not be perfect, neither is traditional regulation that gives conflicting signals and incentives to the utility. The Staff have recommended an unnecessary change in the mechanism that shifts the risks of sales changes back to both the utility and its customers. In essence Staff are proposing to go from a full decoupling mechanism to a partial decoupling mechanism that provides the utility partial recovery of reduced revenues. Yet the Staff have not made the case that with full decoupling the recovery of revenues has resulted in or come close to going over the 3% rate adjustment cap imposed by the Commission. With FCA recovery set at 50%, the mechanism no longer eliminates the throughput incentive nor does it reduce customers and utility risks from fluctuating sales.

COMMENTS OF IDAHO CONSERVATION LEAGUE

ICL lays out a clear and succinct case for the benefits of the FCA from both the consumer and environmental perspectives. In particular, the comments on pages 12-13 supporting full

weather-normalized decoupling, and not excluding economic factors, make a strong case for balancing the risks faced by both the utility and customers when revenues are recovered with no regard for the costs of serving customers. This argument clearly rebuts Staff's call for a change to partial decoupling and limiting the fixed costs recovery.

While the Coalition supports most of ICL's arguments for making the FCA permanent, we want to be clear that the Coalition takes no position on ICL's discussion of changing the debt-to-equity ratio as a means of addressing reduced risk borne by the Company as a result of the current FCA mechanism.

PUBLIC COMMENTS OF SNAKE RIVER ALLIANCE

In the public comments submitted by the Snake River Alliance (SRA) they note the record of improvement in Idaho Power's energy efficiency programs over the past five years. In fact, the steady increase in savings achieved by the Company is disputed by no party in this proceeding; we concur with this finding of fact as well. We agree with SRA's comments that many factors have influenced the scale and scope of the Company's energy efficiency programs in recent years. And we agree with SRA's comments on page 4 that adoption of the FCA pilot in 2007 was a major, though not the only, factor in the Company's pursuit of an increased tariff rider and the significant increase in its energy savings since 2008.

CONCLUSION

The ICL and SRA submissions state a compelling case for making the FCA a permanent schedule and maintaining the basic structure of the mechanism. The Coalition is not persuaded by Staff arguments for allowing only a 50% recovery of revenue shortfalls or 50% return to customers of over-collections. Going from full decoupling to partial decoupling materially changes the mechanism and the rationales provided do not justify such a change.

We agree with Company testimony and others' comments on FCA administration. In particular, we support Staff's proposal to change how customer bills reflect the FCA. Consolidating all "annual adjustments" under one heading will provide more clarity to customers who seek more detail on what the "annual adjustment" includes. Since the FCA is primarily about cost recovery as a means of unleashing Company efforts to capture all cost-effective energy savings, rolling it into the energy efficiency services line item is inappropriate. In

addition, we agree with all the comments submitted in this proceeding that eliminating the FCA-related energy efficiency filing is appropriate and warranted given the extensive DSM report filed annually.

Respectfully submitted this 15th day of March 2012.



Nancy Hirsh
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NW Energy Coalition

CERTIFICATE OF SERVICE

I hereby certify that I have this 15th day of March 2012 served the foregoing REPLY COMMENTS OF THE NW ENERGY COALITION to the following via the method of service noted:

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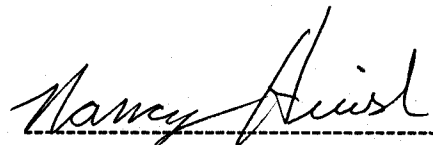
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