

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

<b>IN THE MATTER OF IDAHO POWER</b>	)	
<b>COMPANY'S APPLICATION FOR</b>	)	<b>CASE NO. IPC-E-16-02</b>
<b>AUTHORITY TO IMPLEMENT FIXED</b>	)	
<b>COST ADJUSTMENT (FCA) RATES FOR</b>	)	
<b>SERVICE FROM JUNE 1, 2016 THROUGH</b>	)	<b>ORDER NO. 33527</b>
<b>MAY 31, 2017.</b>	)	

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On March 15, 2016, Idaho Power Company filed an Application asking the Commission for authority to implement Fixed Cost Adjustment (FCA) rates for electric service from June 1, 2016 through May 31, 2017, and to approve its corresponding tariff Schedule 54, Fixed Cost Adjustment. Idaho Power asked for an effective date of June 1, 2016. The Commission issued a Notice of Application and Notice of Modified Procedure. Order No. 33488. The Idaho Conservation League filed a Petition to Intervene which the Commission granted. Order No. 33503.

Staff timely filed comments recommending approval of the Application, then filed an Addendum to Comments to correct a calculation error. The Commission received one customer comment,<sup>1</sup> but no other comments. Idaho Power's counsel notified counsel for Staff that the Company did not intend to file a reply.

The Commission has reviewed the record. Based on our review, we issue this Order granting the Company's Application as more fully explained below.

### **OVERVIEW OF THE FCA**

Using traditional rate design, utilities recover fixed costs<sup>2</sup> through each kilowatt-hour (kWh) sold, and are thus discouraged from reducing sales volume by investing in energy efficiency and demand-side management (DSM). *See* Application at 2. The FCA is an annual rate adjustment mechanism that separates or "decouples" Idaho Power's fixed-cost revenues from its volumetric energy sales. *Id.* at 3. The FCA enables the Company to recover its fixed costs to deliver energy – as set in its most recent general rate case – when decreases in energy sales and revenues would otherwise prevent such recovery. Order Nos. 33295 at 1; 33302 at 1.

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<sup>1</sup> The customer comment objected to any increase in rates, but did not address the annual FCA mechanism.

<sup>2</sup> "Fixed costs" are a utility's costs to provide service that do not vary with energy use, output, or production, and remain relatively stable between rate cases.

However, if the Company's actual fixed costs exceed the base level of fixed costs, Idaho Power credits customers under the FCA. Order No. 33302 at 1-2.

The Company calculates the FCA at the end of each calendar year, when it knows how many customers it had during the year, and how much energy those customers used. Order No. 33302 at 2. Idaho Power recovers the calculated FCA balance through rates that take effect from June 1 through May 31 of the following year. *Id.* The Company's FCA rates are specified in tariff Schedule 54 and apply to the residential and small general service customer classes. *Id.*

Idaho Power's FCA program was first initiated in 2007, as a pilot program. Application at 2. In 2012, the Commission approved the Company's request to make the FCA a permanent program. Order No. 32505. In 2015, the Commission approved a settlement stipulation that changed FCA calculation methodology by replacing use of weather-normalized data with actual data, to ensure improved accuracy. Order No. 33295 at 5; *see* Application at 3.

### **THE APPLICATION**

The Company's Application summarizes how Idaho Power calculates the FCA. The Company first identifies the amount of fixed costs that the Commission has authorized it to recover from the residential and small general service customer classes. The Company calculates the fixed costs by multiplying the number of customers in each class by the fixed-cost per customer rate that was set in the Company's last general rate case. The Company then compares the authorized recovery amount to the "actual fixed costs recovered" – the actual billed sales for each class multiplied by the fixed-cost per energy rate set in the Company's last general rate case. The difference between the authorized recovery amount and the actual fixed costs recovered is the annual adjustment to the FCA rate. Application at 4.

In this case, Idaho Power calculated the difference between the authorized recovery amount and the fixed costs recovered to be \$26,897,109 for the residential class, and \$1,157,433 for the small general service class, for a total recovery amount of \$28,054,542 (the FCA "deferral balance"). *Id.* The proposed FCA deferral balance is an incremental increase above the current FCA deferral balance collected in customers' rates. *Id.* at 4-5. Thus, Idaho Power suggests an FCA rate increase to allow it to recover its authorized revenues as determined by the FCA mechanism. *Id.* at 5. The proposed FCA rates would result in an increase of 2.2% from billed revenue for the affected customer classes. *Id.* at 5. The Company proposes a combined rate increase for residential and small general service customers of 2.2% above current rates. *Id.*

This equates to new FCA rates of 0.5416 cents-per-kilowatt-hour (kWh) for the residential class and 0.6875 cents-per-kWh for the small general service class. *Id.*

### STAFF COMMENTS

Staff recommended that the Commission approve the Company's Application. Staff verified that the Company correctly calculated the proposed FCA deferral balance and rates according to Commission-approved methodology. Staff also verified that the Company's residential and small commercial use-per-customer continued to decline since the prior FCA case, and were thus too low for the Company to recover its Commission-authorized fixed costs from the last general rate case. Staff therefore recommended that the Commission accept Idaho Power's proposed net FCA deferral balance of \$28.1 million from 2015 for the 2016-2017 period. Staff believes that the new FCA rates – 0.5416 cents-per-kWh for the residential class and 0.6875 cents-per-kWh for the small general service class – are sufficient to allow the Company to recover its deferred authorized level of fixed costs.

Given that Idaho Power's 2015 Integrated Resource Plan forecasts that use-per-customer will continue to decrease and customer count will continue to increase,<sup>3</sup> Staff expects that "FCA balances will continue to increase absent a general rate case, assuming normal weather conditions." Comments at 3. Staff acknowledged that removing weather normalization from the FCA calculation "increased the balance by \$2.9 million over what it would have been with weather normalization this year." *Id.* at 4. However, Staff believes that replacing weather-normalized billed sales with actual billed sales ensures the deferral balance calculation "no longer ignores above-normal energy sales collected through base rates due to favorable weather conditions." *Id.*

Staff was encouraged by Idaho Power's renewed commitment to energy efficiency, as demonstrated in the Company's 2015 DSM report, showing a 22% increase in energy savings from the prior year due to the Company's residential energy efficiency programs. However, Staff determined that 68% of the net decline in sales recovered through the FCA was driven by other factors. Nonetheless, Staff recommended that the Commission approve the FCA rates as filed. Staff also recommended that the Commission direct the Company to provide the five FCA

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<sup>3</sup> In an Addendum, Staff acknowledged a calculation error in its comments as to the amount of the 2015 residential FCA balance that can be attributed to customer growth. Staff reported that roughly \$2 million (not \$14 million, as first reported), is due to customer growth. The discrepancy did not change Staff's recommendation that the Commission approve the Company's Application.

exhibits and the monthly forecasted sales (in kWh) on which future FCA rate calculation is based, as electronic, executable exhibits (in addition to hard copies), to assist Staff in its expedited review for future filings.

### **FINDINGS AND DISCUSSION**

The Commission has thoroughly reviewed the record in this case, including the Application and comments. Based on this record, the Commission finds that the Company's Application should be approved. The Company's current rates are insufficient to enable it to recover its authorized fixed costs. The proposed FCA rates are fair, just, and reasonable, and are adequate to allow the Company an opportunity to collect its authorized fixed costs in the coming FCA year. We thus approve the Company's FCA filing with a net deferral balance of positive \$28,054,542 from 2015 for the 2016-2017 period, and FCA rates equal to 0.5416 cents-per-kWh for residential class customers and 0.6875 cents-per-kWh for small general service class customers.

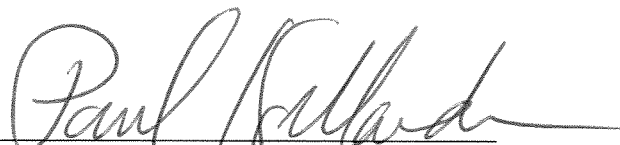
We recognize that the Company's annual FCA filing must be processed each year on an expedited timeline. Accordingly, we encourage the Company, in future filings, to provide electronic, executable files of its exhibits with its application (in addition to hard copies) to ensure the filings are timely processed.

### **ORDER**


IT IS HEREBY ORDERED that Idaho Power Company's Application is granted. The Company shall have a net deferral balance of positive \$28,054,542 from 2015 for the 2016-2017 period, and FCA rates equal to 0.5416 cents-per-kWh for residential class customers and 0.6875 cents-per-kWh for small general service class customers. The Company's proposed Schedule 54 is approved as filed, with an effective date of June 1, 2016.

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.

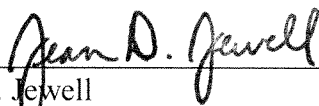
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 27<sup>th</sup>  
day of May 2016.

  
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PAUL KJELLANDER, PRESIDENT

  
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KRISTINE RAPER, COMMISSIONER

  
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ERIC ANDERSON, COMMISSIONER

ATTEST:

  
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Jean D. Jewell  
Commission Secretary

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