Office of the Secretary
Service Date
May 28, 2021

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, 2021 THROUGH MAY 31, 2022	)))))	**CASE NO. IPC-E-21-03** **ORDER NO. 35056**

On March 15, 2021, Idaho Power Company ("Company") applied to implement new Fixed Cost Adjustment ("FCA") rates for certain electric service customer classes from June 1, 2021 through May 31, 2022, and a corresponding revised tariff Schedule 54—Fixed Cost Adjustment—to recover the 2020 FCA deferral balance. 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. It applies to Residential and Small General Service ("R&SGS") customers. *Id*. If the Application is approved as filed, a typical Residential customer's average bill will increase by about 0.37 cents per month.

On April 14, 2021, the Commission issued Notice of Application and established public comment and Company reply deadlines. Order No. 34999. Staff filed comments. The Company filed reply comments.

Now, the Commission issues this Order approving the Application.

BACKGROUND

In 2004, the Commission opened an investigation to "assess financial disincentives inherent in Company-sponsored conservation programs[,]" to "address possible revenue adjustment when annual energy consumption is both above and below normal[,]" and to provide the Commission with proposals "that could provide Idaho Power the opportunity to share and retain benefits gained from efficiencies, especially where efficiencies are derived from innovation and the use of new technologies[.]" Order No. 29558 citing Order No. 29505 at 68-69. Following the investigation, the Commission approved a three-year FCA pilot program for the Company's R&SGS customers. Order No. 30267. The FCA pilot program was implemented in 2007. In 2010, the Commission extended the pilot program for an additional two-year period. Order No. 31063. In 2012, the Commission approved the Company's application to make the FCA an ongoing program. Order No. 32505.

The FCA is an annual rate adjustment mechanism designed to decouple Idaho Power's fixed-cost recovery from its volumetric energy sales. Under traditional rate design, a utility recovers much of its fixed costs through volumetric rates. Fixed costs are a utility's costs to provide service that do not vary with fluctuations in energy consumption, whereas variable costs, as their name suggests, vary based on the energy generated and consumed. When a utility's customers demand less energy, the utility's variable costs decline in proportion to the reduced demand. However, the utility's fixed costs to meet customer demand stay the same. Therefore, when fixed costs are recovered through volumetric rates, an economic disincentive exists for the utility to invest in energy efficiency and demand-side management ("DSM") programs, which reduce customer demand. Because the Company and the Commission have long agreed that promoting cost-effective DSM and energy efficiency is integral to least-cost electric service, the Commission approved the Company's use of the FCA for the R&SGS classes. *See* Order No. 30267 at 13-14 (finding DSM is an integral part of least-cost electric service and approving the FCA as a three-year pilot program).

The FCA is designed to true-up the difference between the fixed costs the Company recovered through rates each year and the fixed costs authorized for recovery in the Company's most recent general rate case. The fixed-cost portion of the Company's revenue requirement is established for each customer class during the Company's most recent general rate case. The Commission also establishes a fixed-cost per customer ("FCC") and a fixed-cost per energy ("FCE") as part of the Company's general rate case, which are used in the calculation of the Company's recoverable fixed costs in subsequent years. The FCA is calculated at the end of each calendar year after the Company knows how many customers it served during the prior year and how much energy those customers consumed. The Company then recovers the calculated FCA balance through rates in effect from June 1 through May 31 of the following year. The FCA provides a customer surcharge when use per customer declines, and a customer credit when use per customer increases.

In Case No. IPC-E-19-10 the Commission authorized the Company to waive the cap on FCA rate increases. Order No. 34346.

THE APPLICATION

The Company seeks recovery of the 2020 FCA balance and approval of proposed rates. The proposed FCA is $36,706,200 for the Residential class and $1,609,299 for the Small General Service class, for a total amount of $38,315,499. The Company states the proposed FCA deferral balance is above the current FCA deferral balance collected in customer rates.[1]

The Company requests to increase FCA rates to 0.7008 cents per kilowatt-hour ("kWh") for the Residential class and 0.8864 cents per kWh for the Small General Service class. If approved, the proposed FCA rates would increase current billed revenue from affected customer classes by 0.38 percent per year.

The Company requests the proposed rates take effect on June 1, 2021 and remain in effect until May 31, 2022.[2]

THE COMMENTS

Staff and the Company filed the only comments.

1. Staff comments

Staff recommended the Commission approve the Company's proposed Schedule 54 and accept the FCA deferral balance of $38,315,499—$36,706,200 for Residential class and $1,609,299 for Small General Service class. Staff reviewed the Company's supporting testimony and audited the components used to calculate the FCA. Staff verified the FCC, the FCE, annual sales for the R&SGS classes, customer counts, and the inputs used to calculate the FCA balance. Staff noted the use per customer declined from 2019 to 2020, driving the increase in FCA rates. Staff agreed the surcharge rates of 0.7008 cents per kWh for the Residential class and 0.8864 cents per kWh for the Small General Service class were calculated correctly.

Staff identified a consistent upward trend in the FCA. Staff mentioned that over nine years, the FCA deferral balance has increased annually, except for 2017. This is primarily due to decreasing energy sales per customer. Staff noted that if energy sales per customer continue to decline while customer counts increase, the FCA balance will grow unless the FCC and FCE are updated.[3]

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[1] The Company proposed a $2,816,643 increase for R&SGS customers over the previous year's FCA.
[2] The Company requested that the FCA rates become effective on June 1, 2021, coincident with the Company's Power Cost Adjustment ("PCA") and with the commencement of seasonal rates.
[3] The Commission acknowledged this in Order No. 34346.

Staff argued that the FCA was intended to remove the Company's disincentive to invest in energy efficiency, but energy sales can decline for many reasons unrelated to the Company's energy efficiency efforts. Weather, economic cycles, updated building codes, and customer response to higher prices may all impact customer demand absent the Company's energy efficiency programs. However, Staff pointed out that all reductions in energy use are captured in the FCA.

For these reasons, Staff believed the FCA is over-effective and allows the Company to recover actual fixed costs above the authorized amounts in the last general rate case. In Order No. 34685, the Commission encouraged the Company, Staff, and interested parties to collaborate on a possible rate design that would allow the Company an opportunity to recover its fixed costs. The Company and Staff met twice to discuss the FCA, but no proposed modifications came from the meetings.

Staff argued the FCC and FCE should be modified since they have not been updated in ten years. The Company's position is that modification should be considered in evaluating rate design. The Company has proposed leveraging studies from past cases and completing new studies before addressing the modifications. However, Staff is concerned the process would not be completed before the 2022 FCA filing, meaning nothing will change for another year.

Since the FCC and FCE were determined in Case No. IPC-E-11-19, kWh sales to R&SGS classes have increased 3.9 percent, but there has been little need for investment in new generation or transmission facilities, according to Staff. Staff noted the Company already collects $5.5 million more in generation and transmission fixed costs from the R&SGS classes than was established in the Company's last rate case. Staff believed that without a need to invest in transmission and generation facilities, the additional revenue derived from the FCA for these facilities is not justified.

Since Case No. IPC-E-11-19, the Company has increased its customer base by about 17 percent, while volumetric per customer sales have decreased by 11.5 percent. Staff stated the Company would under-collect its distribution and customer classified fixed costs without the distribution/customer components of the FCA. Staff therefore proposed updating the FCC and FCE as described in the table below:

	Residential	Small General Service
Current Customer Fixed Costs[4]		
FCC	$650.53 per customer	$360.57 per customer
FCE	$0.051602 per kWh	$0.068633 per kWh
Proposed Customer Fixed Costs[5]		
Proposed FCC	$317.72 per customer	$256.29 per customer
Proposed FCE	$0.025199 per kWh	$0.048783 per kwh

Staff believed its proposal better aligned the FCA with the way the Company incurs fixed costs but noted it would not address the key concern in the Commission's previous orders regarding the FCA rewarding the Company for all reductions in per customer energy consumption. Because it would be difficult to isolate the effects of the Company's energy efficiency programs, Staff recommended the issue be addressed in another case.

Staff proposed three modifications for the Commission to consider:

Proposed Modification 1*: Calculate the FCA for new customers using only distribution/customer costs.*

This proposal would freeze the FCA deferral balance for that portion collected for transmission and generation facilities at current levels. Under this proposal, the FCA for the number of customers connected to the system before January 1, 2021 would be calculated using the current FCC and FCE. However, the Proposed FCC and FCE would be applied to customers connecting on or after that date. If this modification were implemented this year, the 2021 FCA deferral would be identical to the $38,315,499 FCA proposed by the Company. Staff would expect the deferral balance to grow at a slower rate than is occurring under the existing methodology. Staff believes this modification should be considered at a minimum.

Proposed Modification 2*: Calculate the FCA for customers added after the last rate case using only distribution/customer costs.*

This proposal would reduce—but not eliminate—the FCA deferral balance and the portion collected for transmission and generation facilities. Under this proposal, the FCA for the 397,403 Residential customers and 28,351 Small General Service customers assumed during the Company's 2011 rate case test year would be computed using the current FCC and FCE. The FCA for customers added after Case No. IPC-E-11-19 would be calculated using Staff's proposed FCC and FCE. If this modification were implemented this year, this year's FCA would be reduced to

[4] Includes generation, transmission, distribution, and customer costs.

[5] Using the latest FCC and FCE rates approved in Case No. IPC-E-11-19, Staff calculated distribution and customer only FCC and FCE rates for R&SGS classes. See Attachment No. 1 to Staff's comments for a detailed example.

$34,832,967, and we would expect growth of the deferral balance to be slowed relative to growth under the existing methodology.[6]

***Proposed Modification 3**: Calculate the FCA for all customers using only distribution/customer costs.*

This proposal would reduce—but not eliminate—the FCA deferral balance, and it would eliminate the portion of the FCA collected for transmission and generation facilities. The FCA for all customers would be computed using Staff's proposed FCC and FCE. If this modification were implemented this year, this year's FCA would be $18,772,975, and Staff would expect growth of the deferral balance to be slowed relative to growth that would occur under the existing methodology. As noted earlier, the Company would still collect about $5.5 million more in rates than it was authorized to collect for generation and transmission facilities in the last rate case.

Staff opined that proposed Modification 3 best aligns the FCA with how the Company incurs fixed costs to serve new customers. Staff recommended the Commission order the Company to apply Staff's proposed FCC and FCE (above) to all customers in subsequent FCA filings effective as of January 1, 2021.

If the Commission believes that more investigation is required to permanently adjust the FCA, Staff recommended that the modification be accepted on an interim basis and a separate case be opened. The new case should develop an improved method to allow the Company to recover the fixed costs it is unable to recover due to decreased volumetric sales attributable to its R&SGS DSM programs, update the FCC and FCE with current costs, and eliminate or significantly reduce recovery for decreased energy consumption unrelated to the Company's energy efficiency efforts.

Staff suggested that any approved modifications should be effective for deferrals as of January 1, 2021. The modifications could be permanent or considered as interim modifications until a case is completed that fully evaluates rate design and fixed-cost recovery.

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[6] This proposal is like the FCA mechanism authorized by the Commission for Avista Utilities.

2. Company reply comments

The Company agreed with Staff's recommendation for approval of the Company's 2020 FCA deferral balance. The Company requested the Commission reject the remainder of Staff's recommendation to modify the FCA mechanism. The Company cited three reasons the Commission should reject Staff's recommendation: (I) the failure to meet the Commission's directive to expand prior efforts to collaborate and develop possible rate designs that provide the opportunity for the Company to recover its fixed costs; (II) Staff's reliance on flawed and sometimes conflicting rationale; and (III) the public record not being fully developed for the Commission to evaluate modification.

I. Fails to comprehensively study rate design

The Company argued Staff's recommendations failed to account for the Commission's directive to comprehensively study rate design changes since Staff only proposed to reduce FCA collections. The Company stated that any modification to the FCA should be evaluated holistically with rate design modification and opportunity for public involvement.

II. Flawed rationale

Next, the Company argued Staff's rationale for proposed modifications to the FCA is flawed. The Company cited Staff's recommendations on the FCA's relationship with DSM, the Company's generation and transmission costs, and application of rate-making principles as flawed or unsupported.

The Company stated it would contravene the FCA's purposes if the FCA produced symmetrical results year-over-year. Further, the Company argued if the FCA produced a credit to customers, it would mean the Company's DSM efforts had lagged or reversed. The Company contended that Staff continues to incorrectly cite a single-year (2017) incremental DSM savings achievement for the R&SGS classes while separately comparing multi-year changes in use per customer since Case No. IPC-E-11-19. The Company added that annual incremental DSM savings continue to benefit customers year-after-year. The Company pointed out that some of Staff's examples of sources of reductions in customers' energy use are included in the Company's DSM efforts but do not yield claimed energy savings. These include better building standards and energy efficient appliances. The Company contended that Staff's comments do not seek to quantify how additional savings are contributing to the FCA balance in their comments.

The Company disputed Staff's claim that, since Case No. IPC-E-11-19, the Company has had little need to invest in transmission or generation. The Company stated that it has invested $1.84 billion in plant in service since Case No. IPC-E-11-19—$1.1 billion attributable to transmission and generation. The Company claimed this investment has occurred at all levels including generation, transmission, and distribution, and none of the investment is reflected in current FCE or FCC rates. The Company stated the current FCA mechanism follows established rate-making principals, where Commission-authorized amounts are included in rates set at a point in time. The Company noted the Commission authorized a level of fixed costs per customer, not a ceiling. Additionally, the Company cited Case No. IPC-E-10-21 wherein the Commission said, "FCC and FCE values of Schedule No. 54 shall accurately represent the level of fixed costs previously established. . . and remain that level until such time as they can be more thoroughly examined and re-established. . . in the context of the Company's next general rate case." The Commission reaffirmed its position in Case No. IPC-E-14-17 when it indicated FCC and FCE modifications should be considered when the base rates are reset. Relying on the Commission's past orders, the Company believed that FCC and FCE modifications should not be considered outside of "holistic review of all rates and consideration of cost-of-service allocation among the respective rate classes."

The Company expressed its concerns that the proposals made by Staff would be applied retroactively. The Company noted the proposed modifications would become effective for the currently accruing FCA deferral period for which certain financial results have already been made public. The Company acknowledged that Staff's proposed modification 2 is like Avista's but argued that Avista's was developed concurrent to a general rate case.

Regarding proposed modification 3, the Company maintained that it failed to recognize the relationship between fixed-cost collection and rate design that has most costs included in the volumetric rate. The Company stated that Staff's recommendation was not based on sound analysis and contradicts the history of the FCA. Modification 3 failed to acknowledge that decreased customer energy consumption and lower volumetric kWh sales reduce the collection of generation and transmission fixed costs.

The Company opined that Staff's proposed modifications sought to address problems with the FCA that Staff failed to show exist. Further, the modifications contradict established rate-making practices.

III. Public record

Finally, the Company argued Staff's recommendation and a one-week reply period did not afford the Company time to adequately review the proposed modifications or prepare alternative proposals for the Commission's consideration. Additionally, the Company stated the timeline in this case does not give the Commission enough time to fully evaluate and approve any of Staff's proposed modifications. The Company noted that retroactively adjusting the FCA on January 1, 2021 could be problematic as it has publicly issued 10-Q quarterly financial statements that include financial results which contemplated the FCA rates as currently established.

The Company requested the Commission reject Staff's proposed FCA modifications and instead support expanded collaboration on possible rate designs that provide a reasonable opportunity for the Company to recover its fixed costs. The Company requested that instead of adopting one of Staff's modifications, the Commission open a new case to allow public participation, to fully develop a public record, and to determine any contemplated FCA modification before the applicable FCA deferral period begins.

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, Company testimony, Staff comments, and Company reply comments. Based on our review, we find it reasonable to approve the Application because it complies with the Commission-approved method for calculating the FCA.

As we have expressed in past 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 trends the Company has no control over. These limitations in the FCA's

design, coupled with trends that are likely to continually create increasing surcharges for customers, cause us concern.

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 that calls into question the continued reasonableness of the FCA component calculations established in 2011 without some additional consideration. We understand the Settlement Stipulation approved in Case No. IPC-E-11-19, a decade ago, contemplated changing FCA inputs, like the FCC and FCE, only during a general rate case. However, the Company has not revealed its plans regarding its next rate case, and we find it appropriate to address the FCA mechanism sooner rather than later. In Case No. IPC-E-18-16, the Company, Staff, and stakeholders studied how the Company recovers its fixed costs. That docket produced a Fixed Cost Report that analyzed potential methods by which the Company can recover its fixed costs, which will likely impact the FCA.

We have reviewed Staff's comments with proposed modifications to the FCA. But we are unconvinced it is appropriate for us to act on Staff's proposals in this routine annual filing, which is processed on a short timeline with limited public involvement or time to develop a relevant record. However, in the Company's Motion to Accept Fixed Cost Report in Case No. IPC-E-18-16, the Company references fixed cost issues and states it "stands ready to make incremental changes in the interim if directed by the Commission to do so." Now is the time for the Company to reconsider the current structure of its FCA mechanism.

We direct the Company to initiate discussions with interested parties and file a case to consider whether the FCA should be modified and to propose modifications if appropriate. The case should rely on the Company's previous fixed cost studies where appropriate, including the Fixed Cost Report filed in Case No. IPC-E-18-16. The Commission has similarly directed the Company to initiate a case to consider whether to modify the Company's PCA. The FCA modification case should be filed and completed before the Company files next year's FCA application in March 2022.

ORDER

IT IS HEREBY ORDERED that the Company's Application is granted. The Company shall have a net deferral balance of $38,315,499 for the 2021-2022 period, and FCA rates equal to 0.7008 cents per kWh for Residential class customers and 0.8864 cents per kWh for the Small

General Service class customers. The Company's proposed Schedule 54 is approved as filed, with an effective date of June 1, 2021.

IT IS FURTHER ORDERED that the Company shall initiate a case to review the FCA mechanism and propose any modification determined appropriate in that case so that it can be processed ahead of the next FCA filing in March 2022.

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 regarding 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.

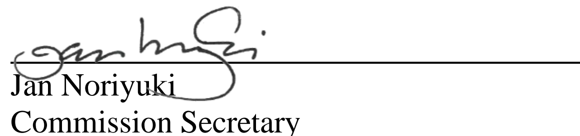
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 28th day of May 2021.

PAUL KJELLANDER, PRESIDENT

KRISTINE RAPER, COMMISSIONER

ERIC ANDERSON, COMMISSIONER

ATTEST:



Jan Noriyuki
Commission Secretary

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