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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 (FCA) RATES FOR ELECTRIC SERVICE FROM JUNE 1, 2011 THROUGH MAY 31, 2012.	**CASE NO. IPC-E-11-03** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Kristine A. Sasser, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 32214 on March 30, 2011, in Case No. IPC-E-11-03, submits the following comments.

BACKGROUND

On March 15, 2011, Idaho Power Company ("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. *See* 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. *See* 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 requests that its Application be processed by Modified Procedure.

The FCA is a mechanism to separate Idaho Power's fixed costs from its energy sales, and establish a rate to allow the Company recovery of its fixed costs separate from energy sales. The rationale for an FCA is that traditional rate design unintentionally discourages energy conservation programs; that is, utilities that recover fixed costs through energy rates have no incentive to reduce sales volume through energy efficiency and demand-side management programs. Reduced sales are believed to impair the utility's ability to recover its approved fixed costs.

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 recovered by the Company through normalized energy sales. The difference between the authorized fixed-cost recovery and the actual amount collected by the Company is the fixed-cost adjustment for each customer class.

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%.

STAFF ANALYSIS

The FCA Pilot Program

Staff has reviewed the Company's filing and supporting testimony from Company witness Sparks, and verified that sales per customer for both residential and small commercial classes were lower in 2010 in relation to the base year of 2008. The result is that (weather normalized) actual sales were below a necessary level to collect authorized fixed costs. As such, the FCA rates should increase during the 2011 PCA year to collect the under recovery from customers. 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 2010 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 $9.47 million.

In its comments in the 2010 FCA case, Staff discussed the history of changes to the FCC and FCE due to the outcomes of the 2008 general rate case proceedings. *See* Staff Comments, Case No. IPC-E-10-07. Since that time, the Company filed to update the FCC and FCE due to Commission approved recovery of costs associated with pension expenses and investment in advanced metering infrastructure. *See* Case No. IPC-E-10-21. The Commission denied the request, and ordered the FCC and FCE rates remain at the level established in the 2008 general rate case "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." *See* Order No. 32171. In reviewing the Application, Staff has determined that the Company accurately applied the FCC and FCE rates approved based on the outcome of the 2008 general rate case.

The fourth year of the pilot marks the third 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. Since 2007, residential use per customer has declined relative to the base year (in this instance, 2008), leading to customer surcharges through the FCA. For 2010, the residential class grew by nearly 3% when compared to 2008, while sales for the class has decreased by nearly 1%.

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 (over 4% decrease in average customers) that was outpaced by reduced energy consumption (nearly 21% for the class) in 2010. Had the Commission not decided to blend the FCA rate, small commercial customers would have experienced surcharges all four years of the pilot. Due to the magnitude of the rebate to residential customers in 2007, all participating classes received a rebate through the application of a blended rate. Even though the comparative base years have reset twice during the pilot, the result has been surcharges that have far exceeded the credit received in the first year.

As part of the Stipulation that established the FCA, the Company agreed to significantly increase its demand side management (DSM) efforts. In the four years of the FCA, Idaho Power has increased its spending on energy efficiency and demand response programs by nearly $35 million (a 300% increase) and energy savings has increased by 124 thousand megawatt hours (a 255% increase).[1] Using Idaho Power's 2010 DSM Report, Staff approximated savings from Company energy efficiency programs to be nearly 80 thousand megawatt hours,[2] or roughly 35% of the lost sales for the residential class in this case.[3] The FCA makes no distinction, outside of weather, to the variations in sales that cause a deferral to accumulate. Staff believes that the continued depressed state of the economy and new home construction more reliant on natural gas for heating purposes have significantly contributed to the reduced sales per customer figures.

The FCA Rate

Staff Attachment A depicts how the FCA deferral balances have changed throughout the four years of the pilot for both the residential and small commercial classes. Staff has 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 has 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

[1] Staff notes this tally is for all customer classes, not specifically those directly affected by the FCA. Staff also notes that the expenditures include demand response programs, which may affect the timing of energy sales, but not necessarily reducing the amount of energy sold.
[2] Staff added all reported savings from 2008 and 2009, added half the savings reported for 2010 (assuming programs are equally distributed through the year) to arrive at this figure.
[3] A similar calculation could not be made for small commercial customers as, prior to the 2010 DSM Report, program savings were not identified by class.

collection. Staff notes 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. This is similar to the decoupling experience of Maine in the early 1990's, 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). This adheres with Staff's assertion in previous comments that doing this does not violate principles of equity as all customers benefit from energy efficiency programs through postponement of additional capital resources.

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 1050 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.[4] Staff believes these rates give the Company an adequate opportunity to collect its authorized fixed costs in the coming FCA year.

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

STAFF RECOMMENDATION

Staff recommends that the Commission approve the Company's FCA filing with a net deferral balance of positive $9,341,093 for 2010. Staff does not oppose the Company's method of distributing the surcharge on an equal percentage basis, and recommends 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 for small commercial customers.

Respectfully submitted this 12TH day of May 2011.

Kristine A. Sasser

Kristine A. Sasser
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
2010-2011	$7.9 mil	2.1	$1.4 mil	9.8	$9.3 mil	2.4

*Negative numbers indicate an overcollection of approved fixed costs

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 12TH DAY OF MAY 2011, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-11-03, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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