

DECISION MEMORANDUM

**TO: COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSIONER KEMPTON
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL**

**FROM: WELDON STUTZMAN
DEPUTY ATTORNEY GENERAL**

DATE: MARCH 20, 2008

**SUBJECT: CASE NO. IPC-E-08-04
IDAHO POWER COMPANY'S APPLICATION FOR AUTHORITY TO
IMPLEMENT A FIXED COST ADJUSTMENT RATE**

On March 14, 2008, Idaho Power Company filed an Application requesting authority to implement fixed cost adjustment (FCA) rates for electric service from June 1, 2008 through May 31, 2009. In Case No. IPC-E-04-15, Order No. 30267 issued March 12, 2007, the Commission approved a stipulation to implement a three-year FCA pilot program for residential and small general service customers. The Company is nearing the end of the first year of the pilot program approved by the Commission.

BACKGROUND

The FCA is a mechanism to separate Idaho Power's fixed costs from its energy sales, and establish a rate to allow the Company to recover its fixed costs separate from energy sales. The rationale for an FCA is that traditional rate design discourages energy conservation programs; that is, utilities that recover fixed costs through energy sales have no incentive to reduce their sales volume by encouraging energy efficiency and demand-side management programs.

The FCA implemented last year for the pilot program works the same for residential and small general service customers. For each class, the number of customers is multiplied by a fixed-cost per customer rate that is determined through the Company's revenue requirement in a general rate case. This produces an authorized fixed -cost recovery amount, which is then compared to the amount of fixed costs actually recovered by the Company. The difference

between the authorized fixed-cost recovery amount and the actual amount collected by the Company is the fixed-cost adjustment for each customer class.

THE APPLICATION

For the residential customer class during 2007, the rate of growth in energy sales exceeded the rate of growth and number of residential customers; that is, the average energy use per residential customer increased. Accordingly, the Company collected more for its fixed-costs (approximately \$3.5 million more) than as established in the residential FCA formula. The FCA thus results in a credit balance for residential customers for the additional fixed costs recovered during the year. If the credit is incorporated into residential rates, it represents a 1.17% decrease.

The small general service class, however, saw a decrease in per customer energy use during 2007, which means the Company under-collected its fixed costs. For the small general service class, Idaho Power proposes an FCA to recover a portion of the \$1,187,033 the Company under-collected for its fixed costs. Recovery of the full amount would result in a 7.3% increase in the FCA for the small general service customers. Because the stipulation approved by the Commission to implement the pilot program calls for a 3% cap on any increase in the FCA, the Company proposes a 3% increase in the FCA for the small general service class.

Idaho Power requests that the FCA rates become effective June 1, 2008, and requests that its Application be processed by Modified Procedure. Staff believes that this Application can be processed by Modified Procedure by June 1, 2008.

COMMISSION DECISION

Should the Application of Idaho Power Company to adjust the fixed-cost rates for residential and small general service customers be processed by Modified Procedure?

for 

Weldon Stutzman
Deputy Attorney General

b1s/M:IPC-E-08-04_ws