

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION )  
OF IDAHO POWER COMPANY FOR ) CASE NO. IPC-E-11-03  
AUTHORITY TO IMPLEMENT FIXED- )  
COST ADJUSTMENT (FCA) RATES FOR )  
ELECTRIC SERVICE FROM JUNE 1, 2011 ) ORDER NO. 32251  
THROUGH MAY 31, 2012. )**

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On March 15, 2011, Idaho Power Company filed an Application requesting authority to implement fixed-cost adjustment (FCA) rates for electric service from June 1, 2011, through May 31, 2012. 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. On October 1, 2009, the Company filed an application seeking authority to convert the pilot program to an ongoing, permanent program. Case No. IPC-E-09-28. The Commission denied Idaho Power's request to make the FCA mechanism permanent and, instead, extended the pilot program for an additional two-years. Order No. 31063. This is the Company's first FCA adjustment filing since the Commission issued the extension, and the Company's fourth overall FCA adjustment filing. Idaho Power requested that the new FCA rate become effective June 1, 2011.

On March 30, 2011, the Commission issued a Notice of Application and Notice of Modified Procedure setting a comment deadline of May 12, 2011, and a reply comment deadline of May 19, 2011. Order No. 32214. Written comments were filed by Commission Staff and approximately five members of the public. After reviewing the Application and comments, we approve the Company's request to implement its fixed-cost adjustment.

**BACKGROUND**

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 and demand-side management 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 amount of fixed costs actually recovered by the Company. The difference between the authorized fixed-cost recovery amount and the actual amount collected by the Company is the fixed-cost adjustment for each customer class.

### **THE APPLICATION**

Idaho Power reports that the rate of growth in the number of residential customers was more than the rate of growth in the energy sales for the residential customer class in 2010, i.e., the average use per customer decreased. As a result, the Company under-collected fixed costs by approximately \$7.9 million for its residential class.

The Company states that energy usage per customer also decreased in the small general service class resulting in an under-collection of approximately \$1.4 million in fixed costs. Consistent with the first three years of the FCA pilot, the Company proposes a combined rate increase for residential and small general service customers that will recover approximately \$3 million above what is currently recovered through FCA rates and represents an average increase of 0.74%.

### **THE COMMENTS**

#### ***Staff Comments***

FCA deferral balances have changed throughout the four years of the pilot for both the residential and small commercial classes. Staff verified the Company's calculation of unrecovered 2010 fixed costs for the residential and small commercial classes. The deferral balance of \$7.9 million for residential customers represents over 2% of class revenues. The deferral balance of \$1.4 million for small commercial customers represents nearly 10% of class revenues, well above the 3% cap established by the Commission. If the recovery amounts for each class were allocated separately, residential customers would receive a surcharge of 0.1589 cents per kWh, a 30% increase over the current FCA rate of 0.1218 cents per kWh. The small commercial customers would receive a 0.9335 cents per kWh surcharge should the balance not be blended, representing an increase of over 500%.

Based on expected sales and revenues for the 2011 PCA year, Staff calculated that the 3% cap for small commercial customers would have resulted in a rate of 0.2848 cents per kWh, recovering only \$426,461 of the unblended balance, with the remainder deferred for future collection. Staff noted that this would be the fourth time that the deferral balance has exceeded the cap for small commercial customers in the four years the FCA has existed. Without blending the FCA, the small commercial deferral balance would continue to accumulate, ultimately representing an extraordinary percentage of class revenues. Full collection would not take place in the foreseeable future under that scenario should the cap remain in effect. Staff noted that this was the decoupling experience of Maine in the early 1990s, in which the large deferral balance led parties to early termination of the program.

The Company proposes blending the surcharge, and spreading it uniformly to both customer segments on an equal percentage basis, consistent with the 2010 FCA. Using weather-normalized forecasted sales for June 1, 2011 through May 31, 2012, the Company calculates that a surcharge of 2.4% for residential and small commercial customers provides a sufficient opportunity to recover approved fixed costs. Staff concurs with the Company that it is appropriate to blend the FCA balance for the two customer segments, and has noted its rationale for doing so in previous comments. Staff also agrees that spreading the FCA balance on an equal percentage basis is an appropriate method for distributing the deferral. As expressed by Company witness Sparks, doing so better represents the fixed-cost recovery for each class. In other words, a smaller portion of fixed-cost responsibility is shifted to residential customers than by applying an equal cents per kWh rate adder (calculated as 0.1815 cents per kWh).

If the proposed rates are approved by the Commission, the residential FCA rate would increase from 0.1218 cents per kWh to 0.1801 cents per kWh. For an average residential customer consuming 1,050 kWh per month, this results in an increase of 61 cents per month over the current FCA charge. For commercial customers using 450 kWh per month, the proposed FCA rate of 0.2273 cents per kWh results in a monthly increase of 33 cents.<sup>1</sup> Staff believes these rates give the Company an adequate opportunity to collect its authorized fixed costs in the coming FCA year. Consequently, Staff recommended that the Commission approve the Company's FCA filing with a net deferral balance of \$9,341,093. Staff does not oppose the

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<sup>1</sup> This value is only an approximate arithmetic mean for a class that displays significant intra-class variation in consumption.

Company's method of distributing the surcharge on an equal percentage basis, and recommended approval of a 2.4% increase in residential and small commercial rates over current revenues to recover deferred fixed costs. Based on the Company's best sales forecasting efforts, the resulting FCA rates for the 2011-2012 period would equal 0.1801 cents per kWh for residential customers and 0.2273 cents per kWh for small commercial customers.

***Public Comments***

All customers who commented on Idaho Power's proposed FCA opposed a rate increase. One customer objected to being "penalized" by a rate increase for conserving energy. Several customers expressed frustration toward Idaho Power for requesting an increase from customers for lost revenues in a weakened economy.

**DISCUSSION**

Based upon our review of the Application and comments, the Commission finds it reasonable and appropriate to accept Idaho Power's FCA filing. Accordingly, we approve the unrecovered net deferral balance of \$9,341,093. We also find it just and reasonable to distribute the surcharge to both the residential and small commercial service customer classes on an equal percentage basis during the 2011-2012 FCA year. 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. The result of spreading the surcharge on an equal percentage basis is a 2.4% increase in residential and small commercial rates over current revenues to recover deferred fixed costs.

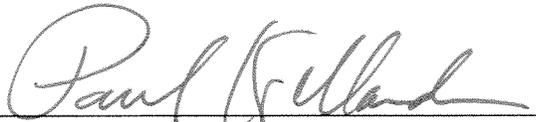
**ORDER**

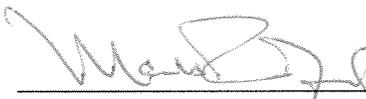
IT IS HEREBY ORDERED that the Application of Idaho Power to implement fixed-cost adjustment rates for electric service is approved. The Commission approves FCA rates of 0.1801 cents per kWh for residential customers and 0.2273 cents per kWh for small commercial customers.

IT IS FURTHER ORDERED that the new FCA rates shall be effective from June 1, 2011, through May 31, 2012.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of 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.

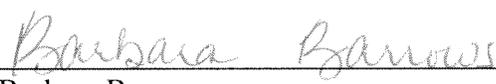
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 31st day of May 2011.

  
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PAUL KJELLANDER, PRESIDENT

  
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MACK A. REDFORD, COMMISSIONER

  
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MARSHA H. SMITH, COMMISSIONER

ATTEST:

  
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Barbara Barrows  
Assistant Commission Secretary

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