Office of the Secretary
Service Date
May 6, 2015

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE COMMISSION'S INQUIRY INTO IDAHO POWER COMPANY'S FIXED COST ADJUSTMENT MECHANISM	))))	CASE NO. IPC-E-14-17 ORDER NO. 33295

The Fixed Cost Adjustment (FCA) is a rate adjustment mechanism that separates Idaho Power Company's fixed-cost revenues from its 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]

On July 1, 2014, the Commission opened this docket to allow Commission Staff, the Company, and other interested persons to evaluate the 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 Idaho Conservation League (ICL), Snake River Alliance (SRA), and Industrial Customers of Idaho Power (ICIP) then intervened, and the parties held four settlement conferences.

On March 26, 2015, the Company filed a Settlement Stipulation and Motion to Approve Settlement Stipulation. Staff, the Company, ICL, and SRA signed the Settlement Stipulation. ICIP declined to sign the Settlement Stipulation, but advised the other parties that it will not support or oppose the Settlement Stipulation before the Commission.

On March 31, 2015, the Commission issued a Notice of Proposed Settlement and set a 21-day deadline for interested persons to file comments in the case. Order No. 33261. The Company, Staff, and ICL filed timely supporting comments. No other comments were received, and no one has opposed the Settlement Stipulation.[2]

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[1]A 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.

[2] 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.

With this Order, we grant the Company's Motion and approve the Settlement Stipulation because it is reasonable and in the public interest. We explain our decision below.

BACKGROUND

The Company applies the FCA to credit customers when the Company's actual fixed-cost recovery has increased from the Commission-established 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.

In Idaho Power's last FCA case, IPC-E-14-03, Commission Staff recommended the Commission open a new docket to re-evaluate the FCA mechanism. Staff suggested the FCA 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 benefited them, and the FCA's efficacy has diminished in proportion to the Company's declining energy efficiency investments and savings. *Id.*

The Commission opened this docket to allow Commission Staff, the Company, and other interested persons to evaluate the FCA mechanism in light of Staff's concerns. The Company, Staff, ICL, SRA, and ICIP met to discuss the issues, and the Company has now filed a Settlement Stipulation that it asks the Commission to approve. As noted above, all parties but ICIP (which is not directly affected by the settlement) have signed the Settlement Stipulation and recommend the Commission approve it.

THE SETTLEMENT STIPULATION

In summary, 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.[3] The parties ask the Commission to 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

[3] Forecast reflects currently-approved base rates applied to forecasted usage for the subsequent June 1 through May 31 FCA rate effective year.

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.

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 the case.

THE COMMENTS

The Company, Staff, and ICL filed comments in support of the Settlement Stipulation. The parties' comments on the four issues addressed in the Settlement Stipulation—weather normalization, the FCA rate adjustment cap, calculation of the FCE and FCC, and rate design—are collectively summarized below.

1. Comments on Weather Normalization. The parties support replacing weather normalized sales with actual sales when calculating the FCA. They note that the Company currently calculates the FCA deferral balance by comparing the level of fixed costs that it is authorized to recover in base rates with the actual level of fixed costs that it recovers through weather normalized billed sales. However, by relying on weather normalized data, the FCA ignores the actual fixed costs the Company has recovered through energy sales. For example, the Company can over recover fixed costs when abnormal weather increases actual sales above weather normalized sales. On the other hand, the Company can under recover fixed costs when abnormal weather decreases actual sales below weather normalized sales. Staff reports, however, that using weather normalized data historically has resulted in the Company over recovering fixed costs. The parties believe that replacing weather normalized data with actual data will improve the FCA's accuracy by ensuring the Company only collects its actual fixed costs, and will facilitate stakeholders' review of the Company's annual FCA adjustment. *See* Comments of Idaho Power Company (Company Comments) at 3; Comments of Commission Staff (Staff Comments) at 3-4; and ICL Comments at 1.

2. Comments on Rate Adjustment Cap. The parties support the Commission endorsing the Company's current method of calculating the FCA rate adjustment cap. The FCA mechanism currently 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% rate adjustment cap by dividing the Proposed FCA Deferral Change by the Forecasted

Base Rate Revenue. The parties note that the Commission has not previously specified how the Company is to calculate the cap, and that this ambiguity could lead different parties to calculate the cap in different ways. The parties thus ask the Commission to clarify that the Company's present approach to calculating the cap is reasonable and appropriate. *See* Company Comments at 4; Staff Comments at 4; and ICL Comments at 1.

3. Comments on FCE and FCC. The parties support re-evaluating the FCE and FCC when base rates are reset. The parties note that the FCE and FCC are typically updated when base rates are reset in a general rate case, and that they are derived from the fixed-cost amounts attributable to each customer class. In Case No. IPC-E-14-03, Staff expressed concern that the Company calculates the FCE and FCC in a way that exacerbates cross subsidies in cost-of-service. Staff thus believes the FCE and FCC should be re-evaluated. ICL agrees. The parties concur that the FCE and FCE concerns and cost-of-service issues can be most effectively addressed when base rates are reset. *See* Company Comments at 4-5; Staff Comments at 4-5; and ICL Comments at 2.

4. Comments on Rate Design. The parties agree to consider possible rate design modifications for residential and small general service customers. The parties note that the FCA is an imperfect mechanism that attempts to reduce the risk of fixed-cost under recovery caused by inaccurate rate design. They suggest that a new rate design might also address these issues. Accordingly, they support exploring the possibility of using rate design changes as a more permanent solution to the fixed-cost recovery issues that the FCA is supposed to address. *See* Company Comments at 5-6; Staff Comments at 5; and ICL Comments at 2.

FINDINGS AND DECISION

The Commission has thoroughly reviewed the record in this case. Based on our review of the evidence, including comments submitted by the parties, we find the Settlement Stipulation should be approved because it is reasonable and in the public interest. We find that the proposed changes will result in a more accurate, clear, and transparent FCA. For example, replacing weather normalized sales with actual sales data will improve the FCA's accuracy and ensure that the Company only recovers its actual costs even when abnormal weather increases or decreases customers' energy use. Also, since we have not previously stated how the 3% rate cap should be calculated, approving the Company's current method of calculating the cap will clarify the FCA for all parties.

We also appreciate the parties' willingness to explore the FCC and FCE (the components that determine the FCA balance) and rate design when the Company's base rates are adjusted in the future. We take no position on whether changes to the FCC, FCE, or rate design are necessary. But we believe it is reasonable for the parties to review those matters and suggest any changes that may further improve the FCA or better remove the Company's financial disincentives to pursue DSM.

ORDER

IT IS HEREBY ORDERED that the Company's Motion is granted; the Settlement Stipulation is approved as noted above.

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 6th day of May 2015.

Paul Kjellander

PAUL KJELLANDER, PRESIDENT

Mack A. Redford

MACK A. REDFORD, COMMISSIONER

Kristine Raper

KRISTINE RAPER, COMMISSIONER

ATTEST:

Jean D. Jewell

Jean D. Jewell
Commission Secretary

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