

## DECISION MEMORANDUM

**TO:** COMMISSIONER KJELLANDER  
COMMISSIONER SMITH  
COMMISSIONER HANSEN  
COMMISSION SECRETARY  
COMMISSION STAFF  
LEGAL

**FROM:** SCOTT WOODBURY

**DATE:** FEBRUARY 24, 2006

**RE:** CASE NO. IPC-E-04-15 (Idaho Power)  
APPLICATION TO IMPLEMENT A DECOUPLING MECHANISM

### BACKGROUND

On August 10, 2004, the Idaho Public Utilities Commission (Commission) in Order No. 29558 established Case No. IPC-E-04-15 for an investigation of financial disincentives to investment in energy efficiency by Idaho Power Company (Idaho Power; Company). In its Order the Commission approved a series of workshops and directed the participating parties to provide a written report to the Commission 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 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.

### APPLICATION

On January 27, 2006, Idaho Power filed an Application in Case No. IPC-E-04-15 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 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 rates 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.

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

The Company in its 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.

The Company believes that consideration of the proposed FCA mechanism would be facilitated by resuming the workshop process that was conducted earlier in this case. This, the Company contends, will allow the parties to discuss both the merits and the specific implementation issues associated with the FCA based on the process already made in this case. 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 specific provisions to be included in implementing the FCA.

Idaho Power requests that the Commission issue an Order re-initiating the workshop process and ultimately authorizing the Company to implement the fixed-cost adjustment mechanism for residential and small general service customers with an initial rate change to occur on June 1, 2007.

#### **COMMISSION DECISION**

Idaho Power proposes a decoupling mechanism for residential and small commercial customers, the first adjustment to occur June 1, 2007. Idaho Power has recommended that the Commission re-initiate workshops to discuss its Application. Staff has reviewed the filed testimony of the Company that accompanies its Application and recommends that the Commission issue a Notice of Application, establish a deadline for intervention (IDAPA 31.01.01.071-075) and authorize the initiation of settlement discussions (Commission Settlement Rules of Procedure – IDAPA 31.01.01.272-276). Does the Commission agree with Staff's recommended procedure?

---

Scott Woodbury

bls/M:IPC-E-04-15\_sw2