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Case No. IPC-E-15-05, Order No. 33302; Case No. IPC-E-15-14, Order No. 33306
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Result of two annual rate adjustments is net decrease for Idaho Power customers

BOISE (May 28, 2015) – Rates for residential customers of Idaho Power Company decrease slightly on June 1 due to annual updates of two rate adjustments approved by the Idaho Public Utilities Commission.

The annual Fixed Cost Adjustment (FCA) increases rates by 0.35 percent, but that is offset by a slightly more than 1 percent decrease in the annual Power Cost Adjustment (PCA). The FCA increase is about 36 cents per month for a residential customer who uses the customer average of 1,050 kilowatt-hours per month. The PCA decrease is about 58 cents per month for a residential customer.

Power Cost Adjustment

Since 1993, the PCA mechanism allows Idaho Power to adjust rates up or down to reflect that portion of costs that change every year due to factors largely beyond the company's control. Because about half of Idaho Power's generation is from hydroelectric facilities, Idaho Power's actual cost of providing electricity varies depending on changes in Snake River streamflows. Other costs that vary each year are the market price of power, fuel costs, transmission costs for purchased power and the revenue it earns from selling surplus power.

Idaho Power's forecasted net power supply expense is $384.4 million, $42.7 million higher than the $305.7 million of power supply expense already included in base rates, necessitating a surcharge. However, the total amount of power supply expense above base rates is lower than that collected in last year's PCA resulting in a smaller-sized surcharge and, thus, a slight reduction to customers.

Actual hydro generation (3.4 million acre-feet) is about 7 percent lower than forecast (3.6 million acre-feet.) Less hydro generation forces the company to use more expensive generation sources, driving up power supply expense. That expense is reduced by Idaho Power's sale of surplus power on the market, but revenue from off-system sales continues to decline. Because of lower prices on the wholesale energy market, Idaho Power is forecasting only $39 million in sales, down from the $51.7 million included in base rates. However, the loss in off-system sales is somewhat offset by lower priced purchases from the market and reductions in coal and gas production costs.

The PCA rate effective June 1 will be about 0.53 cents per kilowatt-hour, less than the current rate of 0.73 cents per kWh. (The approximate one-half cent per kWh PCA rate is a relatively small component of overall rates. A customer who uses the company's average of 1050 kWh per month now pays an energy rate of about 8.2 cents per kWh during the non-summer months and 9 cents during the summer months.)

To mitigate the surcharge even further, Idaho Power proposed to apply $8 million in revenue sharing to customers and to credit customers $4 million in additional energy efficiency rider funds collected last year.

As part of a settlement to a 2011 base rate case, the company agreed to share revenue with customers if it exceeded a 10 percent Return on Equity. Any earnings greater than 10 percent ROE up to and including 10.5 percent would be split 50-50 with customers to be applied against the PCA. Earnings above 10.5 percent will be shared 75 percent with customers and 25 percent for the company. Those earnings are applied against what customers would otherwise be paying to fund the company's pension balancing account.

Idaho Power's 2014 year-end ROE was 11.19 percent, meaning customers will receive a benefit of $24.7 million. About $8 million is applied as a rate credit passed through the PCA, while the remaining $16.7 million is used to offset the pension balancing account.

Fixed Cost Adjustment

The FCA is designed to ensure Idaho Power recovers its fixed costs of delivering energy even when energy sales and revenue decline due to reduced consumption. Before the FCA, Idaho Power had a financial disincentive to invest in energy efficiency programs because it lost revenue as consumption declined. Even though consumption may decline, fixed costs to serve customers do not. To remove that disincentive, the Fixed Cost Adjustment was created to allow the utility to recoup its fixed costs.

If actual fixed costs recovered from customers are less than the fixed costs authorized in the most recent rate case, residential and small-commercial customers get a surcharge. If the company collects more in fixed costs than authorized by the commission, customers get a credit.

During 2014, Idaho Power under-collected fixed costs of serving customers by $16.88 million. About $14.9 million of that is already collected in the FCA. To recover the additional $1.96 million, the commission approved an increase the Fixed Cost Adjustment from 0.29 cents per kWh to 0.326 cents per kWh for residential customers and from 0.37 cents per kWh to 0.41 cents per kWh for small commercial customers.

In a separate case, the commission adopted a settlement to a docket opened last year to evaluate the effectiveness of the FCA.

Beginning this year, Idaho Power will modify the way it calculates the FCA deferral by replacing an average of weather-normalized billed sales with actual billed sales.

Parties to the settlement also agreed to further clarify how a 3% cap on annual FCA increases should be calculated. All parties agreed that without the FCA, current rate design creates a financial disincentive for Idaho Power to pursue cost-effective energy efficiency. However, they also stated that the commission could pursue a modified rate design for residential and small commercial customers to address this issue, in lieu of an FCA mechanism. Possible rate design changes could include reduced energy charges but higher monthly service charges or the introduction of demand charges.

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