Office of the Secretary
Service Date
May 30, 2008

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, 2008 THROUGH MAY 31, 2009	))))))	**CASE NO. IPC-E-08-04** **ORDER NO. 30556**

On March 14, 2008, Idaho Power Company filed an Application requesting authority to implement fixed-cost adjustment (FCA) rates for electric service from June 1, 2008 through May 31, 2009. 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. This Application reflects the results of the first year of the pilot program approved by the Commission.

BACKGROUND

The FCA is a rate mechanism to separate Idaho Power's recovery of its fixed costs from recovery of its energy expense. The rationale for the FCA is that traditional rate design discourages energy conservation programs; that is, utilities that recover fixed costs through energy sales have no incentive to reduce their sales volume by encouraging energy efficiency and demand-side management (DSM) programs.

The FCA implemented last year as a 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 using the Company's revenue requirement in a general rate case. This produces an authorized fixed-cost recovery amount that is then compared to the amount of fixed costs actually recovered by the Company. The difference between the authorized fixed-cost recovery amount and the actual amount collected by the Company is the fixed-cost adjustment for each customer class.

THE APPLICATION

According to the Company's Application, the rate of growth for energy sales exceeded the growth rate for residential customers during 2007; that is, the average energy use per residential customer increased. Accordingly, the Company collected approximately $3.5 million more for its fixed costs than was established in the residential FCA formula. The FCA thus results in a credit balance for residential customers for the additional fixed costs recovered during the year. If this credit balance is incorporated into residential rates, a 1.17% decrease for the residential customers will result.

The Application asserts that the small general service class, however, saw a decrease in per-customer energy use during 2007. This means the Company under-collected its fixed costs for this customer class. For the small general service class, Idaho Power proposes an FCA to recover a portion of the $1,187,033 the Company under-collected for its fixed costs. Recovery of the full amount would result in a 7.3% increase in the FCA for the small general service customers. Because the pilot program approved by the Commission caps at 3% any increase due to the FCA, the Company proposes a 3% increase in the FCA for the small general service class.

On April 2, 2008, the Commission issued a Notice of Application and Notice of Modified Procedure to establish the procedure for the case, including a period for filing written comments. The only written comments filed were by Staff, and then reply comments were filed by the Company.

WRITTEN COMMENTS

Staff filed its comments affirming its review of the Company's FCA filing and recommending that the Commission accept the Company's proposed total FCA net deferral balance of approximately $2.4 million. Staff stated that the FCA mechanism generally functions as anticipated, but the fixed-cost assumptions and application of the methodology used by Idaho Power prevent Staff from fully endorsing the Company's positions. Staff noted that the key components of the FCA formula are to be established as part of Idaho Power's general rate case, but neither the fixed costs per customer rate (FCC) nor the fixed cost per energy rate (FCE) were established in the Company's last general rate case. In addition, because the Commission did not approve a cost-of-service study in either the 2005 or 2007 general rate case, no level of fixed costs were authorized on a class-specific basis. Staff also is concerned that the monthly tracking of the FCA does not provide adequate information for continued auditing of the mechanism. Staff therefore recommended that the Company provide customer counts and weather-normalized energy in the monthly FCA report to facilitate tracking of program details throughout the year.

Staff reviewed the Company's approach to determining authorized fixed costs for each customer class. The Company provided its 2005 cost-of-service study adjusted according to the Commission-approved revenue requirement in the 2007 rate case. Based on the cost-of-service study utilized by the Company, roughly 53.4% of residential revenue covers fixed costs while 57% covers fixed costs for the small commercial class. Because the cost-of-service study used by the Company was never approved by the Commission, Staff questioned the validity of the deferred fixed-cost accrual and the spread of the deferral balance to the two customer classes. Staff thus recommended the $2.4 million deferral balance be spread on an equal per kWh basis to both the residential and small commercial classes. Staff also recommended that prior to the end of the second year of the pilot program, interested parties work to establish an acceptable method of assigning fixed-cost responsibilities to Schedules 1 and 7 in the absence of a Commission-approved determination of the fixed cost for each class.

Staff also reviewed the Company's calculation of the FCC and FCE components of the FCA mechanism for the 2008 calendar year. Staff did not propose an alternative calculation for these components, but suggested the Company work with Staff and other interested parties to determine appropriate levels for the 2008 FCA year. Staff opposes the January 1, 2008 effective date for the new FCC rates proposed by Idaho Power in its Application. Staff instead recommends an effective date of March 1, 2008.

Finally, Staff reviewed the Company's demand-side management efforts during the past year. Staff reviewed each of the specific DSM programs undertaken by the Company and stated that "it is not at all clear that the first year of the three-year FCA pilot has resulted in the Company expanding or improving its DSM efforts beyond what it would have done without the FCA's removal of a DSM disincentive." Staff Comments, p. 8.

Staff's specific recommendations are that the Commission approve the Company's FCA filing with some modification. First, Staff recommended the net deferral balance of $2.4 million be distributed to both residential and small commercial customers on an energy basis during the 2008-2009 FCA year, resulting in a rate reduction of 0.045676¢ per kWh. Staff also recommended the Company meet with Staff and other interested parties to address the appropriate levels of fixed costs per customer class for the 2008 FCA year, and that the Commission direct the Company to explicitly address the FCC amounts in its next general rate case.

On May 16, 2008, Idaho Power Company filed reply comments in response to the Staff comments. The Company explained the additional steps it has taken to implement DSM programs including issuance of a request for proposal for professional services to measure DSM energy savings potential and peak-load reduction potential within the Company's service territory. The Company also stated that spreading the deferral equally between the residential and commercial classes has merit, although for different reasons than those stated by Staff. The Company stated that spreading the deferral equally between the classes recognizes a power supply "portfolio" approach to energy efficiency, reflecting the fact that all customers benefit financially from conservation through reduced consumption or lower rates from avoiding construction of additional generation facilities. Idaho Power thus does not object to spreading the deferral equally between the classes on a per kWh basis as Staff recommended.

Idaho Power agrees that the FCC and FCE components should be established in the context of a general rate case. The Company agreed that Staff and the Company and other interested parties should work together to develop a procedure to assign class fixed-cost responsibility when these components have not been determined in a rate case. The Company stated that it intends to specifically identify the FCC and FCE rates in the general rate case it is preparing to file next month.

Finally, the Company stated its commitment to aggressively pursue cost-effective demand-side management opportunities. The Company stated it is committed to pursuing energy efficiency and DSM programs in several key areas that were detailed in the FCA settlement stipulation and as referred to in Mr. Youngblood's testimony. The Company reaffirmed its commitment to DSM programs as the three-year FCA pilot program progresses.

DISCUSSION

With the reply comments filed by Idaho Power, there is agreement by the parties on the significant issues for the first year of this pilot program, and thus the record is largely uncontroverted. The filing in this case reveals the results of only one year in the three-year pilot program. It is clear by Staff's comments that particular details and components of the FCA formula need further attention. The Commission appreciates the Company's commitment to work with Staff and other interested parties to determine the appropriate levels of fixed costs for the different customer classes, as well as its commitment to "aggressively pursue all cost-effective demand side management opportunities." Idaho Power Reply Comments, p. 4.

Based on the record in this case, the Commission finds it reasonable and appropriate to accept Idaho Power's FCA filing, as modified by Staff's recommendations and as agreed to by the Company. Accordingly, we approve the net deferral balance in the first year of the FCA in the amount of $2,400,557 as a credit balance. We also find it just and reasonable to distribute the balance to both the residential and small general service customer classes equally on an energy basis during the 2008-2009 FCA year. The result is a rate reduction of 0.045676¢/kWh.

Idaho Power affirmed in its reply comments that it will seek to establish the fixed cost per customer rate (FCC) and the fixed cost per energy rate (FCE) in its upcoming rate case. This should facilitate determination of the FCA program results after year two. We also approve Staff's recommendation that the Company provide customer counts and weather normalized energy in the monthly FCA reports to enable tracking FCA program details during the year.

ORDER

IT IS HEREBY ORDERED that the Application of Idaho Power to implement fixed-cost adjustment rates for electric service from June 1, 2008 through May 31, 2009 is approved, as set forth in this Order. We approve distribution for the first year of the FCA in the amount of $2,400,557 as a credit balance, and direct that the credit balance be distributed to both the residential and small general service customer classes equally on an energy basis during the 2008-2009 FCA year, resulting in a rate reduction of 0.045676¢/kWh for these customers.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 29th day of May 2008.

MACK A. REDFORD, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

JIM D. KEMPTON, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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