KARL T. KLEIN
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0320
IDAHO BAR NO. 5156

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5918

Attorney for the Commission Staff

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR AUTHORITY TO IMPLEMENT FIXED COST ADJUSTMENT RATES FOR SERVICE FROM JUNE 1, 2015 THROUGH MAY 31, 2016.	**CASE NO. IPC-E-15-05** **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 13, 2015, the Company applied to the Commission for authority to implement Fixed Cost Adjustment (FCA) rates for electric service from June 1, 2015 through May 31, 2016.[1] The Company calculates the FCA at the end of each calendar year after it knows its annual customer count and their energy use. The Company then recovers the calculated FCA balance through rates using the same period as the Power Cost Adjustment (PCA), which is June 1 through May 31.

[1] In July 2014, the Commission opened a separate case for its Staff, the Company, and other interested persons to evaluate the FCA mechanism and whether it effectively removes the Company's financial disincentive to aggressively pursue energy efficiency programs. *See* Case No. IPC-E-14-17, Order No. 33068. The Commission has not issued a final Order in that case. When it does, that Order will apply to future FCA cases.

The FCA separates the Company's ability to recover its fixed costs from the revenues it derives from selling energy.[2] The FCA thus removes the Company's financial disincentive to invest in energy efficiency resources and demand-side management (DSM) resources that might otherwise decrease its customers' energy use and, consequently, the fixed costs it recovers by selling energy. Under the FCA, the Company charges customers when it recovers less "actual fixed costs" than the base level of fixed costs that the Commission authorized it to recover through rates during the last general rate case.[3] On the other hand, the Company credits customers when its "actual fixed costs" exceed the base level of fixed costs. The Company's FCA rates are specified in tariff Schedule 54 and apply to the residential and small general service customer classes.

The Company's Application summarizes how it calculates the FCA. The Company first identifies the amount of fixed costs that the Commission has authorized it to recover from the residential and small general service customer classes. The Company calculates the fixed costs by multiplying the number of customers in each class by the fixed-cost per customer rate that was set in the Company's last general rate case. The Company then compares the authorized recovery amount to the weather-adjusted fixed-cost amount recovered. The Company calculates the fixed costs it recovered by multiplying its weather-normalized sales per customer class by the fixed-cost per energy rate as set in the Company's last general rate case. The difference between the authorized recovery amount and the "actual fixed costs" recovered results in an adjustment each year to the FCA rate.

In this case, the Company calculates the difference between the authorized recovery amount and the fixed costs recovered to be $15,992,109 for the residential class and $889,600 for the small general service class, for a total amount to be recovered through this year's FCA of $16,881,710 (the FCA "deferral balance"). This proposed FCA deferral balance is incrementally more than the FCA balance currently collected through rates. To recover this incremental increase, the Company proposes to raise residential billing rates by 0.35% and small general service billing rates by 0.32%, for an overall rate increase of 0.35%. The new FCA rate would

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[2]A utility's "fixed costs" are its costs to deliver energy that do not vary with energy use, output, or production and remain relatively stable between general rate cases. They include costs associated with long-lasting infrastructure (e.g., power plants, power lines, and substations) and certain administrative costs.
[3] "Actual fixed costs" refers to the fixed costs recovered through weather-normalized sales.

be 0.3258 cents per kilowatt-hour (kWh) for the residential class and 0.4099 cents per kWh for the small general service class.

STAFF ANALYSIS

Staff has reviewed the Company's filing and verified the Company's calculation and use of the fixed cost per customer (FCC) and fixed cost per energy (FCE) components and the resulting balance of uncollected fixed costs. Staff also verified that weather-normalized sales per customer for both residential and small commercial classes were lower in 2014 in relation to the base year established in the Company's 2011 general rate case. The result is that weather-normalized sales were insufficient to enable the Company to collect its authorized fixed costs. Staff thus recommends that the Commission accept the Company's proposed $16.9 million net FCA deferral balance and residential and small commercial FCA rates for the 2015 PCA year.

2014 FCA

Weather-normalized residential and small commercial use per customer continued to decline when compared to 2011 normalized consumption established during the Company's last general rate case. The decline in use per customer for the two affected classes results in an under-recovery of fixed costs and a surcharge to customers. The 2014 FCA balance of $16.8 million is $1.9 million more than the existing FCA. While the Company describes this increase as "incremental" from the prior year, the prior year's $14.9 million FCA was the highest-ever and 67% more than the 2012 FCA balance of $8.9 million. This is the seventh straight year out of the FCAs eight years of existence that the combined FCA balance results in a surcharge to customers.

Annual FCA Deferral Balances			
Period	Residential	Small Commercial	Total
2007—2008	($3.6 million)	$1.2 million	($2.4 million)
2008—2009	$1.3 million	$1.4 million	$2.7 million
2009—2010	$5.2 million	$1.2 million	$6.3 million
2010—2011	$7.9 million	$1.4 million	$9.3 million
2011—2012	$8.8 million	$1.5 million	$10.3 million
2012—2013	$8.4 million	$530,000	$8.9 million
2013—2014	$14.3 million	$573,000	$14.9 million
2014—2015	$15.9 million	$890,000	$16.9 million

Idaho Power DSM Savings

Although the Commission adopted the FCA to remove the Company's disincentive to acquire DSM resources, recent years have demonstrated very little relationship between FCA deferral balances and the Company's energy savings acquisitions. Beyond the lack of any meaningful symmetry, annual FCA balances have nearly doubled since 2010 while the Company has experienced a large net decline in energy savings.

The Company's 2014 Annual DSM report shows that the Company's recent efforts to improve its residential energy efficiency programs resulted in a 25% increase in residential energy savings. While Staff is encouraged by this improved performance, the FCA generally produces surcharges when customer counts increase and weather-adjusted use-per-customer decreases. The Company's most recent IRP forecasts that both of these established trends will continue, which means that customer surcharges will likely continue, as they have since 2008, regardless of the impact of the Company's energy efficiency programs.

The FCA Rate

In keeping with established practice from previous FCA cases, the Company proposes spreading the FCA surcharge uniformly to both customer classes on an equal percentage basis. Using weather-normalized forecasted sales for June 1, 2015 – May 31, 2016, the Company has determined that a 0.35% surcharge over current residential and small commercial billing rates provides a sufficient opportunity for the Company to recover its approved fixed costs.[4] Staff confirmed that the FCA forecasted sales align with the forecast used in the Company's 2014-2015 PCA filing.

Staff verified the Company's 2014 FCA calculation for the residential and small commercial classes. The combined FCA for the two classes is about $16.9 million, which is about $1.9 million more than combined class revenues. This increase of 0.42% from existing base revenue does not exceed the 3% cap on annual rate increases that the Commission set in Order No. 30267.[5]

If the Commission approves the proposed rates, the residential FCA rate will increase from 0.2913 cents per kWh to 0.3258 cents per kWh. For an average residential customer using 1050 kWh per month, the new FCA rate results in an increase of 36 cents per month over the current FCA charge. For small commercial customers using 450 kWh per month, the proposed FCA rate would increase from 0.3709 cents per kWh to 0.4099 cents per kWh, which results in a monthly increase of 17 cents. Staff believes these rates provide the Company adequate opportunity to collect its authorized fixed costs in the next FCA year.

Future FCA Filings

Staff acknowledges the Company's effort to improve its FCA filing this year with new exhibits on the FCA Annual Calculation, FCA Rate Determination, and Summary Revenue Impact. The new exhibits makes processing the Company's annual FCA more transparent and efficient given the timeframe for review. Staff recommends that, in future filings, the Company provide these exhibits as electronic, executable files to supplement the hard copies the Company already files. Staff also appreciates that the Company's testimony describes the FCA increase in the context of the 3% cap, and encourages the Company to continue that practice in future filings.

Pursuant to Order No. 33047, the Staff and parties held workshops to investigate how the FCA mechanism can be improved (Case No. IPC-E-14-17). As a result of these workshops, parties have filed a Settlement Stipulation for the Commission's consideration which includes

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[4] See Exhibit No. 5.

[5] Dividing the FCA increase ($1,969,268) by the total base revenue for the Company's test year for Residential and Small General Service customer classes ($470,477,052) shows that the FCA increase is 0.42% higher than base revenue.

several agreements. These include: 1) replacing weather normalized billed sales with actual billed sales when determining the FCA balance; 2) clarifying the calculation of the 3% cap; 3) acknowledging that concerns about the FCE and FCC calculations are more effectively addressed when base rates are reset; and 4) agreeing to consider modified rate designs for the residential and small commercial classes.

While Staff believes that these modifications will improve the FCA if the Commission approves the Settlement Stipulation, the most immediate change for future FCA filings will be calculating the FCA balance on actual rather than weather-normalized sales. As was the case last year, weather normalization can have a very large impact on the FCA deferral balance, and this year's filing would have been easier to analyze had actual sales data been included.

CUSTOMER NOTICE AND PRESS RELEASE

Idaho Power filed copies of its press release and customer notice with its Application. Staff reviewed both documents and determined that they comply with the Commission's Procedural Rule 125, IDAPA 31.01.01.125.

The customer notice was mailed with cyclical billings. The last notice was mailed on April 22, 2015, which allowed customers a reasonable opportunity to file timely comments with the Commission by the May 7, 2015 deadline.

CUSTOMER COMMENTS

As of May 7, 2015, the Commission has received no comments from customers.

STAFF RECOMMENDATION

Staff recommends the Commission approve the Company's FCA filing with a net deferral balance of positive $16,881,710 for 2014. Based on the Company's sales forecasting efforts, the resulting FCA rates for 2014 would equal 0.3258 cents per kWh for residential customers and 0.4099 cents per kWh for small commercial customers. Staff believes these rates provide adequate opportunity for the Company to collect its deferred authorized fixed costs.

Respectfully submitted this 7th day of May 2015.

Karl T. Klein
Deputy Attorney General

Technical Staff: Stacey Donohue
Daniel Klein

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 7TH DAY OF MAY 2015, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-15-05, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

LISA D NORDSTROM
REGULATORY DOCKETS
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-mail: lnordstrom@idahopower.com
dockets@idahopower.com

ZACHARY L HARRIS
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-mail: zharris@idahopower.com

BENJAMIN J OTTO
ID CONSERVATION LEAGUE
710 N 6TH STREET
BOISE ID 83702
E-mail: botto@idahoconservation.org

Jo Nelson
SECRETARY