



Case No. IPC-E-17-02 and IPC-E-17-06, Order Nos. 33777 and 33775

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Regulators approve cost adjustments for Idaho Power Company, rates to increase June 1

BOISE (May 31, 2017) - Idaho Power Company's typical residential customer will see an increase of almost \$2 on monthly bills beginning June 1.

The change is a result of increases to the company's Power Cost Adjustment (PCA) and Fixed Cost Adjustment (FCA) mechanisms that were recently approved by the Idaho Public Utilities Commission.

The two "true-up" mechanisms are adjusted annually, up or down, to reflect costs Idaho Power incurred during the previous year. When the company collects more than was needed or authorized, customers receive a credit. When expenses exceed revenues, the surcharges are adjusted upward.

This year, the PCA will increase by an average of 0.93 percent, leading to a 59-cent increase on the monthly bill for Idaho Power's typical residential customer using 1,000 kilowatt-hours. A 1.29-percent increase to the FCA will lead to an average monthly increase of \$1.31.

Fixed Cost Adjustment

The FCA is adjusted annually based on changes in energy use during the previous year by customers in two classes, Residential and Small General Service (small-commercial customers).

The mechanism separates revenues from fixed costs and energy sales, enabling the company to recover costs incurred delivering energy to its Idaho customers even if energy sales decrease.

Without the FCA, the company would have no incentive to help customers use less energy, or use it more efficiently, since there would be a loss of revenue as energy use declined.

In 2016, the company's residential energy sales decreased by 245,027 megawatt-hours (MWh) from 2015 levels, due in part to the growth of its energy efficiency programs.

That decrease in energy sales, combined with an increase in the number of customers in the Residential and Small General Service customer classes, left the company unable to recover its fixed costs for the year.

As a result, Idaho Power asked the Commission to approve the increase to the FCA mechanism for the next 12 months.

Effective June 1, the FCA will be assessed at .6728 cents per kilowatt-hour (kWh) used for Residential customers and .8576 cents per kWh for customers in the Small General Service class. The increase is projected to boost revenue by approximately \$6.96 million, matching the amount under-collected in 2016.

A year ago, the FCA was increased by 2.2 percent, leading the typical monthly residential bill to go up by \$2.16.

In a separate case (IPC-E-17-03) pending before the Commission, Idaho Power has asked for approval of \$40.2 million in expenses related to its energy-efficiency programs. The Commission allows a utility to recover those costs through base rates if it deems the programs cost-effective. If the costs are found to exceed their benefit to customers, however, they are borne by shareholders rather than customers.

The programs are funded primarily through an Energy-Efficiency Rider collected directly from customers at 4 percent of base rate revenues.

Idaho Power achieved 170,792 MWh of energy savings through its energy-efficiency programs during 2016, a 4-percent increase from savings reported in 2015.

The company said that is enough energy to power 14,000 average homes for one year. Numerous studies have shown that energy efficiency and demand reduction are the least expensive source of energy for utilities.

Idaho Power's application and supporting documents are available on the commission's website at www.puc.idaho.gov. Click on "Open Cases" under the "Electric" heading and scroll down to IPC-E-17-02.

Power Cost Adjustment

The PCA mechanism allows Idaho Power to modify its rates each year to contend with fluctuations in the cost of serving customers due to factors beyond its control.

Those factors include market prices for power, power transmission costs, revenue earned from selling surplus power and stream flows that diminish the hydropower generation on which the company relies.

The PCA is examined annually and adjusted up or down to either pay down already-incurred expenses if power costs exceed forecasts, or credit customers when expenses fall short.

The company said last year's power costs exceeded forecasts due in part to worse-than-expected water conditions. While stream flows have improved for 2017, the company expects to incur greater costs associated with solar and wind generation, and the unexpected collapse and abandonment of the Joy Longwall by the Bridger Coal Company.

As a result, the Commission approved raising the surcharge to .7361 cents per kilowatt-hour (kWh) used, from .6187 cents/kWh.

The change takes effect June 1 and will lead to a 59-cent increase per month for Idaho Power's typical residential customer using 1,000 kWh.

Neither the company nor its shareholders benefit from the PCA. The revenue, estimated at \$10.6 million, must be used to pay expenses related to its power supply.

Three components are used to determine the PCA: a forecast component, a true-up component and the reconciliation of the true-up.

The forecast component is based on projected power costs. Those include fuel and transmission costs, contract expenses related to the Public Utility Regulatory Policies Act of 1978, fuel costs, and revenue from the sale of surplus power and from the sale of renewable energy credits.

The true-up component is determined at the end of the PCA year, which runs from April to March, and allows the company to reconcile its projected power costs with the actual costs incurred meeting customers' demand for power.

The reconciliation of the true-up ensures that Idaho Power recovers actual approved costs required to meet the demand for electricity among its customers, while those customers are charged only for the actual amount of power the company sold to meet native load requirements.

The forecast component is largely responsible for this year's PCA increase. Although improved water conditions are expected to lead to more low-cost hydro generation, the company said that is more than offset by an increase in coal-fired generation costs and higher costs associated with new wind and solar purchase agreements mandated by PURPA. As a result, the forecast is nearly 40 percent higher than a year ago.

An additional factor in determining this year's PCA was a one-time refund to customers of \$13 million in previously collected energy-efficiency rider funds. That refund is allocated to each customer class differently, leading to a different PCA-related surcharge for each customer class.

While Residential rates will rise by .58 percent, customers in the Large Power class will see a 1.65-percent increase. Contract customers such as Micron, the US Department of Energy and Simplot will see increases of 1.95, 2.03 and 2.16 percent, respectively.

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