Office of the Secretary
Service Date
May 31, 2019

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER FOR AUTHORITY TO IMPLEMENT FIXED COST ADJUSTMENT ("FCA") RATES FOR ELECTRIC SERVICE FROM JUNE 1, 2019, THROUGH MAY 31, 2020	**CASE NO. IPC-E-19-10** **ORDER NO. 34346**

On March 15, 2019, Idaho Power Company ("Idaho Power" or "Company") filed an Application requesting authorization to implement Fixed Cost Adjustment ("FCA") rates for electric service from June 1, 2019 through May 31, 2020, and for approval of the Company's corresponding updated Schedule 54.

On April 4, 2019, the Commission issued a Notice of Application and Notice of Modified Procedure establishing a comment deadline of May 7, 2019, and a reply comment deadline of May 14, 2019. Order No. 34299. The Idaho Conservation League ("ICL") intervened as a party, and the ICL, Commission Staff, and several members of the public filed written comments. The Company then filed a reply.

Now, the Commission issues this Order approving the Application.

BACKGROUND

In 2004 the Commission opened an investigation to "assess financial disincentives inherent in Company-sponsored conservation programs[,]" to "address possible revenue adjustment when annual energy consumption is both above and below normal[,]" and to provide the Commission with proposals "that could provide Idaho Power the opportunity to share and retain benefits gained from efficiencies, especially where efficiencies are derived from innovation and the use of new technologies[.]" Order No. 29558 citing Order No. 29505 at 68-69. Following the investigation, the Commission approved a three year FCA pilot program for the Company's Residential and Small General Service customers. Order No. 30267. The FCA pilot program was implemented in 2007. In 2010, the Commission extended the pilot program for an additional two-year period. Order No. 31063. In 2012, the Commission approved the Company's application to make the FCA an ongoing program. Order No. 32505.

The FCA is an annual rate adjustment mechanism designed to decouple Idaho Power's fixed-cost recovery from its volumetric energy sales. Under traditional rate design, a utility recovers much of its fixed costs through volumetric rates. Fixed costs are a utility's costs to provide service that do not vary with fluctuations in energy consumption, whereas variable costs, as their name suggests, vary based on the energy generated and consumed. When a utility's customers demand less energy, the utility's variable costs decline in proportion to the reduced demand. However, the utility's fixed costs to meet customer demand stay the same. Therefore, when fixed costs are recovered through volumetric rates, an economic disincentive exists for the utility to invest in energy efficiency and demand-side management programs, which reduce customer demand. Because the Company and the Commission have long agreed that promoting cost-effective demand-side management ("DSM") and energy efficiency is integral to least-cost electric service, the Commission approved the Company's use of the FCA for the Residential and Small General Service classes. *See* Order No. 30267 at 13-14 (finding DSM is an integral part of least-cost electric service and approving the FCA as a three year pilot program).

The FCA is designed to true-up the difference between the fixed costs the Company actually recovered through rates each year and the fixed costs authorized for recovery in the Company's most recent general rate case. The fixed-cost portion of the Company's revenue requirement is established for each customer class during the Company's most recent general rate case. The Commission also establishes a fixed-cost per customer ("FCC") and a fixed-cost per energy ("FCE") as part of the Company's general rate case, which are used in the calculation of the Company's recoverable fixed costs in subsequent years. The FCA is calculated at the end of each calendar year after the Company knows how many customers it served during the prior year and how much energy those customers consumed. The Company then recovers the calculated FCA balance through rates in effect from June 1 through May 31 of the following year. The FCA provides a customer surcharge when use per customer declines, and a customer credit when use per customer increases.

THE APPLICATION

The Company states that the FCA deferral account balance for 2018 is $33,522,802.44 for the Residential class and $1,265,473.45 for the Small General Service class, which totals to $34,788.275.89. This FCA deferral balance is above the $15,606,711 currently collected in customers' rates. Application at 5. The Company requests updated FCA rates of 0.6598 cents per kilowatt hour ("kWh") for the Residential class and 0.8366 cents-per-kWh for the Small General Service class, which would cause an annual increase of 3.64% from current billed revenue for the affected customer classes. *Id.* The Company requests the Commission use its discretion to waive the 3% cap on FCA rate increases. The Company states that a typical Residential customer would see an increase of approximately $3.49 on their monthly bill if the Company's Application is approved in full.

COMMENTS

The Commission Staff, ICL, and several members of the public filed written comments about the Application. The Company then filed a reply. The comments and reply are summarized below.

A. Commission Staff.

Commission Staff recommends the Commission accept the FCA deferral balance of $34,788,276, waive the 3% cap on annual FCA increases, and approve the requested FCA rates. Despite its recommendation of approval, Staff reiterates its perennial concern that the FCA compensates the Company for all decreases in energy sales, regardless of whether those decreases are due to Company energy efficiency efforts, or factors over which the Company has little control such as weather, economic cycles, enhanced building codes and appliance standards, customer fuel switching or behavioral responses to higher electric bills. Staff notes that, while the justification for the FCA is to remove the disincentive for the Company to invest in energy efficiency measures, the impacts of the FCA go far beyond its justification.

Staff determined that the energy savings attributable to the Company's Residential and Small General Service classes, which are subject to the Company's Schedule 54 FCA tariff, represent less than 10% of the forecasted decrease in the Company's 2019-2020 Residential class energy consumption forecast. Staff states that most of the energy savings the Company attributes to energy efficiency programs occur in the Company's Large General Service and Large Power Service classes, which are not subject to the Company's Schedule 54 FCA tariff.

Staff also notes its concern that the FCA is unlikely to produce credits for customers given recent trends, and that FCA deferral balances will continue to increase if the use-per-customer continues to decline and customer counts continue to increase. Staff states that the FCA deferral balance will continue to grow until the FCC and FCE are updated in a general rate case.

B. Idaho Conservation League.

ICL recommends the Commission defer the Company's request "until stakeholders can address the stale inputs and unresolved inaccuracies in the current mechanism." ICL Comments at 1. Like Staff, ICL notes that the Company's FCA used an FCC and FCE that were derived from the Company's last general rate case in 2011-2012. ICL states, "Due to changes in housing stock, appliances, and most of all lighting, the consumption per customer today is almost certainly lower than before, making a key input to the [FCA] quite stale." *Id.*

C. Customers.

Numerous customers filed comments on this matter. Most objected to the disincentive for customers to reduce their energy consumption. Others objected solely to the proposed increase in rates.

D. Idaho Power's Reply Comments.

Idaho Power's reply comments emphasize the Company's filing complied with the methodology approved in Case No. IPC-E-11-19, and affirm the effectiveness of the existing FCA mechanism. The Company states that the Settlement Stipulation that established the current FCA methodology specified that concerns about the FCC and FCE should be addressed in a general rate case when base rates are set.

COMMISSION FINDINGS AND DECISION

The Commission has jurisdiction over this matter under *Idaho Code* §§ 61-502 and 61-503. The Commission is empowered to investigate rates, charges, rules, regulations, practices, and contracts of public utilities and to determine whether they are just, reasonable, preferential, discriminatory, or in violation of any provision of law, and to fix the same by order. *Idaho Code* §§ 61-502 and 61-503.

The Commission has reviewed the record, including the Application, the comments of Commission Staff, ICL, the public, and the reply comments of Idaho Power. Based on our review, we find it reasonable to approve the Application because it complies with the Commission-approved methodology for calculating the FCA. But as we frequently have expressed in prior orders, the FCA is designed to encourage cost-effective DSM and energy efficiency programs, but in practice the FCA rewards the Company for all reductions in per customer energy consumption, whether the reduction results from the Company's efforts or broader trends the Company has no control over. These limitations in the FCA's design, coupled with trends that are likely to create charges rather than rebates for customers in the coming years, cause us concern about whether the FCA can remain viable as structured.

We further note that key components of the FCA calculation have not been updated since the Company's last general rate case in 2011. Since then, much has occurred in the energy industry and in the Company's service territory to call into question the continued reasonableness of the numbers established in 2011. However, the Settlement Stipulation we approved in Case No. IPC-E-11-19 contemplated changing FCA inputs, like the FCC and FCE, only during a general rate case. We also note that, in Case No. IPC-E-18-16, the Company and stakeholders are studying how the Company recovers fixed costs. That docket will produce a study, which is to be submitted to the Commission, that will analyze potential methods by which the Company can recover its fixed costs following its next general rate case, which will likely impact the FCA. We look forward to addressing these issues after the record is fully developed.

We also find it reasonable to waive the 3% cap on FCA rate increases and approve the 3.64% increase because the rate impact will be mitigated by other Company filings that will take effect on the same date; namely a decrease to the Power Cost Adjustment in Case No. IPC-E-19-16, and a decrease to the Company's Energy Efficiency Rider in Case No. IPC-E-19-06. The 3% cap was meant to prevent rate increases from being stacked upon each other, which is not a concern in this case.

ORDER

IT IS HEREBY ORDERED that Idaho Power's Application is granted. The Company shall have a net deferral balance of positive $34,788.276 for the 2019-2020 period, and FCA rates equal to 0.6598 cents-per-kWh for the Residential class and 0.8366 cents-per-kWh for the Small General Service class. The Company's proposed Schedule 54 is approved as filed, with an effective date of June 1, 2019.

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 with regard to any matter decided in 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 30th day of May 2019.

PAUL KJELLANDER, PRESIDENT

KRISTINE RAPER, COMMISSIONER

ERIC ANDERSON, COMMISSIONER

ATTEST:

Diane M. Hanian
Commission Secretary

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