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Idaho Power's annual adjustment mechanisms result in average 3.77 percent increase

BOISE (May 31, 2016) – Rates for Idaho Power Company customers will increase by about 3.77 percent June 1.

Rates go up or down every June 1 as part of the company's annual Power Cost Adjustment (PCA) and Fixed Cost Adjustment (FCA).

POWER COST ADJUSTMENT (1.57 percent increase)

Since 1993, the PCA allows Idaho Power to adjust rates up or down to reflect the company's "power supply costs" that change from year to year. Idaho Power gets about half its generation from hydroelectric facilities, so a large portion of its costs to provide electricity to its customers is dependent on Snake River streamflows. Other costs that vary each year are the market price of wholesale electric power, fuel costs, transmission costs for purchased power and the revenue it earns from selling surplus power.

Idaho Power reported and commission staff verified that power supply expense for the company is $17.3 million less than what is included in the current PCA surcharge of 0.5405 cents per kilowatt-hour. The commission approved an increase in the surcharge to 0.6187 cents per kWh, which will increase an average residential bill by about $1.32 per month.

To offset that increase, the commission approved $3.16 million in revenue sharing with Idaho Power customers and a $4 million credit given customers from unused demand-side management (DSM) rider revenue.

Idaho Power shares its revenue with customers when its Return on Equity is greater than 10 percent. The utility's 2015 year-end ROE was 10.13 percent, which means the company will share $3.16 million with customers. However, Idaho Power's earnings are down slightly from the 11.19 percent ROE during 2014, so the proposed $3.16 million revenue sharing with customers is about $5 million less than the revenue sharing customers received in last year's PCA.

The commission said it is sensitive to economic conditions affecting ratepayers but has a "responsibility to balance the ratepayers' desire for affordable energy prices with the company's right to recover its costs and earn a reasonable return on its investments." <u>The commission emphasized that money collected through the PCA can be used only for recovery of actual power supply costs and cannot be used to increase earnings or salaries. Power supply expense is tracked in a deferred account, audited annually by the commission.</u>

Idaho Power attributes the higher PCA to 1) increased PURPA generation, 2) less revenue sharing with customers due to a lower Return on Equity in 2015; 3) lower than projected hydro generation; and 4) lower than forecasted wholesale market prices for electricity, resulting in lower sales volumes for Idaho Power when it sells its surplus power into the market.

The utility has about $10 million additional expense related to power purchase contracts with solar developers. The solar contracts fall under the provisions of the Public Utility Regulatory Policies Act (PURPA), which requires utilities to purchase generation from qualifying renewable energy projects. The company said about 320 megawatts of PURPA solar projects and 50 MW of PURPA wind projects are expected to come online during the 2016-17 PCA year.

Reservoir levels in the region are lower than the 2015 forecast. While Idaho Power had a better water year in some parts of its service territory, last year's dry winter left reservoirs in the Upper Snake River Basin very low by summer's end. Actual hydro generation was 27 percent less than the company forecast.

Wholesale electric market prices declined due primarily to lower natural gas prices. Lower market prices reduced surplus sales volumes by 26 percent. Also, because wholesale market prices were lower, the company's market purchase volumes were 92 percent higher than forecasted.

<u>FIXED COST ADJUSTMENT (2.2 percent increase)</u>

The FCA, implemented in 2007, is designed to ensure Idaho Power recovers its fixed costs of delivering energy when energy sales decline due to reduced consumption. Before the FCA, Idaho Power had no incentive to invest in energy efficiency programs because it lost revenue as customer consumption declined. To remove that disincentive, the Fixed Cost Adjustment was created to allow the utility to recoup its fixed costs of doing business. Even though consumption may decline, the fixed cost to serve customers does not.

If actual fixed costs recovered from customers are less than the fixed costs authorized in the most recent rate case, residential and small-commercial customers get a surcharge. If the company collects more in fixed costs than authorized by the commission, customers get a credit.

During 2015, Idaho Power under-collected fixed costs of serving customers by $28 million, or $11.17 million more than the amount already included in the FCA account. To recover those fixed costs, the commission approved an FCA increase of 2.2 percent, which will increase an average residential bill would by about $2.16 per month. The new FCA rate is 0.5416 cents per kWh.

During 2015, Idaho Power achieved a 22 percent increase in energy savings compared to 2014. In a separate case filed before the commission every year, Idaho Power must demonstrate that the programs that create energy efficiency savings must result in lower overall rates to customers than if the programs were not in place. Several studies have shown that energy efficiency and demand reduction are the least expensive source of energy for utilities. The FCA makes it possible for the company to aggressively pursue energy efficiency and demand-side management programs without fear of losing fixed costs to serve customers.

Last year's PCA was a 1.1 percent decrease and last year's FCA was a 0.35 percent increase, resulting in an overall net decrease to customers.

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