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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Neil Price, Deputy Attorney General, and in response to the Notice of Filing and Notice of Modified Procedure in Order No. 32036 issued on July 26, 2010, submits the following comments.

BACKGROUND

On June 4, 2010, Idaho Power Company ("Idaho Power" or "Company") filed a revised tariff sheet for Schedule 54, the Fixed Cost Adjustment ("FCA").

Idaho Power's filing contains updated values for the fixed cost per customer ("FCC") and fixed cost per energy ("FCE") to recognize Commission-approved charges in base rates that went into effect on June 1, 2010. The FCC and FCE do not affect the FCA rates approved by the Commission in Order No. 31081 that will remain in effect through June 2011, but rather set the benchmark for the prospective year's deferral balances.

Idaho Power's filing corresponds to an annual fixed cost increase of \$20.61 and \$7.79 per residential and small commercial customer, respectively, and amounts to a net increase in authorized fixed costs of \$8.8 million over 2008 figures.

The Company's proposed effective date of the updated values, June 1, 2010, has been suspended by the Commission to allow Commission Staff and interested parties additional time to review the filing.

STAFF ANALYSIS

Staff has reviewed the Company's filing and supporting documentation and has several concerns with the proposed methodology used to develop the FCC and FCE rates for the 2010-2011 season. Staff will outline its concerns, describe the method it utilized to prepare its alternative proposal, and discuss areas of the FCA that need to be addressed in order to mitigate some of these issues in the future.

The Company states that it was compelled to file updated FCC and FCE rates due to a number of base rate increases 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 to the FCA. Because an updated cost of service (COS) study has not been approved by the Commission, the Company utilized the COS last approved in the 2008 general rate case. From the 2008 COS study, the Company deduced that 54% of base revenues cover fixed cost for residential customers, and 59% of base revenues cover small commercial fixed costs. Maintaining this relationship, and removing \$63.7 million in increased base power supply costs, the Company determined the new level of authorized fixed costs.¹ Applying the same forecasted sales and customer values used in its 2010 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 ¢/kWh and 5.1140 ¢/kWh, respectively. The Company's calculation is included as Attachment 1.

Staff notes that changes in base rates outside of a general rate case is not that uncommon, but in the context of the FCA, pose a number of challenges. Staff finds two of particular concern. First, parties have no direction on what the Commission deems 'fixed', and must make their own assumptions of what should be included in the FCA. Second, the lack of an updated

¹ The Company's filing indicates a level of authorized fixed costs of \$186 million for residential customers, and \$8.5 million for small commercial customers.

COS study forces parties to rely on a model that may be a number of years old, and possibly not 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.

Because the Company chose to rely on the cost-revenue relationship represented in the 2008 COS study, it ignores a basic tenet behind decoupling, namely severing the link between the utility's sales and fixed cost recovery. To illustrate, the Company's method implies that, absent any increases in base rates, the small commercial class' fixed costs have declined since 2008.² This occurs as a result of declining sales for the class over the last two years,³ a reason the Company cited as rationale for the FCA. Staff believes that, by their very nature, previously authorized fixed costs 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 in this case than that proposed by the Company, it is necessary to properly reflect the intent of the FCA mechanism.

Staff contends 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. From there, it is only necessary to add the incremental fixed costs approved since the last general rate case. Staff notes that this too is cumbersome, as it requires an assertion of what is and what is not a 'fixed cost'. The Commission Orders cited above relate to base rate increases including base power supply (Order Nos. 31042 and 31093), advanced metering infrastructure (AMI) investment (Order No. 31097) and increased pension expense (Order No. 31091). With the exception of \$63.7 million in power supply costs, all three components factor into Idaho Power's computation of the FCC and FCE.⁴ Staff believes that AMI expenses are the only costs that can indisputably be considered 'fixed' for the purposes of the FCA.

The FCA was originally designed to be a simple true-up mechanism but identifying fixed costs that have not been explicitly defined by the Commission complicates the methodology. COS studies have been used by the Company as the basis for classifying costs as either fixed or

² Even including the Company's requested increase in fixed costs, the Small Commercial class sees a reduction in fixed costs of \$500,000 since 2008.

³ Sales for Schedule 7 during the 2008 base year was 190,586,226 kWh compared to forecasted sales of 165,753,188 kWh for June 2010 through May 2011. Coincidentally, customer counts for the class dropped 9.5%.

⁴ \$25 million in unspecified expenses were included by the Company as a result of the tiered PCA rate reduction allocation process outlined in the Stipulation approved in Order No. 31042.

variable, though that has rarely been their intended use. 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 the FCA Pilot Program began, non-energy related costs have been considered fixed for the purpose of setting FCC and FCE rates. In deciding whether or to what extent pensions, additional power supply costs and other non-specific costs constitute fixed costs, it became obvious that fixed cost recoverable in the FCA are 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 for fixed cost recovery.

At this time, Staff proposes authorized fixed cost recovery as approved by the Commission in Idaho Power's 2008 general rate case with one exception. The Commission authorized base rate increases for Company expenditures for AMI 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 has 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 these are the only definitive incremental costs that are appropriate to add to the previously approved fixed costs authorized for recovery.

In the current setting, Staff has not included any fixed costs associated with the Company's pension increases or power supply increases in the calculation of the FCC and FCE because in Staff's opinion these costs are variable rather than fixed. Nor has Staff attempted to 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 has provided its calculation of the new FCC and FCE rates for Residential and Small Commercial customers in Attachment 2. Using the results from 2008 as the base, Staff

has increased fixed costs to reflect the Company's AMI expenses for both 2009 and 2010.⁵ Using the forecasted energy and customer counts for the 2010-2011 FCA year, Staff has determined a FCC of \$467.58 and FCE of 3.6890 ¢/kWh for residential customers, and a FCC of \$336.08 and a FCE of 5.7206 ¢/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.

STAFF RECOMMENDATION

Staff recommends the Commission approve updated FCC levels of \$467.58 and \$336.08, and FCE levels of 3.6890 ¢/kWh and 5.7206 ¢/kWh for the residential and small commercial classes, respectively. Staff believes these levels 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 notes that the FCC and FCE are used for deferral purposes, and any rates approved by the Commission will not impact the collection of the FCA for the 2010-2011 period.

Respectfully submitted this 25th day of August 2010.



Neil Price
Deputy Attorney General

Technical Staff: Bryan Lanspery

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⁵ The Company did not file for an increase in the FCC and FCE rates in 2009 even though base rates increased nearly 2% due to AMI investment.

IDAHO POWER COMPANY
Development of Fixed Cost Adjustment Rate
Table IV
Derivation of Fixed Cost per Customer and Fixed Cost per Energy Rates

Line No.	Uniform Tariff Schedules	Schedule No.	A		B		C		D		E		F		G		H		I	
			June 1, 2010 Avg. Number of Customers (e)	June 1, 2010 Normalized (kWh) (a)	2008 Total Base Rate Revenue (b)	2008 Total Fixed Cost Revenue Energy Charges (b)	Total Fixed Cost Percent of Base Rate Revenue	June 1, 2010 Proposed \$ from Base Rates (c)	Fixed Cost Revenue from Base Rates	2010 FCC	2010 FCE									
1	Residential Service	1, 3, 4 & 5	394,032	4,994,311,266	327,626,493	176,474,517	53.86%	345,201,531	185,941,231	471.89	0.037231									
2	Small General Service	7	28,214	165,753,188	15,488,243	9,135,125	58.98%	14,371,774	8,476,620	300.44	0.051140									

a) June 1, 2010 - May 31, 2011 Forecasted Test Year, Compliance Filing
b) Case No. IPC-E-08-10, Reconsideration Order No. 30754
c) 2010 Stipulation and 2010 PCA: Excludes \$63,701,695 in net power supply expenses (variable costs)

IDAHO PUC STAFF
Development of Fixed Cost Adjustment Rate
Derivation of Fixed Cost per Customer and Fixed Cost per Energy Rates

Line No.	Uniform Tariff Schedules	Schedule No.	A		B		C		D		E		F		G		H	
			June 1, 2010 Avg. Number of Customers (a)	June 1, 2010 Normalized (kWh) (a)	2008 Total Base Rate Revenue (b)	2008 Total Fixed Cost Revenue Energy Charges (b)	2008 Total Fixed Cost Revenue AMI Expenses to Base Rates (c)	2008 Total Fixed Cost Revenue AMI Expenses to Base Rates (c)	Fixed Cost Revenue from Base Rates	2010 FCC (\$/Cust./Yr.)	2010 FCE (\$/kWh)							
1	Residential Service	1, 3, 4 & 5	394,032	4,994,311,266	327,626,493	176,474,517	7,767,666	184,242,183	467.58	0.036890								
2	Small General Service	7	28,214	165,753,188	15,488,243	9,135,125	346,963	9,482,088	336.08	0.057206								

a) June 1, 2010 - May 31, 2011 Forecasted Test Year, Compliance Filing
b) Case No. IPC-E-08-10, Reconsideration Order No. 30754
c) From Order Nos. 30829 and 31097

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 25TH DAY OF AUGUST 2010, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-10-21, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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SECRETARY