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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission
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MAR 26 2010

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IN THE MATTER OF THE INVESTIGATION
OF REGULATORY AND RATE INCENTIVES
FOR GAS AND ELECTRIC.

Docket No. E-00000J-08-0314
Docket No. G-00000C-08-0314

RUCO'S COMMENTS

The Residential Utility Consumer Office ("RUCO") files these comments in response to Chairman Mayes' Notice of Inquiry (NOI) dated February 23, 2010.

While the Chairman's NOI lists several important questions, RUCO's comments regarding decoupling can be distilled into two main points of discussion:

1. Should the Commission adopt a revenue decoupling mechanism?
2. If so, what form should such mechanism take?

Question: Should the Commission adopt a revenue decoupling mechanism?

Energy efficiency programs have the ironic twist of encouraging – and even mandating – a utility to sell less of what it produces. Since a utility makes money based on how much electricity or gas it sells, these programs can mar the utility's attractiveness to current and potential investors. Furthermore, energy efficiency requirements can hinder a utility's ability to achieve its authorized earnings because of the resulting reduced volume in sales. To

1 compound this matter, these programs defer the need for future capital investments that earn a
2 rate of return for the utility. Thus, unrecovered costs of energy efficiency programs are
3 problematic for a utility, creating a significant disincentive to implementing a successful energy
4 efficiency program.

5 Decoupling breaks the link between the utility's ability to recover its agreed-upon fixed
6 costs, including the profit margin, from the actual volume of sales that occur through a rate
7 adjustment mechanism.

8 According to FERC, 21 states have implemented energy efficiency measures. FERC
9 also lists several states that have ordered or are considering ordering decoupling, or partial
10 decoupling, mechanisms for electricity and gas utilities. (Attachment A) According to the
11 American Gas Association, as of January 2010, 17 states have approved revenue decoupling
12 and decoupling proposals are being considered in five states. (Attachment B)¹

13 Decoupling certainly provides a benefit to the shareholders because it reduces the risk
14 of any financial loss realized by an energy efficiency program. The utility will receive revenue
15 despite reduced sales. However, does decoupling provide a benefit to the ratepayers? RUCO
16 – the entity statutorily designated to protect the interests of Arizona's residential ratepayers –
17 recognizes the conundrum that decoupling may result in a ratepayer making an effort to use
18 less energy yet not seeing a reduction in their utility bill. Furthermore, does the benefit of
19 reduced carbon emissions justify this financial inequity for the customer?

20 **Answer:** While RUCO is concerned that the recovery of energy efficiency program fixed
21 costs could lead to higher utility bills, RUCO supports efforts to promote successful energy
22 efficiency programs. Therefore, RUCO is not opposed to further examination of decoupling as
23 a possible recovery mechanism. As stated in RUCO's April 16, 2009 letter filed in this docket:

24 ¹ See also, www.aga.org

1 **“RUCO is open to consideration of alternatives to address**
2 **the issue of cost recovery but is highly troubled by**
3 **mechanisms such as decoupling that shift the risks of**
4 **recovery from shareholders to ratepayers, provide utilities**
5 **guaranteed levels of revenue and provide no**
6 **accountability...”**

7 At a minimum, any recovery mechanism must: (1) be cost-effective; (2) contain a
8 detailed commitment to energy efficiency including identified goals and a possible tiered
9 incentive program for achieving those goals; (3) have a high degree of accountability and
10 transparency; and (4) have a cap on the amount that may be recovered.

11 As further stated in the RUCO's April letter:

12 **“RUCO is particularly interested in exploring recovery**
13 **mechanisms that reward the utility for successful**
14 **reduction in consumption. A tiered incentive program can**
15 **appropriately encourage a utility while holding it**
16 **accountable for its performance.”**

17 **Question: If the Commission approves recovery of fixed costs for energy efficiency**
18 **programs, what form should that mechanism take?**

19 ***Start with a Pilot Program***

20 Allowing recovery through a decoupling mechanism is a departure from traditional
21 ratemaking practices in Arizona. If the Commission chooses to adopt a recovery mechanism,
22 to ensure that ratepayers would not be unduly burdened and the utilities unjustly rewarded,
23 RUCO supports the concept of starting with a limited pilot program.

24 Idaho has had a pilot program in place for three years. While RUCO does not promote this
type of recovery as the only mechanism the Commission should consider, RUCO provides the
details of the Idaho program for the purposes of discussion.

The Idaho Pilot Project (See Attachment C)

In 2007, the Idaho Public Utilities Commission approved a limited decoupling proposal:

- For a single utility.

- For a 3-year period.
- Only for residential and small general service customers.
- Created a "Fixed Cost Adjustment" (FCA) capped at 3% with a true-up mechanism that allowed the FCA to be either positive or negative.

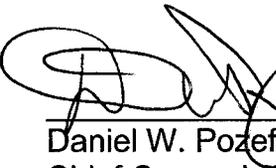
Consider a Tiered Incentive Program

A tiered incentive program provides a solution to the concern of utility accountability. Furthermore, it serves the dual purpose of providing an incentive for the utility to be as successful as possible in achieving maximum energy efficiency. Without a tiered incentive plan, a utility will recover for whatever portion of energy is offset through its efficiency efforts. However, there is no incentive for the utility to do a good job. Mediocre results will still yield recovery of those lost revenues.

A tiered incentive program allows the utility to recover a greater portion of its costs if it achieves a greater amount of efficiency. If the Commission is interested in pursuing a tiered incentive decoupling mechanism, the workshop is an appropriate forum to hammer out the details.

Answer: RUCO does not advocate for a particular type of recovery mechanism at this time. However, if the Commission does choose to authorize cost recovery for energy efficiency programs, RUCO urges the Commission to begin with a pilot program and to consider tiered incentives. Furthermore, as stated earlier, at a minimum, any recovery mechanism must: (1) be cost-effective; (2) contain a detailed commitment to energy efficiency including identified goals and a possible tiered incentive program for achieving those goals; (3) have a high degree of accountability and transparency; and (4) have a cap on the amount that may be recovered.

1 RESPECTFULLY SUBMITTED this 26th day of March, 2010.

2
3 
4 Daniel W. Pozefsky
Chief Counsel

5 AN ORIGINAL AND THIRTEEN COPIES
6 of the foregoing filed this 26th day
7 of March 26, 2010 with:

8 Docket Control
9 Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

10 COPIES of the foregoing hand delivered/
11 mailed this 26th day of March 26, 2010 to:

12 Teena Wolfe
13 Administrative Law Judge
14 Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Creden Huber
Sulphur Springs Valley Electric
Cooperative, Inc.
P.O. Box 820
Wilcox, AZ 82311

15 Janice Alward, Chief Counsel
16 Legal Division
Arizona Corporation Commission
1200 West Washington
17 Phoenix, Arizona 85007

Ladel Laub
DIXIE-ESCALANTE RURAL ELECTRIC
ASSOCIATION, INC.
71 East Highway 56
Beryl, UT 84714

18 Steven M. Olea, Director
19 Utilities Division
Arizona Corporation Commission
1200 West Washington
20 Phoenix, Arizona 85007

Carl Albrecht
GARKANE ENERGY COOPERATIVE,
INC.
P.O. Box 465
Loa, UT 84747

21 Michael Kurtz
22 BOEHM, KURTZ & LOWRY
36 E. Seventh St. #2110
23 Cincinnati, OH 45202
24

Jay Moyes
MOYES STOREY
1850 N. Central Ave. #1100
Phoenix, AZ 85004

1 Gary Yaquinto
AUIA
2 2100 N. Central Ave., Ste. 210
Phoenix, AZ 85004
3
4 Timothy Hogan
CENTER FOR LAW
IN THE PUBLIC INTEREST
5 202 E. McDowell Rd. #153
Phoenix, AZ 85004
6
7 C. Webb Crockett
FENNEMORE CRAIG
3003 N. Central Ave., Ste. 2600
8 Phoenix, AZ 85012-2913
9
10 Michael Curtis
CURTIS, GOODWIN SULLIVAN
UDALL & SCHWAB
501 E. Thomas Road
11 Phoenix, AZ 85012-3205
12
13 Michael Grant
GALLAGHER & KENNEDY
2575 E. Camelback Rd.
Phoenix, AZ 85016-9225
14
15 Thomas Mumaw
PINNACLE WEST LAW DEPT
P.O. Box 53999, Station 9905
16 Phoenix, AZ 85072-3999
17
18 Barbara Klemstine
AZ PUBLIC SERVICE CO.
P.O. Box 53999
Mail Station 9708
19 Phoenix, AZ 85072-3999
20
21 Jeffrey Woner
K.R. SALINE & ASSOC., PLC
160 N. Pasadena, Ste. 101
Mesa, AZ 85201
22
23 Richard Adkerson
AJO IMPROVEMENT COMPANY
P.O. Drawer 9
24 Ajo, AZ 85321

Jack Shilling
DUNCAN VALLEY ELECTRIC
COOPERATIVE'S GAS DIVISION
PO Box 440
Duncan, AZ 85534-0440

Dennis True
MORENCI WATER AND ELECTRIC CO
P.O. Box 68
Morenci, AZ 85540

Douglas Mann
SEMSTREAM AZ PROPANE, L.L.C.
200 W. Longhorn
Payson, AZ 85541

Russ Barney
GRAHAM COUNTY UTILITIES, INC.
P.O. Drawer B
Pima, AZ 85543

Gary Grim
AEP
P.O. Box 670
Benson, AZ 85602

Larry Robertson, Jr.
P.O. Box 1448
Tubac, AZ 85646

Caroline Gardiner
TRICO ELECTRIC COOPERATIVE, INC.
P.O. Box 930
Marana, AZ 85653

David Couture
220 W. 6th St. P.O. Box 711
Tucson, AZ 85702-0711

Jeff Schlegel
1167 W. Samalayuca Dr.
Tucson, AZ 85704-3224

1 Paul O'Dair
NAVOPACHE ELECTRIC
2 COOPERATIVE, INC.
1878 W. White Mtn. Blvd.
3 Lakeside, AZ 85929

4 Scott Canty
THE HOPI TRIBE
5 P.O. Box 123
Kykotsmovi, AZ 86039

6
7 Marcus Middleton
P.O. Box 245
Bagdad, AZ 86321

8
9 Paul Griffes
MOHAVE ELECTRIC COOPERATIVE,
INC.
10 P.O. Box 1045
Bullhead City, AZ 86430

11
12 Laura Sanchez
1500 Lomas Blvd. NW, Ste. B
Albuquerque, NM 87104

13
14 Michael Fletcher
COLUMBUS ELECTRIC
COOPERATIVE, INC.
15 P.O. Box 631
Deming, NM 88031

16
17 Justin Brown
Randy Sable
Brooks Congdon
18 SOUTHWEST GAS CORPORATION
5421 Spring Mountain Rd.
19 Las Vegas, NV 89150

20
21 Mona Tierney-Lloyd
EnerNOC, Inc.
P.O. Box 378
Cayucos, CA 93430

22
23 John Wallace
GCSECA
120 N. 44th St., Ste. 100
24 Phoenix, AZ 85034

Michael W. Patten
ROSHKA, DeWULF & PATTEN PLLC
One AZ Center
400 E. Van Buren, Ste. 800
Phoenix, AZ 85012

Raymond Heyman
UNISOURCE ENERGY
One S. Church, Ste. 200
Tucson, AZ 85701

David Berry
WESTERN RESOURCES
P.O. Box 1064
Scottsdale, AZ 85252-1064

Janice Alward, Chief Counsel
AZ CORPORATION COMMISSION
1200 W. Washington
Phoenix, AZ 85007

Ernest Johnson
AZ CORPORATION COMMISSION
1200 W. Washington
Phoenix, AZ 85007-2927

By 
Ernestine Gamble

ATTACHMENT A

Renewable Power & Energy Efficiency: Energy Efficiency Resource Standards (EERS) and Goals

Federal Energy Regulatory Commission • Market Oversight @ FERC.gov

21 States have Energy Efficiency Resource Standards

NE: Interim Energy Plan stresses multi-sector EE improvements
KS: Voluntary utility programs
OK: PSC approved quick-start utility EE & DR programs

MN: 1.5% annual savings based on prior-3 years average, to 2015
IA: 5.4% energy savings by 2020 - 1.5% annual
MI: 1% annual energy savings as a percent of from prior year's sales

IL: reduce energy use 2% by 2015 and peak 0.1% from prior year
OH: 22% energy savings by 2025 (from 2009); reduce peak 8% by 2018
KY: proposed RPS-EE to offset 18% of projected 2025 demand

WA: pursue all cost-effective conservation: ~ 10% by 2025
OR: IOU 2008 goals 34 MW; administered by Energy Trust OR
CA: 8% energy savings; 4,885 MW peak reduction by 2013 (from '04)

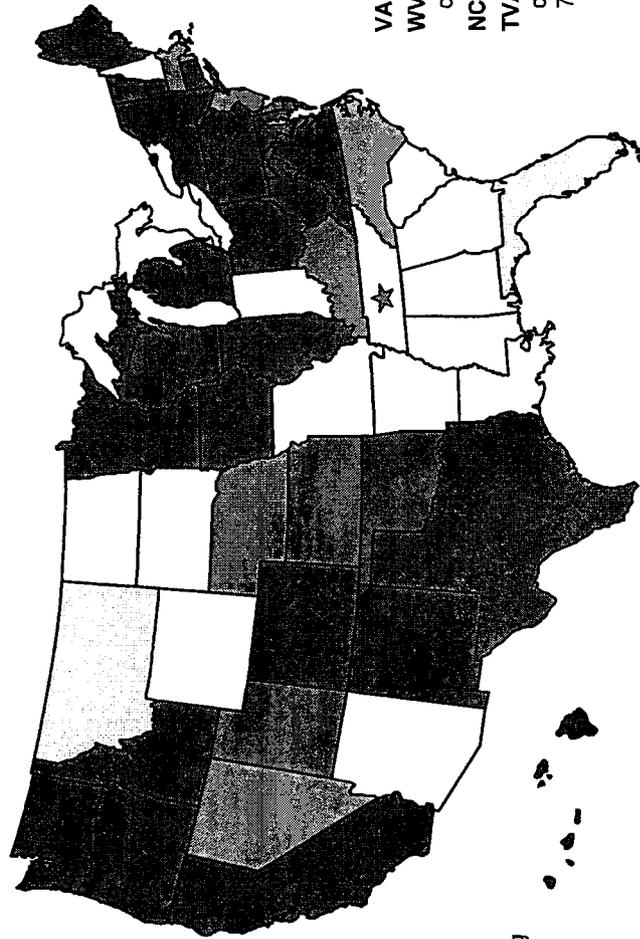
ID: Energy Plan set conservation, DR, EE as priority resources
NV: EE up to 25% of RPS; ~ 5% electric reduction by 2015
UT: EE earns incentive credits in RE goal

CO: 11.5% energy savings by 2020; ~ 3,669 GWh (from '08)

NM: 10% retail electric sales savings by 2020 (from '05)

TX: 20% of load growth by 2010, using average growth rate of prior 5 years

HI: 30% electricity reduction: ~ 4,300 GWh by 2030 (from '09)



ME: 30% energy savings; 100 MW peak electric reduction by 2020
VT: 11% energy reductions by 2011 (2% annual); administered by Efficiency VT
MA: 25% of electric load from DSR, EE by 2020; capacity and energy
NY: reduce electric use 15% by 2015 from levels projected in 2008
CT: 4% energy savings (1.5% annual) & 10% peak reduction by 2010 (from '07)
RI: reduce 10% of 2006 sales by 2022
NJ: proceeding on Energy Master Plan to reduce consumption, peak
DE: Sustainable Energy Utility charged with 30% energy reduction by 2015
PA: reduce consumption 3%, peak 4.5% by 2013 as percent of 2009-10 sales
MD: reduce per capita electricity use and peak 15% by 2015 from 2007
VA: reduce electric use 10% by 2022 (from '06)
WV: EE & DR earn one credit for each MWh conserved in the 25% by 2025 A&RES
NC: EE to meet up to 25% of RPS to 2011
TVA: reduce energy consumption 25% and cut peak 1,400 MW by 2012 (from '06) in 7-state territory ★

- EE as part of an RPS law or rule
- EERS by regulation or law (stand-alone)
- Voluntary standards (in or out of RPS)
- EERS pending regulations, proposed, or studied
- Other EE entity, rule, or procurement order

Updates at: <http://www.ferc.gov/market-oversight/mkt-electric/overview/elec-ovr-eepps.pdf>

* TVA is a Public Power Authority – this is not a state action.
Abbreviations: A&RES – Alternative & Renewable Energy Standard; DR – demand response; DSR – demand-side resources; EE – energy efficiency; E&G: electric and gas utilities; RPS: Renewable Portfolio Standard;
Sources: ACEEE, DOE-EERE, EPA, Institute for Electricity Efficiency (IEE); Regulatory Assistance Project, State regulatory and legislative sites, State Efficiency Agency reports, trade press

Updated July 8, 2009

34081

Renewable Power & Energy Efficiency: Energy Efficiency Resource Standards (EERS) and Goals

Federal Energy Regulatory Commission • Market Oversight @ FERC.gov

Energy Efficiency Resource Standards (EERS)

- An Energy Efficiency Resource (or Portfolio) Standard (EERS) aims to reduce or flatten electric and gas load growth using energy efficiency (EE). It requires distribution utilities to achieve annual savings levels. An EERS may specify reductions for energy use (MWh or therms), peak demand (MW), or both.
- Energy Efficiency uses less fuel to produce the same or greater amount of *usable* energy from a given energy source. Reductions normally create multi-year effects over an investment's useful life. Alternatively, conservation can be temporary reductions in energy use.

STATE ENERGY EFFICIENCY ACTIVITIES:

- 21 states have an EERS, including three signed in June: Hawaii, West Virginia, and Maine. 10 others include EE in procurement orders or Integrated Resource Plan (IRP) requirements. 17 include EE as an eligible RPS resource or in an RE goal.
- Three states are developing regulations for an EERS: MA, NJ, and RI. Two states issued energy plans that stress economy-wide energy efficiency use, and propose an EERS: KY and NE.
- Hawaii enacted an EERS targeting a 4,300 GWh electricity reduction by 2030 – more than one-third of 2008 retail sales. EE will be an approved RPS-resource only through 2014. (June 25)
- West Virginia's Alternative & Renewable Energy (A&RE) Standard provides that each megawatt-hour (MWh) conserved in an approved EE or DR program earns one A&RE credit towards a utility's 25% by 2025 target. (June 17)
- Maine's law requires 30% energy savings and 100 MW peak electric reduction by 2020. The PUC needs to adopt regulations, including base year for reductions. (June 12)
- Virginia directed the SCC to conduct a proceeding to determine achievable, cost-effective conservation and DR targets; its findings are due by Nov 15. A second law authorizes the SCC to allow utilities to recover costs both of EE programs and of revenue reductions due to EE programs. (both April 8)

NATIONAL ENERGY EFFICIENCY LEGISLATION:

The House of Representatives passed the "American Clean Energy and Security Act" ("Waxman-Markey") June 26. Title I, Subtitle A, "Combined Energy Efficiency and Renewable Energy Standard," proposes national minimum electric savings, measured by average annual sales during the preceding two calendar years.

- **Utility coverage:** Large utilities are included, defined by retail sales volume; they serve 95% of electric customers.
- **Cumulative Savings:** Electric savings ramp from 1.5% in 2012 to 5% in 2020. States with difficulty meeting the full RPS target may petition FERC to increase EE to 8%.
- **EE as a Resource:** States would be required to consider EE as a resource in utility planning and procurement.
- **Costs:** States should procure all EE available at lower costs than energy supply options. ACEEE testimony on companion bill S 548 cited average EE program costs of 3¢/kWh, relative to new power plant costs of up to 13¢/kWh.

STATE DECOUPLING ACTIVITY:

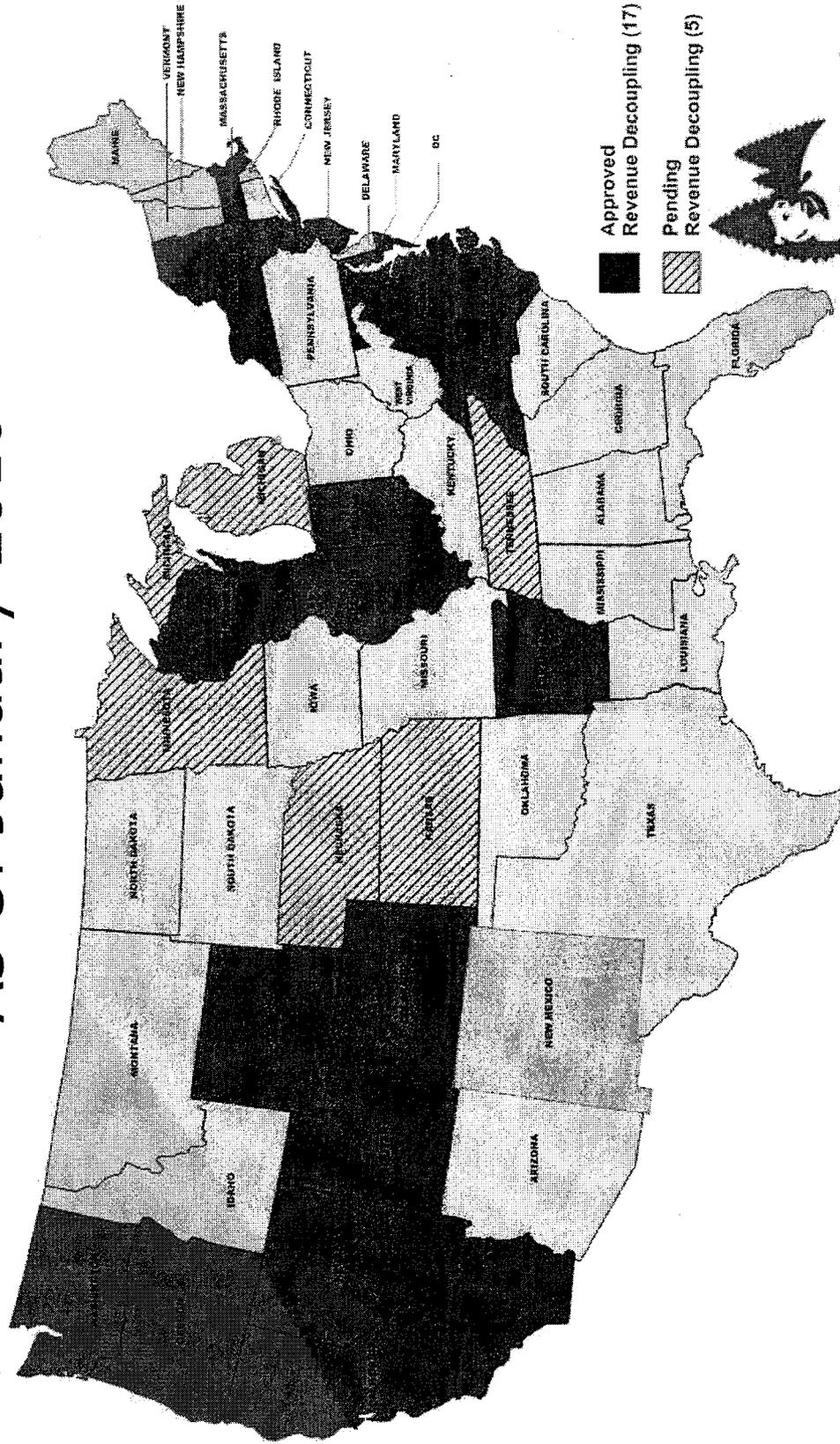
- Decoupling is one mechanism to incent EE programs. It severs utility profits from the quantity of therms or kilowatt-hours sold. Some State Utility Commissioners express concerns about potential "one-size-fits-all" national decoupling provisions. Gas decoupling mechanisms exist in 16 states; they are pending in 6 others.
- State electric decoupling actions include:
 - Four adopted decoupling: CA, CT, MD, and WI.
 - Nine will consider or have approved decoupling in individual rate cases: KS, MA, MI, MT, NY, OH, OK, OR, and WA.
 - Six opened proceedings or dockets to explore decoupling or to approve utility proposals: DC, DE, HI, NH, NJ, and WI.
 - Two have laws or orders to study decoupling: FL and NM.
 - One has a residential decoupling pilot: ID.

Abbreviations: ACEEE - American Council for an Energy Efficient Economy; A&RES – Alternative & Renewable Energy Standard; EE - energy efficiency; EERS – Energy Efficiency Resource Standard; IRP – Integrated Resource Plan; PSC / PUC – Public Service / Utility Commission; RPS – Renewable Portfolio Standard; SCC – State Corporation Commission

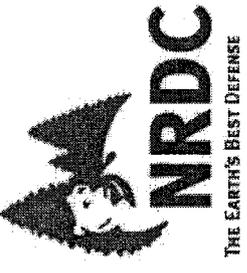
Updated July 8, 2009

ATTACHMENT B

States with Natural Gas Revenue Decoupling As Of January 2010



Approved Revenue Decoupling (17)
Pending Revenue Decoupling (5)



ATTACHMENT C

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE INVESTIGATION) CASE NO. IPC-E-04-15
OF FINANCIAL DISINCENTIVES TO)
INVESTMENT IN ENERGY EFFICIENCY BY) ORDER NO. 30267
IDAHO POWER COMPANY.)

On August 10, 2004, the Idaho Public Utilities Commission (Commission) in Order No. 29558 established Case No. IPC-E-04-15 to investigate financial disincentives to investment in energy efficiency by Idaho Power Company (Idaho Power; Company). On January 27, 2006, Idaho Power filed an Application requesting authority to implement a Fixed Cost Adjustment (FCA) decoupling or true-up mechanism for residential and small general service customers. On December 18, 2006, a Joint Motion was filed with the Commission requesting approval of a negotiated Stipulation and implementation of the FCA as a three-year pilot program. The Commission in this Order approves the Stipulation and the FCA pilot program.

Background

On August 10, 2004, the Idaho Public Utilities Commission in Order No. 29558 established this case to investigate financial disincentives to investment in energy efficiency by Idaho Power Company. In that Order the Commission approved a series of workshops and directed the participants to provide a written report no later than December 15, 2004 to update the Commission on the status of the workshops.

On December 15, 2004, workshop participants in Case No. IPC-E-04-15 filed a Status Report with the Commission. A Final Report on workshop proceedings was filed on February 14, 2005. The Final Report called for two actions: (1) the development of a true-up simulation to track what might have occurred if a decoupling or true-up mechanism had been implemented for Idaho Power at the time of the last general rate case, and (2) advocacy for filing a pilot energy efficiency program that would incorporate both performance incentives and "lost revenue" adjustments.

Application to Implement a Decoupling Mechanism

On January 27, 2006, Idaho Power filed an Application requesting authority to implement a rate adjustment mechanism that would adjust the Company's rates upward or

downward to recover the Company's fixed costs independent from the volume of the Company's energy sales. This type of ratemaking mechanism is commonly referred to as a "decoupling mechanism." However, Idaho Power in its Application believes that a more accurate description of what the Company is proposing is a "true-up mechanism." The true-up mechanism, entitled "Fixed-Cost Adjustment" (FCA) would be applicable only to Residential Service (Schedule 1, Schedule 4 and Schedule 5) and Small General Service (Schedule 7) customers.

As reflected in the Company's decoupling proposal, the fixed-cost portion of the Company's revenue requirement would be established for these two customer classes at the time of a general rate case. Thereafter, the FCA would provide the mechanism to true-up the collection of fixed costs per customer to recover the difference between the fixed costs actually recovered through rates and the fixed costs authorized for recovery in the Company's most recent general rate case.

The Company represents the FCA would work identically for both the residential and small commercial classes. For each class, the actual number of customers would be multiplied by the fixed cost per customer rate (calculated as a part of determining the Company's allowed revenue requirement in a general rate case). This product would represent the "allowed fixed-cost recovery" amount. This pro forma amount would be compared with the amount of fixed costs actually recovered by the Company. To determine this "actual fixed-cost recovered amount," the Company would take weather-normalized sales for each class and multiply that by the fixed-cost per kilowatt-hour rate (again, established in the Company's general rate case). The difference between these two numbers (the "allowed fixed-cost recovery" amount minus the "actual fixed-cost recovered" amount) would be the fixed-cost adjustment for each class. The FCA could be either positive or negative.

The FCA is proposed to change rates coincidentally with Idaho Power's Power Cost Adjustment (PCA) and Idaho Power's seasonal rates. Although the FCA would be timed to adjust on the same schedule as the PCA, the accounting for the FCA will be completely separate from the PCA. Additionally, the Company proposes to include a discretionary cap of 3% as a potential rate mitigation tool for the Commission's use.

The purpose of the FCA, the Company contends, is to remove the financial disincentive in current rate design to the Company's investing fully in energy efficiency activities. Limiting implementation to only residential and small general service customers, the

Company states, provides an incremental approach for evaluating a new type of mechanism for the Company and its customers.

The Company's Application details proposed FCA accounting entries for monthly deferrals plus interest. The Company in its Application has filed the supporting testimony and exhibits of Ralph Cavanagh, Michael J. Youngblood, and John R. Gale.

On March 6, 2006, the Commission issued a Notice of Application in Case No. IPC-E-04-15 and established a March 17, 2006 deadline for intervention. Intervenor status was granted to the Industrial Customers of Idaho Power (ICIP) and the NW Energy Coalition (NWECC). In its Notice, the Commission acknowledged the intention of the Company and Commission Staff (together with other parties of record) to initiate and engage in settlement discussions. Reference Commission Settlement Rules of Procedure, IDAPA 31.01.01.272-276.

Joint Motion for Approval of Stipulation

Based on settlement negotiations a Joint Motion for Approval of Stipulation was filed with the Commission on December 18, 2006 by Idaho Power, Commission Staff and the NW Energy Coalition. Reference Commission Rule of Procedure 274. Although a party to this proceeding and a participant in settlement negotiations, the Industrial Customers of Idaho Power (ICIP), did not sign the Stipulation.

Terms of Stipulation

The Stipulation parties agree that it would be in the public interest for the Company to implement, as a pilot program, the FCA mechanism proposed by the Company in its Application with the following conditions and provisions:

- a. Any differences between Schedules 1 and 7 class revenue requirements and the corresponding fixed cost per customer approved by the Commission in Case No. IPC-E-05-28 (2005 general rate case) must be reconciled with the fixed cost per customer and fixed cost per energy utilized in the approved FCA mechanism.
- b. To determine the actual number of customers determined by class on a monthly basis, the Company will utilize the same customer count methodology used in the Company's 2005 rate case filing.
- c. The methodology used to weather-normalize actual monthly energy used in the FCA will be the same weather normalization methodology used in the Company's filing in the 2005 rate case.

- d. The FCA mechanism will be implemented on a pilot basis for a three-year period beginning January 1, 2007 and running through December 31, 2009 plus any carryover. The first rate adjustment will occur June 1, 2008, coincident with the 2008-2009 PCA and subsequent rate adjustment will occur on June 1 of each year during the term of the pilot.
- e. Calculation of the monthly FCA deferral will be recorded as a separate line item in the monthly PCA report provided to the Commission. The Commission-approved FCA adjustment will be combined with the Conservation Program Funding Charge for purposes of customer bill presentation. There will be no separate line item for the FCA on customers' billing statements.
- f. The Company will file its FCA adjustment request on March 15th of each year. Staff's audit of the FCA adjustment request will include review of deferral balances, comparison of actual energy savings to DSM energy savings estimates as normally provided in the DSM Annual Report and load growth forecasts and verification of the resulting FCA adjustment.
- g. Either Staff or the Company can request the Commission to authorize discontinuance of the pilot program during the three-year period. Requests to discontinue the pilot program, with supporting justification, must be filed with the Commission during the March 15 to June 1 review period.

The Company agrees to provide with its annual March 15 filing a detailed summary of energy efficiency and demand-side management (DSM) activities that demonstrate an enhanced commitment resulting from implementation of the FCA mechanism and removal of the financial disincentive to energy efficiency and DSM. Evidence of enhanced commitment will include, but not be limited to, a broad availability of efficiency and load management programs, building code improvement activity, pursuit of appliance code standards, expansion of DSM programs, pursuit of energy savings programs beyond peak shaving/load shifting programs and third party verification. As part of this commitment, the Company's 2008 Integrated Resource Plan will include an evaluation of the costs and potential for energy savings that would occur if the appliance and equipment efficiency standards adopted by the State of Oregon were applicable in the State of Idaho. In addition, the Company makes the following specific commitments in regard to building code improvements and enforcement of such standards:

- a. The Company will promote the adoption of energy codes to achieve improved levels of efficiency in new commercial and residential construction and appliance standards in Idaho consistent with the Model Conservation Standards released by the Northwest Power and

Conservation Council or that exceed the 2003 IECC and ASHRAE 90.1 codes.

- b. As part of its enhanced commitment to DSM described above, the Company will promote and support appropriate energy code training programs and advocate the enforcement of energy codes. Idaho Power will identify ways to support energy code implementation and enforcement in all jurisdictions in Idaho Power's service territory.

The parties to the Stipulation agree that the Stipulation represents a compromise of the positions of the parties of the case. The Stipulation is supported by the filed testimony of the Stipulation parties. Those testimonies can be summarized as follows:

Idaho Power – Testimony of John R. (Ric) Gale

In supplemental testimony, Ric Gale notes the previously filed supporting testimony of himself, Ralph Cavanagh and Michael Youngblood in support of a Fixed Cost Adjustment (FCA) rate mechanism.

Gale notes that in his previously filed testimony, Company witness Cavanagh advocated for a pilot energy efficiency program that might contain incentive elements. In a separate filing, but related to this proceeding and its genesis, Gale states that the Company is proposing to implement a performance based incentive (and penalty) pilot for an energy efficiency program targeted to new residential construction. Reference Case No. IPC-E-06-32.

In support of the proposed FCA, Gale contends that if a utility recovers the material portion of its fixed costs through variable energy rates, it is not rational for the utility to embark on any programs or initiatives that reduce the amount of energy sold. The proposed FCA, he states, strikes a middle ground between sound business practice and energy efficiency. With approval of the proposed FCA, Gale contends that the utility becomes indifferent to increases or decreases in energy sales and the disincentive to promote programs and services that reduce energy consumption is eliminated.

Idaho Power proposes an incremental approach to introduction of a true-up mechanism by limiting the FCA to Schedules 1 and 7 in order to gain experience and to minimize exposure to potential unintended consequences. Schedules 1 (Residential) and 7 (Small General Service), it contends, are logical places to start in that these two customer classes present the most fixed cost exposure in percentage terms.

Two advantages of starting the accounting on January 1, 2007 are that numbers can tie directly to the numbers reported in the Company's general rate filings as opposed to split year reporting and that weather can be normalized on a calendar basis. Use of a June 1, 2008 date for changing rates allows ample time for the Company's books to close and for the FCA rate application to be filed, reviewed, and authorized. The June 1 date is especially desirable to the Company because it allows the Company to change customer rates once for the Power Cost Adjustment (PCA), the FCA and the summer season.

Idaho Power proposes a 3% cap on potential rate increases. The Commission at its discretion and judgment, however, it states, can impose the cap or let the rate change as calculated.

The FCA proposal, Idaho Power contends, provides an opportunity to conservatively test the concept of a true-up mechanism and the removal of a financial disincentive to energy efficiency activities. The FCA, it states, will make Idaho Power properly indifferent to choices between demand and supply side resources, creating an environment where load reduction activities can be pursued and balanced with Idaho Power's financial goals. The proposal incrementally addresses the customer classes that are the simplest to administer and that have the largest relative exposure to problems with fixed cost recovery. In addition, safeguards have been added to protect against the unintended consequences. The deferred aspect of the FCA, it states, is mirrored after another mechanism that has been successfully in effect since 1993, the Power Cost Adjustment mechanism. Finally, Idaho Power contends that the FCA is consistent with the National Action Plan for Energy Efficiency introduced last summer and endorsed by many entities including the National Association of Regulatory Utility Commissioners (NARUC) and the Edison Electric Institute. Company Exhibit No. 11.

Idaho Power believes that the Stipulation satisfies the criteria developed by the participants in the workshops. These criteria were:

1. Stakeholders are better off than they would be without the mechanism.
2. Cross-subsidies are minimized across customer classes.
3. Financial disincentives are removed.
4. The acquisition of all cost-effective DSM is optimized.
5. Rate stability is promoted.
6. The mechanism is simple.
7. Administrative costs and impacts of the mechanism are known, manageable, and not subject to unexpected fluctuation.
8. Short and long term effects to customers and Company are monitored.

9. Perverse incentives are avoided.
10. A close link between the mechanism and desired DSM outcomes is established.

Commission Staff – Testimony of Randy Lobb

Staff believes the filed Stipulation establishes a reasonable pilot mechanism to track the effects on fixed cost recovery of Company-provided energy efficiency and DSM programs and removes the perceived disincentive by reimbursing the Company for identified losses.

In exchange for removal of the disincentive, the three-year pilot requires measured improvement by the Company with respect to the size and availability of energy efficiency and DSM programs provided within its service territory. It also provides symmetry (surcharge/credit) when fixed cost recovery per customer varies above or below a Commission established base. Staff therefore supports the Stipulation.

Staff notes that the Parties to the underlying investigation agreed that disincentives did exist but were unable to agree that restoration of lost fixed revenues would result in additional or more effective investment in energy efficiency and DSM by Idaho Power. Nevertheless, Staff notes the parties agreed to a set of criteria that would be required for any FCA mechanism and agreed to conduct a simulation of a proposed fixed cost true-up mechanism to identify potential impacts.

As a result of the workshop process, simulation of mechanism impacts and significant additional analysis and evaluation of cost recovery between rate cases, Staff concluded that energy efficiency and DSM programs reduce fixed cost recovery over what otherwise would have occurred, creating a financial disincentive for the Company to implement such programs. To the extent these disincentives are a significant barrier to cost effective energy efficiency and DSM, Staff believes the barrier should be removed.

Staff further determined that the proposed mechanism is appropriately structured because it uses a Commission approved fixed cost recovery level and it provides symmetrical adjustment to fixed cost recovery above or below the Commission approved base. By agreeing to the mechanism as proposed in the Stipulation, Staff believes the Company has committed to embark on a significantly expanded level of energy efficiency and DSM to the benefit of all ratepayers. To the extent barriers perceived by the Company are removed, Staff expects a

renewed commitment to energy efficiency and DSM including support for building codes and appliance standards that otherwise would not have occurred.

Issues of concern to Staff in evaluating the FCA mechanism included the potential impact on customer rates, recovery of assumed fixed costs associated with new customers, recovery of lost fixed costs due to reasons other than Company DSM and energy efficiency programs and whether removal of disincentives through the FCA will result in measurable improvement in Company programs. Staff concluded that approval of the mechanism in pilot form will allow the Commission and other interested parties to evaluate Idaho Power's progress after removal of the disincentive. Staff concluded that for a Company with consistent customer growth such as Idaho Power, an overall per-customer comparison is more practical than trying to adjust for changes in consumption due to customer growth. Staff ultimately concluded that the potential improvement in accuracy did not justify the additional complexity required to remove the effect of non-DSM factors for purposes of the proposed pilot mechanism.

The Stipulation includes provisions for Staff to audit FCA results annually to compare actual savings as adjusted in the mechanism to DSM savings estimates. Staff will also compare actual new customer consumption to new customer load growth estimates as provided in the Company's Integrated Resource Plan (IRP). Both the Company and Staff have reserved the opportunity to request that the mechanism be discontinued if it fails to perform as intended.

As reflected in the prefiled testimony of Company witness Youngblood in this case, the anticipated impact of the proposed mechanism on customer bills, Staff states, was evaluated by simulating the FCA true-up mechanism over the period 1994 through 2004. The Company's evaluation of the simulation showed that the mechanism could result in both customer credits and surcharges ranging from an annual reduction of less than 1% to an increase of almost 4%. The proposed mechanism includes a 3% cap on annual increases with carryover of unrecovered deferred costs to subsequent years.

Staff has evaluated the simulation methodology and has concerns about the validity of the results. Staff also recognizes that the results are highly dependent upon many variables including relative success of Company energy efficiency and DSM programs, new customer energy consumption and the timing of Company general rate cases. That is why Staff insisted upon a three-year pilot program with annual audits to evaluate the impact of the mechanism as a condition of agreeing to the Stipulation.

Staff notes to the extent energy efficiency and DSM programs are significantly expanded, it is likely that the Company will request an increase in the conservation program funding charge to recover additional program costs. The ultimate effect on individual customer bills will depend on the availability of energy efficiency and DSM programs and the level of customer participation in those programs.

Staff supports the FCA mechanism agreed to in the Stipulation because it has the potential to deliver cost-effective DSM and energy efficiency that otherwise might not occur. The pilot nature of the mechanism, the required commitment of the Company to expand its programs and the opportunity for annual audit with off-ramps to modify or terminate the mechanism all reflect uncertainty regarding the mechanism's actual impact and an appropriately cautious approach to implementation.

NW Energy Coalition – Testimony of Steven D. Weiss

By way of background, Steven Weiss notes that the Coalition was an intervenor in Idaho Power Company's 2003-04 general rate case (IPC-E-03-13). In that case, Ralph Cavanagh presented testimony for the Coalition urging the adoption of a fixed-cost adjustment mechanism to better align the interests of Idaho Power's customers and shareholders. Mr. Cavanagh also recommended an exploration of performance incentives to encourage strong performance in demand-side management (DSM) by Idaho Power Company. Pursuant to Commission Order in that case, the Coalition filed a Petition initiating this docket.

The existing regulatory paradigm, the Coalition contends, places the utility's interest (to increase sales) in conflict with the customer's interest (to reduce their total energy cost). Not only does this foster a corporate culture that opposes direct utility investments in programs that reduce energy use, but the Coalition contends that it further motivates the utility to discourage customer-financed reduction measures and to oppose efforts to tighten building codes and appliance standards.

The Coalition believes that decoupling results in a better alignment of shareholder, management and customer interests to provide for more economically and environmentally efficient resource decisions. Decoupling, it states, is essential to establishing a corporate culture that promotes strong cost-effective conservation investments.

While decoupling removes the Company's disincentive to encourage energy conservation, the Coalition contends that it does not provide a positive incentive to acquire cost-

effective conservation. Decoupling, it states, is only intended to make the utility indifferent to changes in energy usage. The Coalition conditions its support on strong, incremental conservation commitments. The Stipulation provides for thorough reviews of the Company's conservation activities and includes safeguards to ensure no unintended consequences result from decoupling. These commitments, coupled with the Company's increased portfolio of DSM programs as reflected in its 2006 Integrated Resource Plan, provide the Coalition with ample assurance that decoupling will create tangible, positive results. The Commission additionally will have an opportunity to review the Company's performance annually, as well as at the end of the three-year pilot program. The Coalition recommends that the Commission approve the Stipulation.

On January 4, 2007, the Commission issued a Notice of Settlement Stipulation and Modified Procedure in Case No. IPC-E-04-15 and established a comment deadline of January 31, 2007. Comments opposing the Stipulation and Joint Motion were filed by the Idaho Community Action Network (ICAN) and a utility customer. No reply comments were filed. The Commission Staff filed comments adopting its previously filed testimony in support of the Stipulation.

Public Comments

The customer filing comments summarizes the Company's two filings in Case Nos. IPC-E-04-15 and IPC-E-06-32 (DSM Incentive Pilot Program). One, he states, would allow an annual increase to customers' electric rates if Company investments in energy efficiency programs increase Company costs. The other, he states, would give the Company financial incentives for meeting performance levels in a program to encourage energy-efficient home construction.

As the customer recalls, the most recent rate increase allowed to Idaho Power was justified by an increase in demand for electricity. Now, as he understands it, Idaho Power is seeking a rate increase if demand is decreased by conservation or efficiency measures. He concludes that ratepayers are being asked to pay more either way.

Idaho Community Action Network Comments

The Idaho Community Action Network (ICAN) opposes approval of the Stipulation and the proposed Fixed Cost Adjustment mechanism. Decoupling, it states, is contrary to the

interest of Idaho Power's customers, favoring instead the utility and its shareholders. ICAN contends that the general public is completely unaware of the significant change in the way rates will be set in the future and recommends that the Commission hold public hearings before considering the Stipulation.

Contrary to the Commission's long-standing approach to ratemaking, where all revenues and expenses are on the table, ICAN states the Stipulation will authorize the Company to receive additional revenue through a decoupling mechanism without any proof of need. What makes this scheme patently unfair, unjust and unreasonable, it contends, is that it ignores the economic conditions of the utility at the time the surcharge is incurred or imposed.

In its evaluation of the Stipulation, ICAN recommends that the Commission seek answers to at least the following questions:

1. What is the actual amount of revenue lost due to Idaho Power's own energy efficiency efforts and the significance of the financial impact on the Company?
2. What proportion of declining customer use is attributable to Company conservation efforts, as compared to other causes not related to Company actions (e.g., better housing codes, appliance standards, price elasticity)?
3. What is Idaho Power's track record on energy efficiency?
4. Are there reasons why Idaho Power has pursued energy efficiency without a decoupling mechanism and can it be expected to do so in the future?
5. What specific additional energy efficiency programs will Idaho Power customers see if decoupling is adopted (separate from the program proposed in IPC-E-06-32)?
6. Are customers compensated for their increased risk and the reduction of risk to shareholders (i.e., is the shift reflected in a downward adjustment to the Company's return on equity)?
7. Are there alternatives to decoupling?

ICAN in its comments proposes some answers to the questions it poses.

Should the Commission approve the proposed decoupling mechanism, ICAN recommends that the Commission take steps to limit the potential liability of consumers and to ensure that the project accomplishes what it is intended to accomplish and to such end recommends the following:

- Establish a mandatory 3% revenue cap on the Fixed Cost Adjustment.
- Create a separate line item for the FCA on billing statements to increase transparency and public education about the program.
- Establish a clear conservation plan with real accountability.

The Stipulation, ICAN contends, does not outline clear conservation goals or accountability measures. The Company commitment it describes, ICAN contends, is extraordinarily vague; it will “support” and “promote” changes in housing codes, but has no authority to ensure that those changes occur. There are no set conservation targets or benchmarks. ICAN recommends that the Commission require Idaho Power to commission a third party to perform a conservation study; develop a conservation plan with targets and benchmarks; create an advisory group to review the conservation study and plan; issue requests for proposals to implement the plan; and demonstrate to the Commission within a year of approval of the pilot program that it will meet the plan’s targets. The plan, ICAN contends, should include increased levels of low-income weatherization assistance to mitigate the impact of the FCA on low-income customers. If Idaho Power fails to meet these deadlines, ICAN recommends that the Commission terminate the pilot program.

- Extension of the decoupling program.

ICAN reports that the Washington UTC recently ordered that a decoupling mechanism in a natural gas case “may only be extended as part of a general rate case, and only after a thorough evaluation of the mechanism performed by an independent consultant.” ICAN recommends that the Commission make extension of the decoupling and other pilot programs conditional on a general rate case to allow the revenue distortions caused by the FCA to be evaluated and eliminated. ICAN recommends that a third-party evaluation also be required.

- Return on equity.

ICAN recommends that the Commission reduce Idaho Power’s return on equity by at least 50 basis points. Otherwise, it states, shareholders are doubly benefiting from stable revenue and a lower cost of capital at the expense of customers.

- Use of 2005 numbers for setting recovery benchmarks.

ICAN contends that the real solution is to evaluate the utility on its overall revenue instead of simply per-customer usage. However, absent that, in order to avoid the growing gap caused by using Idaho Power’s 2005 general rate case established aggregated residential

customer revenue and subtracting the 2005 general rate case aggregated residential customer usage, ICAN recommends that the revenue be based on actual income for residential customers and then offset by the 2005 per customer usage.

Commission Findings

The Commission has reviewed and considered the filings of record in Case No. IPC-E-04-15 including the Company's Fixed Cost Adjustment (FCA) filing and supporting testimony and the proposed Stipulation conditions and provisions and supporting testimony. We have also reviewed the filed comments and recommendations of ICAN and the Company's customer.

The proposed FCA is a three-year pilot program that will be applicable to Residential Service (Schedules 1, 4 and 5) and Small General Service (Schedule 7) customers. These two classes present the most fixed cost exposure for the Company. The FCA is designed to provide symmetry (surcharge/credit) when fixed cost recovery per customer varies above or below a Commission established base. The FCA mechanism also incorporates a 3% cap on annual increases with carryover of unrecovered deferred costs to subsequent years. Pursuant to the Stipulation, the first rate adjustment will occur June 1, 2008 coincident with the 2008-2009 PCA and subsequent rate adjustments will occur on June 1 of each year during the term of the pilot. The program envisions close review and monitoring by Staff and interested parties with reporting requirements and opportunities for discovery and comment. Either Staff or the Company can request the Commission to authorize a discontinuance of the pilot program during the three-year period.

Promotion of cost-effective energy efficiency and demand-side management (DSM), we find, is an integral part of least-cost electric service. This case was opened to identify financial disincentives to Idaho Power's investment in energy efficiency. The Company-proposed FCA mechanism removes a Company-identified financial disincentive to energy efficiency and DSM investment and is designed to reduce on a per-customer basis the utility's dependence on revenue from stable kilowatt-hour sales. The FCA methodology is a departure from traditional ratemaking and merits a cautious approach to implementation. The annual FCA true-up mechanism assures a more stable utility recovery of fixed costs that are now recovered in the energy rate component of residential and small general service customers.

Making the Company indifferent to reduced energy consumption and demand is but one half of the quid pro quo agreed to by the stipulating parties. In return for the FCA, the

Company is expected to demonstrate an enhanced commitment to energy efficiency and DSM.

Evidence of enhanced commitment will include, but not be limited to, measures identified in Stipulation paragraph 8, measures including efforts to improve and enforce state building codes and appliance efficiency standards, as well as expansions and improvements to its load efficiency, load management and DSM programs.

Determining whether the FCA will operate as envisioned will require close monitoring. It remains to be seen whether sufficient performance metrics can be developed to accurately measure the extent and effectiveness of Idaho Power's efforts. This uncertainty is a good reason to adopt it now only as a pilot. A pilot will enable program corrections or cessation if it is unsuccessful or if unintended consequences develop.

The Stipulation and proposed decoupling mechanism is opposed by the Idaho Community Action Network (ICAN) and a customer of Idaho Power. The Company's customer concludes that he is being asked to pay for both kilowatt-hour increases and decreases. His position is understandable. We note by way of explanation that there are two dynamics in play. First, increases in load (new customers and increased consumption by existing customers) require additional resources, often at additional and higher cost. Second, because under traditional ratemaking a portion of the Company's fixed costs are allocated to the energy component of rates, decreases in customer usage affects the Company's ability to recover its fixed costs. To the extent energy efficiency and DSM programs are effective in reducing total load, the Company's overall costs of supply and thus the cost to customers will be less than it would otherwise be if the Company was required to meet new load growth with new supply-side resources. To the extent a customer is able to reduce his energy consumption through participation in Company energy efficiency and DSM programs or individual energy saving measures, he of course reduces his out-of-pocket cost below what it otherwise would have been.

ICAN requests that the Commission hold a public hearing prior to any consideration of the Stipulation and FCA mechanism. The Commission has reviewed the filings of record in this case including the Final Report on workshop proceedings. Parties participating in the workshops were Idaho Power, Commission Staff, the NW Energy Coalition, the Industrial Customers of Idaho Power and the Community Action Partnership of Idaho. ICAN was not a participant. The Commission finds that the concerns raised by ICAN are many of the same concerns raised by workshop participants and Settlement parties. We find most of its

recommendations to be issues that will be considered in our assessment of the continuing viability of the pilot program. The recommended return on equity adjustment, however, is a general rate case issue and can be addressed in the Company's next rate case. The Commission encourages ICAN to participate in future opportunities for review, monitoring, discovery and comment. We decline to hold a hearing at this time, but retain that option for review of the FCA.

The Commission continues to find it reasonable to process this case pursuant to Modified Procedure, i.e., by written submission rather than by hearing. IDAPA 31.01.01.204. We further find it reasonable to approve the three-year Fixed Cost Adjustment pilot and Stipulation conditions and provisions.

Petition for Intervenor Funding

On December 26, 2006, a Petition for Intervenor Funding was filed by the NW Energy Coalition. Reference *Idaho Code* § 61-617A; IDAPA 31.01.01.161-165. The Coalition requests \$8,342.10.

Idaho Code § 61-617A and Rules 161-165 of the Commission's Rules of Procedure provide the framework for awards of intervenor funding. Section 61-617A(1) declares that it is the "policy of this state to encourage participation at all stages of all proceedings before the Commission so that all affected customers receive full and fair representation in those proceedings." Accordingly, the Commission may order any regulated utility with intrastate annual revenues exceeding \$3,500,000 to pay all or a portion of the costs of one or more parties for legal fees, witness fees and reproduction costs, not to exceed a total for all intervening parties combined of \$40,000.

Rule 162 of the Commission's Rules of Procedure provides the form and content requirements of a petition for intervenor funding. The petition must contain: (1) an itemized list of expenses broken down into categories; (2) a statement of the intervenor's proposed finding or recommendation; (3) a statement showing that the cost the intervenor wishes to recover are reasonable; (4) a statement explaining why the costs constitute a significant financial hardship for the intervenor; (5) a statement showing how the intervenor's proposed finding or recommendation differed materially from the testimony and exhibits of the Commission Staff; (6) a statement showing how the intervenor's recommendation or position addressed issues of concern to the general body of utility users or customers; and (7) a statement showing the class of customer on whose behalf the intervenor appeared.

Pursuant to *Idaho Code* § 61-617A and the Commission's Rules of Procedure 161-165, NW Energy Coalition applies for intervenor funding in the amount of \$8,342.10. The Coalition's Application is supported by points and authority. The itemized list of expenses is comprised of \$8,090 in attorney fees, \$224.60 for airfare and \$27.50 for ground transport. Costs related to time expended by Coalition employees Nancy Hirsch, Ken Miller, and Steven Weiss for participating in and preparing workshops (and for Mr. Weiss) in preparing his testimony and working with counsel were not included in the Coalition's Application. In addition, the Coalition notes that it incurred other minor copying, postal and telecommunication expenses that are also not included in its Application. The Coalition contends that its recommendations and positions focused on matters which impact all utility customers and that the Coalition most directly represents the interests of residential and small commercial customers.

Commission Findings

Submitted for Commission consideration is a Petition for Intervenor Funding filed by the NW Energy Coalition. Reference *Idaho Code* § 61-617A; IDAPA 31.01.01.161-165. The Coalition requests \$8,342.10. We find that the Petition for Intervenor Funding in this case was timely filed and satisfies the "procedural" requirements set forth in Rules 161-165 of the Commission's Rules of Procedure.

Idaho Code § 61-617A includes a statement of policy to encourage participation by intervenors in Commission proceedings. The Commission determines an award for intervenor funding based on the following considerations:

- a. A finding that the participation of the intervenor has materially contributed to the decision rendered by the Commission;
- b. A finding that the costs of intervention are reasonable in amount and would be a significant financial hardship for the intervenor;
- c. The recommendation made by the intervenor differed materially from the testimony and exhibits of the Commission Staff; and
- d. The testimony and participation of the intervenor addressed issues of concern to the general body of users or consumers.

We find that the Petition of the NW Energy Coalition satisfies the findings that we are required to make to justify an award. The NW Energy Coalition was principally responsible for initiating this inquiry. Its participation materially contributed to the outcome. This particular case was

resolved by way of Settlement, compromise of positions and not litigation. We find that the Petition satisfies the substantive requirements of Commission Rule of Procedure 165. We find it fair, just and reasonable to award the total request of NW Energy Coalition in the amount of \$8,342.10 and find that the public interest and the interests of residential and small general service customers are well served by such award. We further find that the Coalition was professional and economical in the marshalling of its time and efforts and that failure to grant its request for funding would be a significant financial hardship for the Coalition.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over this matter and over Idaho Power, an electric utility, pursuant to the jurisdiction granted under Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

ORDER

In consideration of the foregoing and as more particularly described above, IT IS HEREBY ORDERED and the Commission does hereby approve the December 1, 2006 Stipulation and the proposed three-year pilot program Fixed Cost Adjustment (FCA) mechanism for Residential Service (Schedule 1, Schedule 4, and Schedule 5) and Small General Service (Schedule 7) customers.

IT IS FURTHER ORDERED that the NW Energy Coalition's Petition for Intervenor Funding is granted in the amount of \$8,342.10. Reference *Idaho Code* § 61-617A. Idaho Power is directed to pay said amount to Advocates for the West, counsel for NW Energy Coalition, within 28 days from the date of this Order. Idaho Power shall include the cost of this award of intervenor funding to the Coalition as an expense to be recovered in the Company's next general rate case proceeding from the Residential (Schedules 1, 4 and 5) and Small General Service (Schedule 7) customer classes.

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.

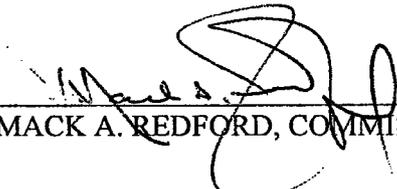
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 12th
day of March 2007.



PAUL KJELLANDER, PRESIDENT

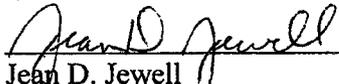


MARSHA H. SMITH, COMMISSIONER



MACK A. REDFORD, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

bis/O:IPC-E-04-15_sw2

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF IDAHO POWER COMPANY FOR)	CASE NO. IPC-E-09-28
AUTHORITY TO CONVERT SCHEDULE 54)	
- FIXED COST ADJUSTMENT - FROM A)	NOTICE OF
PILOT SCHEDULE TO AN ONGOING)	MODIFIED PROCEDURE
PERMANENT SCHEDULE)	
)	ORDER NO. 31010

YOU ARE HEREBY NOTIFIED that 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.

YOU ARE FURTHER NOTIFIED that because utilities recover a large portion of their fixed costs through sales of kilowatt-hours of energy, the Company contends that traditional rate design discourages utilities from reducing their sales volume caused by investing in energy efficiency programs. 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.*

YOU ARE FURTHER NOTIFIED that 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.

YOU ARE FURTHER NOTIFIED that 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.

YOU ARE FURTHER NOTIFIED that the Application together with supporting testimonies and exhibits have been filed with the Commission and are available for public inspection during regular business hours at the Commission offices. The Application and testimonies and exhibits are also available on the Commission's web site at www.puc.idaho.gov by clicking on "File Room" and then "Electric Cases."

YOU ARE FURTHER NOTIFIED that the Commission has determined that the public interest may not require a formal hearing in this matter and will proceed under Modified Procedure pursuant to Rules 201 through 204 of the Idaho Public Utilities Commission's Rules of Procedure, IDAPA 31.01.01.201 through .204. The Commission notes that Modified Procedure and written comments have proven to be an effective means for obtaining public input and participation.

YOU ARE FURTHER NOTIFIED that any person desiring to state a position on this Application may file a written comment in support or opposition with the Commission within thirty (30) days from the service date of this Notice. The comment must contain a statement of reasons supporting the comment.

YOU ARE FURTHER NOTIFIED that the Company and other interested parties have ten (10) days after the initial comment period to file reply comments.

YOU ARE FURTHER NOTIFIED that persons desiring a hearing must specifically request a hearing in their written comments. Written comments concerning this Application shall be mailed to the Commission and the Applicant at the addresses reflected below:

Commission Secretary
Idaho Public Utilities Commission
PO Box 83720
Boise, ID 83720-0074

Street Address for Express Mail:

472 W. Washington Street
Boise, ID 83702-5918

Barton L. Kline
Donovan E. Walker
Idaho Power Company
PO Box 70
Boise, Idaho 83707-0070
E-mail: bkline@idahopower.com
dwalker@idahopower.com

Scott D. Sparks
John R. Gale
Idaho Power Company
PO Box 70
Boise, Idaho 83707-0070
E-mail: ssparks@idahopower.com
rgale@idahopower.com

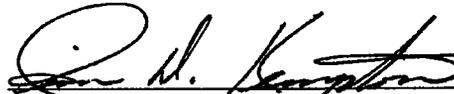
All comments should contain the case caption and case number shown on the first page of this document. Persons desiring to submit comments via e-mail may do so by accessing the Commission's home page located at www.puc.idaho.gov. Click the "Comments and Questions" icon and complete the comment form using the case number as it appears on the front of this document. These comments must also be sent to the Applicant at the e-mail addresses listed above.

YOU ARE FURTHER NOTIFIED that if no written comments or protests are received within the time limit set, the Commission will consider this matter on its merits and enter its Order without a formal hearing. If written comments are received within the time limit set, the Commission will consider them and, in its discretion, may set the same for formal hearing.

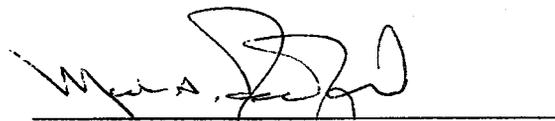
ORDER

IT IS HEREBY ORDERED that Idaho Power Company's Application to convert its current Schedule 54 – Fixed Cost Adjustment (FCA) – from a pilot schedule to an ongoing, permanent schedule be processed by Modified Procedure, IDAPA 31.01.01.201-.204. Persons interested in submitting written comments in this matter must do so within thirty (30) days from the service date of this Notice, and may file reply comments within ten (10) days after the initial comment period.

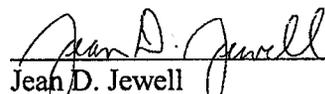
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 23rd
day of February 2010.


JIM D. KEMPTON, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


MACK A. REDFORD, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

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IDAHO PUBLIC
UTILITIES COMMISSION

BARTON L. KLINE
Lead Counsel

October 1, 2009

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
P.O. Box 83720
Boise, Idaho 83720-0074

Re: Case No. IPC-E-09-28
**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.**

Dear Ms. Jewell:

Enclosed for filing please find an original and seven (7) copies of Idaho Power Company's Application in the above matter.

In addition, enclosed are an original and (8) copies of the testimony of Scott Sparks filed in support of the Application. One copy of Mr. Sparks' testimony has been designated as the "Reporter's Copy." Also enclosed is a disk containing a Word version of the aforementioned testimony.

Finally, I would appreciate it if you would return a stamped copy of this letter for my file in the enclosed stamped, self-addressed envelope.

Very truly yours,

Barton L. Kline

BLK:csb
Enclosures

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

BARTON L. KLINE (ISB No. 1526)
DONOVAN E. WALKER (ISB No. 5921)
Idaho Power Company
P.O. Box 70
Boise, Idaho 83707
Telephone: 208-388-5317
Facsimile: 208-388-6936
bkline@idahopower.com
dwalker@idahopower.com

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IDAHO PUBLIC
UTILITIES COMMISSION

Attorneys for Idaho Power Company

Street Address for Express Mail:
1221 West Idaho Street
Boise, Idaho 83702

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) CASE NO. IPC-E-09-28
AUTHORITY TO CONVERT SCHEDULE)
54 – FIXED COST ADJUSTMENT – FROM) APPLICATION
A PILOT SCHEDULE TO AN ONGOING,)
PERMANENT SCHEDULE.)
_____)

Idaho Power Company (“Idaho Power” or the “Company”), in accordance with Idaho Code § 61-502, § 61-503, and RP 052, hereby requests that the Idaho Public Utilities Commission (“IPUC” or the “Commission”) issue an Order authorizing Idaho Power to convert its current Schedule 54 – Fixed Cost Adjustment (“FCA”) – from a pilot schedule to an ongoing, permanent schedule.

In support of this Application, Idaho Power represents as follows:

I. BACKGROUND

1. Idaho Power and the Commission have long agreed that promotion of cost-effective energy efficiency and demand-side management (collectively, “DSM”) “is

an integral part of least-cost electric service.” (Order No. 30267 at 13.) Traditional rate design, however, discourages utilities from reducing their sales volume by investing in energy efficiency and DSM because they recover a large portion of their fixed costs through their sales of kilowatt-hours of energy.

2. Recognizing this reality, the Commission opened an investigation in Case No. IPC-E-04-15 to assess financial disincentives to utility-operated DSM programs and to consider options for a mechanism that adjusts revenues when annual energy consumption is either above or below normal. (Order No. 29558 *citing* Order No. 29505 at 68-69.) The FCA mechanism is the collaborative result of that docket.

II. FIXED COST ADJUSTMENT MECHANISM

3. In Order No. 30267 issued in Case No. IPC-E-04-15 on March 12, 2007, the Commission approved a settlement stipulation for the implementation of a three-year FCA pilot program applicable to Residential Service (Schedules 1, 4, and 5) and Small General Service (Schedule 7) customers. The approved FCA mechanism allows Idaho Power to separate or “decouple” collection of its fixed costs from its volumetric energy sales and then provides a symmetrical “balancing” through a surcharge or credit when fixed cost recovery per customer varies above or below a Commission-established base. In other words, the FCA will “true-up” the collection of fixed costs per customer to recover the difference between the fixed costs actually recovered through rates and the fixed costs authorized for recovery in the Company’s most recent rate case.

4. The FCA works identically for both the Residential and Small General Service classes. For each class, the average number of customers for the year is

multiplied by the fixed cost per customer rate ("FCC"), which is established as a part of determining the Company's allowed revenue requirement in a general rate case. The product of this calculation establishes the "allowed fixed-cost recovery" amount. This allowed fixed-cost recovery amount is then compared to the amount of fixed costs actually recovered by Idaho Power. To determine the "actual fixed-costs recovered amount," the Company takes weather-normalized sales for each class and multiplies that sales figure by the fixed cost per energy rate ("FCE") also established in the Company's general rate case. The difference between these two numbers (the "allowed fixed-cost recovery" amount minus the "actual fixed costs recovered" amount) is the Fixed Cost adjustment for each class.

5. A copy of Schedule 54 is enclosed as Attachment No. 1 to this Application. The Company is also filing the testimony of Mr. Scott Sparks, whose testimony provides evidence in support of this Application.

III. PROPOSED CONVERSION FROM PILOT SCHEDULE TO PERMANENT SCHEDULE

6. Since the Commission originally approved the FCA pilot tariff, the Company has made two FCA rate change filings in which it showed how the FCA was affecting the Company's DSM efforts. During the three-year period in which Schedule 54 has been in effect as a pilot schedule, Idaho Power has made strong progress in improving and enhancing its efforts to promote energy efficiency and demand-side management activities. In general, due in no small part to removal of the disincentive provided by the FCA mechanism during the term of the FCA pilot, the Company has increased the number of DSM programs it offers and substantially increased both its investment in DSM activities and the megawatt-hour savings obtained via DSM.

7. These enhanced efforts to promote energy efficiency and demand-side management are more particularly described in the accompanying testimony of Mr. Scott Sparks, which is enclosed with this Application. The Company also requests that the Commission take official notice of the Company's *2008 Demand-Side Management Annual Report*, which describes in greater detail how the Company has increased its DSM efforts during the three-year life of the FCA pilot program.

IV. COMPANY PROPOSAL

8. The purpose of the Schedule 54 pilot 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. Results from the first two years of the pilot indicate that the true-up mechanism is working as intended and operating to mitigate the unintended adverse effects of DSM by ensuring that the fixed costs the Commission authorized the Company to recover are being recovered via the FCA mechanism. The mechanism has proved to be fair to both the Company and its customers, providing a refund in one year and a surcharge in the next. The mechanism has also proven to be reasonable as the individual customer bill impacts, both as surcharges and refunds, have been relatively small.

9. In seeking authority to convert Schedule 54 to a permanent tariff, the Company is requesting that the FCA continue to be applicable only to the Residential and Small General Service customer classes. During the initial two years of the pilot Schedule 54, the FCA balances for both classes were combined and the same FCA rate adjustment applied to both classes. However, in this filing the Company is requesting that the Commission determine that, beginning with the June 1, 2010, rate

change, FCA balances and annual rate-adjustment amounts for each class will remain separate so that each class is assigned its own fixed cost adjustment rate. The reasons for applying the fixed cost adjustment to the Residential and Small General Service classes separately is more particularly described in Mr. Sparks' testimony.

10. The Company proposes to continue reporting the monthly FCA balance to the Commission as it does now and to continue to file annual applications seeking approval of the FCA true-up balances. Because Idaho Power does not propose any changes to the provisions of the current Schedule 54, it is not necessary to approve a new tariff at this time. As it has done previously, the Company will request approval of new Schedule 54 rates on March 15, 2010, to implement the new rates on June 1, 2010.

V. COMMUNICATIONS AND SERVICE OF PLEADINGS

11. Communications and service of pleadings with reference to this Application should be sent to the following:

Barton L. Kline
Donovan E. Walker
Idaho Power Company
P.O. Box 70
Boise, Idaho 83707
bkline@idahopower.com
dwalker@idahopower.com

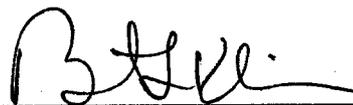
Scott D. Sparks
John R. Gale
Idaho Power Company
P.O. Box 70
Boise, Idaho 83707
ssparks@idahopower.com
rgale@idahopower.com

VI. REQUEST FOR RELIEF

12. Idaho Power respectfully requests that the Commission issue an Order: (1) authorizing this matter to be processed by modified procedure; (2) authorizing Idaho Power to convert its pilot Schedule 54 to a new permanent, ongoing Schedule 54. The terms and conditions of the new permanent Schedule 54 will be identical to the terms

and conditions currently in effect in the pilot Schedule 54; and (3) confirming that beginning June 1, 2010, the Residential Class and the Small General Service class will each pay their respective separate FCA rate.

DATED at Boise, Idaho, this 1st day of October 2009.



BARTON E. KLINE
Attorney for Idaho Power Company

**BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION**

CASE NO. IPC-E-09-28

IDAHO POWER COMPANY

ATTACHMENT NO. 1

Idaho Power Company

Second Revised Sheet No. 54-1

Cancels

I.P.U.C. No. 29, Tariff No. 101

First Revised Sheet No. 54-1

IDAHO PUBLIC UTILITIES COMMISSION

Approved
March 20, 2009

Effective
April 1, 2009

Per O.N. 30754

Jean D. Jewell Secretary

**SCHEDULE 54
FIXED COST ADJUSTMENT**

APPLICABILITY

This schedule is applicable to the electric energy delivered to all Idaho retail Customers receiving service under Schedules 1, 3, 4, or 5 (Residential Service) or under Schedule 7 (Small General Service).

FIXED COST PER CUSTOMER RATE

The Fixed Cost per Customer rate (FCC) is determined by dividing the Company's fixed cost components for Residential and Small General Service Customers by the average number of Residential and Small General Service customers, respectively.

Residential FCC

Effective Date
April 1, 2009

Rate
\$451.28 per Customer

Small General Service FCC

Effective Date
April 1, 2009

Rate
\$292.83 per Customer

FIXED COST PER ENERGY RATE

The Fixed Cost per Energy rate (FCE) is determined by dividing the Company's fixed cost components for Residential and Small General Service customers by the weather-normalized energy load for Residential and Small General Service customers, respectively.

Residential FCE

Effective Date
April 1, 2009

Rate
3.4841¢ per kWh

Small General Service FCE

Effective Date
April 1, 2009

Rate
4.7932 ¢ per kWh

ALLOWED FIXED COST RECOVERY AMOUNT

The Allowed Fixed Cost Recovery amount is computed by multiplying the average number of Residential and Small General Service customers by the appropriate Residential and Small General Service FCC rate.

IDAHO
Issued Per Order No. 30754
Effective -April 1, 2009

Issued by IDAHO POWER COMPANY
John R. Gale, Vice President, Regulatory Affairs
1221 West Idaho Street, Boise, ID

Idaho Power Company

First Revised Sheet No. 54-2
Cancels

Original Sheet No. 54-2

IDAHO PUBLIC UTILITIES COMMISSION

Approved
May 29, 2009

Effective
June 1, 2009

Per O.N. 30827

Jean D. Jewell Secretary

I.P.U.C. No. 29, Tariff No. 101

SCHEDULE 54
FIXED COST ADJUSTMENT
(Continued)

ACTUAL FIXED COSTS RECOVERED AMOUNT

The Actual fixed costs Recovered amount is computed by multiplying the weather-normalized energy load for Residential and Small General Service customers by the appropriate Residential and Small General Service FCE rate.

FIXED COST ADJUSTMENT

The Fixed Cost Adjustment (FCA) is the difference between the Allowed Fixed Cost Recovery Amount and the Actual Fixed Costs Recovered Amount divided by the estimated weather-normalized energy load for the following year for Residential and Small General Service Customers.

The monthly Fixed Cost Adjustment for Residential Service (Schedules 1, 3, 4, and 5) is 0.0529 cents per kWh. The monthly Fixed Cost Adjustment for Small General Service (Schedule 7) is 0.0529 cents per kWh.

EXPIRATION

The Fixed Cost Adjustment included on this schedule will expire May 31, 2010.