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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, 2021, THROUGH MAY 31, 2022	**CASE NO. IPC-E-21-03** **COMMENTS OF THE COMMISSION STAFF**

STAFF OF the Idaho Public Utilities Commission, by and through its Attorney of record, Dayn Hardie, Deputy Attorney General, submits the following comments.

BACKGROUND

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 balance. The FCA is an annual rate adjustment mechanism that decouples the Company's fixed cost-recovery from its volumetric energy sales. *See* Order No. 30267 and 32505. It applies to Residential and Small General Service customers. *Id.* If the Application is approved as filed, a typical Residential customer's average bill would increase by about $0.37 cents per month.

The Company requests to recover 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 proposed 2021 FCA deferral balance of $38,315,499 exceeds the FCA deferral balance of $35,498,856 currently in rates by $2,816,643.

The Company requests to increase the Residential class FCA rate to 0.7008 cents per kilowatt-hour ("kWh") from the current rate of 0.6622 cents per kWh for and the Small General Service class to 0.8864 cents per kWh from the current rate of 0.8381 cents per kWh. If approved, the proposed FCA rates would increase current billed base revenue from affected customer classes by 0.38 percent per year. The Company requested the proposed rates and updated Schedule 54 take effect on June 1, 2021 and remain in effect until May 31, 2022.

The Company has also proposed a change to its Power Cost Adjustment ("PCA"), also effective June 1, 2021.[1] The proposed PCA's impact on customers' bills substantially exceeds that of the FCA. The proposed PCA adjustment would increase the typical residential customer's monthly bill by $2.57. A combination of the proposed PCA and FCA rates result in a monthly increase of $2.94 for a typical residential customer. If the proposed PCA and FCA rate changes are approved as filed, the combined impact would be an overall increase in current billed revenue of $41.2 million, or 3.55 percent, for June 2021 through May 2022.

Unlike the Company's PCA mechanism, which recovers actual power costs incurred, and is therefore verifiable, cost data for components of the FCA, the Fixed Cost per Customer ("FCC") and the Fixed Cost per Energy ("FCE"), were established in the Company's last general rate case IPC-E-11-08 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.

While Staff recommends approval of the Company's proposed FCA rates in this case, it believes the current FCA, as structured, requires modification. Alternatives for modification are described below.

[1] See Case No. IPC-E-21-10 filed April 15, 2021.

STAFF REVIEW

Based on its review, Staff recommends the Commission approve the Company's proposed Schedule 54 and accept the FCA deferral balance of $38,315,499 which is composed of $36,706,200 for the Residential class and $1,609,299 for the Small General Service class. However, Staff also recommends the FCA mechanism be modified going forward.

Staff reviewed the Company's filing and supporting testimony provided by Company witness Paul Goralski. Staff audited the components used to calculate the FCA balance and confirmed that it complies with Commission orders. Staff verified the FCC and the 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 ("R&SGS") classes was lower in 2020 than in 2019. The lower level of sales resulted in an increase in the FCA rates.

2020 FCA Rate Calculation

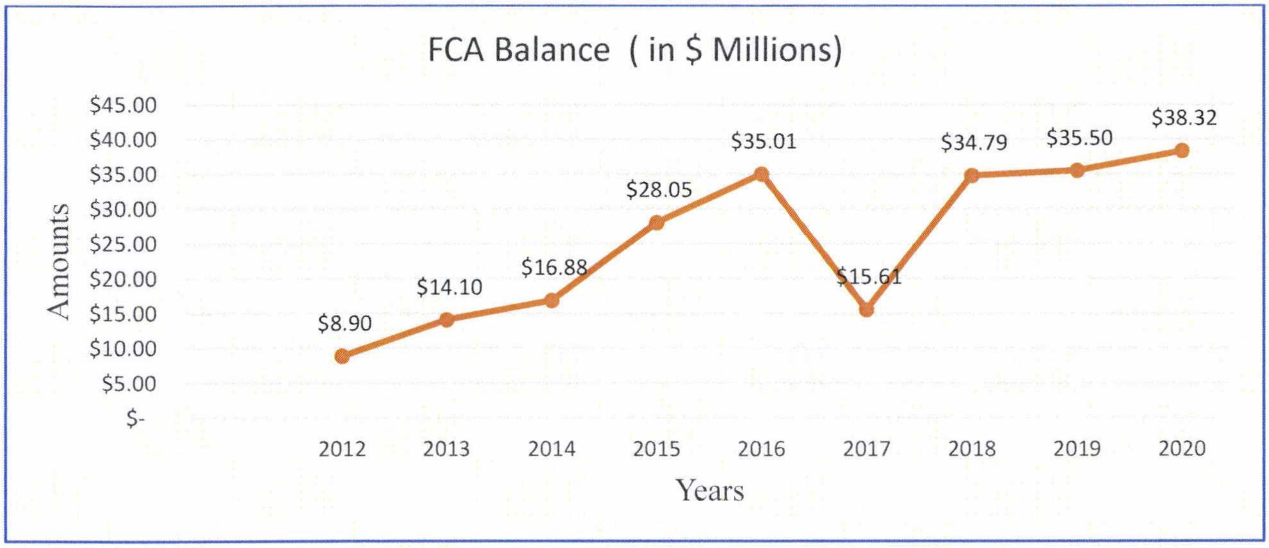
Staff verified the Company's FCA calculation for the R&SGS classes. Consistent with prior practice, the Company proposes spreading the FCA surcharge uniformly to both the R&SGS classes on an equal percentage basis. Using forecasted sales for June 1, 2021 through May 31, 2022, Staff agrees that surcharges of 0.7008 cents per kWh for the Residential class and 0.8864 cents per kWh for the Small General Service class will provide a sufficient opportunity for the Company to recover the 2020 FCA deferral balance. Staff verified the FCA forecasted sales are appropriate and align with the forecast used in the Company's 2021-2022 PCA filing.

Trends in the FCA Balance

In this filing, the Company's proposed FCA deferral balance of $38,315,499 is above the FCA deferral balance currently being collected in customers' rates. *See* Order No. 34685. This is a surcharge for the Company's customers and demonstrates a consistent upward trend in the FCA deferral balance since the FCC and FCE were last updated in Case No. IPC-E-11-19.

As illustrated in Chart No. 1 below, over a period of nine years (2012 - 2020), the FCA deferral balance consistently increased and has only decreased once, in 2017. The FCA balance grew from 2012 through 2016, and again from 2018 to 2020. This is mainly attributed to decreasing per-customer energy sales caused by Company energy efficiency efforts and other factors over which the Company has little control.

Chart 1: FCA Deferral Balances 2012-2020



According to the Company's 2019 Integrated Resource Plan ("IRP") forecast, this trend will continue for the foreseeable future. Staff is concerned that the FCA is unlikely to operate symmetrically to produce credits for customers and that the FCA deferral balances will continue to 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 Order No. 34346, the Commission acknowledged these concerns. However, in this Application, the Company did not adequately address those concerns, relying instead on the Commission approved methodology to recover an additional $38.32 million for the 2021-2022 recovery period.

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 consumer responses 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.

Since approval of the FCA, the Company has stated that the mechanism reduces its financial disincentive to promote energy efficiency. Cost effective DSM can defer or eliminate some capital costs needed by the Company to serve load. Staff agrees with the Company that these benefits have effectively been achieved. Staff believes its proposed modifications would not adversely affect recovery of actual fixed costs or become a disincentive to cost effective DSM measures and programs.

Staff notes that only 20% of the total energy savings claimed by the Company is attributed to its R&SGS energy efficiency programs. Most 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 R&SGS 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 2021-2022 Residential energy consumption forecast is approximately 803,378 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 36,300 MWh saved by R&SGS customers represent less than 5% 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.

FCA Mechanism Modifications

In Order No. 34685, the Commission encouraged the Company, Staff, and any other interested persons "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." Order at 2. Staff and the Company held meetings on January 21, 2021 and March 1, 2021 to discuss issues raised in previous FCA filings.

The Company did not propose any changes to the FCA mechanism at this time. Staff agrees with the Company that the FCA mechanism is effective. Goralski Direct at 4 and 8. In fact, Staff believes the FCA mechanism is actually overly effective and allows the Company to recover actual fixed costs above that authorized in the last general rate case. Usage per customer has changed and is updated annually, but the FCC and FCE have not been updated for ten years.

The Company suggests modifications should be considered in coordination with an evaluation of rate design. Goralski Direct at 9. This proposal made by the Company includes leveraging studies from Case No. IPC-E-18-16 and completing new studies before addressing needed updates. This process and a rate change will not likely be completed before the next annual FCA filing in 2022 leaving Staff's concerns being unaddressed for yet another year.

Based on previous FCA case history and the outcome of the January and March meetings, Staff describes potential modifications to the Company's current FCA mechanism. The modifications in any of Staff's proposed changes to the FCA mechanism, if approved by the Commission, should be implemented for deferrals beginning January 1, 2021 and remain in effect until the effective date of tariffs following a case modifying fixed cost recovery through other rate design options.

Staff's Proposed Modifications to the FCA

The FCA is predicated on the assumption that the average fixed costs of serving new customers remains relatively constant since Case No. IPC-E-11-19, when the FCA was approved as a permanent program. Order No. 32505. This assumption is incorrect, and Staff recommends that FCC and FCE values used to compute the FCA be adjusted to better align them with the way the Company incurs fixed costs to serve its new customers.

Since the current FCC and FCE were determined in IPC-E-11-19, kWh sales to R&SGS customers have increased about 3.9%, from 5.16 billion kWh in the test year to 5.36 billion kWh in 2020, and there has been little need for investment in new generation or transmission facilities. Even without the FCA, the Company is collecting approximately $5.5 million more in Generation and Transmission fixed costs from its R&SGS customers than it was authorized to collect in its last rate case. The Company was authorized to collect $135,255,569 through its volumetric base rates but collected $140,748,152 in 2020. Through the FCA, the Company was able to collect an additional $18,947,701 for generation and transmission. Absent the need for investment in transmission and generation facilities, Staff believes that the additional revenue derived from the FCA for generation and transmission facilities is not justified.

On the other hand, Staff recognizes that each new customer requires an investment in service drops and distribution facilities that does not vary significantly with customer load. Since IPC-E-11-19, the number of customers served by the Company has increased by about 17%, from 425,754 during the test year to 499,757 in 2020. Volumetric per-customer sales have decreased from 12,119 kWh to 10,731 kWh (-11.5%) over this same time period. Because the Company collects most of its customer and distribution costs through its volumetric sales, the Company would under-collect its distribution and customer classified fixed costs without the distribution/customer components of the FCA.

To correct the FCA to allow the Company to fully collect its customer and distribution classified fixed costs, without collecting fixed costs of transmission and generation facilities, Staff suggests that the FCC and FCE be adjusted to only include distribution/customer classified costs. Staff's recommended changes in the FCC and FCE are enumerated in Table 1:

Table No. 1: Current and New Customer FCC and FCE Rates

	Residential	**Small General Service**
Current Customer Fixed Costs[2]		
FCC	$650.53 per customer	$360.57 per customer
FCE	$0.051602 per kWh	$0.068633 per kWh
Proposed Customer Fixed Costs[3]		
Proposed FCC	$317.72 per customer	$256.29 per customer
Proposed FCE	$0.025199 per kWh	$0.048783 per kwh

Although Staff's Proposed FCC and FCE will better align the FCA with the way the Company incurs its fixed costs, it will not address a key concern expressed by the Commission in its previous orders—namely, that although the FCA is intended to encourage cost-effective DSM and energy efficiency programs, "...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." Order No. 34346 at 4. Given the potential difficulty of isolating the effects of the Company's Energy Efficiency programs from the effects of exogenous factors, Staff recommends that this issue be addressed in a separate case.

[2] Includes generation, transmission, distribution, and customer costs.
[3] 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 Residential and Small General Service classes. See Attachment No. 1 for a detailed example.

Without a correction to the FCA mechanism, the FCA deferral balance, and the portion of the deferral balance collected for transmission and generation facilities will continue to grow year-over-year. Staff discusses three possible modifications that could be implemented in next year's FCA that will either check or reduce this growth. Any approved modifications should be effective for deferrals on and after January 1, 2021. The modifications could be permanent or considered as interim modifications until a case is completed fully evaluating rate design and fixed cost recovery.

***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 that is 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 Staff Proposed FCC and FCE would be applied to customers connecting on or after that date. If this modification were implemented this year, this year's FCA would be identical to the $38,315,499 FCA proposed by the Company; however, we would expect the deferral balance to grow at a slower rate than is currently occurring under the existing methodology. 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, either the FCA deferral balance or that 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 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 $34,832,967, and we would expect growth of the deferral balance to be slowed relative to growth under the existing methodology.[4]

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

***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 that 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 reduced to $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 base rates than it was authorized to collect for generation and transmission facilities in the last rate case.

Proposed Modification 3 best aligns the FCA with the way that the Company incurs the fixed costs of serving new customers. Staff recommends the Commission order the Company to apply Staff's Proposed FCC and FCE (Table No. 1) to all customers in subsequent FCA filings effective January 1, 2021. If the Commission believes that more investigation is required to permanently adjust the FCA methodology, Staff recommends that the modification be accepted on an interim basis and a separate docket be opened. The new docket should develop an improved methodology that will allow the Company to recover the fixed costs that it is unable to recover due to decreases in volumetric sales attributable to its R&SGS DSM programs, update the FCC and FCE with current costs, and eliminate or at least significantly reduce recovery for decreased energy consumption due to exogenous factors. Staff believes any methodology derived in a new docket should be applied to 2021 fixed cost recovery to be filed in 2022.

Customer Notice and Press Release

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 26, 2021 and ending April 24, 2021, providing customers with a reasonable opportunity to file comments with the Commission by the May 11, 2021, deadline.

As of May 10, 2021, 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 $38,315,499 for June 1, 2021 – May 31, 2022.
2. Approve the Company's proposed Schedule 54 as submitted.
3. Order the Company to apply Staff's Proposed FCC and FCE to all customers effective January 1, 2021 in subsequent FCA filings (Proposed Modification 3).

If the Commission does not approve Staff's Proposed Modification 3 on a permanent basis, Staff recommends it be approved on an interim basis effective January 1, 2021 and a docket opened to develop an improved FCA methodology.

Respectfully submitted this 11th day of May 2021.

Dayn Hardie
Deputy Attorney General

Technical Staff: Kevin Keyt
Johan Kalala-Kasanda
Mike Morrison
Curtis Thaden

Attachment 1:

FCC and FCE Calculation Example

Residential

- Current FCC: $650.53/Customer (Currently used in FCA)
- Current FCE: $0.051602/kWh (Currently used in FCA)
- Modified Distribution-only FCC: $317.72/Customer
- Modified Distribution-only FCE: $0.025199/kWh

Sample Calculation: Residential Class

Start with current approved values, and then subtract the fixed costs of transmission and generation.

Current Fixed Costs (System fixed costs less customer fixed charges):	$258,561,619
Less Transmission ($40,761,768) and Generation ($91,537,172)[1]:	($132,298,940)
	$126,262,679

Average number of Residential Customers: 397,403
FCC = $126,262,679/397,403 = $317.72

Residential kWh: 5,010,676,610
FCE = $126,262,679/5,010,676,610 = $0.025199/kWh

[1] Includes a prorated portion of the $8,793,061 revenue shortfall/subsidy from Youngblood Exhibit 2 col. I.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 11TH DAY OF MAY 2021, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-21-03, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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