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DONOVAN WALKER
Attorney II

July 24, 2008

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
P.O. Box 83720
Boise, Idaho 83720-0074

Re: Case No. IPC-E-08-12

Dear Ms. Jewell:

Please find enclosed for filing an original and seven (7) copies of Idaho Power Company's Reply Comments in the above-referenced matter.

I would appreciate it if you would return a stamped copy of this transmittal letter to me in the enclosed self-addressed stamped envelope.

Very truly yours,

Donovan Walker

DW:csb
Enclosures

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) CASE NO. IPC-E-08-12
APPROVAL OF AN AIR CONDITIONER)
CYCLING PROGRAM AGREEMENT FOR) IDAHO POWER COMPANY'S
MOUNTAIN HOME AIR FORCE BASE.) REPLY COMMENTS
_____)

Idaho Power Company ("Idaho Power" or "Company") submits the following Comments in response to the Comments filed by the Commission Staff on July 16, 2008.

1. Introduction

Commission Staff, although ultimately stating that it "is not opposed to the Agreement," was very critical of the Agreement and the Company's negotiation and evaluation of the same. These Reply Comments will address three general categories, and hopefully provide some clarity, and possibly resolution to Staff's concerns. These

comments will address: (1) Cost-Effectiveness, (2) Post-Installation Evaluation of the Program, and (3) the Prudence of Implementing the Program.

2. Cost-Effectiveness

Demand Charge Revenue Losses – The Air Conditioner Cycling Program (“AC Cycling Program” or “Program”) for the Mountain Home Air Force Base (“Air Base”), as set out in the Agreement, is cost-effective. Commission Staff in its Comments is highly critical of the Agreement to extend the AC Cycling Program to the residences located on the Air Base. It appears that Staff’s primary criticism of the Company revolves around what Staff perceives to be a lack of cost-effectiveness, or lack of cost-effectiveness analysis. Staff’s criticism seems to be based upon the Company’s application of the same \$7.00 credit per participating residence that is utilized in Tariff Schedule 81, the AC Cycling Program for Residential Customers, to the participating residences on the Air Base. Staff is critical that the Company did not drive a harder bargain and negotiate to reduce the benefits that the Air Base would receive from bringing a large group of residents into the Program. After projecting an anticipated reduction in the Air Base’s demand charges for participation in the Program, Staff states, “Curiously, demand charge revenue losses were not mentioned in the Application.” Staff Comments at 3.

The Company believes that Staff’s concerns are unfounded. The Program is cost-effective by all accepted measurements. First of all, as Staff is well aware, Idaho Power uses the Total Resource Cost (“TRC”) and the Utility Cost (“UC”) tests, as defined in the California Standard Practice Manual: Economic Analysis of Demand-side Programs and Projects, 2001, (“CSPM”) and the Electric Power Research Institute End-Use Technical Assessment Guide, 1991, (“End-Use TAG”) to determine if all of its

energy efficiency and demand response programs are cost-effective. See, Order No. 28894 at 7, Case No. IPC-E-01-13 (where the Commission directed the Energy Efficiency Advisory Group to use the TRC, UC, and Participant Cost tests to screen the cost-effectiveness of potential DSM projects). Staff has recently described both the CSPM and the End-Use TAG as “Both manuals are good, commonly used tools for evaluating DSM cost-effectiveness . . .” Staff Comments at 7, n1, Case No. IPC-E-08-03. Additionally in Case No. IPC-E-08-03, Idaho Power’s Application for Authority to Revise the Energy Efficiency Rider, Staff indicated that it had “reviewed the Company’s program cost-effectiveness screening method and believes it is reasonable.” *Id.*, at 10. One of the programs it reviewed was the Residential AC Cycling Program. *Id.*, at 4.

The Total Resource Cost test is designed to measure the total benefits and costs of a demand-side management (“DSM”) program from the standpoint of a utility and its customers as a whole. The Utility Cost test measures the net costs of a DSM program as a resource option based on the costs incurred by the utility and excluding any net costs incurred by the participant. Neither the TRC nor the UC test includes customer bill reductions as an input for analysis. Thus, since the two cost-effectiveness tests utilized to determine if a given program is, in fact, cost-effective do not consider customer bill reductions in their analysis, the potential demand charge revenue losses for the Air Base are not relevant to this consideration.

As stated in the Application, and apparent from its structure, the Agreement with the Air Base is closely modeled upon the Company’s approved Tariff Schedule 81, the Residential Air Conditioner Cycling Program. The Residential Program was initially rolled out as a pilot program in March 2003. Case No. IPC-E-02-13. After thorough

evaluation, it was then made available to all of Idaho Power's customers as an optional service through Tariff Schedule 81. Case No. IPC-E-04-27. The cost-effectiveness of Schedule 81 has been established. As noted by Staff:

Idaho Power further explained that it expected the Air Force Base program to have some cost reductions due to eliminating marketing costs, having the need to contact only one customer as opposed to each residence as a customer, the close proximity of individual houses, and not having to remove the load control device each time occupancy of a residence changes.

Staff Comments at 2. The AC Cycling Program offered under Schedule 81 is cost-effective. If a program is cost-effective and the costs of the program are further reduced as stated above, the program becomes more cost-effective. This, coupled with the fact that customer bill reductions do not factor into the cost-effectiveness tests, demonstrates that the Air Base's program is also cost-effective, with no further analysis required.

The intent of the Company was to keep the Program for the residential housing on the Air Base, as close as possible to the AC Cycling Program offered to all residential customers through Schedule 81. As stated in the Application, the Agreement executed with the Air Base, in fact, closely mirrors the Company's approved Tariff Schedule 81, both in form and content. Staff stated, "There is no indication that Idaho Power attempted to negotiate a lower incentive payment in consideration of the likelihood of reduced demand charges." Staff Comments at 3. Staff also stated, "Staff is concerned that Idaho Power has given no indication that it diligently negotiated the amount of the Agreement's monthly credit in consideration of the Air Force Base's Schedule 19 customer status." Staff Comments at 4. The Company has worked

diligently with representatives of the Air Base since approximately February of this year to come to a mutually agreed upon Agreement to implement the AC Cycling Program on the Air Base for its residential housing. The Company was and is confident that the Program is cost-effective with a \$7.00 per month, per household incentive offered for both Schedule 81 as well as the Air Base's Program. The Air Base was and is well aware of the Program offered under Schedule 81 and the incentive offered under that Schedule. Program incentives are based on cost-effectiveness calculations and DSM avoided costs. It would have been inconsistent with accepted cost-effectiveness tests, (and perhaps discriminatory) to offer the Air Base less incentive for the same load reduction as other residential customers at the same or perhaps slightly reduced costs.

Additionally, even if the demand charge lost revenues were relevant to the cost-effectiveness calculations, the potential lost revenue for the Air Base would not be significant. First, in order for the Air Base to achieve a savings of the magnitude calculated by Staff by participating in the Program, the AC Cycling Program's load reduction would have to coincide with every weekday peak of the Air Base during the highest usage days of each billing cycle. Because of the way the Program is operated, and the hours and days the units are actually cycled, this is unlikely. Secondly, even if the AC Cycling Program offered to the Air Base does reduce the Air Base's peak billing demand, this is one of the goals of the Program and indicates the Program is operating effectively. Almost all energy efficiency and demand response programs reduce the participants' energy usage and/or demand – that is the point. Reduced billing demand helps incent customers to participate in energy efficiency and demand response programs.

Magnitude of Cost-Effectiveness – Staff also stated, “Staff believes prudent program management requires not only that programs be cost-effective, but that they be as cost-effective as practicable.” Staff Comments at 4. As stated above, Idaho Power uses the standardized Total Resource Cost and the Utility Cost tests as set out in the CSPM and the End-Use TAG to determine if energy efficiency and demand response programs are cost-effective. For any program, if the TRC and UC test benefit/cost ratios are greater than one, that program is determined to be cost-effective for the Company and all Idaho Power customers.

Idaho Power has used this method of cost-effectiveness screening to select and evaluate programs for many years. The Company selected the majority of its energy efficiency and demand response programs through the Integrated Recourse Plan (“IRP”) process, and in conjunction with the Energy Efficiency Advisory Committee. As stated in the 2004 IRP:

Idaho Power Company has worked with the Energy Efficiency Advisory Committee and outside consultants to identify potential demand-side programs that may be cost-effective. Potential programs were identified in all four major customer classes – residential, commercial, irrigation, and industrial. The pre-screening analysis resulted in eight DSM options -six energy efficiency options and two demand response- that had benefit to cost ratios greater than 1.0.

2004 IRP at 56, *See also*, 2006 IRP.

Idaho Power is not only committed to pursuing all cost-effective energy efficiency and demand response programs but also committed to providing programs to all customer sectors. Beginning in 2002, the Commission has directed Idaho Power and the Energy Efficiency Advisory Group to “create and implement a balanced portfolio of DSM programs for all customer classes over the long-term.” Order No. 29065. If

prudence were measured on the magnitude of cost-effectiveness, the Company would pursue only a few very cost-effective programs, most likely in one sector. Since 2002, Idaho Power has implemented six energy efficiency programs and two demand response programs. These programs have all been screened and/or evaluated based on having a TRC and UC cost-benefit ratio greater than one. Idaho Power currently offers programs to all sectors.

3. Post Installation Evaluation of the Program

Lack of Individual Meters – Staff was also concerned about the effects of evaluating the program, once started, because of the lack of individual meters for the residences. Staff stated, “. . . it is noteworthy that the Air Force Base’s residences are not individually metered and thus Idaho Power will not be able to determine individual residence historical or current energy usage. It is not clear how Idaho Power will even know whether or not participating residences are occupied.” Staff Comments at 3. “Staff believes that lack of sub metering at individual Air Force Base homes may increase the difficulty and uncertainty of the Company’s post-100 home analysis.” Staff Comments at 4.

Historical energy usage is used as a factor when considering if a Schedule 1, residential customer, once they request to participate in the program, is a suitable residence for installation of the equipment and participation in the program offered by Schedule 81. This information is not necessary for the residences located on the Air Base because the Company did a site visit and inspected the various residences that make up base housing, and determined that the residences were suitable for installation of the equipment and participation in the program.

More importantly, the fact that the Air Base residences do not have whole house meters will not affect any post installation analysis of the program because any post analysis will be conducted, as it is with all Schedule 81 participants, with the use of data loggers for load use information. A data logger is a small device, approximately the size of a cell phone, installed by the Company at a residence's Air Conditioning unit that records energy usage for that specific Air Conditioning unit. The Schedule 81 program has been heavily evaluated and analyzed. The Company hired a third-party consultant to evaluate and report on the savings from the AC Cycling Program in 2004, 2005, and 2006. In 2004 a sample of whole house load research meter data and in home temperature data was used to evaluate the savings to assess the Program. The consultant and Idaho Power realized through the 2004 analysis that whole house meter data did not have as good of a resolution as desired to analyze the demand savings. In 2005 and 2006, end use data loggers attached to a sample of participants' AC units were used to analyze the Program, and provided much more useable data. In all of these studies the day-to-day occupancy of the participating houses was unknown. The fact that Air Base homes do not have whole house meters will not affect the post installation analysis of the Program because any post analysis will depend on end use data loggers for load use information.

Additional Installations – Staff also stated, “Under the assumption that Idaho Power must also be ‘comfortable with how the program operates’ with the first 100 homes, the Company should determine whether the terms of the Agreement are likely to maximize cost effectiveness for its total body of customers before it allows more Air Force Base homes into the Agreement.” Staff Comments at 4. Idaho Power is

comfortable with how the Program will operate. As previously stated, the Company's approach is to attempt to treat the residences located on the Air Base as non-discriminatory as possible compared with residences located off of the Air Base. Idaho Power intends to operate, analyze, and evaluate the Program under the Agreement as part of the overall AC Cycling Program. The Company does not plan any change, at this time, in the terms of the Agreement after the first 100 homes are installed. The Availability as specified in the Agreement is "Service under this Agreement will be available to Customer's residential housing units (base housing) that have Central Air Conditioning located at the Residences." Agreement at 2.

4. Prudency of Implementing the Program

Idaho Power requests, with the filing of the Agreement in this case, that the Commission approve the Agreement that provides for the implementation of the AC Cycling Program for the Air Base, i.e., that the Commission find this to be a prudent program to pursue and implement. After a highly critical analysis by Commission Staff which called into question the prudency of the Program for the Air Base, and the Company's consideration of the same, Staff ultimately states:

Nevertheless, Staff suggests this Application is not the appropriate case for prudency of the Agreement to be judged. Staff will analyze the reasonableness of Idaho Power's planning, implementation and evaluation of all of its energy efficiency and demand response programs, including this one, during the usual course of a future rate case.

With due consideration of the above caveats, Staff is not opposed to the Agreement.

Staff Comments at 5.

The Company would respectfully disagree. The purpose of filing this case with the Commission is to gain approval of the Agreement and have the prudence of implementing the described Program determined. If Staff believes that the Program, or Idaho Power's consideration of the Program, is not prudent, why would it recommend that it be implemented? If the Commission determines that this is not a prudent program to pursue, then the Company will not move forward with its implementation.

The Company is confused by Staff's reaction to this proposed load reduction program. The AC Cycling Program is one of the more successful programs that has a direct result of reducing peak energy usage during the most costly time of year, the summer peaking season. However, it only operates during the months of June, July, and August. As stated above, the Company has worked diligently since approximately February of this year to reach an agreement with the Air Base for this program, and timing has always been a big consideration. The final, signed Agreement was not obtained until May 23 and was filed with the Commission that same day. Unfortunately, the matter did not appear on the next three decision meetings and over thirty-three (33) days after the initial filing, it was Noticed for Modified Procedure with a 21-day comment period. Staff used the fifty-four (54) days to write comments that concluded that the Company should have driven a harder bargain and reduced the benefits the Air Base will receive from participating in a cost-effective, energy efficiency program. The Company knew that it would be impossible to process a case and possibly have the Program in place for the entire summer season, but was hopeful that it could at least have July and August participation. Because of the processing time, that has been cut

down to possibly one month, August. The lost opportunity cost of the possibility of having 850 residences participating in the Program for the month of July is significant.

5. Conclusion

The Company is confident that the possible inclusion of up to 850-1100 residential homes on the Air Base into the AC Cycling Program will be a cost-effective, beneficial, and a welcome addition to a successful load control program that saves energy during the Company's most costly time to provide that energy to its customers. The Company's intent is to operate the Program in conjunction with and as closely as possible to the currently offered Schedule 81 service. Obviously, there are some differences and adjustments that were required because of the fact that the residences on the Air Base are not technically customers of the Company and reside behind the Air Base's Schedule 19 service. However, the Company believes that this Program is cost-effective, that the residences are compatible with how the AC Cycling Program operates, that this is a prudent load reduction program to pursue, and that the Company acted reasonably and prudently in reaching this Agreement with the Air Base.

The Company respectfully requests that the Commission issue an Order: (1) finding that the Air Conditioner Cycling Program for Mountain Home Air Force Base is a prudent Program for the Company to pursue and implement and (2) approving the Agreement between Mountain Home Air Force Base and Idaho Power attached as Exhibit 1 to the Application.

Respectfully submitted this 24th day of July 2008.



DONOVAN E. WALKER
Attorney for Idaho Power Company

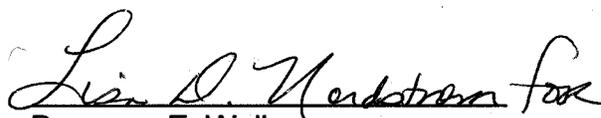
CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 24th day of July 2008, I served a true and correct copy of the within and foregoing document upon the following named parties by the method indicated below, and addressed to the following:

Commission Staff

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