

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER)
COMPANY’S APPLICATION TO) CASE NO. IPC-E-20-14
IMPLEMENT FIXED COST ADJUSTMENT)
RATES FOR ELECTRIC SERVICE FROM)
JUNE 1, 2020, THROUGH MAY 31, 2021) ORDER NO. 34685
)
)
)

On March 13, 2020, Idaho Power Company (“Company”) applied for authority to implement Fixed Cost Adjustment (“FCA”) rates for electric service from June 1, 2020, through May 31, 2021, and for approval of the Company’s corresponding updated Schedule 54.

On April 17, 2020, the Commission issued its Notice of Application and Notice of Modified Procedure. Order No. 34627. The Commission Staff (“Staff”) filed written comments on May 13, 2020. The Company filed reply comments on May 20, 2020.

Having reviewed the record, the Commission enters this Order approving the Company’s Application.

BACKGROUND

Using traditional rate design, utilities recover fixed costs through each kilowatt-hour (“kWh”) sold and thus can be discouraged from reducing sales volume by investing in energy efficiency and demand-side management (“DSM”). *See Application* at 2. The FCA is an annual rate adjustment mechanism that separates or “decouples” the Company’s fixed-cost revenues from its volumetric energy sales. *Id.* at 3. The FCA enables the Company to recover its fixed costs to deliver energy - as set in its most recent general rate case - when decreases in energy sales and revenues would otherwise prevent such recovery. *See Order No. 33295* at 1; *see also Order No. 33302* at 1. However, if the Company's actual fixed costs recovered exceed the base level of fixed costs, the Company credits customers under the FCA. *See Order No. 33302* at 1-2. “Fixed costs” are a utility's costs to provide service that do not vary with energy use, output, or production, and remain relatively stable between rate cases. *See Order No. 33302* at 1, footnote 1. The Company calculates the FCA at the end of each calendar year when it knows how many customers it had during the year, and how much energy those customers used. *See Order No. 33302* at 2. The Company recovers the calculated FCA balance through rates that take effect from June 1 through May 31 of the following year. *Id.*

The Company's FCA rates are specified in tariff Schedule 54 and apply to the Residential and Small General Service customer classes. *Id.* The Company's FCA was first initiated in 2007, as a pilot program. *Id.* at 2. In 2012, the Commission approved the Company's request to make the FCA permanent. *See* Order No. 32505. In 2015, the Commission approved a settlement stipulation that changed the FCA calculation methodology by replacing the use of weather-normalized data with actual data, to ensure improved accuracy. *See* Order No. 33295 at 5; *see also Application* at 3.

THE APPLICATION

The Company requested recovery of the 2019 FCA balance and approval of corresponding rates. *Application* at 1. The proposed FCA is \$34,194,871 for the Residential class and \$1,303,985 for the Small General Service class, for a total amount of \$35,498,856. *Id.* at 4. The Company represented the proposed FCA deferral balance is slightly above the current FCA deferral balance collected in customer rates. *Id.* The Company requested Commission authorization to increase the FCA rate to \$0.6622 per kWh for the Residential class and \$0.8381 per kWh for the Small General Service class. *Id.* at 5. If approved, the proposed FCA rates would increase current billed base revenue from affected customer classes by 0.02% per year. *Id.* at 4-5. The Company requested the proposed rates and updated Schedule 54 be effective from June 1, 2020 until May 31, 2021. *Id.* at 5. The Company also requested this case be processed under Modified Procedure. *Id.*

COMMENTS

1. Staff Comments.

Staff recommended the Commission approve the Company's proposed Schedule 54 and accept the FCA deferral balance of \$35,498,856, which includes \$34,194,871 for the Residential class and \$1,303.985 for the Small General Service class. *Staff Comments* at 2. Staff audited the formula components used to calculate the FCA balance and confirmed it complies with past Commission orders. *Id.* Staff verified the Fixed Cost per Customer ("FCC") and the Fixed Cost per Energy ("FCE"), the annual sales for the two affected classes, the customer counts, and all the inputs used to calculate the FCA balance. *Id.*

Staff noted the Company's use-per-customer ("UPC") for Residential and Small General Service classes was lower in 2019 than in 2018 which resulted in lower sales and increased FCA rates. *Id.* The proposed 2019 FCA deferral balance of \$35,498,856 exceeds the FCA deferral

balance in rates by \$710,580. *Id.* Staff asserted if the Application is approved the monthly bill for a typical Residential customer using 950 kWh would increase by about \$0.02 per month, effective June 1, 2020. *Id.* Staff also pointed out the Company has proposed to increase its Power Cost Adjustment (“PCA”) rates. *Id.* at 2-3. Staff alleged the proposed PCA’s impact on customers’ bills substantially exceeds that of the FCA. *Id.* at 3.

2019 FCA Rate Calculation

Staff verified the Company's FCA calculation and consistent with prior practice, the Company proposed spreading the FCA surcharge uniformly to both the Residential and Small General Service classes. *Id.* Staff believes based on forecasted sales for June 1, 2020, through May 31, 2021, surcharges of 0.6622 cents-per-kWh for the Residential class and 0.8381 cents-per-kWh for the Small General Service class are necessary to provide the Company the opportunity to recover the 2019 FCA deferral balance. *Id.* Staff verified the FCA forecasted sales are appropriate and align with the forecast used in the Company's 2020-2021 PCA filing. *Id.*

Trends in the FCA Balance

Staff contended there has been an upward trend in the FCA deferral balance since the FCC and FCE were updated in the Company’s last general rate case, Case No. IPC-E-11-08. *Id.* Staff asserted since the last general rate case, the FCA deferral balance increased in seven years and only decreased once. *Id.*

Staff alleged declining UPC coupled with increasing customer counts caused the FCA balance to grow from 2012 through 2016, and again in 2018 and 2019. *Id.* at 4. Staff noted the Company's 2019 Integrated Resource Plan (“IRP”) forecasts these trends will continue. *Id.* Staff is concerned the FCA is unlikely to produce credits for customers and that FCA deferral balances will increase. *Id.* If UPC declines and customer counts increase, the FCA deferral balance will grow unless the FCC and FCE are updated in a general rate case. *Id.* Staff asserted that the Commission has acknowledged these concerns in Order No. 34346:

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.

Order No. 34346 at 5. Staff asserted the Company did not address these concerns in its Application. Instead, the Company relied on the approved methodology to recover an additional \$35.5 million in the 2020-2021 recovery period. *Staff Comments* at 4.

While Staff recommended approval of the Company's FCA proposal, Staff stated a cap on future recoveries through the FCA may be appropriate. *Id.* at 5. Staff believes the FCA as structured is no longer viable, and the Commission should consider capping FCA recovery in-between rate cases beyond the annual 3% cap included in the original FCA design. *Id.* Staff asserted, 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 base costs have not been verified since. *Id.* Staff remains concerned that the FCA allows recovery of costs without verification that the Company incurred them. *Id.*

Impact of Company-Sponsored Energy Efficiency

Staff represented the Commission adopted the FCA, in part, to remove the Company's disincentive to invest in energy efficiency that reduces energy sales. *Id.* However, Staff asserted 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). *Id.*

Staff noted the FCA provides for fixed-cost recovery regardless of the cause for decreased energy sales and revenues. *Id.* Staff asserted only 22% of the total energy savings claimed by the Company is attributed to its Residential and Small General Service energy efficiency programs. *Id.* Staff alleged 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 FCA. *Id.*

Staff asserted in the Company's Residential and Small General Service energy consumption forecast, the Residential component is over 97% of the forecast, with Small General

Service representing less than 3%. *Id.* Staff calculated the Company's 2020-2021 Residential energy consumption forecast is approximately 550,000 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. *Id.* Staff argued only a fraction of these decreases are attributable to the Company's energy efficiency programs: the 40,006 MWh saved by Residential and Small General Service customers represents less than 8% of the estimated decrease in Residential energy sales. *Id.* at 5-6. Staff asserted the remaining reductions in energy sales are due to factors unrelated to the Company's energy efficiency programs. *Id.* at 6.

Customer Notice, Press Release and Public Comments

Staff stated the Company's press release and customer notice were included with the Application. *Id.* Staff determined both meet the requirements of Rule 125 of the Commission's Rules of Procedure. *Id.*; *see also* IDAPA 31.01.01.125. The customer notice was included with bills mailed to customers beginning March 23, 2020, and ending April 20, 2020, providing customers with a reasonable opportunity to file comments with the Commission by the May 13, 2020, deadline. *Id.* As of May 12, 2020, the Commission has received no comments from customers. *Id.*

Staff Recommendations

Staff recommended the Commission: 1) approve the Company's FCA filing with a net deferral balance of \$35,498,856 for 2020, and, 2) approve the Company's proposed Schedule 54, included with the Application as Attachment 1. *Id.* Staff believes these proposed rate adjustments provide adequate opportunity for the Company to collect its deferred authorized level of fixed costs. *Id.*

2. Company Reply Comments.

The Company asserted: 1) the FCA enables the Company's pursuit of energy efficiency savings; 2) the Commission can limit volatility by applying the 3% cap to FCA increases; and, 3) rate design should be evaluated holistically. *Company Reply Comments* at p. 1-2.

The Company alleged the FCA continues to remove the financial disincentive under the existing rate design when the Company invests in DSM resources and energy efficiency activities. *Id.* at 3. The Company claimed the FCA has produced the intended result -- on a system-wide basis, achieving 203,041 megawatt-hours of incremental annual energy efficiency savings in 2019, which is a 10% increase from finalized savings achieved in 2018. *Id.* The Company also

asserted it invests in significant DSM educational and awareness activities and marketing efforts that are likely to result in energy savings experienced by the customer but are not quantified or claimed as part of the Company's annual savings. *Id.*

The Company disagreed with Staff's position that only 8% of the estimated decrease in Residential sales on a UPC basis is attributed to the Company's Residential and Small General Service customers' energy efficiency programs since the Company's last general rate case ("GRC") for two reasons. *Id.* First, the Company claimed Staff only cites data for the incremental savings claimed for Residential and Small General Service customers in 2019, which it argues are not reflective of the cumulative impact of an energy efficiency resource since 2011. *Id.* at 4. Second, the Company asserted that Staff relies only on claimed savings from the Company's DSM portfolio, which it asserts, ignores any savings achieved on the Company's system because of the Company's marketing campaigns aimed at educating, raising awareness, and encouraging customers to use energy wisely. *Id.* The Company believes these activities are likely to result in energy savings on its system but are not quantified or claimed in annual savings. *Id.*

The Company also criticized Staff's concern that the FCA is unlikely to produce credits for customers. *Id.* at 5. The Company claimed Staff ignored that the FCA was designed to increase as usage per customer decreases. *Id.* The Company argued that the FCA has been and continues to be an effective mechanism for the Company to support energy efficiency resources while maintaining a reasonable opportunity to recover its fixed costs. *Id.*

The Company also asserted the Commission has discretion to limit volatility as it applies the annual 3% cap to FCA increases. *Id.* at 6. However, the Company does not believe it is necessary to increase the 3% cap on FCA increases. *Id.* The Company stated that the Commission has the authority to determine whether a rate change is fair, just, and reasonable based on facts at a certain point in time and the Company believes it will apply that authority when it deems necessary. *Id.*

The Company believes that a "thoughtfully implemented rate design" could reduce the Company's reliance on a mechanism like the FCA. *Id.* at 6-7. However, it asserts that the same basic rate design that existed when the FCA was implemented still exists and modifying the FCA outside of a general rate review would not be appropriate. *Id.* at 7.

The Company also disagreed with Staff's concern that the "FCA allows recovery of costs without verification that the Company actually incurred them." *Id.* The Company argued

while base rates and the FCA components were established in the 2011 GRC, the mere fact that time has elapsed does not mean that relying on those rates for cost recovery is flawed. *Id.* The Company claimed that Staff's concern ignores the fundamentals of the utility rate-making process and that this is not the appropriate case to eliminate or modify the FCA. *Id.*

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, and the reply comments of the Company. Based on our review, the Commission finds it reasonable to approve the Application because it complies with the Commission approved methodology for calculating the FCA. The proposed FCA rates are fair, just, and reasonable, and adequate to allow the Company an opportunity to collect its authorized fixed costs in the coming FCA year.

However, the Commission remains concerned that the FCA may reward the Company for all reductions in per customer energy consumption, whether the reduction results from the Company's efforts or matters beyond its control. *See* Order No. 34346 at 4. The limitations with the FCA's design coupled with trends outside the Company's control have caused increased charges for customers in seven of the past eight years. We are uneasy about the FCA's continued viability without a comprehensive review. Key components of the FCA calculation have not been updated since the Company's last general rate case in 2011.

The Company reply comments assert "thoughtfully implemented rate design" could reduce the Company's reliance on a mechanism like the FCA. *Company Reply Comments* at 6-7. The Commission generally agrees with this statement and believes such rate design could alleviate the Commission's concerns about the FCA's limitations. The Commission has previously found that critical questions related to fixed costs must be addressed and ordered the Company and interested parties to:

Undertake a comprehensive customer fixed-cost analysis to determine the proper methodology and "spread" of fixed costs as they relate to the Company's customers.

The Company, with input from interested parties, shall outline the scope of the

study that should include exploring fixed-cost recovery in basic charges and other rate design options.

Order No. 34046 at 22; see also Order No. 34608, Case No. IPC-E-18-16.

Based on the foregoing, the Commission encourages the Company, Staff and any other interested persons to expand prior efforts to collaborate and develop possible rate designs that provide the opportunity for the Company to recover its fixed costs arising from the provision of electric service to its customers, while ensuring only just and reasonable rates are being charged to customers.¹ The Commission looks forward to reviewing such rate design proposals.

ORDER

IT IS HEREBY ORDERED that the Company's Application is granted. The Company shall have a net deferral balance of \$35,498,856 for the 2020-2021 period, and FCA rates equal to 0.6622 cents-per-kWh for the Residential class and 0.8381 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, 2020.

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 about 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.

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¹ The Commission has often urged the Company, Staff, and any other interested party to collaborate on FCA issues. In Order No. 34079, the Commission responded to the same concerns raised in this case by stating "[w]e encourage the Company and Staff to collaborate regarding the issues Staff raised in its comments, prior to the Company making its 2019 FCA filing." Order No. 34079 at 4.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 1st
day of June 2020.



PAUL KJELLANDER, PRESIDENT

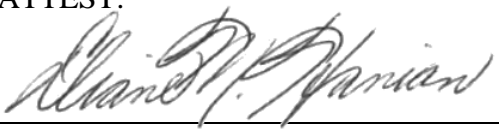


KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Diane M. Hanian
Commission Secretary

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