

DONOVAN E. WALKER  
DEPUTY ATTORNEY GENERAL  
IDAHO PUBLIC UTILITIES COMMISSION  
PO BOX 83720  
BOISE, IDAHO 83720-0074  
(208) 334-0357  
IDAHO BAR NO. 5921

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Street Address for Express Mail:  
472 W. WASHINGTON  
BOISE, ID 83702-5983

Attorney for the Commission Staff

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION OF )**  
**IDAHO POWER COMPANY FOR AUTHORITY )** **CASE NO. IPC-E-04-29**  
**TO REVISE THE ENERGY EFFICIENCY )**  
**RIDER, TARIFF SCHEDULE 91. )**  
**)**  
**)** **COMMENTS OF THE**  
**)** **COMMISSION STAFF**  
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**COMES NOW** the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Donovan E. Walker, Deputy Attorney General, and in response to the Notice of Application, Notice of Modified Procedure and Notice of Intervention Deadline issued in Order No. 29673 on January 4, 2005, submits the following comments.

**BACKGROUND**

On December 6, 2004, Idaho Power Company (Idaho Power, the Company) filed an Application to increase its Energy Efficiency Rider (Rider), Tariff Schedule 91, in two steps. The current Rider is generally equivalent to 0.5% of base revenues, but is applied variously on a kilowatt-hour basis or on a per customer basis. The current Rider collects about \$2.6 million per year to fund Idaho Power's demand side management (DSM) programs. In this Application the Company seeks Commission approval to increase the Rider to 1.5% effective June 1, 2005, and to 2.4% effective June 1, 2007. The Application also asks that the Rider be applied uniformly on a

percentage basis to all monthly customer charges, base energy charges and, where applicable, base demand charges.

The increased funding for DSM is necessary to enable the Company to pursue the higher level of DSM identified in its 2004 Integrated Resource Plan (IRP) and to continue its participation in the Northwest Energy Efficiency Alliance (NEEA), which was funded from another revenue source through the end of 2004.

Finally, the Application asks the Commission to approve changes in the manner in which industrial customers' DSM is pursued. Most notably, industrial customers would have the option to self-direct the use of their DSM charges.

## **STAFF ANALYSIS AND COMMENTS**

### **General Statement**

Staff supports Idaho Power's increased commitment to pursuing cost-effective DSM through its various efforts to educate its customers about the best practices and benefits of energy efficiency, through incentive payments to its customers and their builders and building operators for practicing energy efficiency, through its programs that allow it to directly control customer load, and through the market transformation efforts of NEEA. Thus, in general, Staff supports the Company's request to increase its Rider to a level equivalent to 1.5% of its base revenues effective June 1, 2005. Staff recognizes that an additional Rider increase will likely be necessary within two years to support planned DSM levels identified in the Company's 2004 IRP. However, we do not recommend that the Commission approve the second-step Rider increase to 2.4% effective June 1, 2007, at this time or as a result of this Application.

### **DSM Fund Balances and Projected Cash Flow**

Currently Idaho Power's DSM Rider collects about \$2.6 million annually, approximately 0.5% of its base energy revenues. The Application asks the Commission to approve two increases to the rider; first to 1.5% effective June 1, 2005, equal to about \$7.7 million annually, and second to 2.4% effective June 1, 2007, equal to about \$12.3 million annually. Company witness Maggie Brilz's Exhibit 2, page 1, provides an approximate yearly cash flow analysis of the DSM Rider fund beginning with a \$4.5 million reserve balance on December 31, 2004.

However, the beginning DSM reserve balance of \$4.5 million is now estimated to be \$4.74 million. And Ms. Brilz's Exhibit 2 does not explicitly show the Company's additional \$2.14 million estimated credit balance (\$2.04 million Idaho share) with NEEA. This credit balance is discussed in Company witness Tim Tatum's testimony (pp. 27-28) as a lower estimated \$1.9 million and its effect is partially included in Exhibit 2's cash flow. But the DSM costs shown in Exhibit 2 do not include the Company's portion of its future payments to NEEA that are paid from its current NEEA balance. Exhibit 2 also excludes interest that will accrue to the DSM balances and customer growth that has occurred since 2003 and that will likely occur over the next five years as forecasted in the Company's IRP.

Attachment A shows Staff's updates and refinements to the Company's cash flow analysis shown in Ms. Brilz's Exhibit 2, page 1. With explicit inclusion of the \$2.04 million estimated Idaho share of its NEEA credit balance, 100% of all future payments to NEEA, the update to its Rider reserve balance, the assumed nominal interest rates earned on those balances, and the IRP-assumed sales growth rate, the total balance of DSM funds at the end of 2005 is estimated to be \$5.3 million compared to the \$3.6 million shown on page 1 of Exhibit 2. Similarly, at the end of 2009, Attachment A's refinement of the Company's analysis shows a positive \$0.75 million balance at the end of 2009, compared to the negative \$0.27 million shown on Exhibit 2, page 1.

Using the same assumptions as those described above, Staff has performed cash flow analyses under various scenarios with Rider amounts ranging from 1% to 2.4% over the June 1, 2005 through December 31 2009 period. These analyses showed how estimated year-end fund balances vary but provided no insight into the impact on Rider reserve balances if actual conditions vary from those assumed. Staff believes this uncertainty requires a more periodic evaluation of appropriate tariff rider amounts.

Staff notes that the cash flow analyses described above are merely the projections of revenues based upon estimated total sales, estimated costs for DSM programs that have been selected but are not yet fully developed, and rough estimates of future participation by Idaho Power's customers. Furthermore, Staff and other parties have advocated that the Company should pursue additional cost-effective DSM programs that were identified in, but ultimately not selected by, the Company's 2004 IRP. Staff notes that the Northwest Power and Conservation Council's (NWPPCC) 5<sup>th</sup> Power Plan suggests that a higher level of cost-effective DSM is available to Idaho Power. Staff also notes that Idaho Power has indicated that it will continue to investigate

additional DSM opportunities. In short, Staff believes it will be important to reevaluate necessary Rider levels to assure that the Company has a sufficient Rider balance to pursue additional cost-effective DSM opportunities as they are identified and programs are developed.

Consequently, Staff does not at this time support Idaho Power's request for increasing the Rider to 2.4% effective June 1, 2007. Instead, we believe the Company should file another application at such time that its DSM programs are more fully developed and customer participation can be more accurately estimated. Staff will support increasing the Rider for funding cost-effective DSM programs, perhaps even above 2.4% at a later date, but we believe it is premature to speculate at this time exactly what level of funding will be necessary beyond 2006.

Staff estimates that if the Rider stays at 1.5% and DSM costs remain as currently projected, then the Company's total DSM balance will become negative in the fall of 2007 and will continue to decline more than \$300,000 each month. Staff does not believe this scenario should or would occur. Instead, we anticipate that Idaho Power will have requested a change to the Rider level in 2006 or prior to June 1, 2007.

#### **Application of Rider and Itemization on Bills**

Currently the 0.5% Rider is an approximation that is applied differently among customer classes. Residential customers are all charged \$0.30 per month, regardless of energy used. The Rider is applied to irrigation pumping as an energy rate equivalent to 0.5% of base revenue, except that the charge is capped at \$15.00 per month per customer site. For all other customer classes the Rider is applied as an energy rate equal to 0.5% of the class's base revenue.

Idaho Power's Application requests that the Rider be applied uniformly as a percent of each customer's base bill, which includes customer charges, base energy rates, and base demand charges where applicable.

Staff agrees that the Rider should apply on an equal percentage basis to energy and demand charges. Theoretically, we do not believe the Rider should apply to monthly customer charges because these charges are based on costs not affected by monthly energy usage or demand and these costs will not be affected by DSM programs. However, because the rider would have to be set slightly higher if it did not apply to customer charges and because the net effect on individual customers of applying the Rider to customer charges is relatively insignificant, the Staff accepts the Company's proposal.

Staff agrees with the Company that the Rider should remain itemized on customers' bills. Idaho Power has told the Staff that such itemization facilitates the ease with which the Company is able to track Rider funds, but, more importantly, we believe such itemization will increase customer awareness of the Rider and the programs it is funding. While itemization on bills will likely result in complaints and inquiries to both the Commission and the Company, Staff believes these communications will provide further opportunity to promote participation in DSM programs.

### **Industrial Self-Directed DSM**

Ms. Brilz's testimony, pages 14 through 21, explains in detail the significant changes proposed for DSM programs for industrial class Schedule 19 and special contract customers. Although the proposal differs somewhat from the changes suggested in Commission Orders 29505 and 29547, the Company, the Staff, and the represented industrial customers all agreed to the changes. The proposal provides Schedule 19 and special contract customers the option of self-directing their DSM contributions for DSM projects located at their facilities. Customers choosing this option will, on June 1, 2005, be able to spend up to three and one-half years worth of their estimated total DSM payments from June 1, 2004 through December 31, 2007. (Beginning in 2008, customers choosing the self-directed option will be able to utilize up to three years worth of anticipated DSM payments.) The funds must be spent on energy audits and/or DSM projects that meet Idaho Power's test for cost-effectiveness. DSM funds not used by customers choosing the self-direct option will revert to the pooled Rider funds. For industrial customers who do not choose the self-direct option, several changes are proposed that simplify the process for obtaining incentive payments to perform energy audits and cost-effective DSM projects. On page 15 of his testimony, Mr. Tatum estimates that the already good benefit cost ratio of the industrial program will increase as a result of these changes.

Staff supports the self-direction of Rider funds and other proposed changes for Schedule 19 and special contract customers' DSM.

### **DSM Programs Selected and Additional Potential Programs**

The various DSM programs, projects and market transformation efforts that Idaho Power intends to fund with the increased Rider and how the cost-effectiveness of these programs were estimated are described in Mr. Tatum's 30-page testimony and his Exhibits 5 – 11. Pages 1 and 2

of his Exhibit 10 show that by the end of 2009 the selected four efficiency programs and the two direct control programs are estimated to result in a 103 megawatt reduction to the Company's peak summer demand and an annual savings of 87,165 megawatt-hours of energy. These estimates do not include the effects of NEEA's market transformation efforts or the effects of Idaho Power's small projects, trials, limited rollouts and education efforts. Mr. Tatum stated that all of the IRP-selected DSM programs as well as its participation in NEEA are expected to result in benefits exceeding their costs.

Mr. Tatum provided similar estimates for the cost-effectiveness of two programs that were not selected for immediate implementation in the IRP, i.e. the residential existing construction and commercial existing construction programs. He explained that these programs, in spite of their cost-effectiveness, were not selected for implementation because the Company had reservations about its ability to ramp-up these two programs in addition to the six major programs that it did select. He also said that the two programs not selected were estimated to have lower benefit/cost ratios than the four energy efficiency programs that were selected. However, Staff notes that both programs not selected are estimated to have better utility benefit/cost ratios than the two demand response programs that were selected, i.e. Irrigation Peak Clipping and Air Conditioning Cycling. The two programs not selected are also estimated to have better total resource benefit/cost ratios than does the AC Cycling program. Mr. Tatum stated that the Company plans a "limited rollout" of both the residential and commercial existing buildings programs in 2006. Staff appreciates the additional consideration that the Company has given these two programs since the IRP was filed.

Mr. Tatum explained that the Company has used 2% of Rider funds for small projects and education efforts and that it will continue to pursue these efforts if the Rider is increased. Staff believes that energy efficiency education is important even though direct cost-effectiveness may be difficult to prove.

Mr. Tatum discussed the Company's partnership with NEEA in its Distribution Efficiency Initiative (DEI), formerly known as Conservation Voltage Reduction (CVR). Staff supports Idaho Power's limited use of Rider funding (\$100,000 per year for two years) to help determine the benefits and costs of DEI. Nevertheless, we are not yet convinced that Rider funds should be used for DEI in the event of a larger rollout of this technology.

### **Future Determination of DSM as Reasonable and Prudent**

Although Staff supports increasing Idaho Power's Rider to fund more aggressive and cost-effective DSM programs, Staff cannot forecast at this time whether the Company will implement and evaluate its programs in a reasonable and prudent manner. To our knowledge the Company is proceeding prudently in identifying DSM programs to be pursued.

While Staff believes there may be opportunity to obtain even more cost-effective DSM than the Company has said it is comfortable pursuing, we cannot at this time determine that it is acting unreasonably by not ramping up DSM more rapidly. Staff is aware that Idaho Power's Energy Efficiency Advisory Group (EEAG) is actively engaged in making suggestions to the company about its DSM activities and the level of those activities.

In short, Staff believes Idaho Power should be allowed to pursue the DSM that it believes will benefit its customers most. At a future time, Staff will recommend to the Commission whether or not it should determine that the Company's DSM expenditures have been reasonable and prudent. Such after-the-fact recommendation is consistent with our treatment of Avista Utilities' DSM expenditures since the inception of its DSM Rider in 1994.

### **CONCLUSIONS**

Staff believes that increased funding to promote energy efficiency, e.g. reduced electricity consumption and/or reduced peak system load while providing the same or acceptable levels of desired cooling, heating, lighting, pumping or production, is in the public interest. Staff recognizes that individual customers of Idaho Power often are deterred from investing in energy efficiency due to financial, informational and/or other constraints and barriers. Electricity providers, such as Idaho Power, are well-positioned to promote energy efficiency by removing many of these barriers through their own efficiency programs and education efforts and through their combined efforts to transform regional and national markets.

Staff is convinced many demand-side energy efficiency and direct load control opportunities are less costly and less risky than many supply-side resources and supports Idaho Power's increased commitment to providing these opportunities for its customers. Staff further believes the Company's efforts are best funded through an increase in the Energy Efficiency Rider in a way that allows periodic review and does not impede implementation of these efforts.

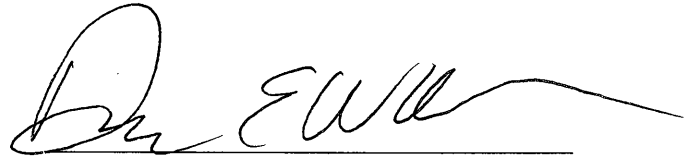
## RECOMMENDATIONS

Staff recommends that the Commission approve Idaho Power's Application to increase its Energy Efficiency Rider to 1.5%, effective June 1, 2005. We do not recommend that the Commission approve the Application's request to increase the Rider to 2.4% effective June 1, 2007. Instead, we recommend that the Rider remain at 1.5% until such time that Idaho Power files another application, with supporting documents, to further increase the Rider level.

Staff recommends that the Commission approve the Application's request to apply the Rider to all base revenue charges on a percentage basis.

Staff recommends that the Commission approve the Application's request to change program rules for funding energy efficiency projects for the Schedule 19 and special contract customers.

Respectfully submitted this 16<sup>th</sup> day of February 2005.



Donovan E. Walker  
Deputy Attorney General

Technical Staff: Lynn Anderson

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**Idaho Power's Proposal, Brilz Exh. 2, p. 1, plus NEEA Bal. and Costs, plus Interest and Growth**

	<u>Est. Revenue Balances 12/31/04</u>		<u>Interest Rate</u>
IPC DSM Cash Flow 2005-2009	IPC Reserve DSM	\$4,740,000	2.0%
	NEEA (Id.'s 95.5%)	\$2,039,880	<u>Growth Rate</u>
2003 Base Rate Rev \$512,064,323	Total	\$6,779,880	1.8%

	<u>5-mo. Rate</u>	<u>7-mo. Rate</u>	<u>Annual</u>	<u>DSM Rider</u>	<u>NEEA + IPC</u>	<u>Simple</u>	<u>EoY Bal.</u>
	<u>Jan.-May</u>	<u>June-Dec.</u>	<u>Avg. Rate</u>	<u>Revenue</u>	<u>DSM Costs</u>	<u>EoY Bal.</u>	<u>w. int. &amp; grwth</u>
2005	0.5%	1.5%	1.08%	5,547,363	7,218,040	5,109,203	5,312,457
2006	1.5%	1.5%	1.50%	7,680,965	9,637,162	3,153,006	3,520,950
2007	1.5%	2.4%	2.03%	10,369,303	12,065,932	1,456,377	1,903,427
2008	2.4%	2.4%	2.40%	12,289,544	12,800,764	945,157	1,455,164
<u>2009</u>	2.4%	2.4%	2.40%	<u>12,289,544</u>	<u>13,033,547</u>	201,153	751,937
Total				\$48,176,718	\$54,755,445		

Each year's DSM revenue matches Ms. Brilz's Exh. No. 2, p.1 of 2, but DSM costs are higher because she does not show that portion of NEEA costs that is paid from NEEA credit balance.

Assumes NEEA costs will not grow, which may not be the case.  
IPC DSM costs are based on IRP which includes customer growth.

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 16<sup>TH</sup> DAY OF FEBRUARY 2005, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-04-29, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

BARTON L KLINE  
MONICA MOEN  
IDAHO POWER COMPANY  
PO BOX 70  
BOISE ID 83707-0070

MAGGIE BRILZ  
DIRECTOR, PRICING  
IDAHO POWER COMPANY  
PO BOX 70  
BOISE ID 83707-0070

NANCY HIRSH  
NW ENERGY COALITION  
219 1<sup>ST</sup> AVE SOUTH  
SUITE 100  
SEATTLE WA 98104

  
\_\_\_\_\_  
SECRETARY