

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER)	
COMPANY'S APPLICATION FOR)	CASE NO. IPC-E-14-03
AUTHORITY TO IMPLEMENT FIXED)	
COST ADJUSTMENT RATES FOR SERVICE)	
FROM JUNE 1, 2014 THROUGH MAY 31,)	ORDER NO. 33047
2015.)	

On March 14, 2014, Idaho Power Company (the “Company”) applied to the Idaho Public Utilities Commission for an Order allowing the Company to increase its Fixed Cost Adjustment (“FCA”) rates for electric service provided from June 1, 2014 through May 31, 2015. The Company proposes to increase residential class rates by 1.17% and small general service class rates by 1.20%, for an overall rate increase of 1.18%. The Company says the proposed increase would allow it to collect a total of \$14,912,442 from residential and small general service customers.

On April 2, 2014, the Commission issued a Notice of Application and Notice of Modified Procedure setting a May 8, 2014 deadline for persons to file comments in the case, and a May 15, 2014 deadline for the Company to file a reply. *See* Order No. 33004. The Commission Staff, Idaho Conservation League (“ICL”), and several members of the public filed timely comments, and the Company filed a reply.

Having reviewed the record, we issue this Order (1) approving the Company’s Application, and (2) directing that a new case be opened for Staff, the Company, and interested persons to explore the workability of the FCA mechanism and report their findings to the Commission.

THE APPLICATION

The FCA is a rate adjustment mechanism that separates the Company’s fixed-cost revenues from the Company’s volumetric energy sales. The FCA enables the Company to recover its fixed costs to deliver energy—as set in its most recent general rate case—even when energy sales and revenues have decreased.¹ Under the FCA, the Company credits customers when the Company’s actual fixed-cost recovery has increased from the Commission-established

¹A utility’s “fixed costs” are its costs to provide service that do not vary with energy use, output, or production and remain relatively stable between rate cases.

base. On the other hand, the Company surcharges customers when the Company's actual fixed-cost recovery has decreased from the base. The Company's FCA rates are specified in tariff Schedule 54 and apply to the residential and small general service customer classes. *See* Application at 3.

The Company's Application summarizes how the FCA mechanism works. First, the Company identifies the amount of fixed costs that the Commission has authorized it to recover from the residential and small general service customer classes. The Company calculates the fixed costs it is allowed to recover by multiplying the number of customers in each class by the fixed-cost per customer rate that was set in the Company's last general rate case. Second, the Company compares the authorized recovery amount to fixed-cost amount that the Company actually recovered. The Company calculates the fixed costs it actually recovered by multiplying its weather-normalized sales per customer class by the fixed-cost per energy rate as set in the Company's last general rate case. The difference between the authorized recovery amount and the actual fixed costs recovered results in an adjustment each year to the FCA rate. *Id.*

With this Application, the Company says the difference between the authorized recovery amount and the actual fixed costs recovered is \$14,339,006 for the residential class and \$573,436 for the small general service class, for a total amount to be recovered through this year's FCA of \$14,912,442 (the FCA "deferral balance"). This year's proposed FCA deferral balance is incrementally more than the FCA balance currently collected through rates. To recover this incremental amount, the Company proposes to increase billed rates by 1.17% for the residential class and 1.20% for the small general service class, for an overall increase of 1.18%. The proposed increase would yield a new FCA rate of 0.2913 cents-per-kWh for the residential class, and 0.3709 cents-per-kWh for the small general service class. *Id.* at 4.

THE COMMENTS

Commission Staff, ICL, and seven members of the public commented on the Company's Application. The Company then filed a reply. The comments and reply are summarized below.

A. Public Comments

The Commission received seven public comments. One commenter supports the Company's proposed FCA increase because "a few extra dollars [per] month . . . is a small price to pay" if it "helps reduce . . . carbon pollution." The remaining commenters oppose the

proposed increase. They argue that rates are already too high, and that the increase is unwarranted because the Company is highly profitable, its executives are overpaid, and it does not pursue renewable energy as much as it could. Further, the Company's conservation efforts caused the lower energy use and under recovery of fixed costs of which the Company now complains. The public commenters note that the proposed FCA would create a hardship for customers on a single or fixed income.

B. ICL Comments

ICL supports the FCA mechanism and recommended the Commission approve the 2014-2015 FCA as calculated by Staff. *See* ICL Comments at 1. ICL believes the FCA is an important tool for correcting a utility's financial disincentive to promote energy efficiency programs. ICL acknowledges that the FCA indiscriminately captures energy-use changes besides those arising from the Company's conservation efforts, such as the diminished use that might occur in a poor economy. But ICL says that by capturing such changes, the FCA mitigates the Company's risk of losing money during an economic downturn. Investors value this risk mitigation. ICL thus claims the FCA results in a lower cost of capital and eventually produces lower rates for customers. *Id.* at 2.

Although ICL recommended the Commission approve the Company's Application, ICL also recommended the Commission: (1) encourage the Company to update the fixed costs per customer, fixed costs per energy, and baseline consumption levels through a general rate case; and (2) require the Company to submit a detailed plan, within three months, to increase participation in energy savings in the residential and small commercial classes. *Id.* at 3.

C. Commission Staff Comments

Commission Staff also recommended the Commission approve the Company's Application. Staff verified that the Company correctly calculated the proposed FCA deferral balance and rates according to Commission-approved methodology. Staff says the Company's sales-per-customer for the residential and small general service classes were less in 2013 than in 2012; as a result, the Company's weather-normalized sales were too low for the Company to collect its fixed costs that the Commission authorized in the last general rate case. Staff thus recommended the Commission approve the Company's FCA filing. *See* Staff Comments at 2, 14.

While Staff recommended the Commission approve the Company's FCA request, Staff believes the FCA mechanism should be re-evaluated for future application because the mechanism is fundamentally flawed in the following respects:

- *Weather-Normalization Adjustment.* The weather-normalization adjustment in the FCA permits the Company to significantly over recover the fixed costs that the Commission authorized it to recover in the last general rate case. Staff notes, for example, that while this year's weather adjustment allows for about \$16 million in fixed-cost recovery from customers, the FCA would have resulted in a \$1,047,317 credit to customers if weather had not been normalized. *Id.* at 3-4;
- *Customer Count Methodology.* By calculating allowed fixed costs based on the average number of customers, the Company overstates the "typical" number of customers that it serves in a month. The Company should use the median to more accurately represent its actual customer count. Staff notes that by using the median instead of the average number of customers, the Company would be able to reduce the FCA deferral balance (and amount to be recovered from customers) by \$330,430. Further, the Company's FCA calculations ignore that high energy use customers have been switching from the small general service class (Schedule 7) to the large general service class (Schedule 9), which artificially inflates the Company's FCA recovery by inappropriately lowering per customer use in the small general service class for FCA purposes. *Id.*, at 5;
- *Rate-Adjustment Cap.* The FCA "incorporates a 3% cap on annual increases with carryover of unrecovered deferred costs to subsequent years." *See* Order No. 30267. Staff notes the Company calculates the rate increase and cap using forecasted sales and revenues, which results in a layering effect that continuously increases the FCA deferral balance from year-to-year, understates the magnitude of the cumulative FCA rate change on customers, and annually increases the absolute dollar amount represented by the 3% cap. Staff notes that the Company has increased the absolute dollar amount represented by the 3% cap by nearly \$1 million since its last general rate case. *Id.* at 6-7.
- *Cross-Subsidization.* The Commission intended for the FCA to apply in a manner that minimizes cross subsidies across rate classes. *See* Order 30267, at 6. But the FCA is calculated in a manner that leads the residential and small general service classes to subsidize fixed-cost shortfalls from the other classes. Staff notes, for example, that this year the Company will collect about \$8 million from residential customers to cover an \$8 million revenue shortfall from other customer classes. *Id.* at 7-8.

Staff also notes that, apart from the FCA mechanism's fundamental flaws, the FCA no longer serves its intended purpose of removing the Company's perceived financial disincentive to investing in energy efficiency and DSM. The Company's annual energy savings did grow rapidly during the FCA's pilot phase. But the energy savings peaked in 2010 and then declined until they dramatically dropped off in 2013. Further, the FCA deferral amounts to be recovered from customers substantially increased. In particular, Staff notes that from 2012 to 2013, the Company's FCA deferral balance jumped from \$8.9 million to \$15 million while the Company's year-over-year energy savings fell by 42%. Staff concludes that as a whole, the FCA has harmed customers far more than it has benefitted them, and that the FCA's efficacy has diminished in proportion to the Company's documented, declining energy efficiency investments and savings. *See id.* at 8-12.

For these reasons, Staff recommended the Commission open a new case so Staff, the Company, and interested persons can re-examine the FCA methodology and whether the FCA is working as intended. *Id.* at 12-14.

D. Company Reply

In its reply, the Company notes that Commission Staff and ICL support the Company's proposed FCA rates. *See Reply* at 2. The Company thus says the Commission should approve the new FCA rates effective June 1, 2014. *Id.* at 2.

The Company disagrees with Staff's view that the FCA mechanism is fundamentally flawed and should be re-evaluated in a separate docket. The Company emphasizes that the FCA "is critical to the sustainability of [its] efforts to seek out and achieve continued energy savings." *Id.* at 6. Further, the FCA functions as intended under the Commission-approved methodology. The Company notes that the flaws perceived by Staff were considered when the FCA was designed and have been consistently applied in every FCA since 2007. *Id.* at 2-3. The Company also stresses that the FCA "received an exhaustive review" when the Commission converted it from pilot to permanent status in January 2013, and re-evaluating the FCA just one year later is inappropriate. The Company agrees with Staff that the FCA might ultimately be modified or replaced with a proper rate design and demand charge. But the Company warns that re-evaluating the FCA and changing the FCA methodology outside a general rate case or cost-of-

service/rate design specific case could have unintended financial consequences. *See* Reply at 3-4, citing Commission Order Nos. 32731 and 32845.²

The Company also disputes Staff's view that the Company has decreased its DSM efforts and caused energy savings to decline. The Company attributes the recent energy savings decline to the Company's and region's increased evaluation, measurement, and verification activities, including new lower-estimated or deemed savings amounts approved by the Regional Technical Forum ("RTF"). *Id.* at 5. The Company also notes that in 2013 customer participation grew in most of its energy efficiency programs. But the two programs with the largest savings—Energy Efficiency Lighting and See ya later, refrigerator®—still saw declining annual energy savings. The Company attributes that decline to the RTF's lower deemed savings amounts. The Company says it would be imprudent to alter the FCA model that supports its DSM efforts when it is becoming harder to achieve cost-effective energy savings through energy efficiency programs. *Id.* at 6.

Lastly, the Company says ICL's proposal that the Company submit a detailed plan to increase participation in energy savings is unnecessary and would duplicate the content of the Company's annual DSM reports. *Id.* at 6.

COMMISSION DECISION

The Commission has thoroughly reviewed the record in this case, including the Application, comments, and reply. Based on this record, the Commission finds that the Company's Application should be approved because the proposed FCA rates are fair, just and reasonable and are adequate to give the Company the opportunity to collect its authorized fixed costs in the coming FCA year. Specifically, we approve the Company's FCA filing with a net deferral balance of positive \$14,912,442 for the 2014-2015 periods, and a 1.18% increase to total billed revenue (including the FCA). Based on the Company's sales forecast, we approve FCA rates equal to 0.2913 cents-per-kwh for residential class customers and 0.3709 cents-per-kwh for Small General Service customers.

² The first Order, Order No. 32731, changes the FCA to a permanent mechanism but notes that the Commission "welcomes closer scrutiny of the effectiveness in the FCA in [the Company's] next general rate case." The second Order, Order No. 32845, issued in the Company's recent net metering case. In that Order, the Commission rejects the Company's proposed, dramatic rate design changes—including increasing the monthly customer charge, imposing a new BLC charge, and reducing the energy charge for residential and small general service customers—in part because: "[W]e believe [such] dramatic changes . . . should not be examined in isolation but should be fully vetted in a general rate proceeding."

While we approve of the Company's Application, we continue to acknowledge that the FCA is an imperfect mechanism that warrants monitoring, discussion and review. *See* Order Nos. 32505 at 6 and 32731 at 4, Case No. IPC-E-11-19. We thus intend to open a separate, future docket to allow Commission Staff, the Company, and other interested persons to further evaluate Staff's concerns about the FCA mechanism (including the weather-normalization, customer count, rate adjustment cap, and cross-subsidization issues) and whether the FCA is effectively removing the Company's financial disincentive to aggressively pursue energy efficiency programs.

We are somewhat sympathetic to the Company's position that this kind of review may be premature, given that Order No. 32731 issued little more than a year ago after lengthy proceedings that saw the FCA mechanism continue unchanged as a permanent mechanism. However, we never intended to limit further review of the FCA mechanism to a general rate case or similar proceeding. When Staff, other parties, or the Commission have serious concerns that the FCA is not working as intended, or may be allowing the Company to over recover its fixed costs to the detriment of customers (Staff suspects the FCA's flaws enable the Company to over recover millions of dollars), a timely review is critical. We will continue to monitor the FCA results each year. If these reviews suggest clearer, more equitable refinements of the FCA, we will not hesitate to implement them. *See* Order No. 32731 at 4.

Lastly, while we appreciate ICL's request for the Company to submit a separate plan on how it intends to increase energy savings participation, we agree with the Company that such a plan would unnecessarily duplicate existing reporting. We note that the Company's annual DSM reports, in particular, already outline the Company's DSM programs and strategies for each upcoming year.

ORDER

IT IS HEREBY ORDERED that the Company's Application is granted; we approve a net deferral balance of positive \$14,912,442 for the 2014-2015 period, a 1.18% increase to total billed revenue (including the FCA) for the affected customer classes, and FCA rates equal to 0.2913 cents-per-kWh for residential class customers and 0.3709 cents-per-kWh for small-general service class customers. The Company's proposed Schedule 54 is approved as filed, with an effective date of June 1, 2014.

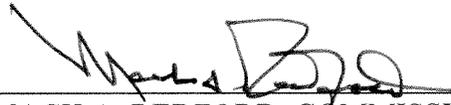
IT IS FURTHER ORDERED that a separate docket be opened to allow Commission Staff, the Company, and other interested persons to further evaluate Staff's concerns about the FCA mechanism (including the weather-normalization, customer count, rate adjustment cap, and cross-subsidization issues) and whether the FCA is effectively removing the Company's financial disincentive to aggressively pursue energy efficiency programs.

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 30th day of May 2014.



PAUL KJELLANDER, PRESIDENT



MACK A. REDFORD, COMMISSIONER



MARSHA H. SMITH, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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