Office of the Secretary
Service Date
May 31, 2023

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF ROCKY MOUNTAIN POWER'S APPLICATION FOR AUTHORITY TO IMPLEMENT THE RESIDENTIAL RATE MODERNIZATION PLAN	**CASE NO. PAC-E-22-15** **ORDER NO. 35802**

On October 20, 2022, PacifiCorp d/b/a Rocky Mountain Power ("Company"), applied to the Commission requesting authorization to implement a residential rate modernization plan over a five-year transition period ("Residential Rate Modernization Plan"). Application at 1.

The Company requested its Application be processed by Modified Procedure with a proposed December 1, 2022, effective date. *Id*.

On November 30, 2022, the Commission issued a Notice of Application, Notice of Suspension of Proposed Effective Date, and a Notice of Intervention Deadline. Order No. 35615. Clean Energy Opportunities for Idaho ("CEO"), Idaho Conservation League ("ICL"), and the NW Energy Coalition ("NWEC") intervened. Order Nos. 35634 and 35655.

On February 13, 2023, the Commission issued a scheduling order setting a public workshop and customer hearing and establishing public comment and Company reply deadlines. Order No. 35679.

The Commission Staff ("Staff"), CEO, ICL, and NWEC filed comments. The Company filed a reply. The Commission also received 63 public comments.

Having reviewed the record, the Commission now issues this Order approving the Company's Application in part.

THE APPLICATION

The Company bills residential customers monthly using a two-component billing structure: (1) fixed Customer Service Charge; and (2) Energy Charges based on usage. Application at 3. The Company asserts the current $8.00 per month Customer Service Charge does not cover the fixed costs incurred by residential customers and therefore shifts the recovery of fixed costs to the volumetric Energy Charges. The Company proposed a Residential Rate Modernization Plan to align rates with causation as follows:

a) Increase the Customer Service Charge for both Electric Service Schedule No. 1 – Residential Service ("Schedule 1") and Electric Service Schedule No. 36 – Optional

Time of Day – Residential Service ("Schedule 36") to $29.25 per month over five years and lower Energy Charges commensurately.

b) Eliminate inclining block tiered rates for Schedule 1, so that Energy Charges are flat in each season.

c) Change the time of use periods in Schedule 36, so the definitions of on- and off-peak periods match those listed on Electric Service Schedule No. 9 – General Service – High Voltage ("Schedule 9").[1]

Id. at 2-3. *See also* Attachment 1 to the Application.

The Company represented its "Residential Rate Modernization Plan is designed to be revenue neutral and does not increase the overall revenue collected from customers." *Id.* at 5. The Company included the following tables that show how the Customer Service Charge would increase and the Energy Charges would decrease over the five-year period.

Proposed Schedule 1 Prices by Transition Year

	Summer Season		Winter Season		
Transition Year	First Tier Energy Charge (cents/kWh)	Second Tier Energy Charge (cents/kWh)	First Tier Energy Charge (cents/kWh)	Second Tier Energy Charge (cents/kWh)	Customer Service Charge
Present	11.1966	13.0999	9.3305	10.9165	$8.00
1	10.6887	12.2114	8.9073	10.1761	$12.25
2	10.1809	11.3229	8.4841	9.4357	$16.50
3	9.6731	10.4344	8.0609	8.6953	$20.75
4	9.1652	9.5459	7.6377	7.9549	$25.00
5	8.6574	8.6574	7.2145	7.2145	$29.25

Proposed Schedule 36 Prices by Transition Year

	Summer Season		Winter Season		
Transition Year	On-Peak Energy Charge (cents/kWh)	Off-Peak Energy Charge (cents/kWh)	On-Peak Energy Charge (cents/kWh)	Off-Peak Energy Charge (cents/kWh)	Customer Service Charge
Present	15.2201	5.3672	13.0395	4.9346	$15.00
1	14.8656	5.2422	12.7359	4.8196	$17.75
2	14.5112	5.1172	12.4322	4.7047	$20.75
3*	15.5632	4.9922	13.3335	4.5898	$23.50
4	15.1420	4.8672	12.9726	4.4749	$26.50
5	14.7738	4.7423	12.6572	4.3600	$29.25

Attachment 1 to the Application.

[1] Schedule 36's on-peak period is "weekdays from 8 A.M. to 11 P.M. during summer months and from 7 A.M. to 10 P.M. during winter months excluding holidays." Direct Testimony of Robert M. Meredith at 13. Schedule 9's on-peak period is "every day from 3 P.M. to 11 P.M. during the summer months and from 6 A.M. to 9 A.M. and again from 6 P.M. to 11 P.M. during the winter months." *Id*.

THE COMMENTS

I. Staff

Staff's review of the Company's Application and supporting materials focused on "(1) revenue neutrality; (2) each element of the Company's proposal's alignment with cost causation; (3) each element of the Company's proposal's impact on energy conservation; and (4) impacts to customers." Staff Comments at 2.

Based on its review, Staff recommended approval of the Company's proposed increases to the Customer Service Charge from $8.00 per month to $29.95 per month over the five-year transition period, and changes to the time of use ("TOU") periods for Schedule 36 to match the on- and off-peak periods in Schedule 9. *Id*. Staff disagreed with eliminating block tiered rates for Schedule 1 and proposed an alternative Schedule 1 with tiered rates. *Id*. at 2-3.

If the Company's Application were approved with Staff's proposed modifications, Staff asserted:

> [M]ore customers would see a reduction in their monthly bills. The break-even point is the amount of monthly kilowatt-hour ("kWh") consumption where a customer would receive the same bill in the new Plan as they would in the current structure. Any customer whose monthly consumption is greater than the break-even point would typically see a bill reduction and a customer whose monthly consumption is less than the break-even point would typically see a bill increase. Under the Company's Plan, the final break-even point is 778 kWh in summer and 1,002 kWh in winter. Under Staff's proposed tiered rates, the break-even point is 694 kWh in the summer and 833 kWh in the winter. This means that more customers will see their monthly bill decrease. The magnitude of the bill increase for low-volume customers will be less than under the Company's Plan.

Staff Comments at 3.

Staff's Support of the Increase in Fixed Customer Service Charge

Staff asserted that its review confirmed that the Company's current rates under Schedules 1 and 36 don't align with cost causation. *Id*. at 6. Staff stated that the Cost-of Service Study from the Company's 2021 general rate case, Case No. PAC-E-21-07 shows that currently about $74.48 or about 77 percent of the $97.32 average cost of service for residential customers are fixed costs and not energy related. Staff Comments at 5 *citing* Direct Testimony of Robert M. Meredith at 4; 6-7. The current $8.00 fixed charge covers a small percentage of the actual fixed cost of service with the remainder covered by the variable energy rate. Staff Comments at 6. Staff confirmed the Company's representations that "[f]or Schedule 1, only about nine percent of revenue is recovered through the Customer Service Charge. For Schedule 36, only about eleven percent of revenue is recovered through the customer Service Charge." Staff Comments at 6 *quoting* Direct Testimony of Meredith at 6-7.

Under the Company's proposal, Staff calculated the monthly fixed charge increase would cover 31 percent of the actual fixed costs of service, which "shifts a reasonable percentage of residential customer fixed costs into a fixed-type of charge" once fully implemented. *Id*. at 6. Staff reasoned that distribution fixed costs are "relatively evenly incurred between residential customers, thus striking a good balance of equity and assurance of fixed cost recovered". *Id*.

Staff's analysis of revenue neutrality, cost causation, conservation of energy and customer impacts for the proposed increased Customer Service Charge supported its recommendation that the Commission should approve this proposal. Staff confirmed revenue neutrality and the present lack of "align[ment] with cost of causation" with higher volume users subsidizing the low volume users' fixed costs. *Id*. at 6.

> There are legitimate reasons to increase the Customer Service Charge to have *more* of the fixed costs borne by those customers causing more of the cost. First, the accurate assignment of costs is a fundamentally fair approach. Second, the misalignment of costs can create revenue recovery distortions. Finally, misaligned costs can give customers an incorrect perception of the cost and value of Company's services.

Id. at 6.

Staff also acknowledged higher fixed charges along with a reduction in volumetric energy charges can reduce the incentive for customers to conserve. *Id*. at 6-7.

Staff asserted that the Company's Residential Rate Modernization Plan would have little effect on the average Schedule 1 customer as the full rate implementation—after five years—would increase the average monthly bill by $2.70— 3.1 percent and a decrease for Schedule 36 customers of $1.87 —or 1.3 percent. *Id*. at 7. Staff also represented that when a customer's monthly usage is not average, billing impacts would grow. Customers who use less than the average would see their bills increase and those who use more than the average would see a decrease. *Id*.

Staff represented that the Company's Residential Rate Modernization Plan would create bill stability for customers because it could reduce monthly fluctuations. *Id*. Staff believed that by increasing the Customer Service Charges and decreasing the energy charge, billed amounts will become more stable. *Id.*

Staff's Objection to Eliminating Inclining Block Tiered Rates for Schedule 1

Staff objected to eliminating inclining block tiered rates, concerned that "[t]he combined effect of raising the fixed service charge and eliminating tiered rates may shift the pricing signal too far away from energy conservation." *Id*. at 8. Even with "minimal" overall impacts, low-volume customers' bills would increase. *Id*. Staff proposed "Table No. 1 Revised tiered rates for Schedule 1" to maintain revenue neutrality with the proposed customer service charge increases as follows:

<u>**Staff's Revised Tiered Rates for Schedule 1 Compared to the Company's Proposal**</u>

	STAFF PROPOSAL				**COMPANY PROPOSAL**			
	Summer Season		**Winter Season**		**Summer Season**		**Winter Season**	
Transition Year	**First Tier Energy Charge (cents/kWh)**	**Second Tier Energy Charge (cents/kWh)**	**First Tier Energy Charge (cents/kWh)**	**Second Tier Energy Charge (cents/kWh)**	**First Tier Energy Charge (cents/kWh)**	**Second Tier Energy Charge (cents/kWh)**	**First Tier Energy Charge (cents/kWh)**	**Second Tier Energy Charge (cents/kWh)**
Present	11.1966	13.0999	9.3305	10.9165	11.1966	13.0999	9.3305	10.9165
1	10.5846	12.4879	8.8205	10.4066	10.6887	12.2114	8.9073	10.1761
2	9.9726	11.8759	8.3105	9.8966	10.1809	11.3229	8.4841	9.4357
3	9.3606	11.2639	7.8005	9.3866	9.6731	10.4344	8.0609	8.6953
4	8.7486	10.6519	7.2905	8.8766	9.1652	9.5459	7.6377	7.9549
5	8.1366	10.0399	6.7805	8.3666	8.6574	8.6574	7.2145	7.2145

Id. at 3.

Staff also encouraged the Company to utilize information from advanced meters to explore TOU rate changes in lieu of tiered rates in a general rate case.

Staff's Support of Changing the On-Peak Hours for Schedule 36

Staff recommended changing the on-peak hours for Schedule 36 as proposed by the Company, because the change is revenue neutral and "align[s] more closely with the higher cost energy periods in the real time [Energy Imbalance Market ("EIM")]." *Id*. at 11. Staff supported the five-year transition period to "mitigate impacts on individual customers" making the incremental change "nearly imperceptible." *Id*. at 12.

II. CEO

CEO opposed the Company's proposed changes to the "fixed monthly fees and other Schedule 1 rate design features." CEO Comments at 1. As a preliminary matter, CEO argued this procedure is incorrect for the Company's requested changes because the Commission considered, and resolved, these issues in the Company's most recent general rate case, Case No. PAC-E-21-07, and these proposed changes fundamentally alters the parties' settlement agreement in that case. *Id*. at 6.

CEO argued the Company's justification for increasing fixed monthly residential fees is "severely flawed" and any modernization proposals should not include price alignment "with legacy methodologies for characterizing costs." *Id*. CEO suggests the monthly fixed charge be "reduced to approximately $5.40" based on comparable regulated utilities. *Id*. at 8. CEO discussed modern approaches to pricing and argues that an increased fixed monthly fee removes an important pricing signal. *Id*. at 7. CEO suggested an "average billing option" for month-to-month stability rather than "unnecessarily raising fixed monthly fees on <u>all residential customers</u>." *Id*. at 5 (emphasis in original).

CEO objected to removing the inclining block rates because the rate design structure encourages energy efficiency and conservation. *Id*. at 9. CEO indicated it would support a "thoughtful transition" from the current inclining block rate design to an opt-out rate design with on-peak rates in the summer and requests the summer on-peak time window in Schedule 36 be "narrowed to a period with a 3 or 4-hour duration." *Id*.

III. ICL and NWEC

ICL and NWEC ("ICL/NWEC") filed joint comments opposing the Company's request to increase the customer service charge and eliminate the inclining tier rates over five years, but conditionally supporting an adjustment to the TOU rates. ICL/NWEC Comments. ICL/NWEC objected to considering the Company's rate design changes outside of a general rate case and "without consideration of other ratemaking principles or adequate stakeholder and customer input." *Id*. at 2-4. ICL/NWEC argued the Company's Application did not satisfy ratemaking principles. *Id*.

ICL/NWEC disagreed with the proposed monthly Customer Service Charge increases as "exceed[ing] reasonableness" and "comparable customer charges." *Id*. at 5. ICL/NWEC stated this increase "blunts price signals" and likely decreases customer conservation and energy efficiency.

ICL/NWEC argued the Company's proposal harms low- and moderate-income customers. *Id*. at 12. ICL/NWEC disputed the Company's characterization of costs as a "customer service charge" and argued the Customer Service Charge "was never intended to cover *any* of the fixed costs not related to utility costs that vary by the number of customers"—it is to cover the cost of "a portion of the cost of meter reading and billing." *Id*. at 7 (*citing* Company Tariff, Sheet 4, Approved May 26, 2009.) ICL/NWEC challenged the Company's customer service charges comparisons with research showing customer service charges ranging from $4.20/month (NorthWestern Energy, Montana) to $11.00/month (Portland General Electric, Oregon) and Idaho public utilities ranging from $5.00 to $7.00/month. *Id*. at 8-9.

ICL/NWEC objected to eliminating the inclining tiered block schedules asserting this disincentivizes energy conservation and efficiency. *Id*. at 13. ICL/NWEC encouraged the Commission to focus on policies and objectives to promote energy efficiency and conservation, because it "reduces system costs by reducing peak demands and avoid[s] expensive generation and transmission upgrades." *Id*. at 11. ICL and NWEC noted that the National Association of Regulatory Utility Commissioners has suggested increasing the volumetric rate rather than the fixed rate as a more reasonable approach. *Id*.

ICL/NWEC would "conditionally support an adjustment to the time of use rates." *Id*. However, with uncertainties around energy conservation, ICL/NWEC maintained this is not the right time to implement the proposed change—any changes should come after engaging stakeholders and collaborating to develop rate design. *Id*. at 1, 15-16.

IV. Company Reply

The Company's reply reiterated its request for approval of the proposed modifications and addressed criticisms. Company Reply Comments. The Company argued its five-year transition period results in nearly imperceptible changes to the average customer. *Id*. at 4. Although the Company would like to remove the inclining block tiers, it acknowledged Staff's recommendation "make[s] progress towards fairer residential pricing that appropriately reflects cost causation." *Id*. at 2. However, the Company proposed an alternative tiered rate that keeps the differential between tiers in the same percentage of "approximately 17 percent in both seasons." *Id*. at 4-5. The Company confirmed revenue neutrality for both Staff's proposed inclining block tiers and its alternative proposal. *Id*.

The Company disagreed with CEO and ICL/NWEC that a revenue neutral proposal must be part of a general rate case and identified advantages to addressing residential rate design in this case. *Id*. at 5-6. The Company discussed its efforts to engage the public and asserted that customers and parties from the 2021 general rate case had a fair opportunity to participate, including the Company's two virtual customer workshops, Staff's workshop, and the Commission's customer hearing. The Company contended that ratemaking principles were considered and explained how its proposal satisfied sufficiency, fairness, efficiency, and customer acceptability. *Id*. at 7-9.

The Company disagreed that higher fixed charges will send a negative price signal and asserts there are different conclusions reached by other authorities than those which ICL/NWEC cites. *Id*. at 9. The Company disagrees with CEO's approach to volumetric risk, stakeholder participation, costs follows benefits approach, rate design, fixed charges, the impact on energy conservation, and the on-peak window for Schedule 36 (CEO proposed 3-4 hours). *Id*. at 17-19.

The Company argued that equity supports its proposal, because "[c]harging customers primarily based on their energy usage is not cost based and is inequitable, as it would result in some customers paying less for distribution services than others, even though they are using the same infrastructure." *Id*. at 10. The Company disagreed that its proposal "would cause urban customers to subsidize rural customers to a greater extent than presently exists." *Id*. at 11. The Company argued its approach is fair for low-income customers, and its bill impact research showed "an average *savings* of $8.30 per month for Schedule 1 and $3.59 per month for Schedule 36" for customers who received energy assistance or weatherization services. *Id*. at 11-12 (emphasis in original). The Company thought "defaulting customers onto a program and allowing them to opt-out" is confusing and problematic for consumers. *Id*. at 20.

The Company noted the general themes of comments filed by interested persons and replied to customer feedback and concerns its Residential Rate Modernization Plan would reduce energy conservation and onsite customer generation incentives for conservation, encourage customers to increase energy usage, and pose a challenge for customers on a fixed income. *Id*. The Company acknowledged some customers' average monthly bills would increase while some would decrease. *Id*. at 21. However, customers would "save money for every kWh they reduce" and the Company thought it fair to have customers equally contribute to distribution system costs. *Id*. at 21. As discussed above, the Company proposed an alternative tiered rate schedule that "[i]nstead of keeping the differential between the first and second tier energy prices the same in absolute terms (about a 1.9 cent difference in the summer and about 1.6 cent difference in the winter), the Company suggests keeping it the same in percentage terms (approximately 17 percent in both seasons)" as follows:

Comparison of Staff Proposal to Alternative Where Differential is Fixed in Percentage Terms

Staff Proposal				
	Summer Season		Winter Season	
Transition Year	First Tier Energy Charge (¢/kWh)	Second Tier Energy Charge (¢/kWh)	First Tier Energy Charge (¢/kWh)	Second Tier Energy Charge (¢/kWh)
Present	11.1966	13.0999	9.3305	10.9165
1	10.5846	12.4879	8.8205	10.4066
2	9.9726	11.8759	8.3105	9.8966
3	9.3606	11.2639	7.8005	9.3866
4	8.7486	10.6519	7.2905	8.8766
5	8.1366	10.0399	6.7805	8.3666

Alternative to Staff Proposal				
	Summer Season		Winter Season	
Transition Year	First Tier Energy Charge (¢/kWh)	Second Tier Energy Charge (¢/kWh)	First Tier Energy Charge (¢/kWh)	Second Tier Energy Charge (¢/kWh)
Present	11.1966	13.0999	9.3305	10.9165
1	10.6118	12.4157	8.8431	10.3464
2	10.027	11.7315	8.3558	9.7762
3	9.4422	11.0473	7.8685	9.2061
4	8.8574	10.3631	7.3812	8.6359
5	8.2726	9.6789	6.8939	8.0657

Id. at 4-5.

The Company believed that maintaining the percentage differentials between tiers would "ensure that the scale of tiering appropriately reflects the change in magnitude for energy charges." *Id*. at 4.

V. Public Comments

Most written comments opposed the Company's proposal due to financial and energy conservation concerns. Customers stated the higher fixed costs are burdensome for those on a fixed-income, disincentivize energy conservation, and penalize low-volumetric users. Solar advocates had concerns about the increased fixed rate negatively affecting investments in solar generation and asked the Commission to encourage investments in renewable generation. Members of the public who testified at the customer hearing voiced many of the same concerns found in the written comments.

FINDINGS AND DISCUSSION

The Commission has jurisdiction over this matter under *Idaho Code* §§ 61-501, -502, and -503. *Idaho Code* § 61-501 authorizes the Commission to "supervise and regulate every public utility in the state and to do all things necessary to carry out the spirit and intent of the [Public Utilities Law]." *Idaho Code* §§ 61-502 and -503 empower the Commission 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. Pursuant to its statutory duties, the Commission has the authority to determine reasonable rates and review and investigate contracts of public utilities. *Empire Lumber Co. v. Washington Water Power Co.*, 114 Idaho 191, 192, 755 P.2d 1229, 1230 (1987).

As a preliminary matter, the Commission finds it appropriate to address the Company's revenue neutral request outside of a general rate case. The Commission has carefully considered the Company's Application, and finds it appropriate to approve, with modifications discussed herein.

First, the Commission approves the proposed increase to the Customer Service Charge from $8.00 per month to $29.25 per month over five years for both Schedule 1 and Schedule 36 and lower variable energy charges simultaneously. The Commission is persuaded by the Company's testimony on the average cost of service for a residential customer, and the Company's 2021 Cost-of-Service Study. The analysis shows fixed costs represent 77 percent of the average cost of service for Schedule 1 residential customers, and the current $8.00 per month Customer Service Charge recovers only nine percent of the fixed costs for Schedule 1 and 36 customers. The Residential Rate Modernization Plan allows for a gradual increase to 31 percent of cost recovery through the Customer Service Charge. This represents a gradual step toward accurately assigning costs, which is a fair component of rate design as the misalignment of costs can create revenue recovery distortions and give an incorrect perception of the cost and value of the Company's services. While certain customers may end up paying more per month under the modified Customer Service Charge, this modification helps to ensure all customers are paying a proper amount of the fixed costs required to serve them. We believe there may be additional benefits for customers who will likely see their summer and winter bills more levelized.

CEO, ICL and NWEC objected to increasing the Customer Service Charge. We do not find the argument to set these rates based on comparable customer service charges at other utilities to be persuasive when those rates may not align with cost causation. The Commission is sensitive to customer concerns with the potential impact of increasing the Customer Service Charge. However, because the increased Customer Service Charge is coupled with decreased volumetric charges, we anticipate minimal impacts on the average customer. Evidence in this case also showed that low-income customers who had received energy assistance or weatherization services would receive energy savings on their energy bills. *See* Company Reply Comments at 11-12. The Commission also finds that raising the Customer Service Charge and decreasing the Energy Charges will provide the benefit of energy bill stabilization, which is an advantage for budgeting and planning purposes for all customers.

The Commission rejects the Company's request to eliminate inclining block tiered rates. The Commission is concerned that the combined impact of increasing the Customer Service Charge and eliminating the inclining block tiered rates would be too drastic and could shift the price signal too far away from energy conservation if done concurrently with the increased Customer Service Charge. The Company proposed an alternative tiered rate structure to Staff's proposal where the differential maintains the percentage between tiers instead of Staff's proposed differential between the first and second tier energy prices which would differ between seasons. Both proposed tiered rates would maintain revenue neutrality, however this Commission finds that the Company's proposed alternative tiered rate schedule where the differential between tiers is consistent in both seasons.

Finally, the Commission agrees with changing the TOU periods in Schedule 36, so the definitions of on- and off-peak periods match those listed on Electric Service Schedule No. 9 – General Service – High Voltage ("Schedule 9"). This improves the alignment of costs with higher cost energy period in the real time EIM.

ORDER

IT IS HEREBY ORDERED that the Company's request to increase the Customer Service Charge for both Schedule 1 and Schedule 36 to $29.25 per month, over five years as set forth in Attachment 1 to the Application is approved.

IT IS FURTHER ORDERED that the Company's request to eliminate inclining block tiered rates is denied; the Company's Alternative Inclining Block Tier Schedule with the differential between tiers fixed in percentage terms, as shown in the

the table labeled Alternative to Staff Proposal set forth on page 9 above, is approved.

IT IS FURTHER ORDERED that the Company's request to change the time of use periods in Schedule 36, so the definitions of on- and off-peak periods match those listed on Schedule 9, is approved.

IT IS FURTHER ORDERED that the Company file revised tariffs and schedules in conformance with this Order, to be effective on June 1, 2023, for service rendered on and after that date.

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.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 31st day of May, 2023.

ERIC ANDERSON, PRESIDENT

JOHN R. HAMMOND JR., COMMISSIONER

EDWARD LODGE, COMMISSIONER

ATTEST:

Jan Noriyuki
Commission Secretary

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