Office of the Secretary
Service Date
February 4, 2011

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S PROPOSED REVISIONS TO SCHEDULE 54 (FIXED COST ADJUSTMENT)	)))))	CASE NO. IPC-E-10-21 ORDER NO. 32171

On June 4, 2010, Idaho Power Company ("Idaho Power" or "Company") filed a revised tariff sheet for Schedule 54, the Fixed Cost Adjustment ("FCA"). The FCA mechanism allows Idaho Power to separate collection of fixed costs from volumetric energy sales.

On July 26, 2010, the Commission issued a Notice of Application and Notice of Modified Procedure suspending the Company's proposed effective date and establishing a 30-day comment period. *See* Order No. 32036. Commission Staff was the only party to file comments. On September 15, 2010, Idaho Power filed reply comments to Staff's comments.

IDAHO POWER'S FILING

Idaho Power submitted updated values in its Schedule 54 for the fixed cost per customer ("FCC") and fixed cost per energy ("FCE") for residential and small business (small general service) customers, determined by dividing the Company's fixed cost components by the average number of residential and small business customers, respectively. The FCC and FCE do not affect the FCA rates approved by the Commission in Order No. 31081, but rather set the benchmark for the prospective year's deferral balances. Idaho Power claims that it was compelled to update the FCC and FCE rates due to recent increases in base rates that went into effect on June 1, 2010. *See* Order Nos. 31042, 31097, 31091 and 31093.

Idaho Power contends that these changes in base rates flow through the FCA. The Company utilized the last Commission-approved cost of service ("COS") study – approved by the Company in its last general rate case in 2008. Pursuant to the 2008 COS study, the Company calculated that 54% of base revenues cover fixed costs for residential customers and 59% of base revenues cover fixed costs for small commercial customers. Maintaining this relationship, and removing \$63.7 million in increased base power supply costs, the Company determined the new level of authorized fixed costs. Applying the same forecasted sales and customer values used in the 2010-2011 PCA filing, Idaho Power calculated a FCC for residential and small commercial customers of $471.89 and $300.44, respectively, and a FCE of 3.7231¢ per kWh and 5.1140¢ per kWh, respectively.

The Company's proposed revisions to Schedule 54 would result in a level of authorized fixed costs of $186 million for residential customers and $8.5 million for small commercial customers. If approved, Idaho Power's revisions would result in an annual increase of $20.61 and $7.79 per residential and small commercial customer, respectively. These changes represent a net increase in fixed costs of $8.8 million over the 2008 amounts.

STAFF COMMENTS AND RECOMMENDATION

Staff recommended that the Commission approve the updated FCC levels for the residential and small commercial classes of $467.58 and $336.08, and FCE levels for the residential and small commercial classes, 3.6890¢ per kWh and 5.7206¢ per kWh, respectively. Staff believes these amounts properly reflect the embedded fixed costs used since the 2008 general rate case and the incremental costs associated with Idaho Power's AMI infrastructure. Staff noted that the FCC and FCE are used for deferral purposes. Any rates approved by the Commission will not impact the collection of the FCA for the 2010-2011 rate period.

Staff acknowledged that changes in base rates outside of a general rate case are not uncommon but, in the context of the FCA, pose a number of challenges. Staff outlined concerns that it found particularly problematic: (1) parties have no direction on what costs the Commission deems "fixed" and must make their own assumptions of what should be included in the FCA; and (2) the lack of an updated COS study forces parties to rely on an earlier model that may not be representative of current cost relationship conditions. Aside from removing the explicit increase in base rates due to variable power supply, the Company's methodology does not address these issues.

Staff stated that the Company's decision to rely on the 2008 COS study ignores a basic tenet of decoupling, namely severing the link between the utility's sales and fixed cost recovery. Staff illustrated its point by referencing the Company's implication that, absent any increases in base rates, the small commercial class' fixed costs have declined since 2008. According to the Company, this occurs as a result of declining sales for the class over the last two years. Staff believes that, by their very nature, previously authorized fixed costs should remain at an approved level until a general rate case proceeding establishes a new level. Previously authorized fixed costs should not decrease as sales decrease, nor should they rise as sales increase. While Staff is concerned about proposing a higher level of fixed costs for small commercial customers than that proposed by the Company, it believes that such a result is necessary in order to properly reflect the intent of the FCA mechanism.

Staff contended that the 2008 level of fixed costs is the proper starting point for calculating the FCC and FCE going forward until the next general rate case. Thus, in order to arrive at the appropriate FCC and FCE levels it is only necessary to add the incremental fixed costs approved since the last general rate case.

Staff next addressed the issue of what exactly should be deemed a "fixed cost." Of the Commission Orders cited above, including base power supply (Order Nos. 31042 and 31093), advanced metering infrastructure (AMI) investment (Order No. 31097) and increased pension expense (Order No. 31091), Staff believes that AMI expenses are the only costs that should absolutely be considered "fixed" for the purposes of the FCA.

According to Staff, the FCA was originally designed to be a simple true-up mechanism. Identifying and classifying other costs that have not been explicitly defined by the Commission as "fixed costs" complicates the methodology. Historically, COS studies have been used by the Company as the basis for classifying costs as either fixed or variable for purposes of the FCA. However, Staff asserted that COS models are designed to functionalize costs based on operating functions (generation, transmission, distribution, etc.), classify costs based on the service provided (demand, energy, and customer), and allocate these costs to customer classes based on the notion of cost causation.

Since its inception, the FCA pilot program has classified non-energy related costs as "fixed" for the purpose of setting FCC and FCE rates. The determination as to whether or to what extent pension expenses, additional power supply costs and other non-specific costs should be classified as "fixed costs" recoverable in the FCA is subject to dispute absent a specific determination by the Commission. Staff believes that it is improper, except for the most obvious cost categories, for Staff or Idaho Power to assume what portion of an undefined base rate increase is eligible for fixed cost recovery.

Thus, Staff proposed that authorized fixed cost recovery should be limited, with one exception, to items previously approved by the Commission in Idaho Power's 2008 general rate case. The exception Staff listed was the Commission's authorization for a base rate increase associated with the Company's expenditures for AMI deployment in 2009 and 2010. *See* Order

Nos. 30829 and 31097. Staff believes that the Company's investment in AMI constitutes a fixed cost, and proposes including it at the level approved by the Commission for updating the FCC and FCE. Staff calculated an increase in AMI expenses of $7.8 million for residential customers and $350,000 for small commercial customers since the 2008 general rate case. Staff believes that the costs associated with the Company's pension increases and power supply increases should be properly classified as variable rather than fixed costs. Additionally, Staff did not designate any of the non-power supply base rate increase as fixed costs for inclusion in the FCA. The determination of the fixed and variable components should be made by the Commission in the next general rate case. Should the Commission accept Staff's incremental AMI addition and Idaho Power's split of the undefined base rate increase, both the FCC and FCE for all customers would be higher than that originally requested by the Company.

Staff provided its calculation of the new FCC and FCE rates for residential and small commercial customers in Attachment 2 of Staff comments. Using the results from 2008 as the base, Staff increased fixed costs to reflect the Company's AMI expenses for both 2009 and 2010. Using the forecasted energy and customer counts for the 2010-2011 FCA year, Staff determined a FCC of $467.58 and FCE of 3.6890¢ per kWh for residential customers, and a FCC of $336.08 and a FCE of 5.7206¢ per kWh for small commercial customers. The net result is a combined level of fixed costs of $194 million, approximately $700,000 lower than the Company proposal.

IDAHO POWER REPLY COMMENTS

Idaho Power believed that Staff does not properly comprehend the FCA settlement and Commission-approved methodology used to determine the FCC and FCE rates. According to the Company, simply applying an incremental adder to the 2008 fixed cost revenues approved in Idaho Power's last general rate case 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 asserted that there are two parts to a decoupling mechanism: (1) severing the link of the recovery of fixed costs through a volumetric rate, the energy charge; and then (2) recoupling the recovery of those fixed costs to something else. The FCA mechanism has, according to Idaho Power, from the beginning always recoupled fixed costs to the number of customers.

Thus, 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. Idaho Power continued by noting that, in years prior to an 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. Idaho Power believes 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.

Idaho Power also took issue with Staff's statement that it "believes that AMI expenses are the only costs that can indisputably be considered 'fixed' for the purposes of the FCA." Idaho Power believed that implicit in Staff's statement is an assertion that those revenues reflect no additional fixed costs. The Company argued that because the revenue requirement associated with pension costs does not necessarily increase when sales go up and decrease when sales go down such costs should be properly considered "fixed costs."

Finally, Idaho Power argued that it is not requesting changes to the established FCA methodology and does not attempt to determine what is or is not a fixed cost without a revised and approved COS study. The Company stated that it relied upon the Commission's directive to continue the FCA pilot as it is and conservatively used the same methodology of ratios previously utilized by the Commission to determine the FCC and FCE rates. The Company 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. Idaho Power finished by reiterating its request for a Commission Order approving the Company's proposed updates to the FCC and FCE rates in Schedule 54.

COMMISSION FINDINGS AND DECISION

The Commission thoroughly considered Idaho Power's Schedule No. 54 revised tariff sheet filing, including comments by Staff and the reply comments of the Company. Based upon our review, we do not approve Idaho Power's updated FCC and FCE values contained in Schedule 54. In reaching this conclusion, the Commission notes that it is not making a definitive ruling as to whether the costs associated with the cases cited[1] by Idaho Power in its filing qualify as fixed costs. Rather, we defer this decision until the Company's next general rate case filing.

In Case No. IPC-E-08-04, the Commission observed that Idaho Power and Commission Staff mutually agreed "that the FCC and FCE components should be established in the context of a general rate case." Order No. 30556. Subsequent to this acknowledgement, the Company filed a general rate case, IPC-E-08-10, wherein the Commission established a specific dollar value of fixed costs. The Commission did not establish or approve the methodology put forth by Idaho Power in its revised tariff sheet filing. Idaho Power's proposed methodology seeks to remove the Commission from the determination of the level of fixed cost recovery for Residential Service (Schedules 1, 3, 4 and 5) and Small General Service (Schedule 7) customers. It would simply allow the Company to utilize the percentages or ratios of fixed costs found in its 2008 cost of service (COS) study and apply those ratios contemporaneously to base revenues derived from residential and small general service customers.

The Commission sees no compelling reason to deviate from the procedure it adopted and that was agreed to by Staff and Idaho Power. Accordingly, the FCC and FCE values for Schedule No. 54 shall accurately represent the level of fixed costs previously established by the Commission in IPC-E-08-10 and remain at that level until such time as they can be more thoroughly examined and re-established by the Commission in the context of the Company's next general rate case filing.

Therefore, the Commission does not approve Idaho Power's suggested revisions to its Schedule No. 54 tariff sheet.

ORDER

IT IS HEREBY ORDERED that Idaho Power's proposed revisions to tariff sheet Schedule No. 54 containing updated values for fixed cost per customer and fixed cost per energy is not approved. The FCC and FCE values shall reflect the amount authorized for fixed cost recovery in the Company's last general rate case, Case No. IPC-E-08-10.

IT IS FURTHER ORDERED that Idaho Power's existing Schedule No. 54 tariff sheet, with FCC and FCE values reflecting the level of fixed costs previously approved by the

[1] Idaho Power's revised tariff sheet references IPC-E-10-01(Order No. 31042), IPC-E-10-06 (Order No. 31097), IPC-E-10-08 (Order No. 31091) and IPC-E-10-12 (Order No. 31093).

Commission in the Company's last general rate case and reconfirmed in this Order, shall remain effective.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in 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 4th day of February 2011.

JIM D. KEMPTON, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

MACK A. REDFORD, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

O:IPC-E-10-21_np2