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Idaho Power customers to see lower rates as a result of FCA, PCA, TCJA

BOISE (June 15, 2018) – Idaho Power customers will see a 7.06-percent decrease in their electric rates after state regulators approved changes to the company's Power Cost Adjustment and Fixed Cost Adjustment, and OK'd a settlement agreement related to changes to state and federal tax law. The Power Cost Adjustment (PCA) and Fixed Cost Adjustment (FCA) change annually on June 1 with Commission approval.

The change to the FCA will decrease rates by approximately $19.4 million for customers in two classes, residential and small general service. For the typical residential customer using 950 kilowatt-hours per month, that represents a decline of 3.61 percent or $3.60 on the monthly power bill.

The change to the PCA decreases rates by $22.6 million for all customers. Residential customers will see their rates decline by 1.29 percent, or $1.29 per month for the typical residential customer who uses 950 kilowatt-hours (kWh) per month.

The change related to the Tax Cuts and Jobs Act of 2017, and changes to the state corporate income tax rate, also took effect June 1 and resulted in a benefit to customers of $33.9 million. That equates to a decrease of $2.15 on the monthly bill of the typical residential customer using 950 kilowatt-hours per month.

Here is a closer look at each of the changes:

Fixed Cost Adjustment

The FCA is a cost-recovery mechanism that allows the utility to recover a Commission-authorized amount of fixed costs per customer. It is adjusted each spring based on changes in energy use among customers over the previous year.

If the fixed costs recovered are less than the fixed costs authorized in the most recent rate case, residential and small-commercial customers get a surcharge via the FCA. If the company collects more in fixed costs than is authorized by the Commission, customers receive a credit.

The FCA's intent is to remove the financial disincentive for Idaho Power to invest in energy efficiency programs or encourage customers to use energy more wisely, since those programs can lead to a decline in energy sales.

While energy use among customers fluctuates, a utility's fixed costs remain relatively flat. The FCA allows the utility to separate energy sales from revenue, removing any disincentive to promote the

efficient use of energy among customers without compromising the utility's ability to recover its fixed costs of doing business.
In its application requesting Commission approval to lower the FCA for the coming year, Idaho Power said its customers used more energy in 2017 than in 2016, even though its energy efficiency programs saved 12 percent more than in 2016.
The new FCA rate is 0.2943 cents per kilowatt-hour (kWh) used for residential customers and 0.3704 cents per kWh for small general service customers.
A year ago, the Commission approved an FCA increase of 1.29 percent after Idaho Power's residential energy sales in 2016 declined by approximately 245,000 megawatt-hours from 2015 levels.

Power Cost Adjustment
The PCA allows Idaho Power to adjust its rates up or down each year to reflect the actual power-supply costs incurred over the previous year.
Those costs can vary significantly based on a number of factors beyond the company's control, including market prices for power, transmission costs, revenue from selling surplus power and water conditions that affect hydro generation, which accounted for nearly 50 percent of Idaho Power's energy portfolio in 2017.
There are three components to the PCA: a forecast component, a true-up component and a "true-up of the true-up." In the first step, the company forecasts its power costs for the coming year – June 1, 2018 to May 31, 2019.
Then the prior year's forecasted costs are "trued up" based on the actual costs incurred, reflecting either a surplus or a deficit. The company then reconciles the true up by adjusting the PCA to either credit customers when there was a surplus or increasing the surcharge when a deficit occurred. This final step, or "true-up of the true-up," ensures the company recovers its actual approved costs, and that customers pay only for the power supply costs the company incurred to meet the demand for energy.
In its application requesting Commission approval to decrease the PCA, Idaho Power said the change is due primarily to better-than-expected water conditions, which helped boost hydro generation. A projected decrease in expenses related to coal-fired generation also was a factor, according to the utility.
With the change, the company expects revenue from the PCA to exceed $90.3 million in 2018-2019.
As of June 1, the PCA is assessed at $0.4854 cents per kWh for all customer classes.
A year ago, the Commission approved a PCA increase of 0.93 percent, leading to a 59-cent increase on the monthly bill for a typical residential customer.

Tax Cuts and Jobs Act of 2017, state tax cut
The Commission approved a settlement agreement that sends to customers approximately $33.9 million in benefits resulting from new tax laws at the federal and state levels.
The agreement approved by the Commission calls for an $18.7 million decrease to base rates and a $7.8 million decrease via a rate credit from the PCA.
The base-rate decrease will continue until base rates change through a general rate case or other proceeding.
The rate credit through the PCA will continue until May 31, 2019, when it will decrease to a credit of approximately $2.7 million through May 31, 2020.

The Commission's decision also calls for a benefit of approximately $7.4 million to offset deferred costs that customers would otherwise pay through rates.
The rate decrease is the result of a Commission order that directed all regulated utilities to identify and quantify the impacts of the tax changes, and to include proposed rate changes that reflect those impacts.
A main feature of the tax law was to reduce the federal corporate tax rate from 35 percent to 21 percent. Soon after it was signed into law, Idaho lowered its corporate tax rate from 7.4 percent to 6.925 percent.
Since a utility's tax expenses are a factor in determining customer rates, the Commission opened an investigation in January aimed at determining whether rates and charges should be adjusted in order to reflect the new tax code.
The company's report indicated system-wide savings of approximately $31.1 million, about half of which are deferred benefits.
After submitting its report, the utility began working with Commission staff and the Industrial Customers of Idaho Power to determine how the tax benefits should be provided to customers.
The tentative settlement was submitted for Commission approval in mid-April.

The Commission's decision in the tax case, as well as its decisions related to the tax cuts' impacts on all regulated utilities, can be found here, or via the Commission's web site, www.puc.idaho.gov. Click on "Multi-Utility Cases." This case is the only one listed in that category.

To review the Commission's decision on the PCA, go here. For more information on the FCA, go here. Or go to the Commission's web site, www.puc.idaho.gov. Click on "Open Cases" under the "Electric heading and scroll down to IPC-E-18-02 (FCA) or IPC-E-18-06 (PCA).

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