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IDAHO PUBLIC
UTILITIES COMMISSION

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) CASE NO. IPC-E-08-04
ELECTRIC SERVICE FROM JUNE 1, 2008)
THROUGH MAY 31, 2009)

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

MICHAEL J YOUNGBLOOD

1 Q. Please state your name and business address.

2 A. My name is Michael J. Youngblood and my
3 business address is 1221 West Idaho Street, Boise, Idaho.

4 Q. By whom are you employed and in what
5 capacity?

6 A. I am employed by Idaho Power Company as a
7 Senior Pricing Analyst in the Revenue Requirement section of
8 the Pricing and Regulatory Services Department.

9 Q. Please describe your educational background
10 and work experience with Idaho Power Company.

11 A. In May of 1977, I received a Bachelor of
12 Science Degree in Mathematics and Computer Science from the
13 University of Idaho. From 1994 through 1996, I was a
14 graduate student in the MBA program at Colorado State
15 University.

16 I became employed by Idaho Power Company in
17 1977. During my career, I have worked in several departments
18 and subsidiaries of the Company, including Systems
19 Development, Demand Planning, Strategic Planning and IDACORP
20 Solutions. Most relevant to this testimony, is my
21 experience within the Pricing and Regulatory Services
22 Department.

23 From 1981 to 1988, I worked as a Rate Analyst
24 in the Rates and Planning Department where I was responsible
25 for the preparation of electric rate design studies and bill

YOUNGBLOOD, DI 1
Idaho Power Company

1 frequency analyses. I was also responsible for the
2 validation and analysis of the load research data used for
3 cost of service allocations. From 1988 through 1991, I
4 worked in Demand Planning and was responsible for load
5 research and load forecasting functions including sample
6 design, implementation, data retrieval, analysis and
7 reporting. I was responsible for the preparation of the
8 five-year and twenty-year load forecasts used in revenue
9 projections and resource plans as well as the presentation
10 of these forecasts to the public and regulatory commissions.

11 In 2001, I returned to the Pricing and
12 Regulatory Services Department and have worked on special
13 projects related to deregulation, the Company's Integrated
14 Resource Plan, various generation resource Requests for
15 Proposals, the Company's Fixed Cost Adjustment mechanism and
16 other filings with this Commission and the Oregon Public
17 Utility Commission.

18 Q. Are you the same Michael J. Youngblood that
19 provided direct testimony in Case No. IPC-E-04-15, the
20 Investigation of Financial Disincentives to Investment in
21 Energy Efficiency by Idaho Power Company?

22 A. Yes I am.

23 Q. What was the final result in Case No. IPC-E-
24 04-15?

25 A. On March 12, 2007, the Commission issued

1 Order No. 30267 approving the December 1, 2006 Stipulation
2 and the proposed three-year pilot program Fixed Cost
3 Adjustment (FCA) mechanism for Residential Service (Schedule
4 1, Schedule 4, and Schedule 5) and Small General Service
5 (Schedule 7) customers. The FCA pilot program was
6 implemented on January 1, 2007 and will run through December
7 31, 2009, plus any carryover. Pursuant to the Stipulation,
8 the first rate adjustment is scheduled to occur June 1,
9 2008, coincident with the 2008-2009 Power Cost Adjustment
10 (PCA).

11 Q. What is the purpose of your testimony?

12 A. My testimony will discuss four areas related
13 to the FCA Pilot Program. First, I will briefly discuss the
14 FCA mechanism itself and how a fixed cost adjustment is
15 determined. Second, I will discuss the results of the first
16 year of implementation of the FCA pilot program. Third, I
17 will discuss the calculation of the fixed cost adjustment
18 rate the Company is proposing to go into effect on June 1,
19 2008. And finally, as a result of the recent change in the
20 Company's general rates, I will discuss the associated
21 changes to the Fixed Cost per Customer (FCC) and Fixed Cost
22 per Energy (FCE) rates that will be in effect until the next
23 change in base rates.

24 **FIXED COST ADJUSTMENT MECHANISM**

25 Q. What is the purpose of a Fixed Cost

1 Adjustment true-up mechanism?

2 A. The FCA is a true-up mechanism that
3 "decouples", or separates, energy sales from revenue in
4 order to remove the financial disincentive that exists when
5 the Company invests in Demand Side Management (DSM)
6 resources. Under the FCA, rates are adjusted annually up or
7 down to recover or refund the difference between the fixed
8 costs authorized by the Commission in the Company's most
9 recent general rate case and the fixed costs that the
10 Company actually received through energy sales during the
11 previous year. Through the application of this true-up
12 mechanism, the Company is not financially harmed by
13 decreases in energy sales within the residential and small
14 general service customer classes.

15 Q. Please describe the Fixed Cost Adjustment
16 mechanism.

17 A. For both the residential and small general
18 service classes, the FCA mechanism is the same. The formula
19 used to determine the FCA amount is:

$$20 \quad \text{FCA} = (\text{CUST} \times \text{FCC}) - (\text{NORM} \times \text{FCE})$$

21 Where:

22 FCA = Fixed Cost Adjustment;

23 CUST = Average number of customers, by class;

24 FCC = Fixed Cost per Customer rate, by class;

25 NORM = Weather-normalized energy, by class;

1 FCE = Fixed Cost per Energy rate, by class.

2 Q. How is the FCA true-up amount determined?

3 A. The FCA true-up is the difference between the
4 Company's "allowed fixed cost recovery" (CUST X FCC) and the
5 "actual fixed cost recovery" (NORM X FCE). The "allowed
6 fixed cost recovery" is determined by multiplying the
7 average number of customers for the year times the fixed
8 cost per customer (FCC) rate established as a result of the
9 outcome in the Company's general rate case. The "actual
10 fixed cost recovery" is determined by multiplying the
11 weather-normalized energy sales for the year times the fixed
12 cost per energy (FCE) rate. The FCE rate is also
13 established in the Company's general rate case.

14 Q. Can the FCA true-up amount be negative, and
15 if so, what does this mean?

16 A. Yes. The FCA can be either positive or
17 negative. If the adjustment amount were positive that would
18 indicate the Company's allowed fixed cost recovery amount
19 was greater than the fixed costs actually recovered through
20 the energy rate for that class of customers. This would
21 stem from the fact that the growth rate in weather-
22 normalized energy was less than the growth rate in
23 customers, i.e., the use per customer had decreased. This
24 would indicate that the Company had under-collected its
25 fixed costs and therefore, additional dollars need to be

1 collected from the customer class in order to make the
2 Company financially whole. In a similar fashion, if the FCA
3 were negative, that would indicate that the Company's
4 allowed fixed cost recovery amount was less than the fixed
5 costs actually recovered through the class energy rate and
6 would result in a refund of the adjustment amount to that
7 customer class.

8 Q. Does the Stipulation provide the Commission
9 with discretion to cap the amounts collected under the FCA?

10 A. Yes. The Commission has the authority to
11 limit rate increases under the FCA to 3%.

12 **FIRST YEAR PILOT RESULTS**

13 Q. Please summarize the results from the first
14 year the FCA mechanism was implemented for the Company's
15 residential and small general service customers in Idaho.

16 A. The results from the first year of the FCA
17 true-up mechanism reflect more than just the financial true-
18 ups. The results also reflect the Company's enhanced
19 efforts towards promoting energy efficiency in several
20 areas. Throughout 2007, and increasingly during the last
21 three quarters of the year following the issuance of Order
22 No. 30267, the Company actively pursued numerous, additional
23 opportunities to promote energy efficiency. These enhanced
24 efforts are fully described in the Company's 2007 Demand
25 Side Management Annual Report. A copy of the report is

1 attached as Exhibit 1.

2 Q. In which areas did the Company enhance its
3 ongoing efforts to promote energy efficiency?

4 A. Some of the key areas where the Company
5 enhanced its effort towards promoting energy efficiency
6 include:

- 7 • A broader availability of efficiency and load
8 management programs
- 9 • Building code improvement activity
- 10 • Pursuit of appliance code standards
- 11 • Expansion of DSM programs beyond peak
12 shaving/load shifting programs
- 13 • Expanded third-party verification programs.

14 Further explanation of the Company's enhanced
15 efforts to promote energy efficiency in these areas can be
16 found in Exhibit 1, the 2007 Demand Side Management Annual
17 Report, on pages 47 through 50.

18 Q. Were there conditions and provisions of the
19 Stipulation for the FCA which required action by the
20 Company?

21 A. Yes. Between January 2006 when the Company
22 filed an Application requesting authority to implement the
23 FCA mechanism, and March 2007 when Order No. 30267 was
24 issued approving the Stipulation to implement the FCA, the
25 Company had settled its general rate case, IPC-E-05-28. In

1 the Stipulation for the FCA, the Company was directed to
2 reconcile any differences between Schedules 1 and 7 class
3 revenue requirements approved by the Commission in Case No.
4 IPC-E-05-28 and the corresponding FCC and FCE rates. This
5 was to be completed prior to using the FCC and FCE rates in
6 determining the 2007 FCA.

7 Q. Did the Company reconcile any differences
8 between Schedules 1 and 7 class revenue requirements and the
9 corresponding FCC and FCE rates prior to using the FCC and
10 FCE rates in determining the 2007 FCA?

11 A. Yes. Exhibit 2 is a two-page exhibit
12 detailing the determination of total fixed costs recovered
13 through the energy charge. On page 2 of Exhibit 2, lines 46
14 and 47, column D shows the FCE rates for the residential and
15 small general service classes as \$31.62 per MWH and \$41.54
16 per MWH, respectively (3.1621 cents/kWh for residential FCE
17 and 4.1539 cents/kWh for small general service FCE). The
18 total fixed cost recovery can be calculated for each class
19 by adding the fixed costs recovered from energy charges
20 (Exhibit 2, column L, line 29 for residential and line 30
21 for small general service) to the additional fixed cost
22 recovery (Exhibit 2, column B, line 46 for residential and
23 line 47 for small general service). The total fixed cost
24 recovery for the residential class is \$142,415,626 (Exhibit
25 2, column L, line 29 plus column B, line 46). For the small

1 general service class, the total fixed cost recovery is
2 \$9,080,705 (Exhibit 2, column L, line 30 plus column B, line
3 47).

4 Exhibit 3 details the monthly "shaped" FCE
5 rates that were used for month-to-month reporting purposes
6 during 2007. In addition, Exhibit 3 shows the monthly FCC
7 rates that were in used for month-to-month reporting
8 purposes in 2007. For the residential class, the monthly
9 FCC rate was \$32.98 per customer (\$142,415,626 fixed cost
10 recovery divided by 359,802 average number of residential
11 customers / 12 months). For the small general service
12 class, the monthly FCC was \$24.49 (\$9,080,705 fixed cost
13 recovery divided by 30,899 average number of small general
14 service customers / 12 months).

15 Q. Why are "shaped" FCE rates used for reporting
16 purposes?

17 A. The FCE rates are shaped in order to better
18 match cause and effect for accounting purposes so that the
19 Company can adhere to Generally Accepted Accounting
20 Principles (GAAP) and better estimate the financial impacts
21 of the FCA calculation at year-end. The ultimate FCA
22 adjustment is determined annually, but is booked to Company
23 accounts on a monthly basis. This is similar to PCA
24 accounting practices.

25 Q. Has the Company been periodically reporting

1 the balance of the FCA true-up account to the Commission?

2 A. Yes. As part of the Stipulation to Case No.
3 IPC-E-04-15, Order No. 30267, the Company agreed to record
4 the FCA deferral as a separate line item in the monthly PCA
5 report provided to the Commission. Exhibit 4 is a copy of
6 the PCA report for December 2007. On line 108 of page 2,
7 Exhibit 4, the Company reported an FCA combined balance of a
8 negative \$2,145,403.

9 Q. What are the FCA true-up amounts for the
10 calendar year 2007 for both the residential and small
11 general service classes?

12 A. Exhibit 5 is a two-page exhibit showing the
13 monthly calculations and accounting entries which are the
14 basis for the line item reporting of the FCA on the PCA
15 Report (Exhibit 4). Line 32 on page 2 of Exhibit 5 shows
16 the December 2007 combined balance for the FCA true-up as a
17 negative \$2,145,402.86. This is the same number as shown on
18 the PCA Report (Exhibit 4, line 108) as the total FCA
19 balance through December 2007 (rounded to the nearest whole
20 dollar). Exhibit 5 shows the derivation of the negative
21 \$2,145,402.86. This amount includes a negative
22 \$3,252,971.80 (Exhibit 5, line 7, column N) as the
23 accumulated balance for the residential FCA (not including
24 interest) and a positive \$1,159,776.77 (Exhibit 5, line 21,
25 column N) for the accumulated balance for the Small General

1 Service FCA (not including interest).

2 Q. Were any adjustments made to these amounts
3 once the Company's books were closed at year-end?

4 A. Yes. Once the Company's books were closed at
5 year-end, the average prorated customer count and annual
6 weather normalized energy sales were determined. Once these
7 were determined, the "allowed fixed cost recovery" (average
8 prorated customer count X FCC) and the "actual fixed cost
9 recovered" (annual weather normalized energy sales X FCE)
10 could be calculated. The difference between this year-end
11 determination of the FCA balances and the sum of the twelve
12 monthly estimates of the FCA balances, required adjustments
13 to the FCA deferral account.

14 Q. What were the adjustments made to the
15 residential and small general service FCA balances?

16 A. In February 2008, the Company booked the
17 adjustments to the residential and small general service FCA
18 balances. For the residential class, an adjustment of a
19 negative \$186,827.79 was made (Exhibit 5, line 6, column P)
20 resulting in a total accrual of negative \$3,439,799.59, not
21 including interest. For the small general service class, a
22 negative \$20,401.58 (Exhibit 5, line 20, column P)
23 adjustment was made resulting in a total deferral of
24 \$1,139,375.19, not including interest.

25 Q. What is the total amount of the Fixed Cost

1 Adjustment, including interest, the Company is requesting to
2 implement in rates on June 1, 2008?

3 A. Exhibit 5 shows the FCA balances and
4 adjustments, plus interest calculated through May 2008. The
5 FCA for the residential class shows a refund of
6 \$3,587,591.70 reflected on Exhibit 5, Line 15, Column T.
7 For the small general service class, an additional
8 \$1,187,033.97 reflected on Exhibit 5, line 29, Column T,
9 will need to be recovered as part of the FCA true-up
10 mechanism. The net of both customer classes is a refund of
11 \$2,400,557.73 reflected on Exhibit 5, Line 32, Column T.

12 Q. What is the significance of these numbers
13 with respect to the Company's recovery of its fixed costs?

14 A. Since the residential true-up is a negative
15 number, it means that the rate of growth in the number of
16 residential customers was less than the rate of growth in
17 the energy sales for that class, i.e., the average use per
18 customer increased. Therefore the residential class will
19 receive a refund of the additional fixed costs collected
20 during the year. For the small general service class,
21 however, the true-up amount is positive. That means that
22 the use per customer for this class has decreased and the
23 Company has under-collected its fixed costs. Therefore, the
24 FCA mechanism will recover additional revenue from the small
25 general service class.

1 **CALCULATION OF 2008-2009 FCA RATES**

2 Q. Please describe the calculation of the fixed
3 cost adjustment rate the Company is proposing to go into
4 effect on June 1, 2008.

5 A. The FCA rate the Company proposes to go into
6 effect on June 1, 2008 is determined by taking the FCA true-
7 up balances and dividing by the forecasted load for 2008, by
8 class.

9 Q. What has the Company determined for the
10 forecasted load for both the residential and small general
11 service classes?

12 A. The Company's forecast of normalized sales
13 for 2008 is 5,065,086,947 kWh and 190,586,226 kWh for the
14 residential and small general service classes, respectively.

15 Q. What is the FCA the Company proposes to place
16 into effect on June 1, 2008 for the residential class?

17 A. The residential FCA would be a refund to the
18 residential class of \$3,587,591.70. This would mean a rate
19 reduction of 0.070830 cents per kWh ($\$3,587,591.70 \times 100 /$
20 $5,065,086,947$ kWh). This represents a 1.17% decrease in
21 residential rates.

22 Q. What is the total FCA determination for the
23 small general service class?

24 A. The small general service FCA requires an
25 additional recovery of fixed costs in the amount of

1 \$1,187,033.97. This would mean a rate increase for the
2 small general service class of 0.622833 cents per kWh
3 ($\$1,187,033.97 \times 100 / 190,586,226$ kWh). This represents a
4 7.30% increase in the small general service rates.

5 Q. Is this the FCA the Company is proposing for
6 the small general service class?

7 A. No. Since the fixed cost adjustment for the
8 small general service class is greater than 3%, the Company
9 has anticipated that the discretionary 3% cap on the FCA
10 increase may be implemented. Therefore, the Company is
11 proposing a rate increase of 3% for the small general
12 service class.

13 Q. What is the FCA the Company proposes to place
14 into effect on June 1, 2008 for the small general service
15 class?

16 A. With a 3% cap implemented, the Company is
17 proposing a rate increase for the small general service
18 class of 0.255804 cents per kWh. This is determined by
19 multiplying the total revenue expected for the small general
20 service class under rates established in IPC-E-07-08 by 3%,
21 and then dividing by the forecast of 2008 normalized sales
22 for the class. The result is multiplied by 100 to determine
23 cents per kWh ($\$16,250,923 \times .03 / 190,586,226$ kWh $\times 100$).
24 This FCA increase would recover \$487,528 of the additional
25 fixed costs to be recovered from the small general service

1 class as a part of the 2007 FCA true-up.

2 Q. What would happen to the remainder of the
3 uncollected fixed costs from the small general service
4 class?

5 A. The remaining balance of \$699,506 would
6 remain in the deferral account and continue to accrue
7 interest until next year's FCA adjustment.

8 Q. The Stipulation specified that the FCA rate
9 component should be combined with the Conservation Program
10 Funding Charge for purposes of customer bill presentation.
11 How will the Company conform to the Stipulation's
12 specifications?

13 A. The Company is proposing the FCA rate
14 component be combined with the Conservation Program Funding
15 Charge into a single line item and that the line item be
16 renamed "Energy Efficiency Services" to more accurately
17 reflects the nature of the combined charges.

18 **PROPOSED CHANGES TO THE FCC AND FCE**

19 Q. Is the Company proposing to use the same FCC
20 and FCE for determining the 2008 Fixed Cost Adjustment?

21 A. No. The FCA attempts to recover or refund
22 the difference between the fixed costs authorized by the
23 Commission in the Company's most recent general rate case
24 and the fixed costs that the Company actually receives
25 through energy sales during the year. With Order No. 30508,

1 Case No. IPC-E-07-08, the Company's rates have changed.
2 Therefore the amount of fixed costs being recovered through
3 the new rates is not the same as those in 2007. The FCC and
4 FCE need to be adjusted to reflect the new energy rates now
5 in effect.

6 Q. How does the Company propose to adjust the
7 FCC and FCE to reflect the energy rates now in effect?

8 A. Exhibit 6 shows the Company's determination
9 of the FCC and FCE rates associated with the energy rates in
10 effect as a result of the Company's recent general rate
11 case, IPC-E-07-08. Because the Company's general rate case
12 was settled, the Company does not have a jurisdictional
13 separation study or cost of service study which directly
14 tracks the rates implemented by the Settlement. Therefore,
15 the Company proposes using the same ratio of fixed cost
16 recovery to total revenue recovered through the energy rate
17 as was in place for 2007 rates. On Exhibit 6, the top block
18 of numbers labeled IPC-E-05-28 Rates shows the ratio of
19 fixed costs to revenue recovered through the energy rate as
20 57.1% for the residential class (the FCE rate of \$0.031621 /
21 Effective Rate of \$0.055356). The next line down shows the
22 ratio for the small general service class as 62.4% (FCE rate
23 of \$0.041539 / Effective Rate of \$0.066583).

24 Q. How are these ratios used in determining the
25 FCC and FCE for 2008?

1 A. The bottom block of numbers on Exhibit 6,
2 labeled IPC-E-07-08, show the calculations for the FCC and
3 FCE the Company proposes for 2008. The residential FCE rate
4 is determined by multiplying the Effective Rate by 57.1%.
5 This results in a 2008 residential class FCE rate of 3.3288
6 cents per kWh ($\$0.058275 \times 57.1\% \times 100$). The next line
7 shows the 2008 small general service FCE rate of 4.4223
8 cents per kWh (effective rate of $\$0.070885 \times 62.4\% \times 100$).

9 Q. How are the FCC rates for residential and
10 small general service classes determined for the rates in
11 effect in 2008?

12 A. In order to compute the FCC rates for 2008,
13 the imputed fixed cost recovery dollar amount must first be
14 determined. To determine the FCC for the residential class,
15 multiply the residential FCE times the test year energy.
16 The result is a calculated fixed cost recovery dollar amount
17 of \$165,246,810 ($\$0.033288 \times 4,964,097,044$ kWh). This
18 amount, divided by the number of residential customers in
19 the test year, results in a residential FCC for 2008 of
20 \$428.85 per customer. In the same manner, the FCC for the
21 small general service class is determined to be \$294.79.

22 Q. When does the Company propose using the
23 revised FCC and FCE rates to track the monthly fixed cost
24 adjustments it records on its books?

25 A. The annual FCA deferral is tracked on a

1 monthly basis for the calendar year 2008. The Company
2 proposes using the revised residential and small general
3 service FCC and FCE rates beginning in January 2008.

4 Q. Are you providing a tariff schedule that
5 reflects the 2008 FCA to be effective June 1 and the 2008
6 FCE and FCC rates to be used beginning January 1?

7 A. Yes. I have included Exhibit 7 which
8 contains a new Fixed Cost Adjustment tariff sheet (Schedule
9 54) for the Commissions review and acceptance.

10 Q. Does this complete your testimony?

11 A. Yes.

BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-08-04

IDAHO POWER COMPANY

EXHIBIT NO. 1

MICHAEL J. YOUNGBLOOD

