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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

The Staff of the Idaho Public Utilities Commission submits the following comments regarding the above referenced case.

BACKGROUND

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. The FCA is an annual rate adjustment mechanism that decouples the Company's fixed cost-recovery from its volumetric energy sales. *See* Order Nos. 30267 and 32505. 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 Company requested recovery of the 2019 FCA balance and approval of corresponding rates. 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. *Application* at 4. The Company represented the proposed FCA deferral balance is slightly above the current FCA deferral balanced collected in customer rates. *Id*.

The Company requests to increase the FCA rate to $0.6622 cents per kWh for the Residential class and $0.8381 cents per kWh for the Small General Service class. *Id*. If approved, the proposed FCA rates would increase current billed base revenue from affected customer classes by 0.02 percent per year. *Id*. at 4-5.

The Company requested the proposed rates and updated Schedule 54 take effect on June 1, 2020, and remain in effect until May 31, 2021.[1] *Id.* at 5. The Company's request that this case be processed under Modified Procedure was approved by the Commission in Order 34627 on April 17, 2020.

STAFF REVIEW

Based on its review, Staff recommends the Commission approve the Company's proposed Schedule 54 and accept the FCA deferral balance of $35,498,856, which is composed of $34,194,871 for the Residential class and $1,303.985 for the Small General Service class.

Staff reviewed the Company's filing and supporting testimony provided by Company witness Paul Goralski. Staff audited the formula components used to calculate the FCA balance and confirmed that it complies with Commission orders. 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. The Company's use-per-customer for Residential and Small General Service classes was lower in 2019 than in 2018. The lower level of sales resulted in an increase in the FCA rates.

The proposed 2019 FCA deferral balance of $35,498,856 exceeds the FCA deferral balance currently in rates by $710,580. The 2018 FCA deferral balance of $34,788,276 was approved in Order No. 34346 and is currently included in customers' rates.

The FCA applies to Residential and Small General Service customers. If the Application is approved as filed, the monthly bill for a typical residential customer using 950 kWh would increase by about $0.02 per month, effective June 1, 2020. The Company has also proposed a

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[1] Idaho Power requests that the FCA rates become effective June 1, 2020, coincident with the Company's Power Cost Adjustment and with the commencement of seasonal rates. *Id.* at 5.

change to its Power Cost Adjustment ("PCA"), also effective June 1, 2020. The proposed PCA's impact on customers' bills substantially exceeds that of the FCA. The proposed PCA adjustment increases the typical customer's monthly bill by $4.01, resulting in a combined $4.03 monthly increase.

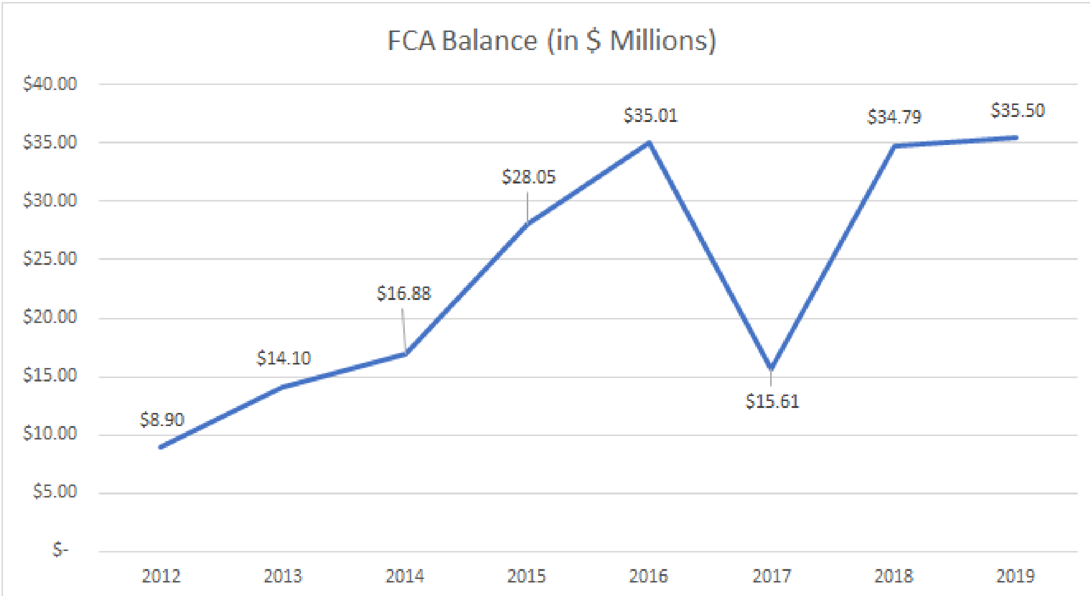
2019 FCA Rate Calculation

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, 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 a sufficient opportunity for the Company to recover the 2019 FCA deferral balance. Staff verified the FCA forecasted sales are appropriate and align with the forecast used in the Company's 2020-2021 PCA filing.

Trends in the FCA Balance

The 2019 FCA balance of $35.5 million is $710,580 more than the existing FCA currently recovered in rates. *See* Order No. 34346. 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 in seven years and has only decreased once, which occurred two years ago with the 2017 FCA deferral balance. Chart 1 illustrates the FCA balances since the FCC and FCE were last updated.

<u>Chart 1: FCA Deferral Balances 2012-2019</u>



Declining use-per-customer coupled with increasing customer counts caused the FCA balance to grow from 2012 through 2016, and again in 2018 and 2019. The Company's 2019 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. The Commission acknowledged these concerns in Order No. 34346, stating:

> 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. The Company did not address these concerns in its Application, instead relying on the approved methodology to recover an additional $35.5 million in the 2020-2021 recovery period. While Staff recommends approval of the Company's FCA proposal in this case, it believes a cap on future recoveries through the FCA may be appropriate. Staff believes the current 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.

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. Staff remains concerned that the FCA allows recovery of costs without verification that the Company actually incurred them.

Impact of Company-Sponsored Energy Efficiency

The Commission adopted the FCA in part 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 22% of the total 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 FCA.

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 it. Staff calculated that 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. Staff notes that 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 represent less than 8% 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.

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 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.

As of May 12, 2020, the Commission has received no comments.

STAFF RECOMMENDATIONS

Staff recommends 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.

Staff believes these proposed rate adjustments provide adequate opportunity for the Company to collect its deferred authorized level of fixed costs.

Respectfully submitted this 13th day of May 2020.

John Hammond

John R. Hammond, Jr.
Deputy Attorney General

Technical Staff: Bentley Erdwurm
Johan Kalala-Kasanda
Curtis Thaden

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 13th DAY OF MAY 2020, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-20-14, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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