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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 ("FCA") RATES FOR ELECTRIC SERVICE FROM JUNE 1, 2018 THROUGH MAY 31, 2019	**CASE NO. IPC-E-18-02** **COMMENTS OF COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Edith Pacillo, Deputy Attorney General, and in response to the Notice of Application and Modified Procedure issued in Order No. 34028 on April 11, 2018, in Case No. IPC-E-18-02, submits the following comments.

BACKGROUND

On March 15, 2018, Idaho Power Company applied to implement new Fixed Cost Adjustment (FCA) rates for electric service from June 1, 2018 through May 31, 2019 and a corresponding tariff Schedule 54, Fixed Cost Adjustment. With its Application, Idaho Power proposed to *decrease* FCA rates by 3.60 percent from current billed revenue for the affected customer classes, with the average Residential customer's bill decreasing by about $3.60 per month. Idaho Power asks for an effective date of June 1, 2018, and requests that the

Commission process the matter by Modified Procedure. Subsequent to filing the Application, Idaho Power discovered a formula error in the spreadsheet used to produce Exhibit 4 of Company witness Pawel Goralski's testimony. With the formula error corrected, the FCA rates would decrease by 3.62 percent from current billed revenue for the affected customer classes, with the average Residential customer's bill decreasing by about $3.61 per month, a one cent per month decrease in the bill reduction cited in the Application. Mr. Goralski has indicated in telephone conversations with Staff that the Company will address this minor error in reply comments and will file corrected compliance tariffs upon Commission approval of the revised FCA rates. The Company has already provided a side-by-side comparison of as filed and updated results to Staff. To avoid confusion, these Comments will refer to the corrected or updated Company proposal. The Company's comparison is attached at the end of these Comments as Attachment A.

The FCA is a rate adjustment mechanism. Using traditional rate design, an electric utility recovers fixed costs[1] through each kilowatt-hour (kWh) sold, and is thus discouraged from reducing sales volume by investing in energy efficiency and demand-side management. *See* Application at 2. The FCA 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 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.

After correcting the formula error, Idaho Power proposes an FCA deferral of $14,786,500 for the Residential class, and $820,211 for the Small General Service class, for a total of $15,606,711. *See* Attachment A. The proposed FCA deferral balance is below the current FCA deferral balance collected in customers' rates. *See* Application at 4. After correcting the formula error, Idaho Power proposes an FCA rate decrease of 3.62 percent from current billed revenue

[1] "Fixed costs" are a utility's costs to provide service that do not vary with energy use, output, or production.

for the affected customer classes. *See* Attachment A. This equates to new FCA rates - after correcting the formula error - of 0.2923 cents per kWh for the Residential class and 0.3679 cents per kWh for the Small General Service class. *Id.* The FCA deferrals and rates from the filed Application are shown in the footnote below.[2]

STAFF ANALYSIS

Based on its review, Staff recommends that the Commission accept the FCA deferral balance of $15,606,711, which reflects correction of the formula error. Staff reviewed the Company's filing and supporting testimony from Idaho Power witness Pawel Goralski, including materials showing the correction of the formula error and its effects on FCA deferrals and rates. 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. The Company's use-per-customer for Residential and Small General Service classes were higher in 2017 than in 2016. Consequently, the higher level of sales necessitated a decrease in the FCA rates.

2018 FCA Rate Calculation

Staff verified the Company's FCA calculation for the Residential and Small General Service classes. Consistent with prior practice, the Company proposes spreading the FCA surcharge uniformly to both the Residential and Small General Service classes on an equal percentage basis. Using forecasted sales for June 1, 2018 through May 31, 2019, a surcharge of 0.2923 cents per kWh for the Residential class and 0.3679 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 represent a decrease of 3.61 percent of current billed rates, and 3.62 percent decrease to base revenue. Staff verified that the FCA forecasted sales align with the forecast used in the Company's 2018-2019 Power Cost Adjustment (PCA) filing.

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[2] The filed Application shows an FCA deferral of $14,889,454 for the Residential class and $820,771 for the Small General Service class, for a total of $15,710,225. The filed Application shows that the FCA rate decreases 3.60 percent from current billed revenue for the affected customer classes. This equates to new FCA rates of 0.2943 cents per kWh for the Residential class and 0.3704 cents per kWh for the Small General Service class.

2017 FCA Balance

Formula Error and Monthly FCA Balance Calculation

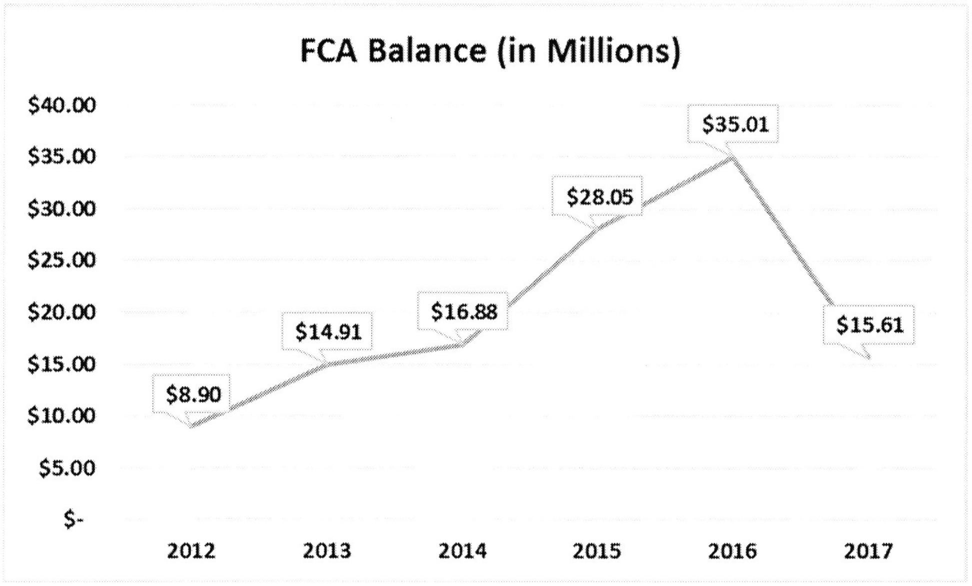
The FCA is an annual mechanism that is ultimately calculated and determined using customer counts and billed energy sales data for the entire year. To maintain compliance with Generally Accepted Accounting Principles, a monthly deferral balance is estimated and recorded in the Company's accounting records. An annual adjustment is required at the end of the year to reconcile the total of the monthly deferral balances to the annual FCA deferral balance. The previously-mentioned formula error involved an inadvertent double-counting of the year-end adjustment in the FCA deferral calculation. Correction of the error decreases the total deferral balance by $103,514, which decreases the FCA collection rate for Residential customers from 0.2943 cents per kWh to 0.2923 cents per kWh and for Small General Service customers from 0.3704 cents per kWh to 0.3679 cents per kWh.

Staff has concerns with the methodology used to calculate the monthly deferral balance. The monthly deferral balances accrue interest, and Staff believes that customers may be unfairly harmed by a monthly interest accrual based on estimates rather than the year-end FCA deferral balance. Staff proposes to discuss the methodology with the Company prior to the 2019 FCA filing, and provide a resolution or recommendation at that time.

Trends in the FCA Balance

The corrected 2017 FCA balance of $15.61 million is $19.40 million less than the existing FCA currently recovered in rates (Order No. 33777). This is the first time the annual FCA balance has fallen since the FCC and FCE were updated in the Company's last general rate case. (Case No. IPC-E-11-08.)

The chart below illustrates the FCA balances since the FCC and FCE were last updated.



Declining use-per-customer coupled with increasing customer counts caused the FCA balance to grow from 2012 through 2016. The Company's 2017 Integrated Resource Plan (IRP) forecasts that both of these trends will continue. Although the 2017 balance declined, Staff is concerned that the FCA is unlikely to produce credits for customers and that FCA balances will increase over time. If use-per-customer declines and customer counts increase, the FCA balance will grow unless the FCC and FCE are updated in a general rate case.

Unlike the Company's PCA mechanism (that recovers actual power costs incurred), absent a rate case no audit can be performed to confirm that the FCA is recovering actual fixed costs incurred. Staff remains concerned that the FCA allows recovery of costs without verification that the Company incurred those costs.

Impact of Company-Sponsored Energy Efficiency

The Commission adopted the FCA to remove the Company's disincentive to invest in energy efficiency that reduces energy sales. However, the Company's energy sales can decrease for many reasons, including, but not limited to, weather, economic cycles, better building codes and standards, improved appliance standards, fuel switching (e.g., increased electric to gas conversions), energy efficiency programs, or various behavioral responses of household or business customers to higher electric bills (i.e., elasticity measures). The FCA rate adjustment mechanism provides for fixed cost recovery regardless of the cause for decreased energy sales and revenues.

Staff notes that only 64,660 MWh (33.7 percent) of the 191,471 MWh energy savings claimed by the Company is attributed to its Residential and Small General Service energy efficiency programs. The majority of Company's energy efficiency savings are due to its Large General Service and Large Power Service classes, which are not subject to the Company's Schedule 54 FCA tariff (Company's Response to Staff Production Request No. 3).

Staff determined that the Company's 2018-2019 Residential and Small General Service energy consumption forecast are 445,793 MWh and 13,529 MWh less than what would have occurred if per-customer energy consumption had remained at the level used to establish base rates in the Company's last rate case (IPC-E-11-08, Exhibit No. 29). Staff notes that only a fraction of these decreases are attributable to the Company's energy efficiency programs: 63,570 MWh (14.3 percent) of the decrease in Residential energy sales, and 1,090 MWh (8.06 percent) of the decrease in Small General Service energy sales. The remaining reductions in energy sales are due to other factors unrelated to the Company's energy efficiency programs. The FCA has been justified as a means to remove a disincentive for energy efficiency. In practice, its impacts go far beyond this.

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, with the last notice sent on April 20, 2018. This allowed customers a reasonable opportunity to file timely comments with the Commission by the May 10, 2018, comment deadline. Staff is not recommending that the Company provide additional notice regarding the change attributable to the formula error. Correction of the formula error results in a small benefit to customers, lowering residential bills by one cent per month. As of May 10, 2018 the Commission has received no comments from customers.

RECOMMENDATION

Staff recommends that the Commission approve the Company's FCA filing with a net deferral balance of $15,606,711 for 2017, as corrected for the formula error. Based on the Company's sales forecast, the resulting FCA rates for 2018 are 0.2923 cents per kWh for the Residential class and 0.3679 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 10th day of May 2018.

Edith Pacillo
Deputy Attorney General

Technical Staff: Bentley Erdwurm
Joe Terry
Cassie Koerner
Mike Morrison
Johnathan Farley

i:umisc:comments/ipce18.2edbejtckmmjf comments

	As Filed	Updated	Variance
Residential Deferral	$ 14,889,453.64	$ 14,786,499.64	**$ (102,954.00)**
S G Deferral	$ 820,771.46	$ 820,211.46	**$ (560.00)**
	$ 15,710,225.10	$ 15,606,711.10	**$ (103,514.00)**
FCA Decrease	$ (19,301,816.93)	$ (19,405,330.93)	**$ (103,514.00)**
Residential Rate	$ 0.002943	$ 0.002923	**$ (0.000020)**
S G Rate	$ 0.003704	$ 0.003679	**$ (0.000025)**
Revenue Impact	$ (20,221,370.78)	$ (20,328,118.47)	**$ (106,747.69)**
Residential Percentage Change	-3.60%	-3.61%	**-0.02%**
S G Percentage Change	-3.73%	-3.75%	**-0.02%**
Overall Percentage Change	-3.60%	-3.62%	**-0.02%**
Typical Residential Bill % Decrease (EE active)	-3.59%	-3.61%	**-0.02%**
Typical Residential Bill $ Decrease (EE active)	$ (3.60)	$ (3.61)	**$ (0.02)**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 10TH DAY OF MAY 2018, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-18-02, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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