

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: WELDON STUTZMAN
DEPUTY ATTORNEY GENERAL

DATE: OCTOBER 27, 2011

SUBJECT: IDAHO POWER COMPANY'S APPLICATION TO CONVERT ITS
FIXED COST ADJUSTMENT FROM A PILOT SCHEDULE TO A
PERMANENT SCHEDULE, CASE NO. IPC-E-11-19

On October 19, 2011, Idaho Power Company filed an Application requesting a Commission Order authorizing the Company to convert its current Schedule 54 – Fixed Cost Adjustment (FCA) – from a pilot program to a permanent schedule. The Commission in Order No. 30267, Case No. IPC-E-04-15, approved implementation of a three-year FCA pilot program applicable to residential and small general service customers. In October 2009, the Company filed an application seeking to convert the pilot program to a permanent program. The Commission denied the Company's request and instead extended the pilot program for an additional two-year period. Order No. 31063. The FCA pilot program is set to expire on December 31, 2011.

Idaho Power asserts in its Application that making the FCA permanent removes the Company's financial disincentive to acquire demand-side management (DSM) resources: "Severing the link between energy sales and the recovery of fixed costs represents a logical evolution of historic ratemaking practices, an evolution that allows Idaho Power to pursue both programmatic and non-programmatic DSM initiatives without running the risk of financially harming its shareholders." Application, p. 4. Idaho Power contends that making the FCA permanent "sends the appropriate signal to Idaho Power that this Commission believes the Company continues to be on the right track in its pursuit of DSM resources." *Id.*

The FCA purports to remove recovery of a portion of the Company's fixed costs from its energy sales. To accomplish this, the average number of customers in the residential and small general service classes is multiplied by the fixed-cost per customer rate (FCC), which is established as part of determining the Company's revenue requirement in a general rate case. The product of the calculation of the average number of customers and the FCC establishes the allowed fixed costs recovery amount. The allowed fixed-cost recovery amount is then compared to the amount of fixed cost actually recovered by Idaho Power. The actual fixed costs recovered is determined by the Company's weather-normalized sales for each class multiplied by sales figures by the fixed-cost per energy rate (FCE), which is also established in a general rate case. The difference between the allowed fixed-cost recovery amount and the actual fixed costs recovered is the amount recovered for each class by adjusting the FCA.

The Application states that the purpose of the pilot program was to test the FCA mechanism to determine "its efficacy in removing the unintended rate design disincentive for the Company to aggressively pursue DSM programs." Application, p. 5. The Company contends the first four years of the pilot program indicate that the FCA mechanism is working as intended and operates to mitigate the adverse affects of energy efficiency by ensuring that the fixed costs authorized by the Commission for recovery are being recovered through the FCA mechanism. *Id.* The Company proposes to make the program permanent for the residential and small general service customer classes, and proposes to true-up the FCA by combining the deferral balances of each class and implementing rates for each class that represent a uniform percent change. Idaho Power asserts that by combining the residential and small general service FCA balances and determining the rate adders based on an equal FCA rate adjustment for each class, the overall rate impact to customers in these classes is more representative total amount of the required fixed-cost recovery for each class. Application, pp. 5-6.

Idaho Power is also proposing to eliminate the annual reports required by the pilot program showing the specific ways in which the Company increased its investment in energy efficiency and DSM programs. The Company proposes to eliminate the separate annual reporting requirement because the Company's acquisition of energy efficiency and DSM programs are reported in the Company's annual DSM reports. The Company would continue monthly reporting of the FCA balance and to file annual applications seeking approval of FCA

true-up balances. The Company requests that the Commission issue an Order no later than March 30, 2012, making the Schedule 54 FCA program permanent effective January 1, 2012.

Staff recommends the Commission issue a Notice of Application and Notice of Intervention Deadline providing for a 14-day period for interested parties to file petitions to intervene.

COMMISSION DECISION

Should the Commission issue a Notice of Application and Notice of Intervention Deadline providing 14 days for the filing of petitions to intervene?



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