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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO IMPLEMENT FIXED COST ADJUSTMENT RATES FOR SERVICE FROM JUNE 1, 2017 THROUGH MAY 31, 2018.	)	**CASE NO. IPC-E-17-02** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Brandon Karpen, Deputy Attorney General, and in response to the Notice of Modified Procedure and Notice of Comment Deadline issued in Order No. 33739 on April 5, 2017, in Case No. IPC-E-17-02 to submit the following comments.

BACKGROUND

On March 15, 2017, Idaho Power Company applied to the Commission for authority to implement Fixed Cost Adjustment (FCA) rates for electric service from June 1, 2017 through May 31, 2018, and to approve changes to tariff Schedule 54, Fixed Cost Adjustment. The Company asks for an effective date of June 1, 2017, and requests that the Commission process the matter by Modified Procedure.

A utility's "fixed costs" are its costs to provide service that do not vary with energy use, output, or production and remain relatively stable between rate cases. They include costs associated with long-lasting infrastructure (e.g., power plants, power lines, and substations) and certain administrative costs. The Commission approved the current FCA mechanism in 2015. Order No. 33295.

The FCA is a rate adjustment mechanism. Using traditional rate design, an electric utility recovers fixed costs through each kilowatt-hour (kWh) sold, and is thus discouraged from reducing sales volume by investing in energy efficiency and demand-side management (DSM) programs. *See* Application at 2. The FCA decouples the Company's fixed-cost revenues from its volumetric energy sales. *Id.* at 3. This 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; Application at 3.

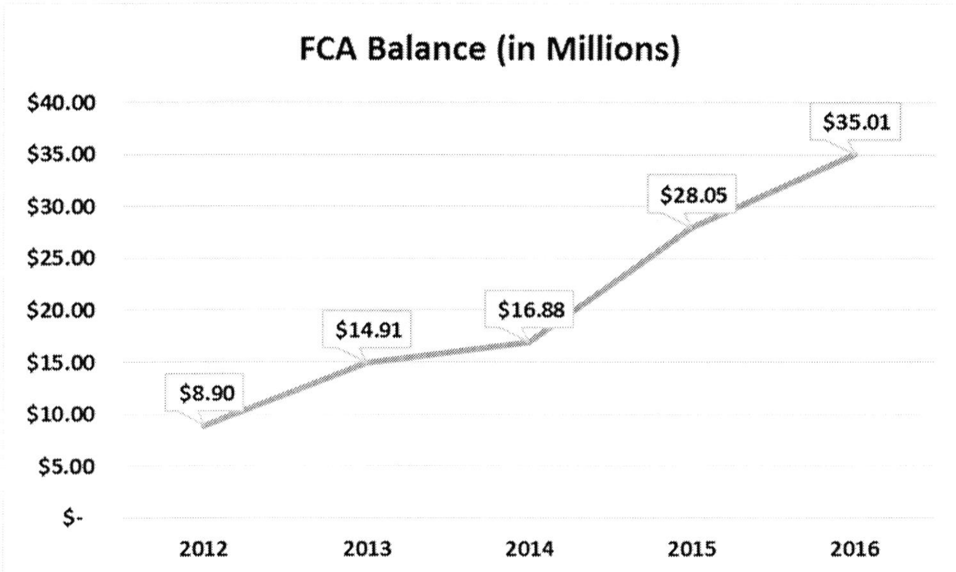
Idaho Power proposes an FCA deferral balance of $33,762,766 for the residential class, and $1,249,276 for the small general service class, for a total of $35,012,042. Application at 4. The proposed FCA deferral balance is an increase above the current FCA deferral balance collected in customer rates. *Id.* at 4-5. Specifically, the Company proposes a combined FCA rate increase of 1.29% above current rates. *Id.* This equates to new FCA rates of 0.6728 cents per kWh for the residential class, and 0.8576 cents per kWh for the small general service class. *Id.*

STAFF REVIEW

Staff has reviewed the Company's filing and supporting testimony from Company witness Harris and verified that the Company used the Commission-approved methodology to calculate the FCA deferral balance. Staff found the Company's sales per customer for residential and small-general classes were lower in 2016 than in 2015. As a result, the Company's sales were insufficient to allow the Company to collect its authorized fixed costs. Staff verified the Fixed Cost per Customer (FCC) and Fixed Cost per Energy (FCE) components, the annual sales for the two affected classes, the customer counts, and all inputs necessary to calculate the FCA balance. Based on its review, Staff recommends that the Commission accept the Company's proposed $35,012,042 FCA deferral balance.

2016 FCA Balance

The 2016 FCA balance of $35.01 million is $6.96 million more than existing FCA currently recovered in rates (Order No. 33527), and has grown each year since the Company's last general rate case. The chart below illustrates the growth in the FCA balance since the FCC and FCE were established in Case No. IPC-E-11-08.



Declining use-per-customer coupled with increasing customer counts has caused the upward growth in the FCA balance. The Company's 2015 Integrated Resource Plan (IRP) forecasts that both of these trends will continue. Therefore without a general rate case, the FCA balance will continue to grow.

Staff also analyzed the effects of residential customer growth on the FCA balance and determined that $19 million in annual fixed cost revenue has been added due to new customer growth since the last rate case. As customer counts continue to grow, total fixed cost recovery will also grow automatically. Any new fixed cost revenue requirement not recovered by revenue collected from new customers will be recovered through the FCA.

Staff remains concerned that the mechanism allows the Company to increase its authorized Fixed Cost Recovery without any formal review of actual fixed costs incurred. There currently are no controls to protect customers except for the resetting of the FCC and FCE rates. In Case No. IPC-E-14-17, Staff had concerns about how the FCE and FCC rates may be causing cross subsidization between classes in the FCA and classes that are not. These concerns have yet to be resolved. The last time the FCC and FCE rates were set was in 2011. Going forward, Staff may consider proposing a cap on the recovery, or again propose a sharing band, although Staff is not recommending a change in methodology in this case.

2016 FCA Rate Calculation

Staff verified the Company's FCA calculation for the residential and small commercial classes. Consistent with established practice, the Company 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, 2017 through May 31, 2018, a surcharge of 0.6728 cents per kWh for the Residential class and 0.8576 cents per kWh for the Small General Service class is necessary to provide a sufficient opportunity for the Company to recover the FCA balance. The surcharges are an increase of 1.29% of current billed rates, and 1.48% increase over base revenue. Staff verified that the FCA forecasted sales align with the forecast used in the Company's 2016-2017 PCA filing.

Impact of Company Sponsored DSM

The Commission adopted the FCA to remove the Company's disincentive to invest in programs or initiatives that reduce energy sales. 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 bills. In 2016, residential energy sales decreased by approximately 245,027 MWh. The Company's 2016 Annual DSM Report shows that the Company's total energy savings increased by 4 percent from the previous year and energy savings from its residential programs increased by 72 percent. The increase in residential savings was generated primarily by two programs which help customers install LED lighting in their homes. While Staff is encouraged by the Company's successful work to help its residential customers with lighting efficiency, the Company's programs are only responsible for a portion of the overall decline in sales recovered through the FCA.

Since the base inputs in the FCA were reset in 2012, annual residential sales have increased and decreased, but the overall impact has been a net decline in sales. Although sales have fluctuated in both directions, the cumulative impact of energy savings from the Company's residential DSM program has continued to grow. Staff analyzed the effect of the cumulative savings on sales and found that Company-sponsored programs accounted for 46% of the net decline in sales since 2012. This means that the remaining 54% of the decline has been driven by other factors. The residential class peaks in both summer and winter, so the expansion of natural gas space heating is also likely to be another driver of the reduction in sales.

CUSTOMER NOTICE AND PRESS RELEASE

The Company's press release and customer notice were included with its Application. Staff reviewed the documents and determined that both meet the requirements of Rule 125 of the Commission's Rules of Procedure (IDAPA 31.01.01).

The notice was included with customer bills. The last notice was mailed on April 21, 2017, which allowed customers a reasonable opportunity to file timely comments with the Commission by the May 4 deadline. As of May 4, 2017, the Commission had received no comments from customers.

STAFF RECOMMENDATIONS

Staff recommends that the Commission approve the Company's FCA filing with a net deferral balance of $35,012,042 for 2016. Based on the Company's sales forecast, the resulting FCA rates for 2016 are 0.6728 cents per kWh for the Residential class and 0.8576 cents per kWh for the Small General Service class. Staff believes these rates provide adequate opportunity for the Company to collect its deferred authorized level of fixed costs.

Respectfully submitted this 4th day of May 2017.

Brandon Karpen
Deputy Attorney General

Technical Staff: Donn English
Joseph Terry
Bentley Erdwurm
Daniel Klein
Stacey Donohue

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 4th DAY OF MAY 2017, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF** IN CASE NO. IPC-E-17-02, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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