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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY'S REQUEST FOR AUTHORIZATION TO IMPLEMENT FIXED COST ADJUSTMENT (FCA) RATES FOR SERVICE EFFECTIVE JUNE 1, 2012 THROUGH MAY 31, 2013.

CASE NO. IPC-E-12-12

COMMENTS OF THE COMMISSION STAFF

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Weldon B. Stutzman, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 32491 on March 20, 2012, submits the following comments.

BACKGROUND

On March 2, 2012, Idaho Power Company filed an Application requesting authorization to implement fixed-cost adjustment (FCA) rates for service effective June 1, 2012 through May 31, 2013. In March 2007, the Commission approved the implementation of a three-year FCA pilot program for residential (Schedules 1, 3, 4 and 5) and small general service (Schedule 7) customers. In October 2009, the Company filed an Application to convert the FCA from a pilot to a permanent program. The Commission denied the Company's request and extended the pilot program for an additional two-year period. The Commission recently approved continuing the FCA on a permanent basis. Case No. IPC-E-11-19, Order No. 32505.

The FCA mechanism enables Idaho Power to separate, or decouple, recovery of certain fixed costs from its volumetric energy sales. The FCA provides a surcharge or credit when fixed-cost recovery per customer varies above or below a Commission-established base. Thus, the FCA provides for a mechanism to recover the difference between the fixed costs per customer actually recovered by the Company through rates and the fixed costs per customer authorized for recovery in the Company's most recent general rate case.

The FCA works the same for both the residential and small general service classes. For each class, the actual number of customers is multiplied by the fixed-cost per customer rate (FCC), which is established as part of the Company's allowed revenue requirement in a general rate case. This calculation establishes the allowed fixed-cost recovery amount, which is compared to the amount of fixed costs actually recovered by Idaho Power. The fixed costs actually recovered is determined by the Company's weather normalized sales for each class multiplied by the fixed-cost energy rate (FCE) as established in the Company's most recent rate case. The difference between the allowed fixed-cost amount and the actual fixed-cost amount recovered establishes the fixed-cost adjustment for each customer class.

The Company's Application states that the FCA shows a balance of $8,837,352.59 for the residential class and a balance of $1,478,574 for the small general service class, for a total amount of $10,315,927. Thus, the current FCA surcharge does not allow the Company to fully recover the total fixed-cost amount. Accordingly, the Company is proposing to increase the FCA surcharge to recover an additional $1,159,520 annually. The Company is proposing a combined rate increase for both customer classes of 0.28% over current FCA rates. This equates to a new FCA rate of 0.2028 cents per kilowatt-hour for the residential class and 0.2597 cents per kilowatt-hour for the small general service class.

STAFF REVIEW

Staff has reviewed the Company's filing and supporting testimony from Company witness Harris, and verified that sales per customer for both residential and small commercial classes were lower in 2011 in relation to the base year of 2008.[1] The result is that (weather normalized) actual sales were below a level necessary to collect authorized fixed costs on a per customer basis. As such, the FCA rates should increase during the 2012 PCA year to collect the under recovery from customers. Based on its review of the filing, Staff recommends that the Commission accept the Company's proposed net FCA deferral balance of approximately $10.3 million.

The FCA Pilot Program

The final year of the pilot marks the fourth consecutive time that residential use per customer has declined relative to the established base year. For 2011, the number of residential customers grew by approximately 1.3% when compared to 2008, while sales for the class has decreased by approximately 3.5%. Similarly, small commercial customers continue to experience 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 small commercial class witnessed attrition in customers (nearly a 9% decrease in average customers) that was outpaced by reduced energy consumption (nearly 24% for the class) in 2011. Use per customer has declined for the small commercial class each year of the FCA pilot.

The table below depicts how the FCA deferral balances have changed throughout the four years of the pilot for both the residential and small commercial classes.

FCA Deferral Balances by Year

	Residential		Small Commercial		Blended	
Period	Deferral	%*	Deferral	%*	Deferral	%*
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	0.8
2009-2010	$5.2 mil	1.5	$1.2 mil	8.5	$6.3 mil	1.9
2010-2011	$7.9 mil	2.1	$1.4 mil	9.8	$9.3 mil	2.4
2011-2012	$8.8 mil	2.2	$1.5 mil	10.0	$10.3 mil	2.5

* Percentage of base revenues for class
**Negative numbers indicate an over collection of approved fixed costs

[1] While there have been several adjustments to base rates since 2008, the Commission maintained that the FCC and FCE are to be established and modified as part of a general rate case.

Had the Commission not decided to blend the FCA rate, small commercial customers would have experienced surcharges exceeding the 3% cap in all 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. While the FCA makes no distinction, outside of weather, to the source of variation in sales, Staff continues to believe the general state of the economy and other factors have contributed to the decline in use per customer.[2] Using Idaho Power's 2011 DSM Report, Staff approximated savings from the Company's residential energy efficiency programs to be nearly 106 thousand megawatt hours, or roughly 41% of the lost sales for the residential class in this case.[3]

The FCA Rate

Staff has verified the Company's calculation of unrecovered 2011 fixed costs for the residential and small commercial classes. The Company proposes blending the surcharge, and spreading it uniformly to both customer segments on an equal percentage basis, consistent with the past two FCA filings. Using weather-normalized forecasted sales for June 1, 2012 through May 31, 2013, the Company calculates that a surcharge of 0.28% above the current FCA rate for residential and small commercial customers provides a sufficient opportunity to recover approved fixed costs.

The deferral balance of $8.8 million for residential customers represents over 2.2% of class revenues. The deferral balance of $1.5 million for small commercial customers represents 10% of class revenues. If the FCA balances were not blended, residential customers would

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[2] In Order No. 32505, the Commission directed Idaho Power, Staff, and other interested parties to discuss how the current FCA mechanism could be modified to address this issue. Idaho Power is directed to file a proposal for adjusting the FCA for changes in load not related to energy efficiency programs.

[3] Staff added all reported savings from 2008 through 2010, and added half the savings reported for 2011 (assuming programs are equally distributed through the year) to arrive at this figure. 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.

receive a surcharge of 0.1803 cents per kWh, and the small commercial customers would receive a 1.0205 cents per kWh surcharge, which exceeds the 3% cap on rate adjustments. Based on expected sales and revenues for the 2012 PCA year, Staff has calculated that the 3% cap for small commercial customers would have resulted in a rate of 0.30980 cents per kWh, recovering only $448,868 of the unblended balance, with the remainder deferred for future collection. Using the revenues approved in the 2011 general rate case, the blended balance represents 2.5% of total base revenues for residential and small commercial classes.

Without blending the FCA balances, 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 has estimated that the small commercial deferral balance alone would be nearly 30% of base revenues for 2012.

Staff concurs with the Company that it is appropriate to blend the FCA balance for the two customer segments. 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 Harris, 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 0.20359 cents per kWh). This is consistent with Staff's position in previous comments that doing so 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 0.1801 cents per kWh to 0.2028 cents per kWh. For an average residential customer consuming 1050 kWh per month, this results in an increase of 24 cents per month over the current FCA charge. For commercial customers using 450 kWh per month, the proposed FCA rate of 0.2597 cents per kWh results in a monthly increase of 15 cents.[4] Staff believes these rates give the Company an adequate opportunity to collect its authorized fixed costs in the coming FCA year.

STAFF RECOMMENDATION

Staff recommends that the Commission approve the Company's FCA filing with a net deferral balance of positive $10,315,927 for 2011. Staff does not oppose the Company's method of distributing the surcharge on an equal percentage basis, and recommends approval of residential and small commercial FCA rates that collect 2.5% of current base revenues to recover deferred fixed costs. Based on the Company's sales forecast, the resulting FCA rates for the 2012-2013 period would equal 0.2028 cents per kWh for residential customers and 0.2597 cents per kWh for small commercial customers.

Respectfully submitted this 10th day of April 2012.

Weldon B. Stutzman
Deputy Attorney General

Technical Staff: Bryan Lanspery

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

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS **10TH** DAY OF APRIL 2012, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-12-12, BY E-MAILING AND MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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