

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE COMMISSION'S ) CASE NO. IPC-E-14-17**  
**INQUIRY INTO IDAHO POWER COMPANY'S )**  
**FIXED COST ADJUSTMENT MECHANISM ) NOTICE OF**  
**) PROPOSED SETTLEMENT**  
**)**  
**) NOTICE OF**  
**) MODIFIED PROCEDURE**  
**)**  
**) ORDER NO. 33261**

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On July 1, 2014, the Commission opened this docket to allow Commission Staff, Idaho Power Company, and other interested persons to evaluate the Fixed Cost Adjustment (FCA) mechanism and whether it effectively removes the Company's financial disincentive to aggressively pursue energy efficiency programs. The Commission set an intervention deadline and directed Staff to convene an informal prehearing conference after the opportunity for intervention expired. *See* Order No. 33068. The Commission granted intervention to the Idaho Conservation League (ICL), Snake River Alliance (SRA), and Industrial Customers of Idaho Power (ICIP). The parties then held four settlement conferences to discuss FCA issues.

On March 26, 2015, Idaho Power filed a Settlement Agreement and Motion to Approve Settlement Agreement. Staff, Idaho Power, ICL, and SRA signed the Settlement Stipulation. As the Settlement Stipulation does not directly affect ICIP, ICIP has declined to sign it and has advised the other parties that ICIP will not support or oppose it before the Commission.

With this Order, the Commission provides background on this case, summarizes the proposed settlement, and sets a 21-day deadline for interested persons to file comments regarding the proposed settlement and this case.<sup>1</sup>

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<sup>1</sup> On March 13, 2015, Idaho Power applied to the Commission for authority to implement Fixed Cost Adjustment (FCA) rates for electric service from June 1, 2015 through May 31, 2016. *See* Case No. IPC-E-15-05. The Commission's Order in this case will not apply to Case No. IPC-E-15-05, but to future FCA cases.

## BACKGROUND

The Commission opened this docket in response to Staff's comments in the Company's last FCA case, IPC-E-14-03. There, Staff recommended that the Commission re-evaluate the FCA mechanism for future application because the mechanism may be 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;
- *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. 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;
- *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;
- *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.

*See* Order No. 33047 at 4. Staff also warned that the FCA may no longer serve its intended purpose of removing the Company's perceived financial disincentive to investing in energy efficiency and DSM, the FCA has harmed customers far more than it has benefitted them, and the FCA's efficacy has diminished in proportion to the Company's declining energy efficiency investments and savings. *Id.*

## NOTICE OF PROPOSED SETTLEMENT

YOU ARE HEREBY NOTIFIED that the Settlement Stipulation addresses the following issues:

1. Weather Normalization. Idaho Power will modify the quantification of the annual FCA deferral by replacing weather normalized billed sales utilized in the current annual FCA determination with actual billed sales. The modification will occur with the determination of the year-end 2015 FCA deferral, impacting rates effective June 1, 2016.

2. Rate Adjustment Cap. In Order No. 30267, the Commission approved a discretionary rate adjustment cap for annual FCA-related rate changes as follows: “The FCA mechanism . . . incorporates a 3% cap on annual increases with carryover of unrecovered deferred costs to subsequent years.” Order No. 30267 at 13. The Company currently calculates the 3% cap by dividing the Proposed FCA Deferral Change by the Forecasted Base Rate Revenue.<sup>2</sup> The parties ask the Commission clarify that this method of determining the 3% cap is appropriate.

3. Fixed Cost per Energy (FCE) and Fixed Cost per Customer (FCC). The parties acknowledge that Staff has concerns about the calculation of the FCE and FCC, but that these issues are more effectively addressed when base rates are reset.

4. Rate Design. The parties agree that without the FCA, the current rate design causes a financial disincentive for the Company to pursue all cost-effective demand-side management. The parties thus agree to consider, at a later time, modified rate design for residential and small general service customers. This may include, but is not limited to, reduced energy charges, increased monthly service charges, and the introduction of demand charges for these rate classes.

YOU ARE FURTHER NOTIFIED that the parties to the Settlement Stipulation agree that it is in the public interest and is a fair, just, and reasonable resolution of the issues in this case. The parties recommend that the proposed settlement be processed under Modified Procedure pursuant to Rules 201-204, 274, IDAPA 31.01.01.201-.204, .274.<sup>3</sup>

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<sup>2</sup> Forecast reflects currently-approved base rates applied to forecasted usage for the subsequent June 1 through May 31 FCA rate effective year.

<sup>3</sup> Although the parties requested a 14-day comment period, we find a 21-day comment deadline more consistent with our Procedural Rule 202.02.

YOU ARE FURTHER NOTIFIED that the Settlement Stipulation and other case documents have been filed with the Commission and are available for public inspection during regular business hours at the Commission offices. The Application and testimonies are also available on the Commission's web site at [www.puc.idaho.gov](http://www.puc.idaho.gov). Click on the "File Room" tab at the top of the page, scroll down to "Open Electric Cases," and then click on the case number as shown on the front of this document.

YOU ARE FURTHER NOTIFIED that the Commission is not bound by any settlement reached by the parties. The Commission will independently review any proposed settlement to determine whether the settlement is just, fair and reasonable, and in the public interest, or otherwise in accordance with law or regulatory policy. The Commission may accept the settlement, reject the settlement, or state additional conditions under which the settlement will be accepted. IDAPA 31.01.01.274-.276.

YOU ARE FURTHER NOTIFIED that all proceedings in this case will be held pursuant to the Commission's jurisdiction under Title 61 of the Idaho Code. The Commission may enter any final Order consistent with its authority under Title 61.

YOU ARE FURTHER NOTIFIED that all proceedings in this matter will be conducted pursuant to the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

**NOTICE OF MODIFIED PROCEDURE**

YOU ARE FURTHER NOTIFIED that the Commission has determined that the public interest may not require a formal hearing in this matter and will proceed under Modified Procedure pursuant to Rules 201 through 204 of the Idaho Public Utilities Commission's Rules of Procedure, IDAPA 31.01.01.201 through .204.

YOU ARE FURTHER NOTIFIED that any person desiring to state a position on this Settlement Stipulation or any issues raised in this case may file a written comment in support or opposition with the Commission **no later than 21 days after the date of service of this Order**. The comment must contain a statement of reasons supporting the comment. Persons desiring a hearing must specifically request a hearing in their written comments. Written comments shall be mailed to the Commission and the parties to this case at the addresses reflected below:

Commission Secretary  
Idaho Public Utilities Commission  
PO Box 83720  
Boise, Idaho 83720-0074

Street Address for Express Mail:

472 W. Washington Street  
Boise, ID 83702-5918

Lisa D. Nordstrom  
Idaho Power Company  
PO Box 70  
Boise, ID 83707-0070  
Email: [lnordstrom@idahopower.com](mailto:lnordstrom@idahopower.com)  
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Ken Miller  
Snake River Alliance  
Box 1731  
Boise, ID 83701  
E-mail: [kmiller@snakeriveralliance.org](mailto:kmiller@snakeriveralliance.org)

These comments should contain the case caption and case number shown on the first page of this document. Persons desiring to submit comments via e-mail may do so by accessing the Commission's home page located at [www.puc.idaho.gov](http://www.puc.idaho.gov). Click the "Case Comment or Question Form" under the "Consumers" tab, and complete the comment form using the case number as it

appears on the front of this document. These comments must also be sent to the parties at the e-mail addresses listed above.

YOU ARE FURTHER NOTIFIED that if no written comments or protests are received within the time limit set, the Commission will consider this matter on its merits and enter its Order without a formal hearing. If written comments are received within the time limit set, the Commission will consider them and, in its discretion, may set the same for formal hearing.

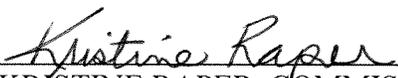
**ORDER**

IT IS HEREBY ORDERED that this case be processed under Modified Procedure. Persons interested in submitting comments on the proposed Settlement Stipulation or other issues in this case must do so no later than 21 days after the date of service of this Order.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 31<sup>st</sup> day of March 2015.

  
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PAUL KJELLANDER, PRESIDENT

  
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MACK A. REDFORD, COMMISSIONER

  
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KRISTINE RAPER, COMMISSIONER

ATTEST:

  
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Jean D. Jewell  
Commission Secretary

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