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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 RATES FOR ELECTRIC SERVICE FROM JUNE 1, 2010 THROUGH MAY 31, 2011.	**CASE NO. IPC-E-10-07** **COMMENTS OF THE COMMISSION STAFF**

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of Record, Weldon B. Stutzman, Deputy Attorney General, submits the following comments in response to Order No. 31045 issued on April 15, 2010.

BACKGROUND

On March 15, 2010, Idaho Power Company filed an Application for an order authorizing the Company to implement Fixed Cost Adjustment (FCA) rates for electric service from June 1, 2010, through May 31, 2011. In March 2007, the Commission approved a Stipulation implementing a three-year Fixed Cost Adjustment pilot program applicable to residential service and small general service customers. The first year of the pilot resulted in a net credit to customers, while the second year resulted in a net surcharge. The initial pilot ended December 31, 2009, and the rates proposed in this case will recover the 2009 FCA accrual.

The FCA mechanism separates the collection of Idaho Power's fixed costs from its volumetric energy sales and provides a surcharge or credit when fixed-cost recovery per customer varies above or below a base amount. To determine the amount actually recovered, the Company takes weather-normalized sales for each participating class and multiplies that sales figure by the fixed-cost per energy rate approved by the Commission. The FCA allows the Company to recover or rebate the difference between the fixed costs actually recovered through rates and the fixed costs authorized for recovery in the Company's most recent general rate case.

THE APPLICATION

According to the Company's Application, the rate of growth in the number of residential customers continued to outpace the rate of growth in weather-normalized energy sales for the class in 2009, i.e., the average use per customer declined relative to the 2008 base year. As a result, the Company states that it under-collected approved fixed costs by approximately $5.2 million. If collected individually from the residential class, these customers would receive a 1.5% increase in residential rates to collect additional fixed costs through the FCA.

The Company further states in its Application that the small general service class also exhibited a decline in average use per customer in 2009 when compared to the base year. The Company reports that this represents an under-recovery in fixed costs amounting to approximately $1.2 million. The additional revenue to be recovered from the small general service class would amount to an 8.49% rate increase.

However, Idaho Power is proposing to combine the rate increase for the residential and small general service customers, as has been the case in the previous two FCA filings. Unlike previous years, the Company proposes to spread the increase on a uniform percentage basis between the customer classes, rather than an equal cents per kWh basis. Doing so would result in an increase through the FCA of 1.85% for both customer classes. Idaho Power requests that the new FCA rate be effective from June 1, 2010 through May 31, 2011.

STAFF ANALYSIS

2009 Fixed Cost Adjustment (FCA) Calculation

Staff has reviewed the Company's calculations for the third year of the FCA pilot program, focusing on verification 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 2009 and the resulting FCA required to recover uncollected fixed costs. Based on its review of the filing, Staff recommends that the Commission accept the Company's proposed net FCA deferral balance of approximately $6.34 million.

As indicated in the testimony of Company witness Sparks, the FCC and FCE increased a number of times for both the residential and small commercial classes due to fixed cost recovery approved by the Commission in the general rate Case No. IPC-E-08-10. New rates originally went into effect on February 1, 2009, increasing the authorized FCC from $428.85 to $442.07 per residential customer per year. Upon reconsideration, the Commission modified the Company's revenue requirement by an additional $6.7 million, which led to a new FCC of $451.28 per residential customer that went into effect on April 1, 2009. Concurrently, the small commercial customer class fixed cost per customer fluctuated from $294.79 to $285.16, and ultimately to $292.83. In reviewing the Application, Staff has determined that the Company accurately captured the changes in allowed fixed costs for the 2009 period.

The third year of the pilot marks the second time that residential use per customer has declined relative to the established base year. The 2007 FCA year showed a slight increase in per-customer usage as compared to 2005, the most recent general rate case at the time and the basis for setting the FCC and FCE, resulting in a credit to customers. As part of the Stipulation, the Company agreed to significantly increase its demand side management (DSM) efforts. In the three years of the FCA, Idaho Power has increased its spending on DSM by nearly $19 million (a 120% increase) and energy savings has increased by 57 million megawatt hours (a 63% increase).[1] Concurrently, the Idaho economy and the national economy as a whole have experienced a significant downturn. Even though the comparative base years have reset twice during the last two years of the pilot, the result has been surcharges that have far exceeded the credit received in the first year.

Similarly, small commercial customers have experienced a decline in use per customer when compared to the base period in each of the years that the FCA has been in place. Relative to 2008, the class continued to witness attrition in customers (nearly a 3% decrease in average customers) that was outpaced by reduced energy consumption (nearly 16% for the class) in 2009.

[1] Staff notes this tally is for all customer classes, not specifically those directly affected by the FCA. Staff has discussed the discontinuity in DSM growth for residential customers at length recently in its comments in Case No. IPC-E-09-28.

The FCA deferral for small commercial customers would have been significantly larger in 2009 had the cost of service model used in the 2008 general rate case not led to a reduction in authorized fixed cost per customer for that class. Staff Attachment No. A shows how the FCA deferral balances have changed throughout the three years of the pilot for both the residential and small commercial classes.

The FCA Rate

Staff has verified the Company's calculation of unrecovered 2009 fixed costs for the residential and small commercial classes. If the recovery amounts for each class were allocated separately, residential customers would receive a surcharge of 0.1036 cents per kWh, or a 1.57% increase, while the small commercial customers would receive a 0.7029 cents per kWh surcharge, or an increase of 8.49%. With the Commission approved cap of 3% in place, the actual surcharge would be approximately 0.25 cents per kWh, with the remainder deferred for future collection. The Company proposes blending the surcharge, and spreading it uniformly to both customer segments on an equal percentage basis. Using weather-normalized forecasted sales for June 1, 2010 through May 31, 2011, the Company calculates that a surcharge of 1.85% for residential and small commercial customers provides a sufficient opportunity to recover approved fixed costs.

Staff believes it is appropriate to apply a blended FCA rate in this case, as in the previous two years of the pilot for a number of reasons. When the shortfall is spread over all customers, the impact on individual residential customers is minimal but greatly reduces the impact to commercial customers. Also, timely recovery of approved costs is beneficial to both Idaho Power and its commercial customers, who otherwise would continue to have a mounting FCA balance due to the accumulation of previous years' deferrals because of the 3% cap. Aside from blending the surcharge, the only opportunity commercial customers have to reverse the growing deferral balance would be a significant increase in per customer energy consumption, which runs contrary to a basic principle behind the FCA mechanism. Finally, Staff is aware that the class cost of service used to establish fixed cost is an inexact science and has not been fully accepted or applied by the Commission; hence assignment of fixed cost responsibility may not be sufficiently precise to apply anything other than a blended rate.

Previously, the Company proposed calculating the FCA rate based on either test year or preceding year's energy usage for each class. Staff opposed this method in last year's FCA filing, citing the importance of consistently applying the most current and accurate estimate of energy sales to assure proper recovery of the deferral balance. In this Application, Idaho Power calculates the FCA rates based on the same forecast it uses in the 2010-2011 PCA filing. Staff believes this is an appropriate methodological adjustment as it utilizes the Company's most recent and best estimate of energy consumption for the upcoming FCA period.

The Company's proposal to administer the FCA rate as an equal 1.85% percentage increase to each affected class is also a slight change in methodology from the earlier FCA filings. In previous years, the FCA rate was an equal cents per kWh charge applied to both sets of customers. Based on anticipated sales, the Company proposes an FCA rate of 0.1218 cents per kWh for the residential class and 0.1535 cents per kWh for the small commercial class. Using the previous equal rate method, Staff calculated a rate of 0.1228 cents per kWh for each class would be necessary to collect the FCA accrual. The Company's current proposal results in a modest reduction of less than 1% in the residential FCA rate when compared to the previous method due to approximately $50,000 of fixed cost responsibility remaining with the small commercial class. While the Commission accepted the equal cents per class method in prior years, it did not officially establish a method for calculating a blended rate. Staff believes the impact of changing to a percentage-based FCA adjustment does not unduly harm either customer class, and maintains an equitable distribution of the deferral amount.

If the proposed rates are approved by the Commission, the residential FCA rate would increase from 0.0529 cents per kWh to 0.1218 cents per kWh. For an average residential customer consuming 1050 kWh per month, this results in an increase of 72 cents per month over the current FCA charge. For commercial customers using 450 kWh per month, the proposed FCA rate of 0.1535 cents per kWh results in a monthly increase of 45 cents.[2] Staff believes these rates give the Company an adequate opportunity to collect its authorized fixed costs in the coming FCA year.

[2] This value is only an approximate arithmetic mean for a class that displays significant intra-class variation in consumption.

STAFF RECOMMENDATIONS

Staff recommends that the Commission approve the Company's FCA filing with a net deferral balance of positive $6,338,761 for the 2009-2010 collection year. Staff does not oppose the Company's method of distributing the surcharge on an equal percentage basis, and recommends approval of a 1.85% increase in residential and small commercial rates to recover deferred fixed costs. Based on the Company's best sales forecasting efforts, the resulting FCA rates for the 2010-2011 period would equal 0.1218 cents per kWh for residential customers and 0.1535 for small commercial customers.

Respectfully submitted this 6th day of May 2010.

Weldon B. Stutzman
Deputy Attorney General

Technical Staff: Bryan Lanspery

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FCA Deferral Balances by Year

	Residential		Small Commercial		Blended	
Period	Deferred Amount	Percentage	Deferred Amount	Percentage	Deferred Amount	Percentage
2007-2008	($3.6 mil)*	(1.2)*	$1.2 mil	7.3	($2.4 mil)*	(0.7)*
2008-2009	$1.3 mil	0.4	$1.4 mil	10.3	$2.7 mil	0.82
2009-2010	$5.2 mil	1.5	$1.2 mil	8.5	$6.3 mil	1.85

*Negative numbers indicate an overcollection of approved fixed costs

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 6TH DAY OF MAY 2010, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-10-07, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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