

## BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

<b>IN THE MATTER OF THE APPLICATION</b>	)	
<b>OF IDAHO POWER COMPANY FOR</b>	)	<b>CASE NO. IPC-E-09-06</b>
<b>AUTHORITY TO IMPLEMENT FIXED-</b>	)	
<b>COST ADJUSTMENT (FCA) RATES FOR</b>	)	
<b>ELECTRIC SERVICE FROM JUNE 1, 2009</b>	)	<b>ORDER NO. 30827</b>
<b>THROUGH MAY 31, 2010.</b>	)	

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On March 13, 2009, Idaho Power Company filed an Application requesting authority to implement fixed-cost adjustment (FCA) rates for electric service from June 1, 2009, through May 31, 2010. On March 25, 2009, the Commission issued a Notice of Application and Notice of Modified Procedure and set a comment deadline of May 8, 2009. Order No. 30757. Several parties, including Staff, filed comments. After reviewing the Application and comments, we approve the Company's request to implement its fixed-cost adjustment.

### BACKGROUND

In 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 present filing represents the second year of the pilot program. The FCA is a mechanism to separate Idaho Power's fixed costs of its system from its energy sales. The mechanism is also used to establish a rate that allows the Company to recover its fixed costs separate and apart from energy sales. The rationale for the FCA is that traditional rate design discourages energy conservation programs; that is, utilities that recover their fixed costs through the sale of energy have no incentive to reduce their sales volume by encouraging energy efficiency and demand-side management (DSM) programs.

The FCA 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 using the Company's revenue requirement derived in a general rate case. This produces an authorized fixed-cost recovery amount, which is then compared to the weather-normalized amount of fixed costs recovered by the Company. The difference between the authorized fixed-cost recovery amount and the weather-normalized amount collected by the Company is the fixed-cost revenue adjustment for each customer class.

## **THE APPLICATION**

According to the Company's Application, the rate of growth in the number of residential customers was more than the rate of growth in the energy sales for the residential customer class in 2008, i.e., the average use per customer decreased. As a result, the Company under-collected fixed costs by approximately \$1.3 million for its residential class. A surcharge to recover the under-collection would represent a 0.42% increase in residential rates.

The Company also reports that energy usage per customer decreased even more significantly in the small business class resulting in an under-collection of approximately \$1.4 million in fixed costs from its small commercial customers. A surcharge to recover the under-collection would represent a 10.29% increase in small general service rates. However, to be consistent with the methodology established in the first year of the FCA pilot, the Company is proposing a combined rate increase for residential and small general service customers of 0.82%, or 0.0529 cents per kWh to be in effect from June 1, 2009, through May 31, 2010. Order No. 30556 at 5

## **THE COMMENTS**

Staff filed its comments affirming its review of the Company's FCA filing and recommending that the Commission accept the Company's proposed total FCA net deferral balance of approximately \$2.715 million. Staff's review of the Company's calculations in the second year of the three-year pilot focused on verifying that the Commission-approved methodology was appropriately applied. Specifically, Staff evaluated and verified the calculation and use of the fixed-cost per customer (FCC) and fixed-cost per energy (FCE), the accumulation of fixed costs deferred in 2008 and the resulting FCA required to recover uncollected fixed costs. Staff further evaluated how Company DSM programs and other factors such as declining economic conditions may have impacted customer energy consumption and the size of the FCA.

Staff verified the Company's calculation of unrecovered 2008 fixed costs. The annual residential amount subject to recovery is approximately \$1.32 million and the small commercial amount is approximately \$1.4 million. Consistent with the methodology approved by the Commission in last year's FCA case, the Company proposed, and Staff supported, spreading the total unrecovered fixed costs over all residential and small commercial customers combined. The resulting FCA rate is 0.0529 cents per kWh or a 0.82% overall increase.

Because the FCA amount increases from a credit of 0.045676 cents per kWh to a surcharge of 0.0529 cents per kWh, the net rate change is 0.0986 cents per kWh.

While it is impossible to determine what level of DSM activity the Company would have pursued without the mechanism, Staff stated that it is clear that during 2008, the Company greatly increased its DSM expenditures and significantly enhanced its program offerings. While many factors, in addition to DSM programs, can contribute to a reduction in energy consumption per customer, Staff estimated that 12,000 MWh of 2008 energy savings were achieved from Company DSM programs in the residential and small commercial classes.<sup>1</sup>

Staff also noted that as customers adapt to the recently implemented tiered rates and potential rate increases in June of this year, per customer energy consumption could and should continue to decline regardless of the DSM activities of the Company. Nevertheless, Staff recommended continuation of the pilot in order to better evaluate longer-term effects during the three-year pilot.

The Idaho Conservation League (ICL) and Snake River Alliance (SRA) filed joint comments in support of the Company's Application. The ICL/SRA argued that traditional electric utility rate design creates a financial barrier for utilities to implement aggressive efficiency programs because utilities recover their fixed costs through each kilowatt-hour sold. The ICL/SRA reasoned that separating collection of fixed costs from energy sales ("decoupling") removes the disincentive from utilities for the implementation of energy efficiency and conservation programs. Decoupling is also consistent with the State's energy policy. The ICL/SRA encouraged the Commission to adopt a permanent decoupling mechanism following completion of the FCA pilot program.

Three public comments were received opposing the FCA increase. Customers expressed frustration about paying higher electric bills for achieving better energy efficiency.

### **DISCUSSION**

The filing in this case reveals the results of the first two years of the three-year pilot program. Based upon our review of the Application and comments, the Commission finds it reasonable and appropriate to accept Idaho Power's FCA filing. Accordingly, we approve the net deferral balance of \$2,714,915. We also find it just and reasonable to distribute the surcharge

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<sup>1</sup> This represents about 23% of the approximately 54,000 MWh of reduction that actually occurred in these classes.

to both the residential and small general service customer classes equally on an energy basis during the 2009-2010 FCA year. The result is a uniform surcharge rate of 0.0529 cents per kWh.

### ORDER

IT IS HEREBY ORDERED that the Application of Idaho Power to implement fixed-cost adjustment rates for electric service is approved. The Company is authorized to collect the net deferral balance of \$2,714,915 for the second year of the FCA.

IT IS FURTHER ORDERED that the surcharge be distributed to both the residential and small general service customer classes equally on an energy basis during the 2009-2010 FCA year, resulting in a uniform surcharge rate of 0.0529 cents per kWh for these customers.

IT IS FURTHER ORDERED that the new FCA rate shall be effective from June 1, 2009, through May 31, 2010.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

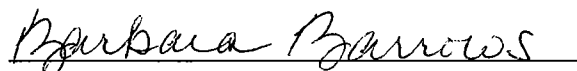
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 29<sup>th</sup> day of May 2009.

  
JIM D. KEMPTON, PRESIDENT

  
MARSHA H. SMITH, COMMISSIONER

  
MACK A. REDFORD, COMMISSIONER

ATTEST:

  
Barbara Barrows  
Assistant Commission Secretary

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