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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO IMPLEMENT FIXED-COST ADJUSTMENT (FCA) RATES FOR ELECTRIC SERVICE FROM JUNE 1, 2009 THROUGH MAY 31, 2010.	**CASE NO. IPC-E-09-06** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Kristine A. Sasser, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 30757 on March 25, 2009, in Case No. IPC-E-09-06, submits the following comments.

BACKGROUND

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. 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 second year of the pilot program approved by the Commission.

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 through demand-side management (DSM) programs.

The FCA implemented in 2007 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 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 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 weather-normalized energy sales for the residential customer class in 2008, i.e., the average use per customer decreased. As a result, the Company said it under-collected fixed costs by approximately $1.3 million from its residential customers. A surcharge to recover the under-collection would represent a 0.42% increase in residential rates.

The Company also reports that weather-normalized energy usage per customer decreased even more significantly in the small general service 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, Case No. IPC-E-08-04, 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. (For comparison, the current FCA in effect from June 1, 2008, until May 31, 2009, is a rate <u>decrease</u> of 0.04570 cents/kWh.)

STAFF ANALYSIS

2008 Fixed Cost Adjustment (FCA) Calculation

Staff has reviewed the Company's FCA filing and recommends that the Commission accept the Company's proposed total FCA net deferral balance of approximately $2.715 million, and distribute the surcharge to residential and small commercial customers on an equal, per energy basis of 0.0529 cents/kWh. Because the FCA amount increases from a credit of 0.045676 cents/kWh to a surcharge of 0.0529 cents/kWh, the net rate change is 0.0986 cents/kWh. This amount represents an increase over combined current revenue of approximately 1.32%.

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.

As indicated in the testimony of Company witness Sparks, the FCC and FCE for both the residential and small commercial classes increased during the 2008 FCA period to reflect higher fixed cost recovery as approved by the Commission in the general rate Case No. IPC-E-07-08. Company calculations provided in response to Staff Audit Request No. 1 also show significantly reduced energy consumption per residential customer in the months of July and August 2008. The combination of higher fixed cost recovery per kWh (FCE) coupled with reduced consumption per customer results in the lion's share of fixed cost under-recovery occurring in these months for this class. Energy consumption per customer in the small commercial class declined in all months resulting in fixed cost under-recovery occurring on a relatively consistent monthly basis throughout 2008.

By comparison, the residential energy consumption per customer in 2007 was consistently higher than that required to recover approved fixed costs and therefore generated a deferred credit consistently throughout the year. In 2007, as in 2008, per customer energy consumption in the small commercial class was consistently below that required to recover fixed costs and similarly sized deferral surcharges were generated in both years. Staff Attachment No. 1 shows how the FCA deferral balance changed throughout 2007 and 2008 for both the residential and small commercial classes.

Idaho Power's Demand Side Management (DSM) Activities

The fixed cost adjustment (FCA) mechanism was designed and implemented to remove the financial disincentive for Idaho Power to expand and improve its DSM activities. While it is impossible to determine what level of DSM activity the Company would have pursued without the mechanism, it is clear that during 2008, the Company greatly increased DSM expenditures and significantly enhanced its program offerings.

Company witness Sparks testifies that the level of DSM expenditures increased by 35% from $15.7 million in 2007 to over $21 million in 2008. Mr. Sparks also cites a 72% increase in energy savings from 62,500 MWh in 2007 to 107,500 MWh in 2008 through 16 energy efficiency programs and two demand response programs. Staff has reviewed the Company's 2008 DSM report and verifies the expansion of Company expenditures, programs and projected energy savings.

Because the FCA mechanism was established primarily to track the impact of DSM programs but actually tracks all weather-normalized changes in energy consumption, Staff believes it is important to evaluate what role Company DSM programs play in reducing energy consumption per customer and the resulting need for the FCA surcharge proposed in this case. In response to Staff Production Request No. 1, the Company stated that it had not conducted any formal analysis or held internal discussions specifically related to the causes of the decreases seen in 2008 average kWh usage per customer. The Company went on to say that several factors likely contributing to the reduction include electric and gas prices, demand side management programs, demand side management education, public awareness of demand side management and green initiatives, changes to building codes and the current state of the economy.

Staff agrees that many factors in addition to Company DSM programs can contribute to the reduction in energy consumption per customer. While it would be highly speculative to attribute specific reductions to any specific factors, several general observations can be made. For example, Staff estimates that 12,000 MWh of 2008 energy savings were achieved from Company DSM programs in the residential and small commercial classes. This represents about 23% of the approximately 54,000 MWh of reduction that actually occurred in these classes. Therefore, the remaining decrease in energy consumption per customer is due to other factors.

It is not surprising that energy consumption per customer has declined as economic conditions have declined. Nor is it surprising that energy consumption declines as energy prices increase. A large PCA rate increase on June 1, 2008, could easily have contributed to the July and August reduction in per customer energy consumption. One factor that may slow the decline in consumption per customer is reduced customer growth. Generally, as new customers are added to the system, the calculated average consumption per customer declines because new customers primarily use natural gas for space heating. A slowing customer growth rate will reduce this effect.

The FCA mechanism is designed to reimburse the Company for lost fixed costs as per customer energy consumption declines regardless of cause. Staff does not recommend any change in the mechanism at this time. Staff does note that as customers adapt to 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 Idaho Power Company.

The FCA Rate

Staff has verified the Company's calculation of unrecovered 2008 fixed costs for the residential and small commercial customer classes. The annual residential amount subject to recovery is approximately $1.32 million and the small commercial amount is approximately $1.4 million. Using weather-normalized sales for 2008, the Company calculates a residential rate of 0.0266 cents/kWh and a small commercial rate of 0.82 cents/kWh. This represents an increase of 0.42% and 10.29% over current base rates for the residential and small commercial classes, respectively. The Company then recommends applying the methodology used in the first year of the FCA pilot to spread the total unrecovered fixed costs over all residential and small commercial customers combined. The resulting FCA rate is 0.0529 cents/kWh or a 0.82% overall increase.

Staff does not oppose a single FCA rate applied to both residential and small commercial customers to recover the combined under recovered fixed costs of the two classes. When the shortfall is spread uniformly over all customers, the increased rate for the residential class has minimal impact on individual residential customers but it greatly reduces the impact on commercial customers. Staff also notes that class costs of service used to establish fixed cost per customer class is an inexact science and has not been fully accepted or applied by the Commission. The combined uniform rate proposal is also consistent with the combined rate approved by the Commission in the last FCA Case No. IPC-E-08-04.

Staff proposes to calculate the overall uniform FCA rate in a slightly different manner than that proposed by the Company in this case. The Company has used weather-normalized 2008 energy to calculate the FCA rate/kWh rather than the energy forecast for the subsequent year as was used in the first year of the FCA and as is required in the Company tariff. Using the weather-normalized 2009 forecasted energy of 5.13 million MWh coincidentally, does not change the uniform FCA rate of 0.0529 cents/kWh proposed by the Company. Nevertheless, because the

FCA mechanism has no true-up adjustment, it is important to consistently apply the most accurate estimate of energy to assure proper recovery of the deferral balance. The Staff-proposed rate represents an overall increase of 0.82% in base rates for the two combined classes and an increase of approximately 1.33 % over current rates with the FCA credit in place. The Staff calculation of the rate is shown on Staff Attachment No. 2.

RECOMMENDATIONS

Staff recommends that the Commission approve the Company's FCA filing with a net deferral balance of positive $2,714,915 distributed to both customer classes on an energy basis during the 2009-2010 FCA year. Staff recommends that the FCA rate be based on forecasted 2009 energy consumption of 5.13 million MWh for a uniform surcharge rate of 0.0529 cents/kWh.

Idaho Power's DSM efforts clearly increased in 2008, with increased expenditures and program offerings. While the decline in residential electric consumption per customer was impacted by the Company's residential DSM programs, it does not account for the entire decline and the Company has not attempted to quantify any other causation. The decline in commercial electric consumption per customer has continued at an accelerated pace but it does not appear that the Company's commercial DSM programs significantly contributed to the reduction. Staff believes that factors other than Company-provided DSM will further reduce energy consumption per customer in both classes in the third year of the pilot. Nevertheless, Staff recommends the pilot be continued to further evaluate longer-term effects.

Respectfully submitted this 8th day of May 2009.

for

Kristine A. Sasser
Deputy Attorney General

Technical Staff: Randy Lobb

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Monthly Fixed Cost Recovery Differential

2008 FCA

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD Total
Residential FCA	($421,777)	($606,793)	$34,466	$160,312	($148,924)	$193,320	$1,129,118	$463,844	$122,467	$359,617	$90,741	$10,420	$1,386,811
Commercial FCA	$95,791	$102,714	$135,916	$98,345	$103,899	$81,820	$156,931	$136,534	$97,953	$94,491	$97,487	$103,772	$1,305,653

2007 FCA

Residential FCA	($421,810)	($446,034)	($202,199)	($196,792)	($6,633)	($325,641)	($157,192)	($483,797)	($245,846)	($7,408)	($302,954)	($456,666)	($3,252,972)
Commercial FCA	$53,532	$62,504	$112,040	$89,584	$133,664	$76,690	$70,775	$92,507	$101,626	$125,953	$125,830	$115,073	$1,159,778

Attachment 1
Case No. IPC-E-09-6
Staff Comments
05/08/09

Derivation of Staff Recommended Fixed Cost Adjustment

Calculation of FCA Rates								
Rate Schedule	2008 Average Customer Count	2008 Weather Normalized Energy	Allowed Fixed Cost, per IPC Filing	Actual Fixed Cost Collected	Surcharge Including Interest	2009-2010 Forecasted Energy, per IPC (MWh)	Fixed Cost Adjustment (cents/kWh), per Class	Fixed Cost Adjustment (cents/kWh), Combined
Residential	385325	4,961,893	$ 164,629,574	$ 163,312,823	$1,320,748.96	4,956,407	0.026647	0.0529
Small Commercial	31,210.0	170,005	$ 8,774,568	$ 7,420,364	$1,394,166.52	174,097	0.8008*	0.0529

*Subject to 3%cap on increase

Attachment 2
Case No. IPC-E-09-6
Staff Comments
05/08/09

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 8TH DAY OF MAY 2009, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-09-6, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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