



**IDAHO
POWER**

An IDACORP Company

IDAHO POWER COMPANY
P.O. BOX 70
BOISE, IDAHO 83707

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IDAHO POWER COMPANY
UTILITIES COMMISSION

BARTON L. KLINE
Senior Attorney

January 27, 2006

Ms. Jean D. Jewell
Commission Secretary
472 West Washington Street
PO Box 83720
Boise, Idaho 83720-0074

RE: Case No. IPC-E-04-15
Application, Direct Testimony and Exhibits

Dear Ms. Jewell

Please find enclosed for filing an original and seven (7) copies of the Company's Application in the above mentioned case. Also enclosed are copies of the prepared testimony and exhibits of Mr. Gale, Mr. Cavanagh, and Mr. Youngblood {nine (9) copies one designated as reporter's copy} plus a computer disk as required by RP 231.05.

I would appreciate it if you would return a stamped copy of this transmittal letter for our files in the enclosed self-addressed stamped envelop.

Very truly yours,

Barton L. Kline

BLK:ma
Enclosures

BARTON L. KLINE ISB #1526
MONICA B. MOEN ISB # 5734
Idaho Power Company
P.O. Box 70
Boise, Idaho 83707
Phone: (208) 388-2682
FAX: (208) 388-6936
bkline@idahopower.com
mmoen@idahopower.com

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IDAHO PUBLIC UTILITIES COMMISSION

Attorneys for Idaho Power Company

Express Mail Address

1221 West Idaho Street
Boise, Idaho 83702

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)	IDAHO POWER'S APPLICATION
IDAHO POWER COMPANY)	TO IMPLEMENT A RATE
)	MECHANISM TO MITIGATE
)	FINANCIAL DISINCENTIVES
)	TO INVESTMENT IN ENERGY
)	EFFICIENCY

COMES NOW Idaho Power Company ("Idaho Power" or "the Company"), by and through its attorneys, and in accordance with RP 052 hereby requests that the Commission issue its Order authorizing Idaho Power to implement a rate adjustment mechanism for Residential and Small General Service customers that would allow Idaho Power to separate or "decouple" collection of its fixed costs from its volumetric energy sales. Achieving this separation would mitigate the financial disincentives to investment in energy efficiency that are embedded in current rate design. In support of this Application, Idaho Power states as follows:

BACKGROUND

1. During Idaho Power Company's last general rate case, Case No. IPC-E-03-13, several parties advanced the concept of removing financial disincentives to the Company's energy efficiency efforts that are embedded in current rate making. At the conclusion of the case, the Commission determined that the issue was worthy of further analysis and opened a new docket, Case No. IPC-E-04-15, to investigate how current ratemaking practices may provide disincentives for Idaho Power to invest in energy efficiency.

2. In Case No. IPC-E-04-15, the Commission Staff, representatives of various customer groups and other interested parties, along with the Company, conducted five workshops over a five-month period. These final workshops culminated in the production of a summary report entitled "Final Report on Workshop Meetings", which was filed with the Commission on February 15, 2005. The Final Report called for two action items: (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. Case No. IPC-E-04-15 remains open and Idaho Power believes that the record developed in this case makes it desirable for this Application to be considered in this docket.

3. In the conclusion of the February 15, 2005 Final Report, the parties advised the Commission that potential mechanisms to mitigate financial disincentives to investments in energy efficiency would be addressed again at the time Idaho Power

filed its next general rate case. Idaho Power filed its next general rate case in October of 2005, which was docketed as Case No. IPC-E-05-28. In the direct testimony of Company Witness Gale filed in Case No. IPC-E-05-28, Idaho Power stated that it was preparing a “decoupling” proposal for later filing with the Commission. This Application is the culmination of the above-described process.

FIXED-COST ADJUSTMENT MECHANISM

4. In this Application Idaho Power requests authority to implement a rate adjustment mechanism which 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 believes that a more accurate description of what it 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.

5. As usual, the fixed-cost recovery portion of the Company’s revenue requirement allowed for recovery in rates 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 to recover the difference between the fixed costs actually recovered through rates and the fixed costs that were allowed to be recovered. Accounting for the FCA would be effective as of January 1, 2006, and the first FCA rate change would occur on June 1, 2007.

6. For both the residential and small commercial classes, the FCA would work identically. For each class, the actual number of customers would be multiplied by the fixed cost per customer rate (established 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 amount would be compared with the amount of fixed costs actually recovered by the Company. To determine this "actual fixed-costs 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 costs recovered" amount) would be the fixed-cost adjustment for each class.

7. The FCA could be either positive or negative. If the adjustment amount were positive, that would mean the Company's authorized fixed-cost recovery amount was greater than the fixed costs recovered through the energy rate. This would indicate additional dollars would be collected from the customer class in order to make the Company whole. In a similar fashion, if the FCA were negative, that would indicate the Company had over-collected fixed costs and would result in a refund of the adjustment amount back to the customer class.

8. 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 three percent (3%) as a potential rate mitigation tool for the Commission's use.

9. The purpose of the FCA is to remove the financial disincentive to the Company's investing fully in energy efficiency activities embedded in current rate design. Limiting implementation to only residential and small general service customers allows for an incremental approach to evaluating a new type of mechanism for the Company and its customers.

10. The accounting entries the Company would propose to use for the deferral and recovery of fixed costs under the FCA are as follows:

(1)

To record the monthly deferral plus interest for the FCA. This entry will be the reverse in any month in which the calculation determines the customer should receive a credit. This entry will occur monthly beginning with the calendar year January 1, 2006 through December 31, 2006.

182.3 Other Regulatory Assets-Fixed Cost Adjustment		
998 X00001 999 1823XX	\$	XXXX
407.4 Regulatory Credits-Fixed Cost Adjustment		
998 X00001 999 4074XX	\$	XXXX
421 Miscellaneous Non-Operating Income-Excess Power-ID		
998 X00001 999 421006	\$	XXXX

(2)

To record the amortization of the above deferred amount in entry #1 as a result of the IPUC approval to allow the recovery. This entry will occur monthly beginning with the PCA year June 1, 2007 through May 31, 2008. This entry would be

the reverse should the balance in the deferred account be a credit at the end of the deferral period.

407.3 Regulatory Debits-Fixed Cost Adjustment
998 X00001 999 4073XX \$ XXXX

182.3 Other Regulatory Assets-Fixed Cost Adjustment
998 X00001 999 1823XX \$ XXXX

11. Concurrent with this Application, Idaho Power has filed the testimony and exhibits of Ralph Cavanagh, Michael J. Youngblood and John R. Gale. Their testimony describes in greater detail the rationale supporting the FCA, as well as the accounting and ratemaking details associated with the proposed FCA.

12. The Company believes that consideration of the proposed FCA mechanism would be facilitated by the Commission directing the parties to resume the workshop process that was conducted earlier in this docket. This will allow the parties to discuss both the merits and the specific implementation issues associated with the FCA based on the progress already made in this docket. The Company believes that such a workshop process could culminate in a settlement stipulation that would provide a consensus agreement on the technical details necessary to the operation of a tracking adjustment, such as the specifics of deferral methodology, the weather normalization process, and the specific provisions to be included in implementing the FCA.

NOW, THEREFORE, Idaho Power respectfully requests that the Commission issue its Order initiating the process described in Paragraph 12 above and ultimately authorizing Idaho Power to implement the fixed-cost adjustment mechanism for residential and small general service customers described herein with the initial rate change to occur on June 1, 2007.

Respectfully submitted this 27th day of January, 2006.

A handwritten signature in black ink, appearing to read "B. Kline", written over a horizontal line.

BARTON L. KLINE
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I hereby certify that on this 27th day of January 2006, true and correct copies of the foregoing APPLICATION, DIRECT TESTIMONY, AND EXHIBITS were delivered to the following persons via hand delivery (for Commission recipients) and U.S. Mail (for all others).

Jean D. Jewell
Commission Secretary
Idaho Public Utilities Commission
472 West Washington
Boise, Idaho 83702

Lawrence Gollomp
Assistant General counsel
U.S. Department of Energy
1000 Independence Avenue, SW
Washington, DC 20585

Scott Woodbury
Deputy Attorney General
Idaho Public Utilities Commission
472 West Washington
Boise, Idaho 83702

Dean Miller
McDevitt & Miller
PO Box 2564
Boise, Idaho 83701

Conley Ward
Givens Pursley
601 West Bannock
PO Box 2720
Boise, Idaho 83701-2720

Brad Purdy
2019 North 17th Street
Boise, Idaho 83702

Peter Richardson
Richardson & O'Leary
PO Box 7218
515 North 27th Street
Boise, Idaho 83702

Michael Kurtz
Kurt J. Boehm
Boehm, Kurtz & Lowry
36 East 7th Street, Suite 2110
Cincinnati, Ohio 45202

Don Reading
Ben Johnson Associates
6070 Hill Road
Boise, Idaho 83702

Randall Budge
201 East Center
PO Box 1391
Center Plaza Building
Pocatello, Idaho 83204-1391

John R. Gale
Idaho Power Company
1221 West Idaho Street
Boise, Idaho 83702

William M. Eddie
1320 West Franklin Street (83702)
PO Box 1612
Boise, Idaho 83701


BARTON L. KLINE