Office of the Secretary
Service Date
May 30, 2023

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR AUTHORITY TO IMPLEMENT FIXED COST ADJUSTMENT RATES FOR ELECTRIC SERVICE FROM JUNE 1, 2023, THROUGH MAY 31, 2024	)	**CASE NO. IPC-E-23-09** **ORDER NO. 35799**

On March 15, 2023, Idaho Power Company ("Company") applied to implement new Fixed Cost Adjustment ("FCA") rates for electric service from June 1, 2023, through May 31, 2024, and a corresponding revised tariff Schedule 54 ("Application"). The Company proposed "a $9,976,903, or 1.56 percent, decrease for Residential and Small General Service [("R&SGS")] customers. If the FCA is approved as filed, a typical residential customer using 950 kilowatt-hours [("kWh")] per month will see an approximate $1.66 decrease to their monthly bill." Application at 1-2. The Company requested its Application be processed through modified procedure with an effective date of June 1, 2023.

On April 6, 2023, the Commission issued a Notice of Application and established public comment and Company reply deadlines. Order No. 35729. Staff filed the only comments in this case.

The Commission now issues this Order approving the Application as filed.

BACKGROUND

In 2004, the Commission opened an investigation to (1) assess financial disincentives inherent in Company-sponsored conservation programs; (2) to address possible revenue adjustment when annual energy consumption is both above and below normal; and (3) to provide the Commission with proposals that could provide the Company 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 the Company'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 2022 FCA was the first year to utilize this new mechanism.

THE APPLICATION

The Company sought recovery of the 2022 FCA balance and approval of proposed rates. "[T]he proposed FCA is $24,076,901.44 for the Residential class and $988,173.81 for the Small General Service class, for a total amount of $25,065,075.31." *Id*. at 6. The Company stated, "[t]he proposed FCA deferral balance is less than the current FCA deferral balance collected in customers' rates" during the 2022 FCA deferral period. *Id*.

The Company requested to decrease the FCA rate for Residential customers to 0.4402 cents per kWh and decrease the FCA rate for Small General Service customers to 0.5541 cents per kWh. If approved, the proposed FCA rates would decrease current billed revenue from affected customer classes by 1.56 percent.

The Company requested the proposed rates take effect on June 1, 2023, and remain in effect until May 31, 2024.

STAFF COMMENTS

Staff reviewed the Company's Application and supporting testimony. Staff audited the components used to calculate the FCA balance and believed it complied with Commission orders. Staff verified the FCC, the FCE, the annual sales for the two affected classes, the new and existing 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 allow it to recover the requested FCA deferral balance.

1. Calculation of the 2023-2024 FCA Rate

Staff verified the Company's FCA calculations for the R&SGS classes. Staff stated:

> The Company proposed to change the Residential Service rate from the present rate of 0.6153 cents per kWh to a rate of 0.4402 cents per kWh, a decrease of 0.1751 cents for residential customers. This is a decrease of $9.7 million to customers, or 1.56%. For the Small General Service class, the Company proposed to change the present surcharge rate of 0.7788 cents per kWh to a rate of 0.5541 cents per kWh, a decrease of 0.2247 cents. This is a decrease of $312,938, or 1.63%. Using forecasted sales for June 1, 2023, through May 31, 2024, Staff agrees that surcharges of 0.4402 cents per kWh for the Residential class and 0.5541 cents per kWh for the Small General Service class will provide a sufficient opportunity for the Company to recover the 2022 FCA deferral balance.

Staff Comments at 3.

2. Modifications to the FCA

Staff noted in Order No. 35273 the Commission authorized 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. *Id.* at 3. Staff noted this is the first FCA filing to incorporate this modification. Staff also noted "the authorized level of fixed cost recovery for new customers would exclude generation and transmission-related fixed costs but continue to include distribution and other customer-related fixed costs. This change would reduce the amount of FCC for new customers[.]" *Id.* at 4.

3. Impact of Company-Sponsored Energy Efficiency

Staff noted that the FCA rate adjustment mechanism was implemented to remove disincentives to invest in energy efficiency and provides for fixed cost recovery regardless of the cause for decreased energy sales and revenues. Staff also noted that energy sales can decrease from a myriad of factors outside of the Company's control.

Staff noted the Company's indication that, since implementation of the FCA, its financial disincentive to promote energy efficiency programs such as Demand Side Management ("DSM") has been reduced. Staff agreed with the Company that cost-effective DSM and the elimination or reduction of capital costs have effectively been achieved thanks to the FCA mechanism. Staff believed the modifications approved in Order No. 35273 will 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 2022, it achieved 169,889 megawatt-hours ("MWh") of savings system-wide—enough energy to power approximately 14,900 average homes for one year in the Company's service area.[1]

4. Customer Notice and Press Release

Staff reviewed the Company's press release and customer notice that were included with its Application and determined that both meet 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 28, 2023, and ending April 25, 2023. Because the Commission set a comment deadline of May 3, 2022, 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. Acknowledging the importance of customers' right to the opportunity to file

[1] The energy savings are described in the 2022 DSM Annual Report filed in Case No. IPC-E-23-10.

comments and have those comments considered by the Commission, Staff recommended the Commission accept late filed comments by customers.

5. Staff Recommendation

In sum, Staff recommended the Commission: (1) approve the Company's FCA filing with a net deferral balance of $25,065,075.31 for June 1, 2023, through May 31, 2024, and the Company's proposed Schedule 54 as filed, effective June 1, 2023. Staff also recommended the Commission accept late filed comments by customers.

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's Comments. Based on our review, we find it reasonable to approve the Application as filed because it complies with the Commission-approved method for calculating the FCA.

Accordingly, the Commission approves the Company's proposed FCA of $24,076,901.44 and $988,173.81 for the R&SGS classes respectively. The Commission also approves the Company's proposed decreases of 0.4402 cents per kWh and 0.5541 cents per kWh for the R&SGS classes respectively. The Commission finds the Company correctly calculated its deferral balances.

ORDER

IT IS HEREBY ORDERED that the Company's Application is granted as filed. The Company's net deferral balance for June 1, 2023, through May 31, 2024, shall total $25,065,075.31.

IT IS FURTHER ORDERED the Company's proposed Schedule 54 is approved as filed.

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 30th day of May 2023.

ERIC ANDERSON, PRESIDENT

JOHN R. HAMMOND JR., COMMISSIONER

EDWARD LODGE, COMMISSIONER

ATTEST:

Jan Noriyuki
Commission Secretary

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