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VIA ELECTRONIC FILING AND U.S. MAIL

PUC Filing Center
Public Utility Commission of Oregon
PO Box 2148
Salem, OR 97308-2148

Re: Docket No. UM 1415

Enclosed for filing in the above-referenced docket are an original and five copies of Idaho Power Company's Reply Comments.

A copy of this filing has been served on all parties to this proceeding as indicated on the attached certificate of service.

Very truly yours,

Handwritten signature of Wendy L. McIndoo in cursive script.

Wendy L. McIndoo
Office Manager

cc: Service List

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BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 1415

In the Matter of
PUBLIC UTILITY COMMISSION OF
OREGON,
Staff Investigation into Cost Methods for
Use in Developing Electric Rate Spreads.

Reply Comments of Idaho Power
Company

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I. INTRODUCTION

Pursuant to the procedural schedule in Administrative Law Judge ("ALJ") Lisa D. Hardie's Ruling of August 8, 2011, Idaho Power Company ("Idaho Power" or "Company") submits the following Reply Comments in the above-referenced proceeding. Idaho Power responds to issues raised in opening comments filed on September 8, 2011, and issues raised at the September 27, 2011, workshop and in the resulting Memorandum from ALJ Hardie. These comments begin with general comments related to rate design principles and then address each of the issues identified in ALJ Hardie's September 30, 2011, Memorandum.

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II. DISCUSSION

A. General Comments

The factors used to evaluate rate design proposals or the *weighting* of factors used to evaluate rate proposals depend upon the overall purpose of the rate design. As set forth in the Company's Opening Comments, Idaho Power believes fundamentally that rate design should align prices with the actual cost of service. For this reason, Idaho Power supports Staff's reliance on the Bonbright principles described in Staff's comments, which the Company and Staff believe should be foundational to a broad analytical framework for electric rate design analysis. As described by Staff, the Bonbright principles, and Public

1 Utility Commission of Oregon ("Commission") precedent, include as a fundamental principle
2 that rates should be designed to reflect costs.¹ Seasonal rates and any time-of-use rates
3 that reflect time varying costs are governed by this principle.

4 On the other hand, rates need not necessarily be designed only to reflect the cost of
5 service. For instance, rates can be designed specifically to change customer behavior.
6 Rates may be designed to reduce load only during times when costs or loads are at their
7 highest levels (as with a Critical Peak Pricing rate); or a rate design could be developed
8 specifically to shift or reduce load (as with a time-of-use rate with large differentials designed
9 to encourage customers to shift load). If rates are designed to modify customer behavior,
10 the Commission should consider or emphasize different factors when analyzing those
11 proposed rates because the focus of those rate designs is to send the appropriate price
12 signals to encourage customers to make specific changes to their behavior.

13 **B. Factors**

14 At the September 27 workshop, the Commissioner's specifically requested that the
15 parties to this docket address the following issues and answer the following questions
16 related to the seven factors identified in the Draft Straw Proposal attached to Order No. 11-
17 255.

- 18 **1. A number of parties proposed in their opening comments to add**
19 **additional factors to the straw proposal. Please comment on whether**
20 **the factors proposed by other parties should be added to the factors in**
the straw proposal. Why or why not?

21 The following discussion identifies each additional factor raised by other parties in
22 opening comments and provides Idaho Power's response.

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26 ¹ Staff's Opening Comments on the Draft Straw Proposal at 1 (Sept. 8, 2011).

1 **a. Idaho Power**

2 **i. The degree to which proposed rates reflect cost-of-**
3 **service.²**

4 In opening comments dated September 8, 2011, Idaho Power stated "the Company
5 believes that an additional factor that should be considered when evaluating time-varying
6 rate designs is whether the proposed rate better reflects the actual costs to serve."³ The
7 Company continues to support this additional factor and includes in the definition of time-
8 varying rate design those rates which may vary due to differing seasonal costs. And as
9 discussed above, Staff appears to support this factor as well.

10 **b. Commission Staff**

11 **i. The level to which fairness and equity between customers**
12 **would be improved through a time varying rate.**

13 This proposed factor is closely aligned with Idaho Power's additional proposed factor
14 listed above because cost-of-service rates help reduce customer intra-class cross-
15 subsidization. Staff agrees and makes the point that rate designs that reflect costs helps to
16 reduce intra- and inter-class subsidies.⁴ As Staff points out, and the Company agrees,
17 fostering fairness and equity also incorporates into rate design several important Bonbright
18 principles.

19 **c. Industrial Customers of Northwest Utilities**

20 **i. How will differently-situated customers be affected by the**
21 **proposal?⁵**

22 Idaho Power agrees the effect on various customer groups should be considered in
23 evaluating time variant rates. However, the Company also believes this issue is adequately

24 ² Opening Comments of Idaho Power Company at 5 (Sept. 8, 2011).

25 ³ Opening Comments of Idaho Power Company at 5 (Sept. 8, 2011).

26 ⁴ Staff's Opening Comments on the Draft Straw Proposal at 4 (Sept. 8, 2011).

⁵ Opening Comments of ICNU at 8 (Sept. 8, 2011).

1 addressed in factor F-3 of the Straw Proposal, which calls for the consideration of the impact
2 on customers of a proposed rate design and the ability of customers to respond to those
3 impacts.⁶

4 **ii. What actual costs will the proposal attempt to recover?**⁷

5 As stated in Section III.F, page 5, of the Company's Opening Comments, Idaho
6 Power supports the notion that rates should be reflective of the actual costs to serve
7 customers. The Company feels its current cost-of-service study recognizes the costs
8 described by ICNU in this proposed factor, as will any future cost study that is utilized to
9 determine the cost basis of potential time variant rates.

10 **iii. Will the proposal create revenue instability, leading to**
11 **higher costs of capital?**⁸

12 This factor is a key component absent from the Straw Proposal, and is also
13 addressed in Portland General Electric Company's ("PGE") discussion of short-term revenue
14 attrition and long-term revenue volatility.⁹ The effect of time variant rates on utility revenues
15 must be carefully considered in the evaluation process. This issue is exacerbated by the
16 fact that Idaho Power currently collects a portion of its fixed costs through the volumetric
17 component of the rate design, the energy charge. If a reduction in energy usage due to the
18 introduction of time variant rates is not properly accounted for, the Company risks under-
19 recovery of fixed costs in addition to the reduced recovery of variable costs of providing
20 electrical service. If potential revenue volatility is perceived as an increase in risk by the
21 financial community, this could result in an increased cost of capital, which would ultimately

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23 ⁶ Order No. 11-255 at Appendix A at 1.

24 ⁷ Opening Comments of ICNU at 8 (Sept. 8, 2011).

25 ⁸ Opening Comments of ICNU at 8 (Sept. 8, 2011).

26 ⁹ See Opening Comments of Portland General Electric at 4 (Sept. 8, 2011).

1 result in higher costs for utilities and customers. Idaho Power strongly agrees with the
2 addition of this factor.

3 **iv. Does the proposal create a danger of windfall revenue for**
4 **the utility at the expense of customers?¹⁰**

5 Idaho Power supports the inclusion of a factor that examines the impact on revenue
6 of implementing a time variant rate. Idaho Power believes the impact of proposed time
7 variant rates on revenue—whether positive or negative from the utility’s perspective—can be
8 addressed in a single factor. Idaho Power suggests the addition of a single factor
9 addressing the issue of the potential impact of time variant rates on utility revenues.

10 **d. PGE**

11 **i. The acceptance of certain customer classes to mandatory**
12 **time-varying rates and the implications to call center**
13 **operations and the overall customer experience.¹¹**

14 Idaho Power fully agrees with the inclusion of this factor. The customer service
15 implications of implementing mandatory time variant rates are significant and can greatly
16 impact the success of a particular rate design as well as adversely affect customer
17 experience.

18 **ii. The effect that mandatory time-varying rates may have on**
19 **direct access participation.¹²**

20 Idaho Power currently does not offer direct access, and therefore takes no position
21 on this proposed factor.

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25 ¹⁰ Opening Comments of ICNU at 9 (Sept. 8, 2011).

26 ¹¹ Opening Comments of Portland General Electric at 4 (Sept. 8, 2011).

¹² Opening Comments of Portland General Electric at 4 (Sept. 8, 2011).

1 iii. **The potential level of short-term revenue attrition to the**
2 **utility if customers either reduce or shift their**
3 **consumption due to time-varying rates and the long-term**
 volatility of revenues.¹³

4 As described in Section II.B.1.c.iii above, the effect of time variant rates on revenue
5 should be an important factor in the evaluation process.

6 iv. **The appropriate price elasticity of demand by customer**
7 **class to incorporate into a projection of time-varying**
 energy and demand billing determinants.¹⁴

8 An accurate projection of billing determinants under various rate proposals is vital in
9 order to accurately calculate the actual per-unit rate to be charged and gauge the impact
10 proposed rate designs will have on revenues.

11 v. **The degree of complexity of the time-varying rates.**¹⁵

12 The level of complexity, both from a customer perspective and a utility perspective,
13 plays a significant role in the overall success of a proposal. Idaho Power believes that
14 customers prefer rate designs that are simple and easy to understand. This factor should be
15 weighed against the potential benefits of more complex rate designs.

16 vi. **The availability of cost effective alternatives such as**
17 **direct load control or other use of technology to automate**
18 **changes in consumption patterns to create system**
 benefits.¹⁶

19 Mandatory time variant rates are one method of aligning rates with cost causation
20 and influencing customer behavior. As is the case with any rate proposal, the use of
21 alternatives should be considered when evaluating desired objectives of these programs.

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 ¹³ Opening Comments of Portland General Electric at 4 (Sept. 8, 2011).
24 ¹⁴ Opening Comments of Portland General Electric at 4 (Sept. 8, 2011).
25 ¹⁵ Opening Comments of Portland General Electric at 4 (Sept. 8, 2011).
26 ¹⁶ Opening Comments of Portland General Electric at 4 (Sept. 8, 2011).

1 Time variant rates and direct load control programs are not mutually exclusive, and if
2 determined to be cost effective, may coexist.

3 **e. Citizens' Utility Board of Oregon ("CUB")**

4 Rather than proposing additional guidelines for Commission consideration, CUB
5 advocates wholesale rejection of the Draft Straw Proposal and asks the Commission to
6 decline to adopt guidelines at all.¹⁷ The Company disagrees with this approach and believes
7 that even if one disagrees with the imposition of time variant pricing, it is still useful for the
8 Commission to provide guidance with respect to how it will analyze proposed time variant
9 pricing proposals when they are at issue in future cases (whether the case is an Integrated
10 Resource Plan ("IRP") docket, a general rate case, or a docket focusing on a specific pilot
11 program).

12 Further, the Company believes that the majority of the concerns raised by the CUB
13 related to the potential impact of time variant rates on low income customers fit squarely
14 within factor F-3, which considers the impact on customers of a proposed rate design and
15 the ability of customers to respond to those impacts. And while Idaho Power acknowledges
16 CUB's concerns with respect to this issue, the Company believes that time variant pricing
17 also provides potential benefits to low income customers. For example, voluntary time
18 variant pricing provides customers with options, which empowers customers to select the
19 pricing model that is most advantageous to their usage pattern. Time variant rates may also
20 provide customers with the least cost method to reduce their bill because such a rate design
21 does not require a customer to make new investments or purchase additional equipment—
22 all that is required is modification of behavior. And in the event that the customer does
23 make investments in energy efficiency, those investments saving energy during peak period

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26 ¹⁷ CUB Comments of Bob Jenks at 1 (Sept. 8, 2011).

1 hours are likely to be more cost effective from the customer's perspective with time-variant
2 pricing.

3 While the Company disagrees with much of CUB's analysis and conclusions
4 presented in its opening comments, the Company also believes that this is not the proper
5 forum to discuss the potential benefits and costs associated with a particular rate design
6 proposal. That discussion is better left to a docket where a specific proposal is at issue and
7 where parties have had an opportunity to develop a full evidentiary record with respect to
8 the issue. The Company believes that when that time comes, the guidance provided by the
9 Commission in this docket—the guidance that CUB rejects—will prove both useful and
10 necessary.

11 **2. Some parties argued that seasonal rates are fundamentally different**
12 **from other time-varying rates, and should therefore be analyzed**
13 **differently. Do you agree? If so, should the Commission use a different**
14 **set of criteria for evaluating seasonal rates, or should the factors under**
15 **consideration simply be weighed differently?**

16 Idaho Power agrees that seasonal rates should be analyzed differently than other
17 time-varying rates. As stated in the Company's Opening Comments, seasonal rates are
18 more straightforward than other forms of time-variant pricing, such as time-of-day rates, and
19 can be implemented with existing metering and billing systems.

20 An entirely different set of factors, however, is not necessary to evaluate seasonal
21 rates. Rather, the weighting of factors should be adjusted to reflect the inherent differences
22 between seasonal rates and more complex time-of-use structures. For example, seasonal
23 rates are not likely to require incremental infrastructure to implement; therefore, proposed
24 factor F-5 regarding the direct costs of implementation should receive less weighting than
25 proposed factor F-7, which considers the cost differential between relevant time periods.

26 In all cases rates should align with costs. Idaho Power agrees with Staff's statement
that they do "not support the proposition that policies imposing mandatory time-varying rates

1 should be implemented only if they are shown to significantly impact loads.”¹⁸ This is an
2 important point because seasonal rates fall into this category—a primary reason for the
3 Company’s seasonal rate design proposal is to implement rates that better reflect the costs
4 incurred to serve the load.

5 **3. Should the factors under consideration in the straw proposal also apply**
6 **to voluntary time-varying rates? Demand-response programs? Please**
7 **explain. Are there additional or different factors that should be applied**
8 **to evaluate voluntary time-varying rates and demand-response**
9 **programs?**

10 The factors used in evaluating mandatory time-varying rates should be the same as
11 those used to evaluate voluntary time-varying rates. However, when considering voluntary
12 time-varying rates additional scrutiny should be placed on the effect these programs may
13 have on revenue attrition. In the case of voluntary time-varying rates customers can elect a
14 rate design that result in lowering their bill without changing their behavior. In this case the
15 customer receives a lower bill, while the utility experiences no change in usage and
16 simultaneously loses revenue. Thus, the Commission should consider revenue erosion
17 recovery mechanisms for all time-variant pricing programs, but especially if the program is
18 voluntary.

19 Idaho Power currently operates three demand-response programs in its Oregon
20 jurisdiction. The goal of these programs is to provide the Company with demand reduction
21 during peak time periods to reduce overall costs. Due to the capacity-based nature of these
22 programs they are evaluated according to the Company’s avoided cost of capacity.
23 Because demand response programs are inherently different than volumetric time variant
24 energy rates, and because a methodology has already been established for evaluating
25 these programs, the factors developed in this docket should not be used to evaluate future
26 demand response proposals.

¹⁸ Staff’s Opening Comments on the Draft Straw Proposal at 3 (Sept. 8, 2011).

1 **C. Directives**

2 At the September 27 workshop, the Commissioners specifically requested that the
3 parties to this docket address the following issues and answer the following questions
4 related to the three directives identified in the Draft Straw Proposal attached to Order No.
5 11-255.

- 6 **1. Directive 1 (D-1) asks the utilities to provide the Commission with**
7 **detailed information on the cost of serving Oregon customers during**
8 **different time periods. In essence, the Commission is seeking an**
9 **overview of the cost differentials of serving customers during different**
10 **time periods in each utility's service territory. If a party believes that D-**
11 **1, in its current form, is imperfect or unachievable, please provide an**
12 **alternative method for providing the Commission with the type of**
13 **overview it is seeking.**

14 Following the clarification offered by Commissioner Savage at the September 27th
15 workshop that the Commission is interested in a "fact-based general indicator" of the cost
16 differentials between various time periods, Idaho Power can comply with this directive.
17 However, the Company proposes additional language to specify the level of detail desired in
18 the request for "detailed information on the cost of serving Oregon customers." The
19 Company can comply with this directive by supplying hourly variable energy costs for the
20 requested time period, but is currently unable to provide a detailed cost-of-service model
21 that calculates all costs to serve on an hourly basis. Under the Company's currently
22 approved cost-of-service methodology, monthly weighting is applied to variable generation
23 costs, generation capacity costs, and transmission capacity costs. While the Company is
24 willing and able to provide additional granularity regarding variable generation costs, the
25 class cost-of-service model is not currently equipped to provide greater time variant cost
26 data for capacity-related costs and other fixed cost components. Idaho Power suggests
adding language to this directive specifying that the cost information is limited to variable
energy costs on an hourly basis. This will provide the Commission with a measure of the

1 cost differential between hourly time periods while eliminating the need to make wholesale
2 changes to the Company's currently approved class cost-of-service methodology.

3 **2. To the extent a party believes that the IRP process is not the right place
4 for the proposed "systematic look" at time-varying rates, please
5 describe, in as much detail as possible, an alternative venue and
6 process for achieving the Commission's stated goals.**

6 Idaho Power believes that the IRP process is not the right place evaluate or develop
7 time-varying rates. Idaho Power suggests that these programs be evaluated within the
8 context of a general rate filing or filing requesting approval of a specific pilot program.
9 These dockets will provide the evidentiary record sufficient for the Commission to apply the
10 factors adopted in this docket and determine whether to authorize the use of a time variant
11 rates.

12 **3. The Commission intends to require utilities to work with Staff and
13 stakeholders to periodically evaluate time-varying rates and programs.
14 Please identify four or five types of time-varying rates or demand-
15 response programs that should be examined by the utilities. This list
16 need not be limited to mandatory rates. It may also include voluntary
17 programs, pilot programs, and demand-response programs that you
18 believe to be promising and should be explored now. This list is not
19 intended to be a final list.**

17 As set forth above, Idaho Power does not believe that an IRP or IRP-like docket is
18 the appropriate forum to periodically evaluate time-varying rates. Rather, specific time-
19 variant pricing programs should be evaluated in either a general rate case or a docket
20 specific to that proposed program. Those dockets will include an evidentiary record
21 sufficient to make the review of a specifically proposed program meaningful, including an
22 analysis of the economic and financial impacts of implementing such a program, the
23 anticipated results of the proposed rate designs, and an evaluation of the necessary
24 infrastructure needed for program implementation. The Company has and continues to
25 evaluate all types appropriate pricing structures, including time-variant pricing designs like
26 seasonal, time-of-day, and critical peak pricing structures. The Company would continue

1 working with Staff and stakeholders when proposing new pricing designs, including
2 mandatory, voluntary, or pilot programs.

3 With respect to demand response programs, the Company already supports three
4 robust demand response programs throughout its Oregon and Idaho service territory and
5 includes full analysis of existing and potential demand response programs in its biennial
6 IRP.

7 **III. CONCLUSION**

8 The Company appreciates the opportunity to submit these comments and believes
9 that the adoption of the specific factors discussed herein will provide useful and necessary
10 guidance to the Commission, utilities, and stakeholders in the evaluation of time variant
11 pricing rate designs.

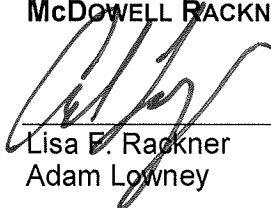
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13 DATED: October 20, 2011.

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1 **CERTIFICATE OF SERVICE**

2 I hereby certify that I served a true and correct copy of the foregoing document in
3 Docket UM 1415 on the following named person(s) on the date indicated below by email
4 and first-class mail addressed to said person(s) at his or her last-known address(es)
5 indicated below.

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DATED: October 20, 2011



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