

RECEIVED

2016 MAR 15 PM 3:59

IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) CASE NO. IPC-E-16-02
AUTHORITY TO IMPLEMENT FIXED COST)
ADJUSTMENT ("FCA") RATES FOR)
ELECTRIC SERVICE FROM JUNE 1,)
2016, THROUGH MAY 31, 2017.)
_____)

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

ZACHARY L. HARRIS

1 Q. Please state your name and business address.

2 A. My name is Zachary L. Harris and my business
3 address is 1221 West Idaho Street, Boise, Idaho 83702.

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

5 A. I am employed by Idaho Power Company ("Idaho
6 Power" or "Company") as a Regulatory Analyst in the
7 Regulatory Affairs department.

8 Q. Please describe your educational background.

9 A. In December of 2008, I received a Bachelor of
10 Science degree in Accounting from Brigham Young University-
11 Hawaii. In December of 2011, I received a Master of
12 Science degree in Accounting from Boise State University.
13 After I began my career with Idaho Power in May 2011, I
14 attended the electric utility ratemaking course offered
15 through New Mexico State University's Center for Public
16 Utilities. I also attended the "Cost-of-Service Concepts
17 and Techniques," as well as the "Rate Design for Electric
18 Utilities" courses offered by Electric Utility Consultants,
19 Inc. in 2012. In 2013, I attended the "Electric Rates
20 Advanced Course" offered by the Edison Electric Institute.

21 Q. Please describe your work experience with
22 Idaho Power.

23 A. I became employed by Idaho Power in May 2011
24 as a Regulatory Analyst in the Regulatory Affairs
25 department and still retain that position. I have been the

1 Company's witness regarding the annual FCA calculation and
2 corresponding rates since 2012.

3 Q. What is the purpose of your testimony?

4 A. The purpose of my testimony is to describe the
5 Company's request to implement its annual FCA rates in
6 conformance with Idaho Public Utilities Commission
7 ("Commission") Order No. 32505 (Case No. IPC-E-11-19),
8 which approved the FCA as a permanent rate mechanism for
9 the Residential and Small General Service customers.

10 Specifically, my testimony will discuss three areas
11 related to the FCA mechanism and Schedule 54, Fixed Cost
12 Adjustment. First, I will briefly discuss the FCA
13 mechanism itself and how the FCA amount is determined.
14 Second, I will describe the determination of the 2015 FCA
15 amount. Lastly, I will discuss the calculation of the FCA
16 rates the Company is proposing to be effective June 1,
17 2016, through May 31, 2017.

18 **I. FIXED COST ADJUSTMENT MECHANISM**

19 Q. What is the purpose of the FCA mechanism?

20 A. The FCA is a true-up mechanism that
21 "decouples," or separates, billed energy sales from revenue
22 in order to remove the financial disincentive that exists
23 when the Company invests in demand-side management
24 resources. Under the FCA, rates for Residential Service
25 (Schedules 1, 3, 4, and 5) and Small General Service

1 (Schedule 7) customers are adjusted annually to recover or
2 refund the difference between the level of fixed cost
3 recovery authorized by the Commission in the Company's most
4 recent general rate case and the level of fixed cost
5 recovery that the Company received based upon the actual
6 billed energy sales during the previous calendar year.

7 Q. What level of incremental annual demand-side
8 management energy efficiency savings did Idaho Power
9 achieve in 2015?

10 A. On a system-wide basis, Idaho Power achieved
11 162,533 megawatt-hours of incremental annual energy
12 efficiency savings in 2015, which is a 12 percent increase
13 from savings reported in 2014.

14 Q. Please describe the FCA mechanism.

15 A. For both the Residential and Small General
16 Service classes, the FCA mechanism is the same. The
17 formula used to determine the FCA amount is:

18
$$\text{FCA} = (\text{CUST} \times \text{FCC}) - (\text{ACTUAL} \times \text{FCE})$$

19 Where:

20 FCA = Fixed Cost Adjustment;

21 CUST = Average Number of Customers, by class;

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

23 ACTUAL = Actual Billed kilowatt-hours ("kWh")

24 Energy Sales, by class; and

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

1 Q. How is the FCA amount determined?

2 A. The FCA amount is the difference between the
3 Company's level of "authorized fixed cost recovery" (CUST X
4 FCC) and the level of "actual fixed cost recovery" (ACTUAL
5 X FCE).

6 Q. Can the FCA deferral balance be either
7 positive or negative?

8 A. Yes. The FCA deferral balance can be either
9 positive or negative. If the FCA is positive, that
10 indicates the Company's authorized level of fixed cost
11 recovery is greater than the level of fixed costs recovered
12 through the energy rate. This would occur when the growth
13 rate in actual billed energy sales is less than the growth
14 rate in customers, i.e., the use per customer has
15 decreased. The effect would be that the Company has under-
16 collected its authorized level of fixed costs. In a
17 similar fashion, if the FCA is negative, that indicates the
18 Company's authorized fixed cost recovery amount is less
19 than the fixed costs determined to have been recovered
20 through the energy rate and results in a refund to
21 customers.

22 **II. FCA DETERMINATION FOR CALENDAR YEAR 2015**

23 Q. Did the rates for the FCC and FCE change in
24 2015?

25

1 fixed costs recovered began with the determination of the
2 2015 FCA deferral.

3 Q. Did the Stipulation result in any other
4 impacts to the 2015 FCA?

5 A. No. Ultimately, the only change to the FCA
6 was the adjustment to the calculation of the actual level
7 of fixed costs recovered. However, the Stipulation also
8 clarified how the rate adjustment cap of 3 percent on
9 annual increases is to be calculated, the appropriate
10 timing of resetting the FCE and FCC, and possible rate
11 design modification for Residential and Small General
12 Service customers. In Order No. 33295, on page 5, the
13 Commission found that "the proposed changes in the
14 Stipulation will result in a more accurate, clear, and
15 transparent FCA."

16 Q. How is the authorized level of fixed cost
17 recovery derived?

18 A. The authorized level of fixed cost recovery is
19 the product of the FCC and the average number of customers,
20 by class. The Company uses a prorated customer count based
21 on the number of active utility service agreements at the
22 end of each month. This approach applies the same
23 methodology that was used to determine customer counts in
24 the Company's most recent general rate case. The annual
25

1 average customer count is derived by calculating the
2 average of the 12 monthly prorated customer counts.

3 Q. How is the actual level of fixed cost recovery
4 determined?

5 A. In compliance with Order No. 33295, the actual
6 level of fixed cost recovery is the product of the FCE and
7 the actual billed energy sales for the calendar year,
8 measured in kWh.

9 Q. Does the Company compute a monthly FCA
10 deferral balance and report the estimated monthly FCA
11 deferral balance to the Commission?

12 A. Yes. Although the FCA is an annual mechanism
13 that is ultimately calculated and determined using customer
14 counts and billed energy sales data for the entire calendar
15 year, to maintain compliance with Generally Accepted
16 Accounting Principles, a monthly FCA deferral balance is
17 estimated and recorded in the Company's accounting records.
18 At year-end, once the annual FCA amount is determined, an
19 adjustment is made to the sum of the previously recorded 12
20 monthly estimates to align with the annual FCA deferral
21 balance.

22 Since 2009, the Company has continued to report the
23 estimated monthly FCA deferral balance in the monthly FCA
24 Report provided to the Commission. Exhibit No. 1 is a copy
25 of the monthly FCA Report for calendar year 2015.

1 Q. What adjustments were made to the 2015 monthly
2 estimates to align these amounts with the Company's final
3 year-end 2015 FCA deferral balance?

4 A. To align with the annual FCA amount to be
5 recorded in the Company's 2015 financial statements, an
6 upward adjustment of \$87,283 was made for the Residential
7 customer class, reflected on line 6, column O of Exhibit
8 No. 1. An upward adjustment of \$2,063 was made for the
9 Small General Service customer class, reflected on line 20,
10 column O of Exhibit No. 1. The total upward adjustment for
11 both customer classes is \$89,346.

12 Q. What is the total amount of the FCA, not
13 including interest?

14 A. The total amount of the FCA for both the
15 Residential and Small General Service customer classes, not
16 including interest, is \$27,777,602. Exhibit No. 2 shows
17 the calculation for each customer class. The calculated
18 FCA deferral balance for the Residential customer class,
19 not including interest, is \$26,630,910. This amount is
20 also found in Exhibit No. 1, line 6, column P. The
21 calculated FCA deferral balance for the Small General
22 Service customer class, not including interest, is
23 \$1,146,692. This amount is also found in Exhibit No. 1,
24 line 20, column P.

25

1 Q. What is the effect of changing the methodology
2 to calculate the FCA using actual billed sales instead of
3 weather-normalized billed sales?

4 A. In years when actual sales per customer are
5 higher than weather-normalized sales, the FCA will be lower
6 with the new methodology. In years when actual sales per
7 customer are lower than weather-normalized sales, the FCA
8 will be higher with the new methodology.

9 Q. What would the FCA have been had the Company
10 used weather-normalized billed sales to calculate the
11 actual fixed costs recovered as it would have prior to
12 Order No. 33295 rather than using actual billed sales?

13 A. Using weather-normalized billed sales in the
14 calculation of the 2015 FCA would have resulted in an FCA
15 deferral balance of \$24,833,613, not including interest, or
16 \$2,943,989 less than the level of fixed cost recovery
17 determined using actual billed sales. This indicates that
18 the Company's actual fixed cost recovery was lower than the
19 level of fixed cost recovery that would have been
20 calculated based on weather-normalized billed sales in
21 2015. Exhibit No. 3 shows the comparison of the 2015 FCA
22 deferral using both actual billed sales and weather-
23 normalized billed sales.

24

25

1 Q. What is the total amount of the 2015 FCA,
2 including interest, the Company is requesting to implement
3 in rates on June 1, 2016?

4 A. The total amount of the 2015 FCA the Company
5 is requesting to begin recovering in rates on June 1, 2016,
6 is \$28,054,542.06, reflected on line 32, column U, of
7 Exhibit No. 4. The FCA for the Residential class is
8 \$26,897,108.83 reflected on line 15, column U, of Exhibit
9 No. 4. The FCA for the Small General Service Class is
10 \$1,157,433.23 reflected on line 29, column U, of Exhibit
11 No. 4. Exhibit No. 4 shows the FCA deferral balances and
12 adjustments, plus interest, through May 2016. Exhibit No.
13 4 and Exhibit No. 1 both contain the same information as
14 the FCA Report sent to the Commission each month; however,
15 Exhibit No. 4 calculates interest from January 2015 through
16 May 2016 while Exhibit No. 1 shows that information only
17 for the 2015 calendar year.

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

20 A. Because the Residential FCA is a positive
21 number, it means that the calculated average use per
22 customer has decreased from the level established in the
23 Company's last general rate case. Therefore, in accordance
24 with the approved mechanism, the Residential class will
25 receive an adjustment to allow for recovery of the fixed

1 costs that were not recovered through actual billed energy
2 charges during the year. The same holds true for the Small
3 General Service class, meaning that the calculated use per
4 customer for this class has also decreased from the level
5 established in the Company's most recent general rate case
6 and the Company has not recovered its authorized level of
7 fixed costs based on actual billed sales for the Small
8 General Service class.

9 **III. CALCULATION OF THE 2016-2017 FCA RATE**

10 Q. Please describe the calculation of the FCA
11 rates the Company is proposing to go into effect on June 1,
12 2016.

13 A. The FCA rates the Company proposes to go into
14 effect on June 1, 2016, were calculated by taking the FCA
15 deferral balances for each customer class described above
16 and dividing by the respective class energy sales forecast
17 for the June 1, 2016, through May 31, 2017, time frame.
18 This is the same period as the Power Cost Adjustment rate
19 effective period.

20 Q. What has the Company determined the forecast
21 energy sales to be for both the Residential and Small
22 General Service classes?

23 A. The Company's forecasted energy sales are
24 5,014,431,603 kWh for the Residential class and 130,654,697

25

1 kWh for the Small General Service class. The forecasted
2 energy sales are found in Exhibit No. 5.

3 Q. What are the corresponding FCA rates for the
4 Residential and Small General Service classes based on a
5 combined and equal FCA rate change, as defined in the
6 approved mechanism?

7 A. To recover the authorized level of fixed
8 costs, the FCA rate for the Residential class would be
9 0.5416 cents per kWh and the corresponding rate for the
10 Small General Service class would be 0.6875 cents per kWh.
11 The calculation of these rates is found in Exhibit No. 5.
12 In Order No. 32505, the Commission ordered that the FCA
13 deferral balance will continue to be recovered or refunded
14 equally between the Residential and Small General Service
15 customer classes. Order No. 32505 at 9. Because the
16 Residential and Small General Service classes reduced their
17 energy consumption per customer such that the Company
18 under-collected its authorized level of fixed costs as
19 established in Case No. IPC-E-11-08, each class requires a
20 rate surcharge.

21 Q. What is the difference between the FCA
22 deferral balance currently in amortization and the proposed
23 FCA deferral balance?

24 A. In this filing, the Company is proposing to
25 collect rates based on an FCA deferral balance of

1 \$28,054,542, which would be \$11,172,832 more than the
2 current FCA deferral balance. In Order No. 33302, issued
3 in Case No. IPC-E-15-05, the Commission approved the total
4 FCA deferral balance of \$16,881,710, with rates based on
5 that balance effective for the period June 1, 2015, through
6 May 31, 2016. Order No. 33302 at 4.

7 Q. How is the 3 percent rate adjustment cap
8 determined?

9 A. As agreed to in the Stipulation and approved
10 by the Commission in Order No. 33295, the Company
11 calculates the 3 percent cap on annual increases by
12 dividing the proposed FCA deferral change by the forecasted
13 base rate revenue.

14 Q. Does the proposed FCA deferral balance exceed
15 the 3 percent cap on annual increases over base revenue?

16 A. No, the proposed FCA deferral balance does not
17 exceed the 3 percent cap on annual increases over base
18 revenue. The proposed FCA deferral balance is an increase
19 of \$11,172,832 over the existing FCA deferral balance. The
20 total base revenue for the Company's test year for the
21 Residential and Small General Service customer classes is
22 \$469,627,674. The FCA increase is 2.38 percent higher than
23 base revenue ($\$11,172,832 / \$469,627,674$), which is below the
24 3 percent cap. Exhibit No. 5 shows the determination of
25 the percentage of the annual increase over base revenue.

1 Q. What is the percentage change in billed
2 revenue as measured from total billed amounts currently
3 recovered from Residential and Small General Service
4 customers, including the current FCA?

5 A. The resulting increase of \$11,172,832 the
6 Company is proposing to collect through the FCA rates
7 effective June 1, 2016, through May 31, 2017, represents an
8 annual increase of 2.20 percent from current billed revenue
9 for the affected customer classes. The percentage change
10 in billed revenue is found in Exhibit No. 6.

11 Q. How will the Company incorporate the FCA
12 surcharges for the Residential and Small General Service
13 classes on customers' bills?

14 A. The Company proposes to continue including the
15 FCA with the Annual Adjustment Mechanism line item on
16 Residential and Small General Service customers' bills.

17 Q. Does this complete your testimony?

18 A. Yes, it does.

19

20

21

22

23

24

25

