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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF ROCKY MOUNTAIN)	
POWER'S APPLICATION FOR AUTHORITY)	CASE NO. PAC-E-22-15
TO IMPLEMENT THE RESIDENTIAL RATE)	
MODERNIZATION PLAN)	COMMENTS OF THE
)	COMMISSION STAFF
)	

COMMISSION STAFF ("STAFF") OF the Idaho Public Utilities Commission, by and through its Attorney of record, Claire Sharp, Deputy Attorney General, submits the following comments.

BACKGROUND

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" or "Plan"). Application at 1.

On November 30, 2022, the Commission issued a Notice of Application, Notice of Suspension of Proposed Effective Date, and Notice of Intervention Deadline. Order No. 35615.

Clean Energy Opportunities for Idaho ("CEO"); The Idaho Conservation League ("ICL"); and the NW Energy Coalition ("NVEC") intervened. Order Nos. 35634 and 35655.

In its Application, the Company proposed three changes to its residential rates:

1. Increasing 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, and reduce the energy charges commensurately (the Customer Service Charge is currently \$8 per month for Schedule 1, and \$15 per month for Schedule 36);
2. Eliminating the inclining block tiered rates for Schedule 1; and
3. Changing the TOU periods in Schedule 36 to define the on- and off-peak periods to match those listed on Electric Service Schedule No. 9 – General Service – High Voltage.

Application at 2-3.

The Company asserted that this rate modernization would be revenue neutral, and the proposed changes be phased in over a five-year period. The Change in TOU periods would occur in year 3. Application at 5.

STAFF ANALYSIS

Staff reviewed the Application, testimony and additional information provided through discovery. Staff’s review 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.

Based on Staff’s analysis of the Plan and applying each criterion, Staff recommends the Commission approve the Company’s Plan with modifications as outlined below:

1. Approve the increase to the Customer Service Charge over the five-year transition period, as proposed by the Company;
2. Tiered rates should be retained, but adjusted commensurately to maintain revenue neutrality; and
3. Approve the adjustments to the time of use (“TOU”) periods for Schedule 36, as proposed by the Company.

In order to implement the Company’s proposed Customer Service Charge and to maintain the tiered rate differential, Staff developed proposed rates for Schedule 1 as reflected in Table No. 1 below. Staff confirmed that Staff’s proposed rates will maintain revenue neutrality.

Table No. 1: Revised tiered rates for Schedule 1

STAFF PROPOSAL					COMPANY PROPOSAL			
	Summer Season		Winter Season		Summer Season		Winter Season	
Transit ion Year	First Tier Energy Charge (cents/k Wh)	Second Tier Energy Charge (cents/k Wh)	First Tier Energy Charge (cents/k Wh)	Second Tier Energy Charge (cents/k Wh)	First Tier Energy Charge (cents/k Wh)	Second Tier Energy Charge (cents/k Wh)	First Tier Energy Charge (cents/k Wh)	Second Tier Energy Charge (cents/k Wh)
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

Under these rates, more 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.

Overview of Staff’s Evaluation Criteria

To evaluate the Company’s proposal, Staff used four criteria to perform its analysis of the Company’s proposal: (1) Revenue Neutrality, (2) Cost Causation, (3) Conservation of Energy, and (4) Customer Impacts.

Revenue Neutrality

Staff assessed whether the proposed new rates attain the same revenue requirement that was approved in Commission Order No. 35277 at the conclusion of the Company's most recent general rate case, PAC-E-21-07.¹ This criterion must be satisfied.

Cost Causation

A long-standing principle in utility regulation is that costs should be aligned with the those creating the cost. Staff analyzed each proposed rate adjustment for its likely impact on aligning the costs with the cost-causer. Better cost alignment is generally more desirable.

Conservation of Energy

Conserving energy is desirable because it can ultimately avoid expensive infrastructure investments. For each proposed rate adjustment, Staff assessed the probable change to conservation incentives.

In support of this principle, Staff notes that in 2005 the National Action Plan for Energy Efficiency, an initiative consisting of organizations such as the Department of Energy ("DOE"), Environmental Protection Agency, and National Association of Regulatory Utility Commissioners ("NARUC"), stated that "Retail rate designs with clear and meaningful price signals, coupled with good customer education, can be powerful tools for encouraging energy efficiency." Staff also notes that the DOE stated in a 2007 report to Congress that rate design is one of ten mechanisms for enhancing energy efficiency.

Customer Impacts

Staff analyzed the impacts that each proposed rate adjustment is likely to have on Schedule 1 and Schedule 36 customers ("customers").

Increased Customer Service Charge and Reduced Energy Charge

Staff recommends approval of the Company's Plan to increase Customer Service Charges as filed. Staff believes that the increased recovery of the Company's fixed costs through the

¹ In the Matter of Rocky Mountain Power's Application to Increase its Rates and Charges in Idaho and Approval of Proposed Electric Service and Schedules and Regulations. Order No. 35277.

Customer Service Charge outweighs the trade-off of potentially reducing the incentive to conserve energy.

Annual bills will change by less than six percent for approximately 90 percent of customers. Furthermore, the rate restructuring would stabilize monthly bills, which could be a customer benefit, especially to low-income customers. Lastly, the Company's Table No. 1, Meredith Direct at 9, shows that the proposed Customer Service Charge is in line with other Idaho electric utilities.

Company's Justification

The Company asserts that the "current residential rate structure does not adequately reflect cost causation...The Customer Service Charge falls far short of covering the fixed costs that are incurred by residential customers and those fixed costs are therefore recovered through volumetric Energy Charges." Meredith Direct at 4. Also, "on average, the cost of service for a residential customer is \$97.32 per month. \$22.84 or about 23 percent of this value is energy related. The remaining \$74.48 or about 77 percent is fixed and not energy related. For 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." Meredith Direct at 6-7.

The Company also provided Table No. 1 that shows the fixed monthly residential charges for all Idaho electric utilities with more than 1,000 customers. The average price of the eleven companies was \$23.32. Meredith Direct at 9. The Company's average Customer Service Charge in their other service territories range from \$6 to \$20, with an average of \$11.43.²

Analysis of Revenue Neutrality

Staff's analysis confirmed that the prescribed energy consumption, combined with the Company's proposed Plan, will yield the prescribed revenue approved in Order No. 35277 for both Schedule 1 and Schedule 36.

² Company response to ICL-NWEC Production Request No. 7.

Analysis of Cost Causation

Staff analysis confirms that the current Schedule 1 and 36 rates do not currently align with cost causation. The Cost-Of-Service Study from the Company's Idaho 2021 general rate case shows that 77 percent of the Schedule 1 expenses are classified as fixed costs, and 23 percent are energy-related costs. Schedule 36 proportions are 74 percent and 26 percent, respectively. The current fixed portion of a customer's bill (the Customer Service Charge) recovers only nine percent of the fixed expenses. The remaining 68 percent of the fixed costs are recovered through the volumetric Energy Charge. High volume users bear a disproportionate share of the Company's fixed costs, and low volume users are subsidized.

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.

The Company's proposal is to recover all fixed costs related to the distribution system and customer service through the Customer Service Charge. Meredith Direct at 7. This proposal would shift approximately 22 percent of the fixed costs from the energy charge into the fixed Customer Service Charge. The resulting ratio of the average customer bill would be 31 percent fixed to 69 percent variable, which better aligns to the principles of cost causation.

Staff believes the Company's proposal is justified for two reasons. First by shifting distribution fixed cost into the customer charge, it shifts a reasonable percentage of residential customer fixed costs into a fixed-type of charge. Second, the peak use of the distribution system between residential customers is relatively homogenous because of relatively small service requirements compared to other customer classes. Thus, distribution fixed costs are relatively evenly incurred between residential customers, thus striking a good balance of equity and assurance of fixed cost recovery.

Analysis of Energy Conservation Incentive

One consequence of recovering a higher percentage of the fixed costs through the Customer Service Charge is the corresponding reduction in the volumetric energy charge, which can reduce the incentive for customers to conserve.

The Company's proposal reduces the summer energy rate to 8.7 cents per kilowatt-hour ("kWh") from the current rate of 12.1 cents per kWh after the five-year transition period. The lower unit cost of energy may reduce the incentive for some customers to conserve energy.

Analysis of Customer Impacts

Staff analysis confirmed that the Company's Plan would have a minimal effect on the average customer. For the average Schedule 1 customer, the full rate implementation would increase the average monthly bill by \$2.70, an increase of 3.1 percent. The class average monthly usage is 783 kWh. For Schedule 36 customers, the average monthly usage is 1,397 kWh, and the full rate implementation would decrease the average monthly bill by \$1.87, a decrease of 1.3 percent.

As a customer's monthly usage moves away from the average, the magnitude of the impact would grow. For customers who use less than the average, their bills would increase. Customers who use more than the average would see a decrease. Because most customers cluster around the average consumption, the bill impact will be minimal for most customers. Company data shows that approximately 89 percent of all Schedule 1 customers would see an increase or decrease of less than 6 percent in their annual bills. For Schedule 36 customers, 91 percent would see an increase or a decrease of less than 2 percent.

By increasing the Customer Service Charge and reducing the energy charge, the recovery of fixed costs will shift from high-volume users to low-volume users. This is in accord with the principle of cost causation, but the effect should be noted.

In response to CEO Production Response No. 3, the Company stated if their proposed rates were fully applied in past years, annual revenue would have been slightly lower for Schedule 1, and remained even or would have decreased for Schedule 36.

A benefit of the Company's Plan is that bills will be more stable throughout the year. Generally, bills that fluctuate less from month to month are easier to budget and plan. By increasing Customer Service Charges and decreasing the energy charge, billed amounts will become more stable.

Public comments received by solar advocates have stated that the increase in the Customer Service Charge may impact investments in solar arrays. Staff would like to reiterate that *Idaho Code* § 48-1805, Contents of Disclosure Statement for any Solar Agreement, clearly

outlines that on-site generation participants should understand that net metering program, cost savings, or incentives, are subject to change. In Order No. 34509, the Commission unequivocally advised “stakeholders in the on-site generation industry, [(which include, but may not be limited to, solar installers, solar advocates, and the Company)] to be completely transparent with potential investors that a utility’s rate schedule is subject to change.”

Eliminate Inclining Block Tiered Rates for Schedule 1

The combined effect of raising the fixed service charge and eliminating tiered rates may shift the pricing signal too far away from energy conservation. Although the overall bill impact to customers is minimal, low-volume customers’ bills will increase. Reducing the magnitude of the increases would be beneficial to customers. Therefore, Staff recommends rejection of the Company’s proposal to eliminate tiered rates at this time. However, Staff encourages the Company to utilize information from advanced meters to explore TOU rate changes in lieu of tiered rates in a general rate case.

Company’s Justification

Company witness Meredith states that “tiered rates produce more problems than they solve because they are not economically justified and unduly penalize customers.” Meredith Direct at 10.

Regarding the lack of economic basis, Meredith states, “There is no cost-based reason why after using 700 kWh or 1,000 kWh in a given month the next kWh consumed by a customer should cost more.” Meredith Direct at 11.

Regarding the undue penalization of customers, Meredith states, “charging higher prices for greater usage in a given month causes larger users to subsidize smaller users...Effectively, inclining block rates unfairly reward some customers and punish others, often for reasons outside the customer’s control.” Meredith Direct at 11.

Finally, Meredith asserts that block-tiered rates in Schedule 1 make it difficult for customers to compare the rates with Schedule 36 to make a fully informed choice.

Analysis of Revenue Neutrality

Staff analysis confirmed that the prescribed energy consumption, combined with the Company's proposed Plan, will yield the prescribed revenue for both Schedule 1 and Schedule 36.

Analysis of Cost Causation

As mentioned above, the primary purpose of tiered rates has been to send a conservation price signal to customers. Any correlation between tiered rates and cost causation is tenuous. The costs in question are the demand-related expenses for Production and Transmission. Combined, the demand-related expenses amount to 46 percent of all Schedule 1 costs, and 49 percent of all Schedule 36 costs.

At issue is whether high-volume users within each class are the cost-causer of the demand-related expenses. The demand-related expenses are caused by high electric usage at specific times of the day on specific days. It does not necessarily follow that high-volume users are using any more or less energy during the times when demand expenses are incurred. A high-volume user who uses electricity in the middle of the night would not cause any of the demand-related expenses. Conversely, a frugal consumer who uses electricity during the peak hour of the day will cause a portion of the demand-related costs. Without advanced meter information and TOU rates, it is not feasible to accurately assign demand-related costs to the cost-causer. Therefore, Staff concludes that the nexus between tiered rates and cost causation is minimal.

Analysis of Energy Conservation Incentive

The Commission's stated purpose for tiered rates is for sending price signals to customers to conserve. However, it is important to remember that the primary price signal comes from the absolute cost of a kWh, regardless of whether it is in the first tier or the second tier. The incremental increase from one tier to the next sends a smaller signal. Under the current rate structure, the incremental price increase between tiers is 17 percent.

Some customers may have a limited ability to significantly alter their energy consumption. A customer with electric home heat or a large family will unavoidably use more electricity and therefore bear a disproportionately larger share of the fixed costs that are imbedded in the volumetric rate.

On the contrary, some customers do have the opportunity to limit their energy consumption in areas. Small actions such as turning off lights, unplugging unused electronics, or altering a thermostat's temperature a few degrees contributes to reducing a customer's energy consumption. Price signals from inclining block rates or TOU rates could promote shifts in energy consumption helping to avoid expensive infrastructure investments.

Shifting recovery from volumetric rates reduces incentives for conservation and by preserving tiered rates, some incentive for conservation is maintained.

Analysis of Customer Impacts

Staff's analysis of Customer Impacts for the "Higher Fixed Charge and Lower Energy Charge" section pertains equally to this section. The analysis considered the change in fixed charges *and* the elimination of tiered rates.

The elimination of tiered rates would effectively return a small amount of the fixed cost recovery from high-volume customers to low-volume customers.

The elimination of tiered rates would reduce bill complexity for customers. Tiered rates can make customer bills harder to understand and make it more difficult for customers to project their costs, whether for budgeting purposes or for financial investments. However, with the installation of advanced meters, customers can track their hourly, daily, weekly, and monthly energy usage data online, thus allowing customers to better project their energy consumption and bills for each billing cycle.

Change the On-Peak Hours for Schedule 36

Staff recommends that the Company's proposed adjustment to Schedule 36 be approved as filed. Staff's recommendation is based on its analysis of the Company's proposal using Staff's four criteria described above.

Company's Justification

Company witness Meredith states that "The time of use periods for Schedule 36, that have been in place since the early 1980's, are no longer reflective of costs....The Company is proposing to change the time of use periods...that better reflects times when it is more costly for the Company to serve." Meredith at 13-14. Meredith also states, "In the 2021 Rate Case, the

Company identified these hours as the times during both seasons when the Energy Imbalance Market (“EIM”) pricing was the highest and used them to set time varying pricing definitions that are currently in place for Schedule 9.” Meredith at 14.

Analysis of Revenue Neutrality

Staff’s determined that total on-peak hours in a year will be reduced from 3,795 to 2,920, and the off-peak hours will be increased commensurately. To determine the rates that would remain revenue neutral, the Company had to estimate how much energy would be consumed in the new on-peak and off-peak periods. The Company used 2019 hourly consumption data for the class and re-correlated each hour of consumption to the new on- and off-peak periods. Staff validated this re-correlation.

However, the implicit assumption in this approach is that class customers won’t change their behavior given the new on-peak hours. Presumably, customers will modify their usage patterns in favor of the off-peak periods, which will drive the class revenue down. Until actual data can be collected, the impact on behaviors are unknown and should be reevaluated in the future. Therefore, Staff believes the Company’s proposal is revenue neutral.

Analysis of Cost Causation

Staff confirmed that the adjusted on-peak hours align more closely with the higher cost energy periods in the real-time EIM. This alignment was also validated in the 2021 rate case. Therefore, Staff concludes that this proposal improves the alignment of costs to cost causers.

Analysis of Energy Conservation Incentive

Schedule 36 is a TOU rate, which is fundamentally designed to incentivize energy conservation. However, the proposal will increase the number of off-peak hours in a year, which will increase the opportunity to use inexpensive energy. It is possible energy consumption may increase, but the extent to which customers will change their behavior is difficult to predict. Staff believes the change will be small because participants in this program are presumably conservation conscious.

On the other hand, Staff believes that the new, focused, on-peak hours will be more manageable for customers; therefore, more customers may opt for this TOU Schedule supporting

increased energy conservation. Realistically on balance, Staff believes that the impact of this proposal will have minimal impact on the incentives to conserve energy.

Analysis of Customer Impacts

Changing the on- and off-peak hours has no direct financial impact on customer bills. It could have an indirect impact on customers whose main hours of energy usage fall within the new on-peak time windows. If these customers are unable or unwilling to modify their energy behavior, the impact could be substantial. However, the Company plans to use the first two years to educate and inform customers of the change. Customers who cannot adapt their energy consumption will always have the option to leave Schedule 36 and return to Schedule 1 service.

Transition Period

The Company's Plan will modify Schedule 1 and Schedule 36 residential rates gradually over a five-year transition period to mitigate impacts on individual customers. Staff's analysis of the customer impacts shows that the incremental year-to-year impact for each of the five years should be nearly imperceptible. Thus, Staff recommends using a transition period of five years.

CUSTOMER NOTIFICATION, PRESS RELEASE, WORKSHOP AND CUSTOMER COMMENTS

Customer Notification and Press Release

The Company submitted a Press Release and Customer Notice with the Application. The customer notice was included as an insert in the customer billing and was also available on the Company's website. The Company also posted notice of both Company and Commission workshops on its website.

Customer Workshop

A customer workshop was held at the Idaho Fish and Game office in Idaho Falls, Idaho on Tuesday, March 14, 2023, beginning at 6:00 pm. There were four people in attendance as well as Company representatives. The Customers represented concerns similar to those presented in customer comments submitted to the case record.

Customer Comments

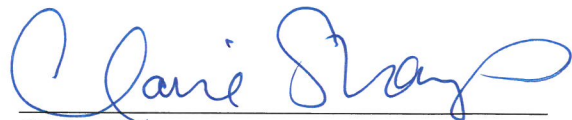
As of April 6, 2023, 42 customer comments have been received. All of the customers were against the transition to higher Customer Service Charges. Customers view the change as harmful to low usage customers and to customers with limited income. Customers with existing solar arrays are concerned about a decreased return on their investment if the fixed monthly charge increases.

STAFF RECOMMENDATION

Staff recommends approval of the Company's Application as filed except for its proposal to eliminate tiered rates. In addition, Staff recommends:

1. Tiered rates be continued for Schedule 1 as shown in Table No. 1, and that the tier differential remain constant as they are stepped down commensurate with the increasing Customer Service Charge; and
2. Approving a transition period of five years.

Respectfully submitted this 11th day of April 2023.



Claire Sharp
Deputy Attorney General

Technical Staff: Travis Culbertson
Jolene Bossard
Matt Suess
Joseph Terry
Ty Johnson
Chris Hecht

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 11th DAY OF APRIL 2023, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. PAC-E-22-15, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

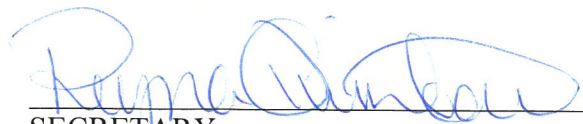
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