

## Idaho Public Utilities Commission

Case No. IPC-E-14-03, Order No. 33004 and Case No. IPC-E-14-05, Order No. 33026

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# Utility seeks increases in annual adjustment mechanisms

**BOISE (April 24, 2014)** – Idaho Power Company is seeking approval of its two annual adjustment mechanisms that cause rates to go up or down on June 1 of every year.

On March 14, Idaho Power filed its annual Fixed Cost Adjustment (FCA) mechanism, seeking an increase of 1.18% in overall rates to residential and small-business customers. On April 15, the utility filed its annual Power Cost Adjustment, proposing an average 1% increase in overall rates.

For a residential customer who uses the company's average of 1,050 kilowatt-hours per month, the FCA increase, if approved, would be about \$1.20 per month and the PCA increase, 57 cents per month. Neither Idaho Power nor its shareholders receive any financial return on the revenue collected in the FCA and PCA accounts. If approved, both adjustments would be effective June 1.

The Idaho Public Utilities Commission is taking written comments on both the FCA and PCA applications. If customers request to attend a workshop conducted by commission staff, one or more workshops may be scheduled.

### **Power Cost Adjustment**

Since 1993, the PCA mechanism allows Idaho Power to adjust rates up or down to reflect that portion of costs that change every year due to factors largely beyond the company's control. Because about half of Idaho Power's generation is from hydropower facilities, Idaho Power's actual cost of providing electricity varies depending on changes in Snake River streamflows. Other costs that change each year are the market price of power, fuel costs, transmission costs for purchased power and the revenue it earns from selling surplus power.

This year's proposed increase is \$27.1 million above that already collected from customers in the PCA mechanism, but Idaho Power proposes to mitigate that by transferring \$16.1 million of surplus funds from the energy efficiency rider account toward the PCA. The net \$11.1 million increase would raise average PCA rates about by 1% for one year. The total PCA was also reduced by a revenue sharing benefit of \$7.6 million to customers. The commission has previously ordered that when the company's rate of return reaches certain benchmarks, the utility shares a portion of the excess return with customers.

Idaho Power attributes most the proposed PCA increase to persistent dry conditions in 2013 and January 2014. The company forecast 6.8 million megawatt-hours of hydroelectric

generation in the PCA year, but generated only 5.7 million MWhs. Because there was less hydro generation, the utility claims it had to use more expensive resources to meet customer demand. In a normal year, Idaho Power gets 50.7% of its electricity from hydro generation. During the 2013-14 PCA year, the company claims it generated only 38.1% from hydro sources. Generation from natural gas increased from 4.6% in a normal year to 10.4% this year and wind generation increased from 5.9% in a normal year to 10% in 2013-14.

Currently, hydro generation is forecast to be about 86% of normal. Even though snowpack levels in the basins above Brownlee Reservoir are at or near normal levels, reservoirs further upstream from Brownlee are at significantly lower than normal levels, according to Idaho Power.

Less hydro generation also resulted in lower-than-expected surplus sales. Idaho Power anticipated \$98.5 million in power sales, but realized only \$66.8 million. Ninety-five percent of the revenue from off-system sales is shared with customers and applied against the annual PCA.

Under the company's proposal, the PCA rate for residential customers would be 0.485 cents per kWh.

### **Fixed Cost Adjustment**

The FCA ensures that Idaho Power recovers its fixed costs of delivering energy even when energy sales and revenue decline due to reduced consumption. Before the FCA, Idaho Power did not have financial incentive to invest in energy efficiency because it lost revenue as consumption declined. Even though consumption may decline, fixed costs to serve customers do not. To remove that disincentive, the Fixed Cost Adjustment was created to allow the utility to recoup its fixed costs.

The FCA has helped make it possible for Idaho Power to create about 30 programs that increase efficiency and reduce demand on its system, especially during peak periods when demand is highest and most expensive to both the company and its customers.

If the actual fixed costs recovered from customers by Idaho Power are less than the fixed costs authorized in the most recent rate case, residential and small-commercial customers get a surcharge. If the company collects more in fixed costs than authorized by the commission, customers get a credit. Last year's FCA was an average 27-cent per month decrease. This year, the company proposes an increase in the FCA rate for residential customers to 0.2913 cents per kWh, up from 0.177 cents. The rate for small-business customers would be 0.3709 cents per kWh, up from 0.226 cents.

Customers sometimes get the impression they are penalized for reduced consumption because they pay an FCA surcharge during some years as well as an Energy Efficiency Rider, said Gene Fadness, commission spokesman. "Actually, the opposite is true. Without those programs in

place and the opportunity for the company to recover its fixed costs, energy bills would be even higher,” he said. The assurance of fixed cost recovery reduces overall risk for the company, keeping its credit rating up and borrowing costs lower, which also benefits customers.

The commission is accepting public comment on the FCA proposal through May 8 and on the PCA proposal through May 16.

Comments are accepted via e-mail by accessing the commission’s homepage at [www.puc.idaho.gov](http://www.puc.idaho.gov) and clicking on "Case Comment Form," under the “Electric” heading. Fill in the case number (IPC-E-14-03 for the FCA and IPC-E-14-05 for the PCA) and enter your comments. Comments can also be mailed to P.O. Box 83720, Boise, ID 83720-0074 or faxed to (208) 334-3762.

Customers can also review the company’s applications and supporting documents as well as other parties’ comments as the case progresses by going to the commission’s website and selecting “Open Cases” under the Electric heading and scrolling down to the above case numbers.

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