Office of the Secretary
Service Date
December 28, 2021

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IDAHO POWER COMPANY'S APPLICATION FOR MODIFICATION OF THE FIXED COST ADJUSTMENT MECHANISM	)	**CASE NO. IPC-E-21-39**
	)	**ORDER NO. 35273**

On November 10, 2021, Idaho Power Company ("Company") applied to modify its fixed cost adjustment ("FCA") mechanism by creating separate, and reduced, fixed cost tracking for new Residential and Small General Service ("R&SGS") customers added to the Company's system starting January 1, 2022. The Company proposed this modification to recover costs from its investments in promoting more energy efficient methods. The Company requested its Application be processed by Modified Procedure.

On November 29, 2021, the Idaho Public Utilities Commission ("Commission") set deadlines for interested persons to comment on the Application. *See* Order No. 35242. The Commission Staff ("Staff") and Clean Energy Opportunities for Idaho ("CEO") filed comments on December 20, 2021. The Company did not file reply comments.

Having reviewed the record, the Commission grants the Company's Application as set forth in our findings below.

BACKGROUND

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 consumption. 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 mechanism currently consists of three assets: (1) distribution, (2) transmission, and (3) generation.

APPLICATION

The Company proposed to modify the FCA by instituting separate and reduced fixed cost tracking and recovery for new R&SGS customers added to the Company's system starting January 1, 2022. Through this modification, the authorized level of fixed cost recovery for new customers would exclude generation and transmission-related fixed costs and continue to include distribution and other customer-related fixed costs. This change would reduce the amount of FCA facilitated fixed cost recovery associated with investments that have not been audited and reviewed for prudency by the Commission.

The proposed FCA modifications work identically for both the R&SGS classes. If approved, the Company would bifurcate the authorized Fixed Cost per Customer ("FCC") and Fixed Cost per Energy ("FCE") between "existing" and "new" customers. No change is proposed to the authorized FCC for existing customers. The proposed FCA modification for new customers modifies the authorized fixed cost per new customer rate to exclude generation and transmission functionalized costs and comprises distribution and customer fixed costs.

STAFF COMMENTS

Staff recommended approving the Company's Application as filed. Staff agreed that the Company's proposal would bifurcate the authorized fixed cost recovery between existing and new customers. Staff said the Company's proposal removes the fixed cost recovery of generation and transmission investment from new customers added to the system on or after January 1, 2022, until the next general rate case. Staff was encouraged by the Company's willingness to continue working with Staff and other parties to explore rate design solutions that may improve fixed cost collection and reduce the reliance on the FCA over time. Staff also said that the Company's Application is a result of the discussions it had with the Company as ordered by the Commission in Case No. IPC-E-21-03 and is a "middle ground" solution based on the differences in FCA methodology between Staff and the Company. *See* Order No. 35056.

Staff warned that the FCA mechanism should not be a substitute for a general rate case because the amount of transmission and generation investment cannot be estimated as new customers are added to the system as can be done for distribution investment. Thus, Staff argued that if customer growth causes the Company to incur additional capital investments in transmission and generation assets, then recovery of those assets would be best addressed through a general rate case. However, Staff determined that this temporary solution provided the Company some assurance of fixed cost recovery without eliminating the FCA mechanism altogether. Therefore, Staff recommended approving the Company's Application as filed.

PUBLIC COMMENTS

On December 20, 2021, CEO expressed concern that under Staff's analysis, the FCA mechanism as currently employed would transfer more costs to residential customers than the share of residential energy efficiency load reductions warrant. CEO stated that it was not organized when the Commission issued Order No. 34685 and therefore, did not participate in the meetings between the Company and Staff where common ground was reached. CEO stated that dramatic changes have occurred in the electric utility industry since 2004 when the FCA was implemented. CEO believed that future costs could be mitigated and suggested that other dockets from this year raised issues related to a probabilistic "ELCC" analysis and posited whether it would displace specific coincident peak hour loads as a mechanism for determining capacity deficiencies. CEO asked whether a study of rate designs from these dockets, rate designs related to customer-owned generation in another docket, and capacity deficiency measurements in a third docket detracted from a better way to serve the public interest. CEO asked the Commission to deny the Company's proposed application as filed and suggested that the FCA modification proposed by the Company only last through 2022.

COMMISSION FINDINGS AND DECISION

The Commission has jurisdiction over this matter under *Idaho Code* §§ 61-501, -502 and -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.

Under the foregoing authority, we have reviewed and considered the record, including the Company's Application, Staff's comments, and CEO comments. Fixed cost adjustment mechanisms are intended to remove the disincentive for the Company to promote energy efficiency and conservation, thereby allowing customers more control over their bills. However, we agree with Staff and CEO that the FCA mechanism should continue to be reviewed as new ways of recovering fixed costs are explored. The FCA is not a substitute for a general rate case; thus, the Commission approves the Company's Application as filed, but expects and encourages productive dialogue between Staff and the Company to continue in its exploration of rate designs to recover fixed costs without the need for an FCA.

Because this modification proposed by the Company eliminates fixed cost recovery due to new customer growth for investments best determined in a general rate case, the Commission finds that the proposed modification is just, fair, and reasonable.

ORDER

IT IS HEREBY ORDERED that the Commission approves the Company's Application to allow the Company to modify its FCA mechanism and institute separate, and reduced, fixed cost tracking for residential and small general service customers added to the Company's system effective January 1, 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. 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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DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 28th day of December 2021.

ERIC ANDERSON, PRESIDENT

KRISTINE RAPER, COMMISSIONER

PAUL KJELLANDER, COMMISSIONER

ATTEST:

Jan Noriyuki
Commission Secretary

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