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IDAHO PUBLIC UTILITIES COMMISSION

DONOVAN E. WALKER
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September 15, 2010

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
P.O. Box 83720
Boise, Idaho 83720-0074

Re: Case No. IPC-E-10-21
*IN THE MATTER OF IDAHO POWER COMPANY'S REVISED SCHEDULE
54 (FCA) FILING*

Dear Ms. Jewell:

Enclosed for filing please find an original and seven (7) copies of Idaho Power Company's Reply Comments in the above matter.

Very truly yours,

Donovan E. Walker

DEW:csb
Enclosures

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER)
COMPANY'S REVISED SCHEDULE 54) CASE NO. IPC-E-10-21
(FCA) FILING)
) IDAHO POWER COMPANY'S
) REPLY COMMENTS
)

COMES NOW, Idaho Power Company ("Idaho Power" or the "Company"), and in response to Staff Comments filed in this docket, submits the following Reply Comments.

I. BACKGROUND

On June 4, 2010, the Company submitted a compliance filing to the Idaho Public Utilities Commission to update its fixed cost per customer ("FCC") and fixed cost per energy ("FCE") rates in Schedule 54, Fixed Cost Adjustment ("FCA"). The Company's filing was in response to Commission Order Nos. 31042 and 31093 (net power supply expense stipulation and rate implementation), Order No. 31097 (advanced metering

infrastructure investment), and Order No. 31091 (pension expenses) approving increases to base rates effective June 1, 2010.

On July 26, 2010, the Idaho Public Utilities Commission issued Order No. 32036 to process the Company's filing under Modified Procedure to allow Commission Staff and interested parties additional time to review the filing. The Commission Staff filed Comments on the Company's compliance filing on August 25, 2010.

II. THE COMPANY'S FILING

The Company's compliance filing to update the FCC and FCE rates for the Residential and Small General Service customer classes applies the same ratios of fixed costs to total base revenues, which were approved in the Company's last general rate case, Case No. IPC-E-08-10. These same ratios are applied to the residential and small commercial base rate revenues (excluding revenue associated with net power supply expenses) approved by the Commission effective June 1, 2010. The Company applied these ratios using the same methodology it has used in the past to determine the new levels of authorized fixed costs being recovered through base rates. These updated levels of authorized fixed costs are divided by the forecasted number of customers and sales estimates from the 2010 power cost adjustment ("PCA") filing in order to determine the updated FCC and FCE rates, respectively. The Company proposes FCC rates for the Residential and Small General Services classes of \$471.89 and \$300.44, respectively, and FCE rates of 3.7321 cents/kWh and 5.1140 cents/kWh, respectively.

The Company believes it is appropriate to update the FCC and FCE rates in Schedule 54 by utilizing the ratio methodology approved in its original application to

implement a fixed cost adjustment mechanism (Case No. IPC-E-04-15 and subsequent Order No. 30267). In that case, the Commission approved a stipulation signed by Idaho Power, the Commission Staff, and the NW Energy Coalition that:

The fixed-cost portion of the Company's revenue requirement would be established for the Residential and Small General Service 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 per customer to recover 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.

(Order No. 30267, page 3).

In the Company's recent application requesting authority to convert the FCA from a pilot schedule to an ongoing permanent schedule (Case No. IPC-E-09-28), the Commission chose not to grant the Company's request but rather to continue the FCA as a pilot program for an additional two-year period, starting June 1, 2010. In Order No. 31063, the Commission found "that it is too early to determine that specific changes should be made to the FCA" and that the FCA "should continue the same as it is" for the additional two-year period. Consequently, the Company believes it is consistent with Commission orders to use the same ratio methodology approved for the Residential and Small General Service classes in the Company's 2008 general rate case as the most appropriate way to update the FCC and FCE rates.

III. STAFF'S PROPOSAL

Staff's proposal deviates from past orders and FCA practices by calculating an incremental adder to 2008 total fixed cost revenue. Staff proposes to utilize a new methodology to update the FCC and FCE rates that incrementally adds only the

Company's 2009 and 2010 AMI investments to the authorized fixed cost recovery levels approved in Idaho Power's 2008 general rate case. Staff uses the sum of this calculation and applies the forecasted customer and sales estimates from the 2010 PCA filing to determine updated FCC and FCE rates. Staff proposes FCC rates for the Residential and Small General Services classes of \$467.58 and \$336.08, respectively, and FCE rates of 3.6890 cents/kWh and 5.7206 cents/kWh, respectively.

Staff treats all base revenue increases resulting from the recent stipulation and pension expense orders as recovery of what is presumed to be variable costs, and ignores the fact that both variable and fixed costs are included in the recovery approved by Order Nos. 31093, 31097, and 31091. This methodology is not only inconsistent with past orders and FCA practices, but it ignores the premise that the FCC and FCE rates were designed to true-up all fixed costs currently being recovered through a volumetric rate, the energy charge.

By identifying an incremental addition to fixed costs, Staff's calculation of fixed costs presents a new methodology that has not been discussed, analyzed, or agreed upon by the Company, its interveners, the Commission, or the parties to the FCA settlement stipulation. If Staff desires to examine a different approach to determining fixed costs and calculating the FCC and FCE rates, it should hold workshops to analyze alternatives as suggested by the Commission in Order No. 31063 when it declined to make the FCA permanent (Case No. IPC-E-09-28).

IV. COMPANY'S RESPONSE TO STAFF COMMENTS

If the Commission decides that it is appropriate to consider revising the methodology of determining fixed costs in the context of this compliance filing to update

the FCC and FCE, the Company is compelled to point out several flaws in Staff's logic and proposed methodology. First, Staff states that the Company "ignores a basic tenet behind decoupling, namely severing the link between the utility's sales and fixed cost recovery." That is not true. Rather, Staff has ignored that there are TWO parts to a decoupling mechanism. The first is to "decouple," which, as Staff correctly summarized, is to sever the link of the recovery of fixed costs through a volumetric rate, the energy charge. But this is not to say that the Company, through decoupling, is no longer allowed to recover those severed fixed costs. The second part of the compact is to "recouple" the recovery of those fixed costs to something else. The Company's FCA mechanism has, from the beginning, recoupled fixed costs to the number of customers. Therefore, the total amount of fixed costs authorized to be recovered is divided by the number of customers in order to determine the FCC, the authorized rate of recovery.

Staff states that "previously authorized fixed costs should not decrease as sales decrease, nor should they rise as sales increase." It is plausible that, apart from growth or additional investment in plant, the amount of fixed costs does not change with an increase or decrease in sales. However, because a significant portion of those fixed costs are recovered through a volumetric rate, specifically the energy charge of the residential and small commercial customers, the amount of actual fixed costs recovered does vary with sales. In fact, in years prior to a FCA, if energy use per customer increased, the Company would recover more than its authorized amount of fixed costs. This even occurred after the first year of the FCA pilot when the residential energy use per customer increased, and the Company refunded the over-collection. It is important to understand that the FCA mechanism does not reflect an authorized dollar amount of

fixed costs, but an authorized rate of recovery of fixed costs. Through the recoupling, it is the fixed cost per customer that determines the authorized fixed cost amount to be recovered.

This docket, which is the Company's compliance filing to update the FCC and FCE charges, is intended to update the FCC and FCE rates to appropriately reflect the amount of fixed costs being recovered through the energy charges of the residential and small commercial classes. Because base rates have changed, the amount of fixed costs recovered through those energy charges has also changed. Fixed costs have always been intended to describe those costs which do not vary with energy sales. On the other hand, variable costs increase or decrease depending on the amount of energy generated each year. Variable costs related to generation which are above or below those being recovered in base rates are trued-up through the Company's PCA mechanism.

On page 4 of its Comments, Staff stated it "believes that AMI expenses are the only costs that can indisputably be considered 'fixed' for the purposes of the FCA." By not including all or a portion of the Company's new base revenue associated with the pension order or the additional amount of revenue associated with the stipulation, Staff is inherently saying that those revenues reflect no additional fixed costs. It is difficult to comprehend how the revenue requirement associated with pension should increase when energy sales go up and decrease when they go down. In fact, pension expenses do not; they are a fixed cost. It could be argued that 100 percent of the pension revenue requirement is fixed independent of energy sales. In a similar fashion, it could be argued that because the \$63.7 million in revenue for variable power supply expenses

has been excluded, that the remaining \$25 million increased revenue from the stipulation reflects the recovery of fixed costs.

However, the Company has not argued those positions or changes in methodology. The Company has not presumed to determine what is or is not a fixed cost without a revised and approved cost of service study. The Company has relied upon the Commission's directive to continue the FCA pilot as it is and has conservatively used the same methodology of ratios previously utilized by the Commission to determine the FCC and FCE rates. That is, the Company has applied the same ratios of fixed costs to total base revenues as was approved in the Company's last general rate case, IPC-E-08-10. This avoids an arbitrary result that cherry picks some fixed costs but not others.

V. CONCLUSION

The Company contends that Staff misunderstands the FCA settlement and Commission-approved methodology used to determine the FCC and FCE rates. By applying an absolute incremental adder to the 2008 fixed cost revenues approved in Case No. IPC-E-08-10, Staff ignores the fact that fixed costs are associated with the stipulation and pension expense orders and that these costs should be included in determining the Company's authorized level of fixed cost recovery.

Idaho Power respectfully requests that the Commission issue an Order approving the Company's proposed updates to the FCC and FCE rates in Schedule 54, Fixed Cost Adjustment. Idaho Power's proposal is consistent with previously agreed upon FCA methodologies and reasonably estimates the appropriate portion of fixed costs to

be used in determining the FCC and FCE rates for the Residential and Small General Service customer classes.

DATED at Boise, Idaho, this 15th day of September 2010.


DONOVAN E. WALKER
Attorney for Idaho Power Company

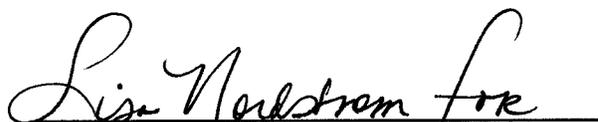
CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 15th day of September 2010 I served a true and correct copy of IDAHO POWER COMPANY'S REPLY COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

Commission Staff

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Deputy Attorney General
Idaho Public Utilities Commission
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