

DECISION MEMORANDUM

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

FROM: KARL T. KLEIN
DEPUTY ATTORNEY GENERAL

DATE: MARCH 26, 2015

SUBJECT: COMMISSION INQUIRY INTO IDAHO POWER'S FCA, CASE NO. IPC-E-14-17

The issue before the Commission is what procedure it should use to review the Settlement Stipulation that has been filed in this case. Staff and the other parties to the Settlement Stipulation recommend that the Commission use Modified Procedure with a 14-day comment deadline.

BACKGROUND

On July 1, 2014, the Commission opened this docket to allow Commission Staff, Idaho Power Company, and other interested persons to evaluate the Fixed Cost Adjustment (FCA) mechanism and whether it effectively removes the Company's financial disincentive to aggressively pursue energy efficiency programs. The Commission set a 14-day intervention deadline, and directed Staff to convene an informal prehearing conference after that deadline ran. *See* Order No. 33068.

The Commission opened this docket in response to Staff's comments in the Company's last FCA case, IPC-E-14-03. There, Staff recommended that the Commission re-evaluate the FCA mechanism for future application because the mechanism may be flawed in the following respects:

- *Weather-Normalization Adjustment.* The weather-normalization adjustment in the FCA permits the Company to significantly over recover the fixed costs that the Commission authorized it to recover in the last general rate case;

- *Customer Count Methodology.* By calculating allowed fixed costs based on the average number of customers, the Company overstates the “typical” number of customers that it serves in a month. The Company should use the median to more accurately represent its actual customer count. Further, the Company’s FCA calculations ignore that high energy use customers have been switching from the small general service class (Schedule 7) to the large general service class (Schedule 9), which artificially inflates the Company’s FCA recovery by inappropriately lowering per customer use in the small general service class for FCA purposes;
- *Rate-Adjustment Cap.* The FCA “incorporates a 3% cap on annual increases with carryover of unrecovered deferred costs to subsequent years.” *See* Order No. 30267. Staff notes the Company calculates the rate increase and cap using forecasted sales and revenues, which results in a layering effect that continuously increases the FCA deferral balance from year-to-year, understates the magnitude of the cumulative FCA rate change on customers, and annually increases the absolute dollar amount represented by the 3% cap;
- *Cross-Subsidization.* The Commission intended for the FCA to apply in a manner that minimizes cross subsidies across rate classes. *See* Order 30267, at 6. But the FCA is calculated in a manner that leads the residential and small general service classes to subsidize fixed-cost shortfalls from the other classes.

See Order No. 33047 at 4. Staff also warned that the FCA may no longer serve its intended purpose of removing the Company’s perceived financial disincentive to investing in energy efficiency and DSM, the FCA has harmed customers far more than it has benefitted them, and the FCA’s efficacy has diminished in proportion to the Company’s declining energy efficiency investments and savings. *Id.*

THE SETTLEMENT STIPULATION

After the Commission opened this docket, the Idaho Conservation League (ICL), Snake River Alliance (SRA), and Industrial Customers of Idaho Power (ICIP) intervened. Staff then met with the intervenors and Idaho Power to discuss the FCA. As a result of these meetings, Staff, Idaho Power, ICL, and SRA entered into the Settlement Stipulation. As the Settlement Stipulation does not directly affect ICIP, ICIP has declined to sign it and has advised the other parties that ICIP will not support or oppose it before the Commission.

On March 26, 2015, Idaho Power filed the Settlement Stipulation and asked the Commission to approve it. *See* Settlement Stipulation and Motion to Approve Settlement Stipulation. The Settlement Stipulation addresses the following issues:

1. Weather Normalization. Idaho Power will modify the quantification of the annual FCA deferral by replacing weather normalized billed sales utilized in the current annual FCA determination with actual billed sales. The modification will occur with the determination of the year-end 2015 FCA deferral, impacting rates effective June 1, 2016.

2. Rate Adjustment Cap. In Order No. 30267, the Commission approved a discretionary rate adjustment cap for annual FCA-related rate changes as follows: “The FCA mechanism . . . incorporates a 3% cap on annual increases with carryover of unrecovered deferred costs to subsequent years.” Order No. 30267 at 13. The Company currently calculates the 3% cap by dividing the Proposed FCA Deferral Change by the Forecasted Base Rate Revenue.¹ The parties ask the Commission to clarify that this method of determining the 3% cap is appropriate.

3. Fixed Cost per Energy (FCE) and Fixed Cost per Customer (FCC). The parties acknowledge that Staff has concerns about the calculation of the FCE and FCC, but that these issues are more effectively addressed when base rates are reset.

4. Rate Design. The parties agree that without the FCA, the current rate design causes a financial disincentive for the Company to pursue all cost-effective demand-side management. The parties thus agree to consider, at a later time, a modified rate design for residential and small general service customers. This may include, but is not limited to, reduced energy charges, increased monthly service charges, and the introduction of demand charges for these rate classes.

In the Settlement Stipulation, the parties agree that the settlement is in the public interest and is a fair, just, and reasonable resolution of the issues in the case. The parties recommend that the Commission review the Settlement Stipulation after issuing a notice of modified procedure that sets a 14-day deadline for interested persons to file comments.

¹ Forecast reflects currently-approved base rates applied to forecasted usage for the subsequent June 1 through May 31 FCA rate effective year.

STAFF RECOMMENDATION

Staff recommends that the Commission issue an Order summarizing the Settlement Stipulation and setting a 14-day deadline for interested persons to file comments in the case.

COMMISSION DECISION

Would the Commission like to issue an Order summarizing the Settlement Stipulation and setting a 14-day deadline for interested persons to file comments in the case?

Karl Klein

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Deputy Attorney General

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