Office of the Secretary
Service Date
January 31, 2013

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** **ORDER NO. 32731**

On September 28, 2012, Idaho Power Company filed a pleading requesting Commission approval of a "Specific Fixed-Cost Adjustment Methodology." Previously, the Commission in Order No. 32505 approved the Company's Application to make the fixed-cost adjustment (FCA) a permanent program for residential and small general service customers. The FCA removes recovery of some of the Company's fixed costs from its energy sales to diminish the inherent disincentive in the rate structure for the Company to pursue Demand Side Management (DSM), or conservation, programs. The FCA methodology establishes an amount for fixed costs authorized for recovery each year, and then the amount of fixed costs actually recovered during the year is determined by multiplying the Company's weather-normalized energy sales for each customer class with a fixed-cost per energy rate. Each year the FCA is adjusted to collect, or refund to customers, the difference between the amount allowed for recovery and the actual fixed-cost amount recovered by the Company during the year. The FCA components are established in determining Idaho Power's revenue requirement in a general rate case.

The Commission noted when approving a permanent FCA that it is imperfect as structured, specifically in that it "does not isolate or identify changes in cost recovery associated solely with the Company's energy efficiency programs." Order No. 32505, p. 6. The Commission directed Staff and other interested parties to continue discussing possible adjustments to the FCA, and directed Idaho Power to file a proposal to adjust the FCA to address the deficiency identified by the Commission. *Id.* The Company's filing responds to the Commission directive in Order No. 32505 that the Company file within six months "a proposal to adjust the FCA to address the capture of changes in load not related to energy efficiency programs." Order No. 32505, p. 9.

The Company's filing proposes an adjustment to the FCA mechanism that it believes addresses the capture of significant changes in load not related to energy efficiency programs. The FCA mechanism currently includes a 3% cap on annual increases over base revenue. The Company proposes to apply a symmetrical cap (plus or minus 2%) on the change in annual use per customer where it deviates from the historical average annual change in use per customer. Idaho Power Filing, p. 5. The Company contends that a capping mechanism on large changes in use per customer "would adequately respond to the Commission's previously stated desire to address the capture of changes in load not related to energy efficiency programs without unduly compromising the effectiveness of the FCA." *Id.* Nonetheless, Idaho Power recommends the Commission approve the FCA methodology as currently in place because it believes the existing mechanism is the most efficient and appropriate method to eliminate financial disincentives to pursuing cost-effective DSM resources. The Company requests the Commission issue an Order approving a specific FCA methodology no later than March 29, 2013.

On October 23, 2012, the Commission issued a Notice of Application and Notice of Modified Procedure inviting written comments on Idaho Power's proposed adjustment to the FCA. Written comments were filed by Staff and the Idaho Conservation League (ICL). Idaho Power and ICL filed reply comments.

Staff analyzed the Company proposal to cap the FCA balance based on year-to-year changes in use per customer (UPC). The UPC cap would limit the FCA balance to +/- 2% over the historical average change in use per customer, which uses yearly consumption from 1992 to present in its calculation. Through 2011, use per customer declined on average by 0.72%, meaning the UPC cap would be bounded on collections at 2.72% and bounded on refunds at 1.28% in the first year after resetting the base components of the FCA.

Staff noted the Company's proposal would have had no impact on the FCA balances had it been in place during the entire FCA timeframe. Staff also argues the timeframe chosen to calculate the trend in consumption per customer is arbitrary and not justified by the Company, and there is no methodology proposed to systematically update either the historical trend or the +/-2% cap. Staff believes the Company's UPC cap proposal is complicated, ineffective and unresponsive, and does not improve existing FCA mechanism. Staff maintains that its original proposal to share the FCA balance between customers and the Company best addresses the concerns of the Commission. Should the Commission continue to find the Staff proposal deficient, Staff recommends the Commission reject the Company's proposed 2% cap on changes to consumption per customer and leave the FCA mechanism unchanged.

ICL in its comments disagrees with the Commission's concern that the FCA's inability to capture only changes in energy sales attributable to Idaho Power's conservation efforts is a concern. Instead, ICL argues that the FCA obtains three primary benefits and that any changes to the FCA would diminish the benefits currently provided. ICL's comments elaborate and review the three benefits ICL believes the current FCA provides, but does not address the Commission's concern other than to argue that the identified concerns should not be addressed with changes to the FCA. ICL maintains that the Company's proposal to modify the FCA "unnecessarily complicates the FCA and fails to address the customer benefits of the current mechanism." ICL Comments, p. 6. ICL recommends the Commission maintain the current FCA structure.

Idaho Power and ICL also filed reply comments. Idaho Power maintains that its UPC symmetrical cap proposal is responsive to the Commission's concern in that it "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." Idaho Power Reply Comments, pp. 3-4. The Company asserts that application of the UPC cap would limit the FCA collection or refund amounts if the annual change in use per customer exceeds the established threshold. "This limitation would effectively account for extraordinary factors that may influence customers' energy use other than Company promoted energy efficiency initiatives." Idaho Power Reply Comments, p. 4.

Idaho Power also responded to Staff's initial sharing proposal for the FCA, asserting that Staff's proposal has two fundamental flaws. Idaho Power asserts that Staff's sharing proposal fails to remove the financial disincentives inherent in DSM programs thereby compromising "the regulatory framework that allowed for the successful pursuit for cost-effective energy efficiency." Idaho Power Reply Comments, p. 8. Second, Idaho Power asserts that Staff's proposal "introduces a perverse incentive that is detrimental to the purpose of the FCA and the pursuit of energy efficiency," because allowing the Company to retain a percentage of a refundable FCA balance could "actually incent the Company to encourage customers to use more energy." Idaho Power Reply Comments, p. 8.

In its reply comments, ICL again reiterated the three goals achieved by the current FCA. ICL argues in its reply comments that modifying the FCA to isolate the cost recovery solely associated with the Company's energy efficiency programs is not in the ratepayers' interest. ICL argues that although the FCA goes beyond just capturing Company sponsored energy efficiency "this too benefits customers by reducing capital costs and focusing the Company on controlling costs." ICL maintains that the Commission should not abandon these benefits by changing the FCA.

On the record established regarding Idaho Power's application, the Commission will not approve the Company's proposal to add a cap to the FCA to recognize deviations in energy use per customer. None of the filed comments support Idaho Power's proposed adjustment to the FCA methodology. The proposed UPC cap does not by itself isolate changes in customer energy use resulting from the Company's DSM programs. It would have had no effect on the FCA results in any year the FCA has been applied to the residential and small business customers, while adding complications to the annual review process.

The FCA was first implemented not long before the recent significant economic recession, and the resulting business downturn, loss of jobs and reduced income for many customers undoubtedly affected Idaho Power's energy sales. Although the inability of the FCA to distinguish changes in cost recovery associated with the Company's energy efficiency programs remains a concern, the improving economy may have a stabilizing effect on the FCA results, and provide a more accurate indication of DSM program results. The Commission will not alter the FCA at this point, but will continue to monitor the results each year, and welcomes closer scrutiny of the effectiveness of the FCA in Idaho Powers' next general rate case. In the meantime, annual reviews of the FCA results may suggest a clearer refinement so it more accurately responds to changes in energy sales resulting from DSM programs.

ORDER

IT IS HEREBY ORDERED that Idaho Power's Application to alter the FCA is denied. The FCA mechanism shall continue unchanged.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 31st day of January 2013.

PAUL KJELLANDER, PRESIDENT

MACK A. REDFORD, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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