Office of the Secretary
Service Date
April 29, 2010

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-09-28** **ORDER NO. 31063**

On October 1, 2009, Idaho Power Company filed an Application requesting an Order authorizing the Company to convert its current Schedule 54 – Fixed Cost Adjustment (FCA) – from a pilot schedule to an ongoing, permanent schedule. In Order No. 30267 issued March 12, 2007, the Commission approved implementation of a three-year FCA pilot program for residential service and small general service customers. The FCA mechanism allows Idaho Power to separate collection of fixed costs from volumetric energy sales. A surcharge or customer credit is applied when fixed-cost recovery per customer varies from a Commission-established base. During the first two years of the pilot program, the FCA true-up resulted in a refund in one year and a surcharge in the next.

The Company contends that traditional rate design discourages utilities from investing in energy efficiency programs that reduce their sales volume because utilities recover a large portion of their fixed costs through sales of kilowatt-hours of energy. Idaho Power alleges the purpose of the FCA pilot program "was to test the FCA mechanism to determine its efficacy in removing the unintended rate design disincentive for the Company to aggressively pursue DSM programs." Application, p. 4. Idaho Power asserts that so far during the three-year pilot program the Company has made "strong progress in improving and enhancing its efforts to promote energy efficiency and demand-side management activities." Application, p. 3. The Company credits this effort "in no small part to removal of the disincentive provided by the FCA mechanism during the term of the FCA pilot." *Id.*

The Company's Application requests that the FCA continue to be applicable only to residential and small general service customer classes. During the first two years of the pilot program, the FCA balances for both classes were combined and the same FCA rate adjustment applied to both classes. Idaho Power requests, if the FCA is made permanent, that the FCA balances and annual rate adjustment amounts for each class remain separate so that each class is assigned its own fixed-cost adjustment rate.

On November 23, 2009, the Commission issued a Notice of Application and Notice of Intervention Deadline. Order No. 30948. Petitions to Intervene were filed by Idaho Conservation League, Snake River Alliance, and Community Action Partnership Association of Idaho, all of which were granted by the Commission. Order Nos. 30972, 30973, 30974. On February 23, 2010, the Commission issued a Notice of Modified Procedure inviting written comments, and reply comments, during a period that ended April 9, 2010. CAPAI and the Idaho Conservation League (ICL) filed initial comments and reply comments. The Snake River Alliance (SRA), AARP, the Northwest Energy Project of the Natural Resources Defense Council (NROC), and Commission Staff filed comments. Idaho Power filed reply comments.

WRITTEN COMMENTS

Snake River Alliance

The Snake River Alliance supports Idaho Power's request to make its annual fixed cost adjustment program permanent. The Alliance believes the pilot program has proven that decoupling of energy efficiency program costs from Idaho Power's energy sales revenues through the FCA is an effective mechanism to promote energy efficiency for the Company's customers. The Alliance also acknowledged, however, that Idaho Power's energy efficiency tariff rider, apart from the FCA, "has spurred impressive growth in the Company's energy efficiency and demand response measures." SRA Comments, p. 2. The Alliance believes that although the FCA may result in rate increases, individual customers can more than offset that by a reduction in their bill due to the Company's demand-side management measures.

CAPAI

CAPAI in its comments opposes the Company's Application to make the FCA program permanent until additional information can be provided by the Company and examined by interested parties. CAPAI notes that the Company is unable to demonstrate the amount of energy reduction attributable to its DSM programs. Nor is the Company able to show the amount of reductions resulting from other variables such as economic conditions and high unemployment, weather conditions, adoption of public sector initiatives such as building codes and other changes that would have occurred regardless of the DSM investment made by Idaho Power.

CAPAI recognizes that decoupling presents complex issues, and may unduly shift risk to customers, raise prices during periods of declining sales, and may disproportionately raise rates for low-income and low energy users, and does not guarantee Company investment in efficiency improvements. CAPAI states there should be a quid pro quo for customers for shifting the risk from shareholders to ratepayers by reducing the uncertainty of future revenues for the Company and increasing the uncertainty of rates for customers. CAPAI believes an effective FCA that promotes increased DSM investment must ensure that initial baseline revenues are set in a fair and equitable manner in a general rate case, while isolating the effects of utility-sponsored energy efficiency, protecting customers from the volatility and variability associated with frequent true-ups and adjustments, and protecting customers from avoidable price increases. CAPAI Response Comments, p. 7. In addition, a decoupling mechanism should not reward the utility for reductions and consumption resulting from conditions the utility did not sponsor or create.

CAPAI recommends that an FCA should protect consumers from unnecessary rate increases by use of a rate cap. CAPAI is concerned that the FCA not be merely a varying rate change designed solely for the purpose of stabilizing utility revenues with no commensurate benefit to customers. CAPAI notes that the Company is relying on only two years of data regarding the effectiveness of the FCA and CAPAI questions whether this is sufficient to address the many issues raised by the interested parties in the case. CAPAI asserts that the Company has reached conclusions based on relatively little empirical data and relies more on an assumption that electricity consumption reductions over the past few years are the sole and exclusive result of the implementation of the FCA. CAPAI Response Comments, p. 10. These concerns cause CAPAI to oppose the Company's Application to make the FCA program permanent, although CAPAI does not propose a rejection of the concept of an FCA. CAPAI also opposes the Company's proposal to reduce the reporting requirements in place during the pilot FCA program.

Idaho Conservation League

The Idaho Conservation League supports the goals of the FCA and thus urges the Commission to either extend the pilot period for the FCA or approve the Company's request to make it permanent. ICL recognizes there are significant disagreements about particular details of the mechanism, including "(1) how to accurately measure the reduction in energy use attributable to Idaho Power's effort; (2) how to address the conflicting price signal sent to ratepayers when their reduced energy consumption results in a rate increase; (3) how to ensure Idaho Power uses consistent, verified, and auditable data in computing the FCA; and (4) whether to allocate the FCA to the residential and small general service classes together or separately." ICL Comments, p. 8.

ICL recommends the Commission continue the FCA to encourage investment in energy efficiency and DSM programs while convening a workshop to address the issues identified by ICL. ICL also opposes the Company's request to reduce its reports on energy efficiency and DSM investments. ICL supports the Staff's recommendation that the Company provide more detailed information, including the monthly actual kilowatt-hour savings attributed specifically to the residential and small general service customers. ICL Comments, p. 9. ICL recommends the Commission continue the FCA mechanism and also convene a formal workshop to address the FCA, develop an appropriate incentive mechanism and determine a reporting and verification method. In its reply comments, ICL reiterated its recommendation that the Commission direct Staff to hold a workshop to comprehensively address the issue of fixed-cost recovery in times of declining retail sales.

AARP

AARP is the only commenter to oppose making the FCA permanent and to recommend the Commission abolish the FCA. AARP argues that the decoupling through the FCA shifts the revenue requirement to a fixed charge so a utility's revenue no longer fluctuates with the amount of electricity consumed, thereby diminishing the Company's incentives to efficiently manage its operations. AARP Comments, p. 3. Like other commenters, AARP notes that many factors may cause fluctuations in energy consumption including weather, the general state of the economy, unemployment levels and high fuel prices. Although it is difficult to isolate a drop in demand due to energy efficiency programs from other causes, decoupling means customers can pay for reductions in usage which occur for reasons wholly unrelated to implementation of energy efficiency programs. AARP noted that IDACORP, Idaho Power's parent company, reported that retail customer sale volumes decreased in 2009, and specifically mentioned that increased precipitation and economic factors, as well as energy conservation, contributed to the reduction in sales volume. AARP Comments, p. 4.

AARP also notes the Commission has taken other steps to decrease energy usage, including tiered rate designs and approval of Idaho Power's request for installation of advanced metering. AARP stated it "does not agree that energy efficiency programs are dependent on the adoption of revenue decoupling, in Idaho, or elsewhere." AARP Comments, p. 4. AARP recommends, if the Commission continues the FCA, that it redesign the FCA formula so that recovery is limited to sales lost directly due to measurable and verifiable energy savings resulting from Idaho Power's energy efficiency programs. AARP also noted that Idaho Power customers currently pay one of the higher energy efficiency rider rates, at 4.75%, in the country, and also pay an additional $10 million per year to install the advanced meters. AARP recommends the Commission abolish the FCA or, if the FCA is continued, that it be limited to recovery of lost sales directly attributable to measured and verified energy savings resulting from ratepayer-funded energy efficiency programs, and that a cap be placed on any FCA increase of 1.5% per year.

Natural Resources Defense Council

The Natural Resources Defense Council unconditionally supports Idaho Power's request to make the FCA permanent. The Defense Council notes the Company's impressive growth in energy efficiency and demand response measures. The Defense Council also noted that although it is true the FCA may result in rate increases, it also may result in rate decreases. The Council also asserted that the FCA protects customers against overrecovery of authorized fixed costs by Idaho Power. The Defense Council believes the Company has met the objectives and expectations of the FCA during the pilot program, thus earning approval of the Company's Application to make the FCA permanent.

Commission Staff

Staff believes it is premature to convert the FCA from a pilot schedule to a permanent schedule and recommends that the Commission continue the FCA in a pilot status for an additional two years. Staff noted that from a mechanical standpoint the FCA has worked as intended, that is, when sales per customer have declined, the FCA has resulted in a customer surcharge and when sales per customer have increased, a credit was returned. Staff also acknowledges that Idaho Power has increased its demand-side management expenditures during the past recent years. Staff argues, however, that it is not clear how much, if any, of the DSM increase is attributable to the FCA's existence. If the purpose of the FCA was to remove the disincentive for investment in residential energy efficiency programs, the Company's energy efficiency efforts for residential customers should have increased disproportionately than for customer classes not affected by the FCA. Staff noted, however, that the Company's residential energy programs expenses and its reported energy savings did not increase as much for residential customers as for all other customer classes. Staff contends there is no evidence that the FCA caused Idaho Power to increase its DSM efforts specifically for residential and small commercial customers beyond that which it would have in the absence of the FCA.

Staff also contends the Company is collecting lost fixed-revenue for reductions in energy caused by factors other than its DSM programs. For example, Staff noted in the Company's 2008 annual DSM report, it estimated residential program savings was 21,777,729 kWh, but the 2008 FCA reimbursed the Company for a decline in energy of 156,131,477 kWh. Staff notes that energy use can change for a number of reasons, including (1) building code changes; (2) federal weatherization programs, tax incentives and appliance rebates; (3) federal marketing programs (e.g., similar to an energy version of the "Buckle Up" ad campaign); (4) technological changes; (5) substitutions between gas and electric equipment; (6) rate design changes; (7) shifts in the economy; and (8) other behavioral changes. Staff Comments, p. 6. Staff has always been aware of the potential for the FCA to reimburse Idaho Power for non-DSM related reductions in energy consumption, and quantifying the magnitude of those reductions continues to be very difficult.

Staff noted that some issues initially identified in the implementation of the program have been resolved during the pilot stage, but significant issues remain unresolved. One issue is the cost to serve new customers, particularly fixed costs associated with new customers. Staff is also concerned that the load growth adjustment rate (LGAR) built into the Company's annual Power Cost Adjustment (PCA) may have the unintended consequence of over-compensating the utility for lost fixed costs during periods of declining sales, since both the FCA and the LGAR may be reimbursing the Company for the same lost fixed-generation revenue. Staff noted an additional complication with the implementation of a three-tiered rate structure for residential customers and a two-tiered structure for small commercial customers. These new rate structures may make it more difficult to assess the level of fixed costs actually collected from these customers.

Staff supports the option of allowing a single FCA rate for both residential and commercial classes, and recommends the Company's request to remove the option should be denied. Staff notes that the cost-of-service methodology used to establish authorized fixed-cost recovery is an inexact science and is based on an unapproved model. Also, blending the rates has prevented the Company from deferring a significant amount of unrecovered fixed costs associated with the small commercial customers.

Staff recommended that the FCA be moved from the energy efficiency services line on customers' bills and be combined with the PCA to form a new line item entitled Annual Adjustment Mechanisms. Staff recommends the FCA be continued as a pilot program for two years to allow time to adjust a number of unresolved issues. Staff also recommended the Commission direct the Company to educate its customers on the benefits of the FCA and the Company's DSM programs to mitigate negative misconceptions customers may have regarding these programs. Staff also believes the current method of monthly reporting for the FCA mechanism is sufficient, and recommends that monthly FCA reports continue to be submitted concurrently with the Company's PCA reports.

Idaho Power Reply Comments

In its reply comments, Idaho Power noted the ways that the FCA benefits customers. First, the FCA removes a disincentive that would otherwise discourage the Company from pursuing additional DSM programs for residential and small general service customers. Second, the Company asserts the FCA acts to stabilize customer bills when loads are increasing because the fixed-cost component recovered through the energy rate is less than the total energy rate. Third, Idaho Power asserts that customers benefit from the FCA when loads are decreasing because it gives the Company a better opportunity to recover more of the fixed costs it incurs to provide electric service to customers. The Company argues that regulatory mechanisms that improve the Company's ability to recover its costs are perceived by the debt-rating agencies and financial community as positive attributes and may have the effect of reducing the Company's cost of capital.

Idaho Power also asserts that the FCA is performing as the parties and the Commission intended when it was implemented. The FCA is symmetrical; that is, it provides either a surcharge or credit when fixed-cost recovery per customer varies above or below a Commission-established base. It is also clear the Company has increased its commitment to energy efficiency and DSM efforts since the FCA was implemented.

Noting that several of the commenters discuss different reasons why customer loads might decrease apart from DSM activities, Idaho Power argued that it "should be encouraged to pursue all the legitimate load reducing activities and the FCA mechanism should appropriately capture all of the impacts to fixed cost recovery that flow from these activities." Idaho Power Reply Comments, p. 10.

Idaho Power also contends that the FCA should not be complicated by attempting to allow other variables apart from DSM programs to be considered in establishing fixed-cost recoveries. The Company argues that "expending substantial time and resources attempting to precisely parse the relative contributions to load increases or decreases of all the potential variables does not seem particularly useful." Idaho Power Reply Comments, p. 11. Besides, the Company argues, the FCA can continue to be adjusted even after it is made permanent. The Company asserts that continuing the FCA in a pilot project mode adds an element of uncertainty to the Commission's long-run commitment to the FCA. Idaho Power Reply Comments, p. 13. Idaho Power also disagreed with Staff's recommendation to combine the FCA with the annual Power Cost Adjustment line item on customer bills. *Id.*

Idaho Power concludes that "the FCA's principal purpose of the removing disincentives to energy efficiency investments and other load reducing activities undertaken by the Company to benefit its customers has been accomplished." As proof, the Company cites increased energy efficiency activity, higher levels of customer education, and new pricing initiatives.

COMMISSION DISCUSSION

The FCA pilot was approved as a three-year program to create a record to evaluate the efficacy of a program to separate recovery of certain fixed costs from Idaho Power's energy sales revenue. The record demonstrates that program results are mixed. Residential and small commercial customers received a small rate decrease during the first year and a rate increase after the second year. The third year of the pilot program resulted in a request by Idaho Power for another FCA rate increase. *See* Case No. IPC-E-10-7.

According to the comments in this case, the program results are also mixed as to whether the objectives of an FCA are being met. Clearly Idaho Power increased its DSM program expenditures in the past several years, but it is not enough, as Idaho Power's reply comments imply, that the Company's investment in efficiency programs increased during the FCA pilot project. There must be a demonstrable nexus between the FCA and the Company's investment in efficiency programs and, as noted in several comments, the Company did not provide evidence that such nexus exits. It is undisputed the Company's increased effort was prompted by several factors, including this Commission's approval of a significant increase in the energy efficiency rider that funds Company efficiency programs. Evidence suggests the FCA may have done little to spur Idaho Power's increased investment, at least for residential customers. As noted by Staff, despite that residential customers are part of the FCA pilot, "neither the Company's residential energy efficiency program expenses nor their reported energy savings [for residential customers] increased as much as those for all other customer classes." Staff Comments, p. 5.

The written comments identify additional issues that simply have not been addressed or that remain unresolved at this stage of the pilot program. For example, Staff and CAPAI question the accuracy of the amount of fixed costs identified for recovery given that the cost-of-service study used to establish recoverable fixed costs is not recent and was never approved by the Commission. ICL identified several disagreements about particular details of the FCA mechanism, including how to address the conflicting price signal sent to ratepayers when reduced energy consumption results in a rate increase; how to ensure consistent, verified, and auditable data is used in computing the FCA; and whether to allocate the FCA to the residential and small general service classes together or separately. ICL Comments, p. 8. CAPAI continues to be concerned with protecting customers from the volatility and variability associated with frequent FCA true-ups and adjustments, and protecting customers from avoidable price increases. CAPAI Response Comments, p. 7. AARP questions whether the FCA formula is sufficiently precise so that recovery is limited to sales lost directly due to measurable and verifiable energy savings resulting from Idaho Power's energy efficiency programs.

Staff identified the problem of the effect of costs to serve new customers, and whether the FCA formula adequately addresses recovery of fixed costs associated with new customers. Because both the FCA and the load growth adjustment rate (LGAR) in the Company's annual Power Cost Adjustment (PCA) reimburse the Company for lost fixed-generation revenue, the FCA may be allowing overrecovery of some fixed costs during periods of declining sales. Staff also noted that implementation of a three-tiered rate structure for residential customers and a two-tiered structure for small commercial customers may make it more difficult to determine the amount of fixed costs actually collected from those customers.

The Commission has a well-established commitment to encourage efficient energy use and effective conservation programs. That commitment was part of our decision to approve the FCA as a pilot program, in spite of the potential of an FCA to reimburse the Company for reductions in energy consumption that do not result from efficiency programs. We are pleased with the Company's increased efficiency efforts. However, the issues and potential concerns with the FCA, as identified by the parties in this case, support a conclusion that making the FCA permanent at this point is premature. Accordingly, at this time the Commission denies Idaho Power's Application to make the FCA permanent. We also find that it is too early to determine that specific changes should be made to the FCA, including whether to change the reporting requirements or the identification of the FCA on customer bills. Instead, the Commission finds that the FCA should continue the same as it is as a pilot program for an additional two-year period. During that time, additional data will develop, and interested parties will have time to evaluate it, and address the issues that are of concern.

Several of the comments suggested a workshop be convened to address the parties' concerns. A formal workshop may be useful in the next year to provide a forum to resolve important issues. A workshop is not essential, however, for Staff and other interested parties to continue their discussion of the FCA issues. If it appears those discussions will be advanced by a formal workshop, Staff should convene a workshop after initiating the proper notice.

ORDER

IT IS HEREBY ORDERED that Idaho Power's Schedule 54 – Fixed Cost Adjustment – is continued as a pilot program for an additional two-year period, starting June 1, 2010.

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 29th day of April 2010.

JIM D. KEMPTON, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

MACK A. REDFORD, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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