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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER FOR AUTHORITY TO IMPLEMENT FIXED COST ADJUSTMENT RATES FOR ELECTRIC SERVICE FROM JUNE 1, 2019, THROUGH MAY 31, 2020.	**CASE NO. IPC-E-19-10** **COMMENTS OF THE COMMISSION STAFF**

The Staff of the Idaho Public Utilities Commission comments as follows on Idaho Power Company's Application.

BACKGROUND

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.

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. 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.

The Commission approved an FCA pilot for the Company in 2007 and approved the Company's request to convert the FCA to a permanent program for Residential and Small General Service customers in 2011. Order Nos. 30267, 32505.

The Company proposes an FCA rate increase of $19,181,565 for Residential and Small General Service customers. This proposal increases the FCA rates to 0.6598 cents per kWh for the Residential class and 0.8366 cents per kWh for the Small General Service class. If approved, the FCA rates would increase by 3.64% from current billed revenue for the affected customer classes. The Company requests the Commission waive the 3% cap on annual FCA rate increases.

STAFF REVIEW

Based on its review, Staff recommends the Commission accept the FCA deferral balance of $34,788,276, which is composed of $33,522,802 for the Residential class and $1,265,473 for the Small General Service class.

Staff reviewed the Company's filing and supporting documents, and verified the Fixed Cost per Customer (FCC) and Fixed Cost per Energy (FCE), the annual sales for the two affected classes, the customer counts, and all inputs associated with the calculation of the FCA balance. The Company's use-per-customer for Residential and Small General Service classes were lower in 2018 than in 2017. As a result, the lower level of sales produced an increase in the FCA rates.

The proposed FCA deferral balance of $34,788,276 exceeds the current FCA deferral balance of $15,606,711 currently included in customers' rates by $19,181,565. This increase exceeds the 3% cap on annual FCA increases. When the 3% threshold is reached, the Commission may specify that amounts in excess of the cap be carried over to subsequent years. The Company has requested the cap be waived this year and FCA surcharges for the coming year be designed to recover the full FCA deferral balance of $34,788,276. Waiving the cap minimizes the potential for compounding future rate increases, which can happen when a deferred cost recovery is "pancaked" on top of a subsequent period's rate adjustments.

Furthermore, the FCA rate increase will be offset by rate reductions, also effective June 1, 2019, associated with the 2019-20 Power Cost Adjustment (PCA) including a reduction due to the Tax Cuts and Jobs Act of 2017, and a proposed 1% reduction to the collection rate for the Company's Energy Efficiency Rider. Staff agrees with the Company's proposal to waive the 3% cap on annual FCA increases because of this offset impact.

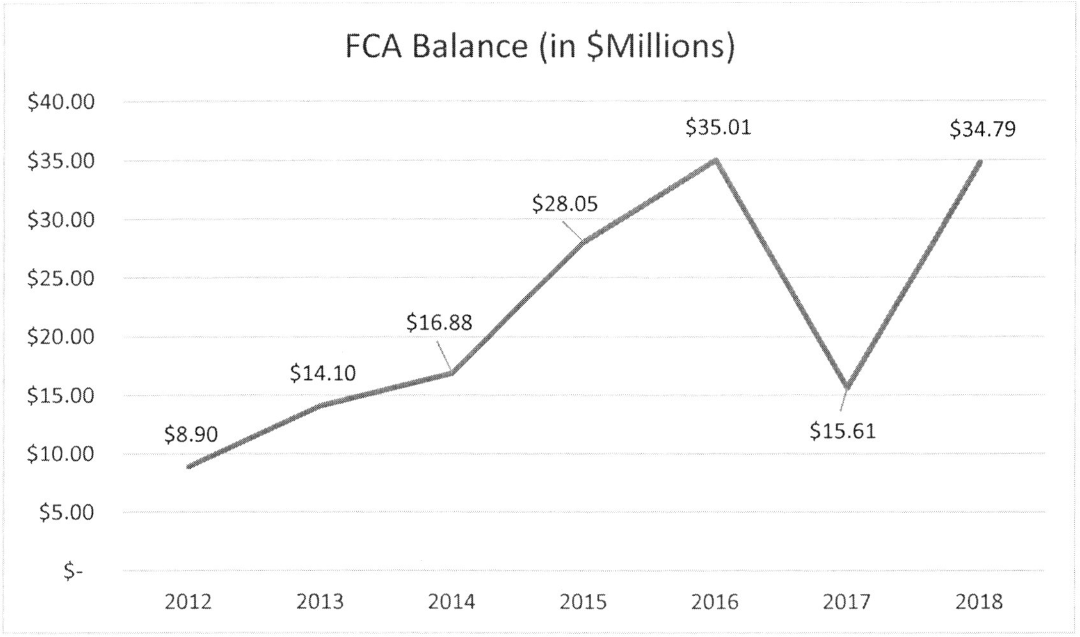
2019 FCA Rate Calculation

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, 2019 through May 31, 2020, a surcharge of 0.6598 cents per kWh for the Residential class and 0.8366 cents per kWh for the Small General Service class is necessary to provide a sufficient opportunity for the Company to recover the FCA deferral balance. The surcharges represent an increase of 3.64 percent in base revenue. Staff verified the FCA forecasted sales are appropriate and align with the forecast used in the Company's 2019-2020 Power Cost Adjustment (PCA) filing.

Trends in the FCA Balance

The 2018 FCA balance of $34.79 million is $19.18 million more than the existing FCA currently recovered in rates. *See* Order No. 34079. This is consistent with the upward trend in the balance since the FCC and FCE were updated in the Company's last general rate case, Case No. IPC-E-11-08. Over this period, the FCA deferral balance increased consistently in six years and only decreased once, last year's 2017 FCA deferral balance. Chart 1 illustrates the FCA balances since the FCC and FCE were last updated.

Chart 1: FCA Deferral Balances 2012-2018



Declining use-per-customer coupled with increasing customer counts caused the FCA balance to grow from 2012 through 2016, and again in 2018. The Company's 2017 Integrated Resource Plan (IRP) forecasts that both of these trends will continue. Staff is concerned that the FCA is unlikely to produce credits for customers and that FCA deferral balances will increase over time. If use-per-customer declines and customer counts increase, the FCA deferral balance will grow unless the FCC and FCE are updated in a general rate case.

Unlike the Company's PCA mechanism, which recovers actual power costs incurred, and is therefore easily verifiable, the FCC was established in the Company's last general rate case and have not been verified since. 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 households 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 44,140 MWh (24.1%) of the 183,378 MWh energy savings claimed by the Company is attributed to its Residential and Small General Service energy efficiency programs. The majority of the 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.

In the Company's Residential and Small General Service energy consumption forecast, the Residential component represents over 97% of the forecast, with Small General Service representing less than 3% of the forecast. Company's Response to Staff Production Request No. 2. Staff determined the Company's 2019-2020 Residential energy consumption forecast is around 500,000 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: 44,140 MWh represents less than 10% of the estimated decrease in Residential energy sales. The remaining reductions in energy sales are due to 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, Press Release and Public Comments

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. The notice was included with bills mailed to customers beginning March 25 and ending April 23, 2019, providing customers with a reasonable opportunity to file timely comments with the Commission by the May 7, 2019 deadline.

As of May 6, 2019, the Commission had received six comments, which were all opposed to the proposed rate increase.

STAFF RECOMMENDATIONS

Staff recommends the Commission waive the 3% cap and approve the Company's FCA filing with a net deferral balance of $34,788,276 for 2019. Based on the Company's sales forecast, the resulting FCA rates for 2019 would be 0.6598 cents per kWh for the Residential class and 0.8366 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 7th day of May 2019.

Edward J. Jewell
Deputy Attorney General

Technical Staff: Johan Kalala-Kasanda
Bentley Erdwurm
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i:umisc/comments/ipce19.10ejjkjfbe comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 7th DAY OF MAY 2019, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-19-10, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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