

## BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

<b>IN THE MATTER OF IDAHO POWER</b> <b>COMPANY’S APPLICATION TO</b> <b>IMPLEMENT FIXED COST ADJUSTMENT</b> <b>RATES FOR ELECTRIC SERVICE FROM</b> <b>JUNE 1, 2022, THROUGH MAY 31, 2023</b>	) ) ) ) ) ) )	<b>CASE NO. IPC-E-22-07</b>  <b>ORDER NO. 35410</b>
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On March 15, 2022, Idaho Power Company (“Company” or “Idaho Power”) applied to implement new Fixed Cost Adjustment (“FCA”) rates for certain electric service customer classes from June 1, 2022, through May 31, 2023, and a corresponding revised tariff Schedule 54—Fixed Cost Adjustment. The Company filed the Direct Testimony of Pawel P. Goralski in support of the Application. The FCA applies to Residential and Small General Service (“R&SGS”) customers. *Id.* Under the proposed FCA, a typical Residential customer’s average bill would decrease approximately 0.81 cents per month.

On April 6, 2022, the Commission issued a Notice of Application and established public comment and Company reply deadlines. Order No. 35364. Staff filed the only comments.

The Commission now issues this Order approving the Application, effective June 1, 2022.

### 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. *See* Order No. 29558. 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. *See* Order Nos. 30267 and 32505. 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. Variable costs 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-21-39, the Commission approved a modification to the FCA mechanism for new R&SGS customers under which "the authorized level of fixed cost recovery for new customers excludes generation and transmission-related fixed costs but continues to include distribution and other customer-related fixed costs." *See* Order No. 35273. The Company attested that the modification did not impact the 2021 FCA deferral calculation. Application at 3.

## THE APPLICATION

The 2021 FCA deferral balance was \$35,203,247.66—consisting of \$33,810,563.43 for the Residential class and \$1,392,684.23 for the Small General Service class. *Id.* at 5.<sup>1</sup> The Company requested to decrease its FCA rates to 0.6153 cents per kilowatt hour (“kWh”) for the Residential class, and 0.7788 cents per kWh for the Small General Service class. *Id.* This would result in an annual decrease of 0.81% for the affected customer classes. *Id.* The Company stated that typical residential customers would see a decrease of approximately 0.81 cents on their monthly bill if the Application was approved as filed. *Id.* at 1.

The Company requested the proposed rates take effect on June 1, 2022, and for the proposed rates to remain in effect until May 31, 2023.

## STAFF COMMENTS

Staff reviewed the Company’s Application and supporting testimony. Staff audited the components used to calculate the FCA balance and confirmed they complied with Commission orders. Staff verified the FCC and the FCE, the annual sales for affected classes, the customer counts, and all the inputs used to calculate the FCA balance. Based on its review, Staff recommended the Commission approve the Company’s proposed Schedule 54 as filed, and to allow the Company to collect the requested FCA deferral balance.

Staff’s comments focused on: (1) the calculation of the 2022-2023 FCA Rate; (2) the modifications to the FCA; (3) the impact of Company-Sponsored Energy Efficiency programs; and (4) the Company’s customer notice and press release.

Staff agreed that surcharges of 0.6153 cents per kWh for the Residential class and 0.7788 cents per kWh for the Small General Service class would allow the Company to recover the 2021 FCA deferral balance. Staff verified that the FCA forecasted sales were appropriate and aligned with the forecast used in the Company’s 2022-2023 Power Cost Adjustment filing.

Staff stated that the Commission approved a modification in Order No. 35273, authorizing the Company to modify the FCA mechanism and institute separate, and reduced, fixed cost tracking for R&SGS customers added to the Company’s system after January 1, 2022. Staff stated the new FCA calculation would be reflected in the Company’s 2023 FCA deferral filing.

Staff noted that the FCA rate adjustment mechanism provides for fixed cost recovery regardless of the cause for decreased energy sales and revenues. Staff further noted the Company’s

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<sup>1</sup> The proposed 2021 FCA deferral balance is \$4,890,772 less than the 2020 FCA balance of \$38,315,499.

statement that, since implementation of the FCA, its financial disincentive to promote energy efficiency programs such as DSM has been reduced. Staff agreed with the Company that cost-effective DSM and the elimination or reduction of capital costs have been achieved thanks to the FCA mechanism. Staff believed the modifications approved in Order No. 35273 would not adversely affect recovery of actual fixed costs or become a disincentive to the implementation of cost-effective DSM.

Staff highlighted the Company's assertion that, in 2021, it achieved 143,971 megawatt-hours ("MWh") of energy savings system-wide—enough energy to power approximately 12,600 average homes for one year in the Company's service area.<sup>2</sup>

Staff reviewed the Company's press release and customer notice that were included with its Application and determined that both met the requirements of Rule 125 of the Commission's Rules of Procedure, IDAPA 31.01.01.125. However, Staff understood that the notice was included with bills mailed to customers beginning March 26, 2022, and ending April 23, 2022. Because the Commission set a May 3, 2022, comment deadline, Staff was concerned that some customers in the last billing cycle may not have received notice or had adequate time to submit comments before the deadline. Staff recommended the Commission accept late filed customer comments by customers. No customer comments were filed.

In sum, Staff recommended the Commission approve the Company's FCA filing with a net deferral balance of \$35,203,247 for June 1, 2022 through May 31, 2023, and the Company's proposed Schedule 54 as submitted.

### **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, and Staff 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.

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<sup>2</sup> The energy savings are described in the 2021 DSM Annual Report filed in Case No. IPC-E-22-08.

**ORDER**

IT IS HEREBY ORDERED that the Company's Application is approved. The Company shall recover its net FCA deferral balance of \$35,203,247 for the 2022-2023 FCA period through FCA rates equal to 0.6153 cents per kWh for Residential class customers, and 0.7788 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, 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 20<sup>th</sup> day of May 2022.



ERIC ANDERSON, PRESIDENT

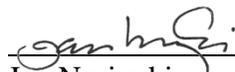


JOHN CHATBURN, COMMISSIONER



JOHN R. HAMMOND, JR., COMMISSIONER

ATTEST:



Jan Noriyuki  
Commission Secretary

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