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LISA D. NORDSTROM  
Lead Counsel  
[lnordstrom@idahopower.com](mailto:lnordstrom@idahopower.com)

April 21, 2015

**VIA HAND DELIVERY**

Jean D. Jewell, Secretary  
Idaho Public Utilities Commission  
472 West Washington Street  
Boise, Idaho 83702

Re: Case No. IPC-E-14-17  
Inquiry Into Idaho Power Company's Fixed Cost Adjustment – Idaho Power  
Company's Comments

Dear Ms. Jewell:

Enclosed for filing please find an original and seven (7) copies of Idaho Power  
Company's Comments in the above matter.

Very truly yours,



Lisa D. Nordstrom

LDN:kkt  
Enclosures

LISA D. NORDSTROM (ISB No. 5733)  
Idaho Power Company  
1221 West Idaho Street (83702)  
P.O. Box 70  
Boise, Idaho 83707  
Telephone: (208) 388-5825  
Facsimile: (208) 388-6936  
[lnordstrom@idahopower.com](mailto:lnordstrom@idahopower.com)

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Attorney for Idaho Power Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF COMMISSION  
STAFF'S INQUIRY INTO IDAHO POWER  
COMPANY'S FIXED COST ADJUSTMENT  
MECHANISM

)  
) CASE NO. IPC-E-14-17  
)  
) COMMENTS OF IDAHO POWER  
) COMPANY  
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Idaho Power Company ("Idaho Power" or "Company"), pursuant to the Idaho Public Utilities Commission's ("Commission") Notice of Settlement Stipulation and Notice of Comment Deadline, Order No. 33261, issued in the above-referenced case, hereby files the following Comments in support of the settlement stipulation ("Settlement Stipulation" or "Stipulation"):

**I. BACKGROUND**

On May 30, 2014, the Commission issued Order No. 33047 in Idaho Power's annual Fixed Cost Adjustment ("FCA") Case, Case No. IPC-E-14-03. In Order No. 33047, the Commission approved the Company's FCA Application, but also acknowledged Staff's concern that the FCA is an imperfect mechanism that warranted further investigation to evaluate its effectiveness. Order No. 33047 at 8. On June 27, 2014, Commission Staff ("Staff") issued a Decision Memorandum recommending the

Commission initiate a case to investigate the Company's FCA mechanism, set a 14-day intervention deadline, and direct Staff to convene an informal prehearing conference following the intervention deadline.

Case No. IPC-E-14-17 was subsequently opened on July 1, 2014, and the Commission issued a Notice of Intervention Deadline in Order No. 33068, setting forth a deadline for intervention 14 days from its issuance. Petitions to Intervene were filed by the Industrial Customers of Idaho Power ("ICIP"), the Idaho Conservation League ("ICL"), and the Snake River Alliance ("SRA"), all of which were granted in Order Nos. 33074 and 33081, respectively. The ICIP, ICL, SRA, Staff, and Idaho Power all participated as parties ("Parties") in this case.

The Parties met on September 10, 2014, October 16, 2014, February 17, 2015, and March 11, 2015, for settlement discussions regarding the Company's FCA mechanism. The Parties discussed issues regarding the FCA including weather normalization, the rate adjustment cap, calculation of the Fixed Cost per Energy ("FCE") and Fixed Cost per Customer ("FCC"), and rate design. These discussions ultimately resulted in the Parties reaching an agreement and on March 26, 2015, Idaho Power filed a Settlement Stipulation and Motion to Approve Settlement Stipulation in this case. Staff, Idaho Power, ICL, and SRA signed the Settlement Stipulation. The ICIP declined to sign because the Stipulation does not directly affect the ICIP and it advised the other Parties that it will not support or oppose the Stipulation before the Commission.

Idaho Power believes the Stipulation is a reasonable compromise of the contested issues in this case and is in the public interest. The Company supports the Settlement Stipulation and recommends the Commission approve the proposed Stipulation without modification.

## **II. SETTLEMENT STIPULATION**

The Settlement Stipulation addresses four main issues: weather normalization, the FCA rate adjustment cap, calculation of the FCE and FCC, and rate design. Each of the issues addressed in the Stipulation is discussed in more detail below.

### **Weather Normalization**

The FCA deferral balance has historically been calculated by comparing the authorized level of fixed cost recovery with the level of fixed costs recovered through weather normalized billed sales. The current use of weather normalized billed sales in the calculation of the FCA deferral balance removes the effects of weather on energy use, and the corresponding impact to the FCA rate calculation. By contrast, the use of weather normalized billed sales in the calculation of the FCA places the risk of weather impacts on energy sales with Idaho Power. The assumption of weather risk by the Company in the FCA may result in the Company recovering above the authorized level of fixed costs on an actual basis during years when actual sales are higher than weather normalized sales and less than the authorized level of fixed costs on an actual basis during years when actual sales are lower than weather normalized sales. However, the Parties concluded that replacing the weather normalized billed sales in the determination of the annual FCA deferral with actual billed sales would ensure that the Company will recover no more and no less than the authorized level of fixed costs on an actual basis through the FCA going forward. The Company supports this resolution and believes that this modification will address the Parties' concerns related to the use of weather normalized sales in the FCA without compromising the ongoing effectiveness of the mechanism.

### FCA Rate Adjustment Cap

The FCA rate adjustment cap is quantified annually to allow the Commission the discretion to protect customers from potential large swings in the FCA deferral balance if the annual increase exceeds 3 percent. Order No. 30267 at 13. The Company currently calculates the rate adjustment cap by dividing the Proposed FCA Deferral Change<sup>1</sup> by the Forecasted Base Rate Revenue.<sup>2</sup> Because prior Commission orders do not prescribe a clear methodology for the determination and application of the FCA rate adjustment cap, the Parties ultimately decided to request clarification that the Company's current methodology is acceptable. Idaho Power believes its current methodology is appropriate because it identifies the impact that the annual increase would have on customers during the time period that the proposed FCA would be effective and allows the Commission the discretion to cap the FCA rate change if the annual FCA rate change exceeds 3 percent of the forecasted base rate revenue. Idaho Power requests clarification that the Company's current methodology used to determine the 3 percent FCA rate adjustment cap is appropriate.

### Fixed Cost per Energy and Fixed Cost per Customer

The FCE and FCC are typically updated when base rates are reset during a general rate case, and are derived from the amount of fixed costs attributable to each customer class. The Parties ultimately agreed that the appropriate time to review the calculation of the FCE and FCC would be when base rates are reset. Idaho Power

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<sup>1</sup>The Proposed FCA Deferral Change is the difference between the proposed FCA deferral balance and the current Commission-approved FCA balance.

<sup>2</sup>The Forecasted Base Rate Revenue is the current Commission-approved base rates applied to the forecasted energy sales coinciding with the same time frame the proposed FCA would be effective.

agrees that issues regarding the calculation of the FCE and FCC are more effectively addressed when base rates are reset.

### Rate Design

The need for the FCA is predicated upon a rate design that recovers the majority of fixed costs through a volumetric energy charge for the residential and small general service customer classes. In the direct testimony of Mr. John R. Gale in Case No. IPC-E-04-15, which first established the FCA as a pilot, Mr. Gale stated that “significant movement in the rate design would address the same issues that a true-up mechanism would.” Case No. IPC-E-04-15, Gale Testimony, p. 4. The rate design for both customer classes affected by the FCA consists of two billing components -- the service charge and the energy charge. For both classes, the service charge recovers a small percentage of the total revenue while the volumetric energy charge recovers the vast majority. Most of the Company’s costs recovered in base rates are fixed costs, which are primarily recovered through the volumetric energy charge. This rate design creates a financial disincentive for Idaho Power to pursue Demand-Side Management (“DSM”). As Idaho Power continues to encourage customers to use less energy, the Company recovers less revenue per customer, including the fixed costs. The declining use per customer indicates, in part, that the Company’s DSM efforts are working effectively. However, the successful implementation of DSM does not reduce the level of existing authorized fixed costs that must still be recovered from customers. Recognition of these financial disincentives led to the establishment of the FCA to provide the Company an opportunity to recover its authorized level of fixed costs as it pursued the acquisition of cost-effective DSM.

The same basic rate design that existed when the FCA was implemented still exists today. Idaho Power now has the technology needed in its Advanced Metering



Infrastructure (AMI) to design rates based on billing components that more closely align with the Company's cost-of-service. As part of the settlement, the Parties agreed to consider modified rate design for residential and small general service customers. The modifications to rate design include, but are not limited to, an increased monthly service charge, an introduction of demand charges, and reduced energy charges. The gradual movement of fixed-cost recovery from volumetric energy charges toward billing components such as the monthly service charge and demand charges would allow for less reliance upon the FCA mechanism over time. That is, as the level of fixed-cost recovery through volumetric energy charges is reduced, the FCE and FCC (the components that determine the FCA balance) would correspondingly decrease.

Idaho Power believes that proper rate design represents the most effective and sustainable method of removing financial disincentives related to utility pursuit of DSM. Therefore, the Company supports the exploration of modified rate design as a long-term solution to the fixed-cost recovery issues the FCA is currently in place to address.

### **III. CONCLUSION**

Idaho Power urges the Commission to approve the Stipulation without modification as the Company believes the Settlement Stipulation to be in the public interest as well as representing a fair, just, and reasonable resolution of the issues in this case.

Respectfully submitted at Boise, Idaho, this 21<sup>st</sup> day of April 2015.

  
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LISA D. NORDSTROM  
Attorney for Idaho Power Company

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 21<sup>st</sup> day of April 2015 I served a true and correct copy of the COMMENTS OF IDAHO POWER COMPANY upon the following named parties by the method indicated below, and addressed to the following:

### Commission Staff

Karl Klein  
Deputy Attorney General  
Idaho Public Utilities Commission  
472 West Washington (83702)  
P.O. Box 83720  
Boise, Idaho 83720-0074

☒ Hand Delivered  
☐ U.S. Mail  
☐ Overnight Mail  
☐ FAX  
☒ Email [karl.klein@puc.idaho.gov](mailto:karl.klein@puc.idaho.gov)

### Industrial Customers of Idaho Power

Peter J. Richardson  
Gregory M. Adams  
RICHARDSON ADAMS, PLLC  
515 North 27<sup>th</sup> Street (83702)  
P.O. Box 7218  
Boise, Idaho 83707

☐ Hand Delivered  
☒ U.S. Mail  
☐ Overnight Mail  
☐ FAX  
☒ Email [peter@richardsonadams.com](mailto:peter@richardsonadams.com)  
[greg@richardsonadams.com](mailto:greg@richardsonadams.com)

### Idaho Conservation League


Benjamin J. Otto  
Idaho Conservation League  
710 North Sixth Street (83702)  
P.O. Box 844  
Boise, Idaho 83701

☐ Hand Delivered  
☒ U.S. Mail  
☐ Overnight Mail  
☐ FAX  
☒ Email [botto@idahoconservation.org](mailto:botto@idahoconservation.org)

### Snake River Alliance

Ken Miller  
Snake River Alliance  
P.O. Box 1731  
Boise, Idaho 83701

☐ Hand Delivered  
☒ U.S. Mail  
☐ Overnight Mail  
☐ FAX  
☒ Email [kmiller@snakeriveralliance.org](mailto:kmiller@snakeriveralliance.org)

  
Kimberly Towell, Executive Assistant