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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, 2013 THROUGH MAY 31, 2014.	**CASE NO. IPC-E-13-06** **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. 32778 on April 3, 2013, submits the following comments.

BACKGROUND

On March 15, 2013, Idaho Power Company filed an Application to implement Fixed Cost Adjustment (FCA) rates for electric service effective June 1, 2013 through May 31, 2014. The FCA is a mechanism that allows Idaho Power to separate a portion of revenue to pay fixed costs normally recovered in its volumetric energy sales, and it provides symmetry through a surcharge or credit when fixed-cost recovery per customer varies above or below a Commission-established base. The FCA rates are identified in tariff Schedule 54 and are applicable to the residential and small general service customer classes.

The FCA mechanism functions by first identifying an authorized fixed-cost recovery amount for the residential and small general service customer classes. This amount is a product of the actual number of customers in each class multiplied by the fixed-cost per customer rate, which is established as part of determining the Company's revenue requirement in its most recent general rate case. The authorized recovery amount is then compared to the amount of fixed costs actually recovered by the Company, which is determined by multiplying the weather-normalized sales for each class by the fixed-cost per energy rate, also established in the Company' most recent rate case. The difference between the authorized fixed-cost recovery amount and the actual fixed costs recovered results in an adjustment each year to the FCA rate.

The Company's Application states there is a 2012 FCA balance of $8,362,974 for the residential class and $533,387 for the small general services class, for a total amount to be recovered of $8,896,361. The FCA deferral balance is a small decrease below the FCA balance currently collected in customer's rates. Accordingly, the Company proposes an FCA rate decrease of 0.30% for both the residential and small general service customer classes.

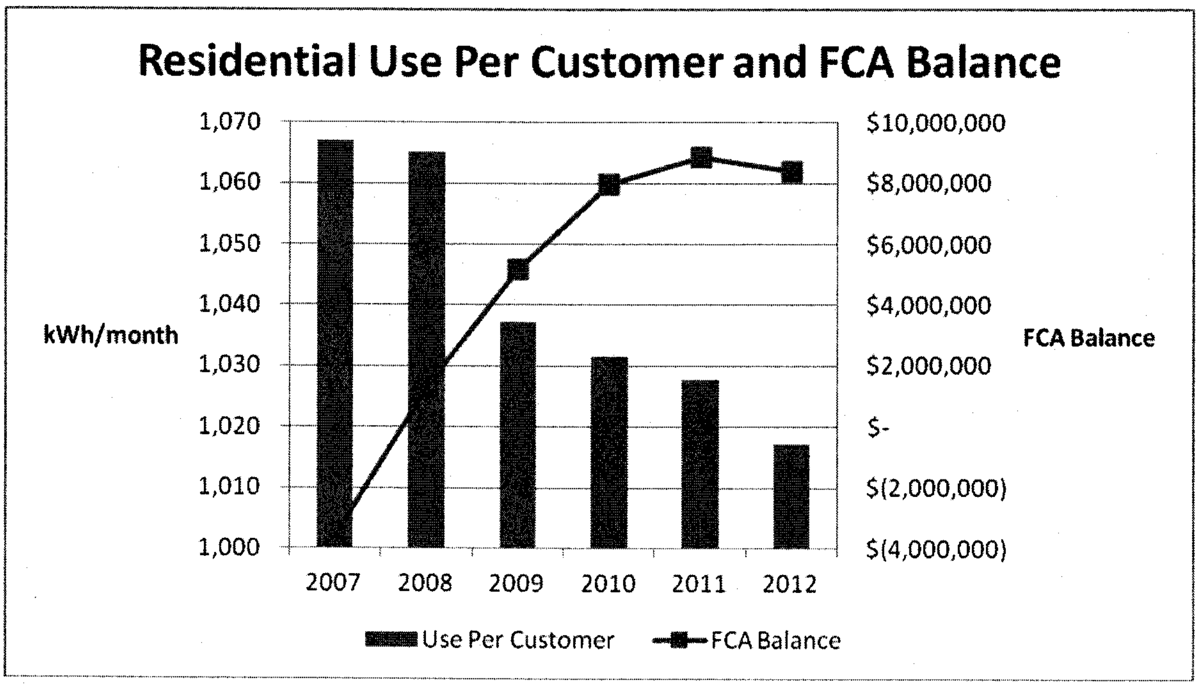
STAFF REVIEW

Staff has reviewed the Company's filing and supporting testimony from Company witness Harris, verified the calculation and use of the fixed cost per customer (FCC) and fixed cost per energy (FCE) components, the accumulation of fixed costs deferred in 2012 and the resulting balance of uncollected fixed costs. Staff verified that sales per customer for both residential and small commercial classes were lower in 2012 in relation to the base year established in the Company's 2011 general rate case. The result is that weather normalized actual sales were below the necessary level to collect authorized fixed costs. As such, Staff recommends that the Commission accept the Company's proposed net FCA deferral balance of approximately $8.9 million and subsequent residential and small commercial FCA rates for the 2013 PCA year.

2012 FCA

The FCA operated under pilot status for three years beginning in 2007, and was then extended for an additional two years to evaluate issues raised by Staff and other parties. *See* Order No. 31063. The pilot was subsequently approved as a permanent program (Order No. 32505) by the Commission 'as is', stating "annual reviews of the FCA results may suggest a clearer refinement so it more accurately responds to changes in energy sales resulting from DSM programs." *See* Order No. 32731, p. 4. The Company's current filing represents the sixth FCA rate adjustment and the first since the Commission approved the mechanism as a permanent program.

Residential and small commercial use per customer continued to decline when compared to 2011 normalized consumption. For 2012, the residential class grew by roughly 1% while class energy consumption remained flat. The decline in residential use per customer, as shown in the graph below, results in an under recovery of authorized fixed costs and a positive FCA deferral balance.[1] For the small commercial class, the Company had a net loss of 184 customers, an approximate reduction of 0.7% from 2011, and a decline in class energy sales of roughly 1.9%. The comparative base use per customer was updated in the Company's 2011 general rate case, which resulted in a greater deviation from "allowed" sales relative to the year-to-year consumption decline. The net result is the fifth year out of six in which the blended FCA balance will result in a surcharge to customers, although a reduction to the one currently in place.



[1] The data for the graph was compiled from the FCA summary calculations filed with the previous annual FCA rate filings.

The 2012 FCA deferral balance is $1.4 million less than the balance from 2011. Generally there is an inverse relationship between use per customer and the FCA balance - when use per customer decreases, the FCA balance increases and vice versa. Other things being equal, a decrease in use per customer for a class would result in a higher level of under recovered fixed costs. That is not the case for the 2012 FCA balance. Residential use per customer continued to decline (1% between 2011 and 2012), but the FCA balance also declined relative to last year. The net change in small commercial use per customer was relatively small (1.3%), but is not reflected in the magnitude of its class-specific balance.

The FCA balance declined due to the updating of base use per customer assumptions and the FCC/FCE as a result of the Company's 2011 general rate case. The FCA compares the use per customer for the deferral year against the base year. The FCA balance is essentially the product of the FCE, the reduction in use per customer, and the number of customers for the year. The 2011 rate case adjusted the base residential use per customer downward from the level set in the 2008 general rate case by 28 kWh/customer/month. For 2012, the difference between base and actual residential use per customer per month was 33 kWh. Had 2012 sales been compared to the previous base of 1,078 kWh/customer/month set in the 2008 general rate case (*i.e.*, if the 2011 rate case had not occurred), the difference would have been 61 kWh/month, adding an additional $4.7 million to last year's deferral balance assuming the FCC and FCE had not changed.

Because the base use per customer was recently updated, it should be expected that the FCA deferral balance would be minimal. However, the 2012 residential FCA balance is nearly equal to last year's balance, even though 2011 is three years removed from the previous base year. This is mainly due to the difference between the forecasted use per customer from the rate case and the actual use per customer. The 2011 rate case produced an average residential use per customer of 1,050 kWh/month, as well as the customer and energy values used to calculate the FCC and FCE. Residential use per customer was 1,017 kWh/month in 2012, a difference of nearly 400 kWh per customer for the year. This reduction from the base residential use per customer set in the 2011 rate case accounts for approximately $5.6 million of the $8.4 million 2012 deferral balance. Likewise, the difference between the Small Commercial use per customer of 428 kWh/month set in 2011 and the actual 2012 use per customer of 415 kWh/month accounts for approximately 75% of the commercial deferral balance.

The 2011 rate case also prompted an update to the FCC and FCE, contributing to the reduction in the FCA balance. Fixed costs grew between the 2008 and 2011 general rate cases at a greater rate than residential customer growth. Class energy use was basically flat. Since sales growth was slower than customer growth, spreading the updated fixed costs over projected sales and customer counts caused the FCE to increase at a greater rate than the FCC, up 48% over the existing FCE compared to 44% for the FCC. While the opportunity cost of a kWh not sold is higher (making up the remaining $2.7 million residential FCA balance), the fixed cost revenue generated in the sale of each kWh is greater than prior years. The end result is that, although allowed fixed costs increased (by 44%), actual fixed cost collected in energy rates increased at a greater rate (48%) *even though* residential sales were flat. All else being equal, had the FCC and FCE not been updated, the residential FCA balance would have been over $10 million, not $8.4 million as the Company currently seeks to recover.

The results from the current FCA highlight the interplay of the mechanism's inputs and the role of updated base assumptions. During periods in between rate cases, sales and customer counts are the only moving parts, and changes in use per customer would be predictive of a positive or negative FCA balance. When basic inputs change as a result of a general rate case, additional analysis is needed to decipher what is driving the deferral balance. In this instance, a combination of baseline use per customer values and relative rates of change in the FCC and FCE work to simultaneously inflate and mitigate the deferral balance relative to what it would have been had there not been a recent general rate case.

Idaho Power DSM Savings

Idaho Power's residential energy savings have fallen by approximately 45% in the last two years. Staff expects that the ongoing implementation of federal lighting standards will significantly diminish the energy savings produced by the Company's upstream lighting program, which currently provides 71% of the Company's residential energy savings. Declining avoided costs identified in the 2013 IRP process and proposed withdrawal from NEEA will further reduce the Company's residential and small commercial energy savings.

Staff calculated that the Company's DSM programs accounted for about 43% of the reduction in sales covered by the FCA in 2008, the highest percentage over the period since the introduction of the FCA. Using the same methodology, Staff calculated that programmatic savings made up only 25% of reduced residential energy sales in 2012.

The FCA Rate

The Company proposes spreading the FCA surcharge uniformly to both customer segments on an equal percentage basis, consistent with the previous FCA filings. Using weather-normalized forecasted sales for June 1, 2013 through May 31, 2014, the Company calculates that a surcharge of 2.12% over current residential and small commercial base rates provides a sufficient opportunity to recover approved fixed costs. Staff confirmed that the proposed sales levels are consistent with the forecast used in the Company's 2013-2014 PCA filing.

Staff verified the Company's calculation of unrecovered 2012 fixed costs for the residential and small commercial classes. The deferral balance of $8.4 million for residential customers represents over 2% of class revenues. The deferral balance of $0.53 million for small commercial customers represents nearly 4% of class revenues, which is 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 0.1837 cents per kWh, a 9% decrease over the current FCA rate of 0.2028 cents per kWh. The small commercial customers would receive a 0.3720 cents per kWh surcharge were the balance not blended, representing an increase of over 43%.

Based on expected sales and revenues for the 2013 PCA year, Staff has calculated that the 3% cap for small commercial customers would have resulted in a rate of 0.3131 cents per kWh, recovering only $448,868 of the unblended balance, with the remainder deferred for future collection. Staff notes that the small commercial deferral balance has exceeded the class-specific rate adjustment cap each year since the beginning of the FCA.

If the proposed rates are approved by the Commission, the residential FCA rate would decrease from 0.2028 cents per kWh to 0.1770 cents per kWh. For a residential customer consuming 1,050 kWh per month, this results in a decrease of approximately 27 cents per month over the current FCA charge. For commercial customers using 415 kWh per month, the proposed FCA rate of 0.2262 cents per kWh results in a monthly decrease of approximately 14 cents. Staff believes these rates give the Company an adequate opportunity to collect its authorized fixed costs in the coming FCA year.

Customer Notice and Press Release

The Customer Notice and Press Release were included in Idaho Power's Application. Both comply with Procedural Rule 125, IDAPA 31.01.01.125. The Customer Notices were mailed to Idaho Power customers with cyclical billings beginning March 25, 2013 and ending April 23, 2013. Customers were given until April 24, 2013 to file comments. As of April 19, 2013, no comments had been filed. Because the final Customer Notices were not inserted in bills until April 23 and the final comment date was April 24, some customers in the last cyclical billing cycles will not have received their notices and/or had adequate time to submit comments before the deadline.[2] Because this year's FCA results in a slight reduction to customer rates, it is less likely customers will object to the proposed rate changes. However, customers must have the opportunity to file comments and have those comments considered. In this instance, Staff encourages the Commission to consider any late-filed comments from customers.

STAFF RECOMMENDATIONS

Staff recommends the Commission approve the Company's FCA filing with a net deferral balance of positive $8,896,362 for 2012. Based on the Company's best sales forecasting efforts, the resulting FCA rates for the 2013-2014 period would equal 0.1770 cents per kWh for residential customers and 0.2262 for small commercial customers. Staff believes these rates provide adequate opportunity for the Company to collect its deferred authorized fixed costs.

Respectfully submitted this 24th day of April 2013.

Weldon B. Stutzman
Deputy Attorney General

Technical Staff: Bryan Lanspery
Marilyn Parker
Stacey Donahue

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[2] According to Idaho Power, a total of about 46,000 residential and small commercial customers are in the last three billing cycles. Bills for these three cycles will be mailed on April 19, 20 and 23.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS **24TH** DAY OF APRIL 2013, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-13-06, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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