Idaho Public Utilities Commission
Case No. IPC-E-14-03, Order No. 33047 and Case No. IPC-E-14-05, Order No. 33049
Contact: Gene Fadness (208) 334-0339, 890-2712

Commission OKs 1.7% annual adjustment increases, but will open cases to further review PCA and FCA

BOISE (June 2, 2014) – Rates increased slightly effective June 1 for Idaho Power Company customers as part of the utility's Annual Adjustment Mechanism, which covers power expense and costs related to energy savings programs that change from year to year.

The Annual Adjustment Mechanism is updated every June 1 and consists of two primary components, the Power Cost Adjustment (PCA) and the Fixed Cost Adjustment (FCA). The adjustments can be an increase or decrease depending on circumstances.

For a residential customer who uses the company's average of 1,050 kilowatt-hours per month, the increase to both adjustments will total about $1.77 per month, or about 1.7% above current rates.

Power Cost Adjustment

Since 1993, the PCA 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.

Power supply expenses for this PCA year (April 1, 2013 to March 31, 2014) were $27.1 million above the amount already collected from customers. To offset a larger increase, Idaho Power proposed to transfer $16.1 million of surplus funds in the Energy Efficiency Rider account toward the PCA, reducing the amount owed by customers to $11.1 million. The increase was offset further by $7.6 million allowed customers from a revenue sharing plan created by the company and the commission about five years ago. These steps reduced the overall PCA increase to 0.56% for residential customers. The average increase for all customer classes combined is 1.04%.

The Idaho Conservation League opposed transferring energy efficiency rider funds to offset the PCA because it would mask true power costs and send an incorrect price signal to customers on the need to conserve. Other parties, such as the commission staff and the Industrial Customers of Idaho Power (ICIP), said the surplus rider funds should be used to offset the Energy Efficiency Rider on customer bills rather than the PCA.

The commission said it normally expects Idaho Power to use rider funds for energy efficiency purposes, "But, as customers have noted, this year's rate increase will cause a hardship for some customers." Further, a reduction in the energy efficiency rider adds unnecessary complexity to the case, the commission said. ICIP said the rider, now 4% of a customer's billed amount, should be permanently reduced to 3%. The commission said that matter would need to be taken up in a separate docket.

Less hydro generation and lower-than-expected surplus sales were the primary causes of more power supply expense this year. Idaho Power forecast 6.8 million megawatt-hours of hydroelectric generation in the PCA year, but generated only 5.7 million MWhs through March. When there is less hydro generation, the utility must use more expensive resources to serve its customers. 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.

Even though snowpack levels in the basins above Brownlee Reservoir have improved to near normal levels, reservoirs further upstream from Brownlee are at significantly lower than normal levels.

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.

Commission staff raised concerns about some of the methods the company uses to compute the PCA deferral balance that staff said could have reduced the PCA by $14.2 million. Because the adjustment calculations are complex and the parties had little time to review them, the commission allowed the requested deferral amount. However, the commission will open a new case to allow all parties to more closely examine commission staff claims. If the commission determines further adjustment is needed, it may be applied against next year's PCA.

The commission reminded customers frustrated by the rate increase that the PCA does not influence the company's profits and can be used only to pay down already incurred power supply expense. The company's normal power costs are already recovered in base rates. The PCA recovers only above-normal costs the company incurs to provide power to its customers. If those variable expenses are below normal, customers get a one-year credit. "The company is supposed to request only its actual power costs and the commission and its staff work to ensure that the company only recovers those actual power costs," the commission said.

The new PCA rate for residential customers will be, slightly less than a half-cent per kilowatt-hour at 0.485 cents.

Fixed Cost Adjustment

The FCA is designed to ensure 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 proposed an increase in the FCA rate of about 1.2% for residential customers to 0.2913 cents per kWh, up from 0.177 cents. The rate for small-business customers increases to 0.3709 cents per kWh, up from 0.226 cents.

As in the PCA case, commission staff and other parties found what they perceive to be flaws in the FCA mechanism. As a result, the commission will open a new case to investigate the issues raised. Among those are the way the FCA mechanism is calculated using averaged instead of actual weather conditions, using a median rather than an average number in customer counts, calculating the increase and the 3% cap on FCA increases using forecasted sales and revenues, and concern that residential and businesses classes may be subsidizing other customer classes.

Commission staff said the FCA may no longer be serving its intended purpose. Staff noted the company's annual energy savings did grow rapidly during a three-year pilot phase for the FCA, peaking in 2010 before dramatically dropping off in 2013. Idaho Power said it continues to aggressively pursue savings programs and that customer participation was up in 2013. The decline in actual energy savings, the company claims, is due to a change in the way savings are measured through increased evaluation, measurement and verification activities.

Idaho Power claims that opening a new case to examine the FCA mechanism is not necessary because the program "received an exhaustive review" when the commission converted it from pilot to permanent status in January 2013.

But the commission said making the program permanent did not mean it would not be subject to further review. "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 ... a timely review is critical," the commission said. "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."

A full text of the commission's order, along with other documents related to this case, is available on the commission's Web site. Click on "Open Cases" under the "Electric" heading and scroll down to Case No. IPC-E-14-03 (FCA) and IPC-E-14-05 (PCA).

Interested parties may petition the commission for reconsideration by no later than June 20. Petitions for reconsideration must set forth specifically why the petitioner contends that the order is unreasonable, unlawful or erroneous. Petitions should include a statement of the nature and quantity of evidence the petitioner will offer if reconsideration is granted. Petitions can be delivered to the commission at 472 W. Washington St. in Boise, mailed to P.O. Box 83720, Boise, ID, 83720-0074, or faxed to 208-334-3762.

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