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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR AUTHORITY TO IMPLEMENT FIXED COST ADJUSTMENT RATES FOR ELECTRIC SERVICE FROM JUNE 1, 2016 THROUGH MAY 31, 2017	**CASE NO. IPC-E-16-02** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Daphne Huang, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 33488 on March 30, 2016, in Case No. IPC-E-16-02, submits the following comments.

BACKGROUND

On March 15, 2016, Idaho Power Company filed an Application asking the Commission for an Order authorizing collection of its Fixed Cost Adjustment (FCA) rates for electric service from June 1, 2016 through May 31, 2017, and to approve changes to tariff Schedule No. 54, Fixed Cost Adjustment. Idaho Power asked for an effective date of June 1, 2016.

Electric utilities generally recover fixed costs[1] 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 a rate-adjustment mechanism that separates or "decouples" Idaho Power's fixed-cost revenues from its volumetric energy sales. *Id.* at 3. This decoupling enables the Company to recover its fixed costs to deliver energy – as set in its most recent general rate case – even when energy sales and revenues have decreased. Order No. 33295 at 1; *see* Application at 3.

Idaho Power's FCA program was first initiated in 2007 as a pilot program for residential service and small general service customers. 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 the 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.

Idaho Power proposes an FCA deferral balance of $26,897,109 for the residential class, and $1,157,433 for the small general service class, for a total of $28,054,542. Application at 4. The proposed FCA deferral balance is an increase above the current FCA deferral balance collected in customers' rates. *Id.* at 4-5. Idaho Power proposes an FCA rate increase of 2.2% from billed revenue for residential and small general service customers. *Id.* at 5. This equates to new FCA rates of 0.5416 cents-per-kWh for the residential class and 0.6875 cents-per-kWh for the small general service class. *Id.* This is a $2.16 increase per month for average residential customers.

Idaho Power stated it would provide notice to its customers as required by Rule 125 by issuing a press release to media in its service area, and through a customer notice distributed in customer bills. *Id.* at 6. Staff confirmed that this occurred.

STAFF ANALYSIS

Staff has reviewed the Company's filing and verified the calculation, including the use of the fixed cost per customer (FCC) and fixed cost per energy (FCE) components, and the resulting balance of the uncollected level of authorized fixed costs. Residential and small commercial use-per-customer continued to decline when compared to use-per-customer established in the

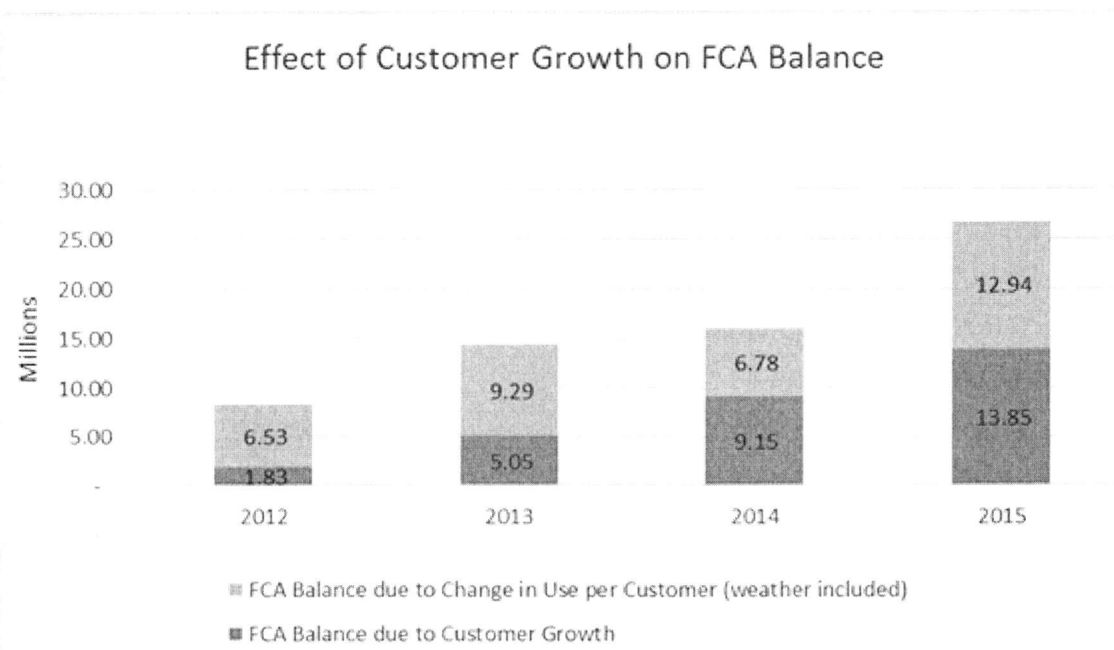
[1] "Fixed costs" are a utility's costs to provide service that do not vary with energy use, output, or production, and remain relatively stable between rate cases.

Company's last general rate case. The decline in use-per-customer for the two affected rate classes resulted in an under-recovery of authorized fixed costs and a surcharge to customers. Staff thus recommends that the Commission accept the Company's proposed $28.1 million net FCA deferral balance for the 2015 FCA year.

2015 FCA Balance

The 2015 FCA balance of $28.1 million is $11.2 million more than the existing FCA. The FCA balance increases when use-per-customer decreases and the customer count increases. Because the Company's 2015 Integrated Resource Plan (IRP) forecasts that both of these trends will continue, it is reasonable to expect that FCA balances will continue to increase absent a general rate case, assuming normal weather conditions.

Staff analyzed the effect of residential customer growth on the FCA balance and determined that nearly $14 million of the current $27 million residential 2015 FCA balance was due to customer growth, rather than declining sales. As illustrated in the following chart, the portion of the FCA balance due to new customers continues to become a larger portion of the FCA balance over time.



For each new customer added to the system, the FCA mechanism allows the Company to recover the embedded fixed cost per customer established in the most recent general rate case.

Therefore, as customer counts continue to grow, the FCA balance will continue to cause upward pressure on rates each year. In total, the Company has collected $30 million through the FCA attributed only to new residential customers added to the system since the Company's last general rate case in 2011. While Staff recognizes that the FCA provides for additional fixed cost recovery for each new customer in much the same way a general rate case would, the additional assumed-investment and recovery through the FCA is without the benefit of Commission review and verification that would occur in a general rate case.

As a result of the settlement stipulation approved in Commission Order No. 33295, the 2015 FCA was calculated using actual billed sales rather that weather-normalized billed sales. Staff acknowledges Idaho Power's assertion 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. However, the effect of weather normalization on the FCA balances has varied from year to year. Previously, if sales were attributed to extreme weather, sales would have been adjusted downward to reflect normal sales. As a result, the Company could collect its fixed costs through base rates, and then recover those same fixed costs again after sales were weather-normalization, as was the case in 2013.

By replacing weather-normalized billed sales with actual billed sales, the deferral balance calculation no longer ignores above-normal energy sales collected through base rates due to favorable weather conditions. Moreover, Staff believes the FCA mechanism is now more transparent because the Company no longer uses its weather-normalization model to calculate the deferral balance. This makes the mechanism easier for Parties to review and reduces the possibility that the FCA deferral balance will reflect any error arising from the Company's weather-normalized model.

2015 FCA Rate Calculation

Staff verified the Company's FCA calculation for the residential and small commercial classes. Consistent with established practice, Staff proposes spreading the FCA surcharge uniformly to both the residential and small commercial classes on an equal percentage basis. Using forecasted sales for June 1, 2016 – May 31, 2017, a 2.20% surcharge over current residential and small commercial billing rates provides a sufficient opportunity for the Company to recover its authorized fixed costs. Staff verified that the FCA forecasted sales align with the forecast used in the Company's 2015-2016 PCA filing. This increase of 2.38% from existing base revenue does not exceed the 3% cap on annual rate increases that the Commission set in Order No. 30267.[2]

Impact of DSM and Energy Efficiency

The Commission adopted the FCA to remove the Company's disincentive to invest in programs or initiatives that reduce the amount of energy sold. The Company's energy sales can decrease for many reasons, including weather, economic cycles, better building codes and standards, improved appliance standards, increased electric to gas conversions, energy efficiency programs, and higher energy rates.

The Company's 2015 Annual DSM report shows that its residential energy efficiency programs resulted in a 22% increase in energy savings from the previous year. While Staff is encouraged by this achievement and the Company's renewed commitment to energy efficiency, the Company's programs only contribute a portion of the overall decline in sales recovered through the FCA.

Since the base inputs to the FCA were reset in 2012, actual residential sales have increased in some years and decreased in others, resulting in a net decline in sales. While actual sales have fluctuated in both directions, the energy savings from the Company's residential DSM program have continued to accumulate over the same period. Staff analyzed the effect of the cumulative savings on sales and found that Company-sponsored programs accounted for 32% of the variation in sales over the same period. This means that the remaining 68% of the variation in sales has been driven by other factors. As a class, residential customer-use peaks in both summer and winter, so the combination of milder winters and the expansion of natural gas space heating can significantly affect use-per-customer.

Future FCA Filings

Staff recommends that in future filings, the Company provide the five FCA exhibits as electronic, executable files in addition to the hard copies currently supplied with the filing. Receiving the electronic files with the filing will assist Staff's expedited review of this annual filing. Staff also recommends that the Company provide the monthly forecasted sales (in kWh)

[2] Dividing the FCA increase ($11,172,832) by the total base revenue for the Company's test year for Residential and Small General Year customer classes ($469,627,674) shows that the FCA increase is 2.38% higher than base revenue.

on which the upcoming FCA rate-calculation is based as an additional electronic, executable exhibit.

Customer Notice and Press Release

Idaho Power filed copies of its press release and customer notices with its Application. Staff reviewed both documents and determined they comply with the Commission's Procedural Rule 125, IDAPA 31.01.01.125. The customer notice was mailed with cyclical billings. The last notice was mailed on April 21, 2016, which allowed customers a reasonable opportunity to file timely comments with the Commission by the May 12, 2016 deadline. As of May 12, 2016, the Commission has received one comment from a customer that opposed any increase in rates, but was not specifically commenting on the FCA mechanism.

STAFF RECOMMENDATION

Staff recommends that the Commission approve the Company's FCA filing with a net deferral balance of positive $28,054,542 for 2015. Based on the Company's sales forecast, the resulting FCA rates for 2015 are 0.5416 cents per kWh for residential customers and 0.6875 cents per kWh for small commercial customers. Staff believes these rates provide adequate opportunity for the Company to collect its deferred authorized level of fixed costs.

Staff also recommends that the Commission order the Company to provide in future FCA filings, the five FCA exhibits and monthly forecasted energy sales for the upcoming FCA year as fully executable electronic files in addition to hard copies.

Respectfully submitted this 12th day of May 2016.

Daphne Huang
Deputy Attorney General

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Donn English
Bentley Erdwurm
Daniel Klein

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 12th DAY OF MAY 2016, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF** IN CASE NO. IPC-E-16-02, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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