

# Innovative Approaches to Climate Change Policy: Workshop on State-Federal Interactions

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**Marsha Smith**  
**Commissioner**  
**Idaho Public Utilities Commission**



## Federal Role In Encouraging Energy Efficiency and Renewable resources

- Leadership
  - Broad policy guidelines
    - National RPS fails to recognize local conditions
      - Reduces probability of local imposition of higher levels even though locally appropriate
      - Other tools may be preferable in some locations
- Funding
  - Research and development
  - Incentives
- Actions Involving National Markets
  - Appliance standards
    - Federal floor, states allowed to go higher
- Joint Efforts – National Action Plan

# State Responsibilities

- Policy/Program Implementation
  - Design, implement and evaluate specific policies and programs to encourage EE.
    - RPS one of many tools
- Local Market Influence
  - eg. building codes, vendor/installer licensing
  - Incentives
- Education and Public Information
- Utility Regulatory Policies

# Regulatory Policies

- Planning Requirements
  - Integrated Resource Plans (IRP)
  - RPS
- Rate of Return Policies
  - Decoupling
  - Rate of return incentives
    - Higher rate of return for EE investments
    - Higher overall rate of return if EE efforts are effective
- Funding Mechanisms
  - Public purpose charges/DSM charges
  - Rate base treatment

## Idaho PUC Has Used Many Approaches

- 1989 - Required least cost planning, higher overall rate of return (up to 0.5%) offered for aggressive DSM efforts, DSM investments included in rate base.
- EE tariff rider approved for Avista, now all three major utilities use rider to fund EE.
- Idaho Power decoupling pilot program

# Idaho Power Fixed Cost Adjustment Pilot

- Decoupling or “true up” mechanism
- Removed financial disincentive to invest in energy efficiency
- Applied to residential and small commercial customers
- Three year pilot beginning January 1, 2007

## Idaho Power Fixed Cost Adjustment Pilot

- Calculation:

$$\begin{aligned} & \text{Allowed Fixed Cost Recovery (Allowed)} \\ & - \text{Actual Fixed Cost Recovered (Actual)} \\ & \hline & = \text{Fixed Cost Adjustment} \end{aligned}$$

Where:

Allowed = Actual # of customers \* fixed cost per customer

Actual = Weather normalized sales per customer class \* fixed costs per kWh

Note:

Fixed costs determined by Commission in rate cases.

FCA can be positive or negative, and has a 3% cap on increases

## Idaho Power Fixed Cost Adjustment Pilot

- Results:

- 2007:

- Residential: Over collection of \$3.5 Million
- Small Commercial: Under collection of \$1.1 Million
- Commission Order: Net refund of \$2.4 million to both commercial and residential customers;  
rate credit of 0.045676 cents per kW

- 2008:

- Residential: Under collection of \$1.3 million
- Small Commercial: Under collection of \$1.4 million.
- Rate Adjustment: increase of 0.0529 cents/kWh (<1%)
- EE accounts for less than 25% of reduced usage.

## Preliminary Conclusions

- Customer communication is critical
  - Difficult to explain rate changes to customers
    - Wrong signal - Increasing rates due to EE penalizes customers for EE
- Many causes of yearly change in consumption
  - weather, economy, prices, etc.
  - Utility EE efforts responsible for only part of annual changes
- Company resistance to EE appears reduced
  - Very difficult to determine
  - May be due to Idaho Power's current need for resources
  - Long term impacts uncertain