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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** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Weldon B. Stutzman, Deputy Attorney General, and in response to the Notice of Application and the Notice of Modified Procedure issued in Order No. 32668 on October 23, 2012, submits the following comments.

BACKGROUND

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 Commission also noted, however, that the FCA as structured is imperfect, particularly 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.

Idaho Power recommends the Commission approve the FCA methodology as currently in place without change because it believes the existing mechanism is the most efficient and appropriate method to eliminate financial disincentives to pursuing cost-effective DSM resources. Nonetheless, the Company's filing includes 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 based on 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.* The Company requests the Commission issue an Order approving a specific FCA methodology no later than March 29, 2013.

STAFF ANALYSIS

Staff reviewed the Company's filing and compliance report, and does not believe that its proposal complies with the Commission's directive. Idaho Power's preference to maintain the current FCA mechanism ignores Commission concerns, and its recommended alternative is largely unresponsive and ineffective in identifying changes in cost recovery solely associated with the Company's energy efficiency efforts. 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.

The Commission observed that no parties to the case disputed Staff's assertion that the FCA does not isolate cost recovery solely associated with the Company's energy efficiency programs. Order No. 32505, p. 6. Staff believes this undisputed fact underscores the Commission's desire to modify the current FCA mechanism. However, rather than propose a solution addressing the

Commission's concern, Idaho Power continues to argue that the FCA should not be altered in any consequential way because revenue recovery above revenues lost through the Company's energy efficiency efforts is *required* to maintain the current level of DSM commitment. This is the same argument made by the Company in its earlier reply comments and rejected by the Commission in Order No. 32505.

The Company maintains in its latest comments and testimony that no additional adjustment is necessary because using customer counts to recouple was agreed upon as an index for economic risk allocation. Cavanaugh Supplemental, p. 4; Idaho Power Filing, p. 4. However, the use of customer counts, as opposed to class-specific lost revenues, was a result of the Company's concern that in times of class growth it would be making investments in infrastructure while simultaneously refunding to customers through the FCA. IPC-E-04-15, Summary of the November 8, 2004 Workshop, p. 26. Per-customer recoupling partially offsets this issue, as long as customer growth outpaces sales growth, but it is not effective as a metric for mitigating effects of reduced consumption due to non DSM factors. During the recent slowing of the economy, Idaho Power saw a reduction in year-to-year customer growth, but did not see customer attrition. More importantly, overall sales have decreased each year for the past three years. The resulting <u>use per customer</u> declined over that period, as the Company was adding customers. That fact becomes more evident when combined with the year-to-year growth in the FCA deferral balance, which occurred during the recession even though the FCC and FCE rate components were updated twice in that timeframe. Put another way, lost revenue recovered from ratepayers through the FCA does not materially change with customer growth or attrition. The monetary impact to customers results from the level of reduction in the use per customer that is included in the FCA. The existing FCA simply assigns the risk of under recovery of fixed costs to customers irrespective of underlying cause.

Idaho Power's Proposed Alternative

As an alternative to maintaining the current FCA, the Company proposes 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 has 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 does not believe that the Company's proposal is responsive to the Commission's directive for several reasons.

Staff's concern with the Company's proposal is that it would have had no impact on the FCA balances had it been in place during the entire FCA timeframe. In fact, in the 19 years included in Idaho Power's historical analysis, only one year had a larger decline in use per customer than the cap specified under the proposal (4.04 % in 2002), and only one year had a greater increase (1.47% in 2006). 2002 was an abnormal year in which customers' consumption was impacted by the energy crisis of 2000 and 2001. Although the Company had negligible amounts of energy efficiency savings at the time, large PCA surcharges raised the effective rate to residential customers by nearly 40%. Electric consumption declined significantly due to the significant rate increases. 2006 represented the peak of the economic boom, where energy sales grew at a faster rate than customer counts. Aside from these anomalous years, that type of swing in use per customer does not occur. Moreover, the Company does not include in its long-term forecast any reductions (and no increases whatsoever) in use per customer of the magnitude proposed in the consumption cap. Consequently, Staff believes the proposed cap is unnecessarily complicated, ineffective and unresponsive to concerns previously identified by Staff and expressed by the Commission in its Order.

Table 1 contrasts the amount of sales that fall within the UPC band with the lost energy sales recovered through the FCA and the reported DSM energy savings of the Company by year. The UPC cap is greater than the FCA balance each year, and several times as large as the reported DSM energy savings, indicating that it is improbable that Company-sponsored energy efficiency would trigger the cap. The first column of the table also demonstrates that the 2.72% UPC cap becomes less stringent over the years in between rate cases. While the UPC cap is calculated on a year-to-year basis, it factors in all previous yearly changes in use per customer since the most recent rate case; the 2010 cap would reflect the changes in use per customer not only from 2009 to 2010, but also 2008 to 2009. The 2011 UPC cap incorporates yearly changes dating back to 2008 as well. For Idaho Power, the result is that the UPC cap effectively rose from 350 kWh per customer per year in 2008 to 793 kWh per customer per year in 2011, meaning the UPC cap went from 2.72% of 2008 base usage to 6.2% of 2008 base usage within four years, a growth rate of 126%. In the same timeframe, the 3% cap on deferral balances only grew by 0.6%, signifying that the UPC cap would exceed the deferral cap after the first year, and the difference between the two caps would be deferred for later collection.

Table 1

Idaho Power UPC Cap and Residential Energy Savings

Year	Effect of Propsed 2.72% UPC Cap (MWh)	Energy Reduction Recovered Through FCA (MWh)	Cumulative Energy Efficiency Savings (MWh)
2008	136,077	39,381	17,035
2009	155,404	146,784	34,613
2010	234,918	226,068	68,824
2011	314,257	257,441	105,551

The FCA balances would not have been affected by the UPC cap had it been in place since the beginning of the pilot, and Idaho Power has admitted that other factors have contributed to the reduction in per customer sales. A 2.72% decline in use per customer in a given year is highly unlikely; a decline of that magnitude over multiple years is unprecedented. If that were to occur, the underrecovery of fixed costs for only two customer classes would be significant, and signal overall revenue erosion for the Company, leading the utility to seek general rate relief. In that scenario, the base is reset, and the UPC cap becomes unnecessary. Therefore, it is reasonable to conclude that the Company's proposal is more aligned with maintaining the current FCA structure than addressing the concerns of the Commission. 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. Doing so would acknowledge the non-programmatic loss in sales all parties agreed exist during the time of the FCA. Regardless of where the UPC cap is set, the fact that it will not affect the FCA balance each year further demonstrates that it is an ineffective tool for addressing the Commission's concerns.

Although opposed to modifying the FCA based on the Company's UPC proposal, Staff nonetheless evaluated the methodology used in its development to further inform the Commission. Staff believes the timeframe chosen to calculate the trend in consumption per customer is arbitrary and unjustified by the Company. There is no methodology proposed to systematically update either the historical trend or the +/-2% cap. The arbitrary timeframe and lack of methodology to update the historical trend simply introduces another contested element that further complicates the methodology without addressing the Commission's concern regarding non-DSM related declines in consumption.

Staff's original comments in this case identified shortcomings in the existing FCA mechanism associated with tracking and reimbursement of non-DSM related reductions in consumption per customer. Staff also recommended a solution to address the problem. While the Commission agreed with Staff that there was a problem with the FCA, it did not implement the Staff's solution given the information on record.

STAFF PROPOSAL

Staff proposed sharing the FCA balance between the Company and customers, and maintains that this option is superior to what the Company has submitted. The Commission noted that Staff's proposal had merit, but found the recommended ratio had not been sufficiently supported. Order No. 32505, p. 6. The Company considered Staff's recommendation as arbitrary, unsupported and unsubstantiated. Idaho Power Reply Comments, p. 7. Staff believes the five years of experience with the FCA has provided ample evidence to support its position.

The Company's original reply comments discount the values included on page 4 of Staff's comments. Staff explained how energy savings were derived in footnote 3 of its comments, and in greater detail in footnote 3 from Staff's comments in Case No. IPC-E-12-04, which the Company did not dispute. The source of the data was Idaho Power's own Annual DSM Reports for the pertinent timeframe. The Total Reduced Consumption was calculated directly from the Company's monthly PCA/FCA Deferral Report.[1] In the time since the Commission issued its Order, the Company has not attempted to reconcile Staff's calculations and has not seriously addressed the flaws in the FCA.

The Company has also claimed that Staff's proposal did not account for non-programmatic savings which it believes should be accounted for in the FCA. Idaho Power Reply Comments, p. 14. Staff's comments at page 8 specifically address this issue. Staff proposed the sharing ratio to be above the calculated savings, specifically to reward the Company for non-programmatic activities produced by its participation in, for example, energy efficiency education, regional market transformation efforts, and code and standard improvements. Staff did not presume that the sharing ratio would remain fixed, and could be adjusted by the Company or the Commission in the future if any party could show that changing circumstances required adjusting the sharing ratio.

Staff's proposal is still the only one that recognizes the Company's energy efficiency efforts in times of rising use per customer. While the Company is required to forgo recovery of some lost

[1] The Report does not have lost energy sales, which meant Staff had to calculate it using the deferral amounts and the monthly FCE, accounting for monthly interest accrual.

fixed costs under this scenario, the Staff proposal provides greater lost fixed cost recovery than would occur under the existing methodology.

Staff's proposed FCA modification to account for changes in per customer consumption due to non-DSM factors was developed based on three years of discussions and development of the original FCA pilot program. It is based on evaluation of energy savings and actual operation of the FCA methodology over the five-year pilot period and it resulted from workshops with the Company and interested parties prior to Staff's filing its FCA modification proposal. Staff also met with Idaho Power before the Company filed its most recent FCA modification proposal to discuss alternatives responsive to the Commission's concerns. Staff hoped the Company would propose a compromise methodology that would effectively recognize non-DSM impacts in the FCA. However, the Company's recommendation to maintain the existing FCA methodology and the alternative cap proposal are effectively the same: no change and no improvement in the methodology.

STAFF RECOMMENDATION

Staff continues to believe that its proposal to adopt sharing methodology in the FCA of 50% initially is the most reasonable and responsive solution to the Commission's concern. The sharing method remains the best option to address non-DSM reduction in per customer consumption and still demonstrate support for the acquisition of cost effective energy efficiency. Staff further believes the Company's UPC cap proposal is complicated, ineffective and unresponsive, offers no value over the existing FCA mechanism, and should be rejected.

Respectfully submitted this 7th day of December 2012.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 7th DAY OF DECEMBER 2012, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-11-19, BY E-MAILING AND MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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