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UTILITIES COMMISSION

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Attorney for the Commission Staff

## BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION	)	
OF IDAHO POWER COMPANY FOR AN	)	CASE NO. IPC-E-08-12
ORDER AUTHORIZING AN AIR	)	
CONDITIONER CYCLING PROGRAM	)	
AGREEMENT FOR MOUNTAIN HOME AIR	)	COMMENTS OF THE
FORCE BASE.	)	COMMISSION STAFF
	)	

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**COMES NOW** the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Weldon B. Stutzman, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 30582 on June 25, 2008, submits the following comments.

### BACKGROUND

On May 23, 2008, Idaho Power Company (Idaho Power, the Company) filed an Application requesting Commission approval of an Air Conditioner Cycling Program Agreement (Agreement) for Mountain Home Air Force Base. Idaho Power currently operates a residential air conditioning cycling program under tariff Schedule 81. That program is an optional service that allows the Company to cycle participating customers' central air conditioners by use of direct load control devices. The Application states that during 2007 approximately 13,600

customers participated in the program and the Company estimates the program reduced demand in July 2007 by 10.8 MW.<sup>1</sup>

Idaho Power and Mountain Home Air Force Base executed the Agreement to provide an air conditioner cycling program on base housing similar to the Schedule 81 program, which is available only to Schedule 1 residential customers. The Air Force Base is a Schedule 19 large power service customer and provides electricity to approximately 1,100 individual residences on base property. The Agreement allows qualified Air Force Base residences' air conditioners to be cycled by Idaho Power much the same way as Schedule 81 currently operates. The Air Force Base would receive a \$7 per month credit for June, July, and August for each residence in the program. However, the Agreement provides for a single, cumulative credit on the Air Force Base's September bill at the end of the air conditioning season. Other differences noted in Application between the Agreement and Schedule 81 are that the Air Force Base will be responsible for notifying occupants of its residences in the program and the Air Force Base may request to add or remove residences from the program at any time, while the individual residences will not have Schedule 81's one day per month "opt out" opportunity.

## STAFF REVIEW

In response to a Staff query, Idaho Power stated:

...no additional cost effectiveness or business case analyses were performed. There is no significant difference in this type of installation and a normal home installation that would affect the costs incurred or benefits received. The cost-benefit would essentially be the same as adding the same number of residential customers to the program that were not on the Air Base.

Nevertheless, 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.<sup>2</sup>

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<sup>1</sup> The Company clarified that if the 13,600 participants who were enrolled by December 2007 had all been enrolled in July 2007, then the Company estimates that the peak load reduction in that month would have been 15 MW (about 1.1 kW per participant). (Lynn Anderson's telephone conversation on 7/14/08 with Pete Pingilly, Customer Research and Analysis Leader.)

<sup>2</sup> Based on or directly quoted from June 5, 2008, e-mail from Courtney Waites, Idaho Power Pricing and Regulatory Services, in response to June 2, 2008, e-mail query from Lynn Anderson.

Idaho Power's responses to additional Staff questions revealed that as a result of the Agreement, the Air Force Base likely will reduce its Schedule 19 Primary Service monthly demand charge (\$3.36 per kW) and on-peak demand charge (\$0.44 per kW). Thus, for the 850 expected "participating" residences, the Air Force Base could reduce its total demand charges by about \$3,553 per month ( $850 \times 1.1 \text{ kW} \times \$3.80$ ) in addition to receiving a \$5,950 per month credit from the \$7 per participating residence.<sup>3</sup> Curiously, demand charge revenue losses were not mentioned in the Application. Considering the Air Force Base's likely reduction in demand charges, it quite possibly would have signed an AC cycling agreement for less than the \$7 per month per participating residence that was determined to be necessary in the residential Schedule 81 program. The Application states that the Air Force Base expressed interest in the AC cycling program and the Agreement was executed (pp. 2-3). There is no indication that Idaho Power attempted to negotiate a lower incentive payment in consideration of the likelihood of reduced demand charges.

The Agreement states: "The Company shall have the right to select and reject Program participants (Residences) at its sole discretion based on criteria the Company considers necessary to ensure the effective operation of the Program. Selection criteria may include, but will not be limited to, energy usage..." (Agreement, Availability, p.2) In spite of this language in the Agreement and notwithstanding that the Company normally selects participants in the Schedule 81 program based in part on historical energy usage, 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 notes that according to the Definitions section of the Agreement "Cycling Events occur during a four hour period between 3:00 p.m. and 7:00 p.m. ..." (Agreement, p. 1), while the Program Description (p. 3) states: "A Cycling Event may occur over a continuous 4-hour period or may be segmented throughout the day at the Company's discretion in order to optimize available resources." In its explanation of this discrepancy, Idaho Power said that the 3:00 p.m.

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<sup>3</sup> The Application mentions approximately 1,100 Base houses, but Idaho Power's 6/5/08 e-mail response suggests that 850 occupied homes might eventually participate in the Agreement. In a 6/20/08 e-mail response to Staff's 6/18/08 query, Idaho Power provided data showing that the Air Force Base's 15-minute peak demands for June, July and August of 2006 and 2007 occurred consistently between 2:30 p.m. and 4 p.m., which generally coincides with the times that Idaho Power says it typically schedules AC cycling events.

to 7:00 p.m. reference was intended as “typical” practice, rather than as a restriction. Staff does not know if the Air Force Base’s understanding of cycling events is the same as Idaho Power’s.

## CONCLUSION AND RECOMMENDATIONS

The Application did not include data or analysis to demonstrate that this Agreement will be cost-effective from the perspective of all Idaho Power customers. As previously noted, in response to a Staff query, Idaho Power acknowledged that it did no such analysis. Staff is aware that in 2005 the Company reduced the monthly credit for Schedule 81 participants by \$3 per month (from \$10 to \$7) to enable that AC cycling program to be cost-effective, while maintaining sufficiently high participation.<sup>4</sup> 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 believes prudent program management requires not only that programs be cost-effective, but that they be as cost-effective as practicable. The Company does not appear to have thoroughly evaluated the necessity of extending the same \$7/month/house incentive, said to be cost-effective for the residential program, to the Air Force Base, which will likely also benefit from substantial demand charge reductions.

Staff has some misgivings about Idaho Power’s apparent lack of thorough pre-implementation analysis of the Agreement. However, in its June 5 response to a Staff question the Company did state: “The initial installation [of AC load control devices] would be at approximately 100 homes. Once the [Air Force Base] is comfortable with how the program operates, there would be approximately 750 more occupied homes that could be included in the program.” 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 believes that the lack of sub-metering at individual Air Force Base homes may increase the difficulty and uncertainty of the Company’s post-100 home analysis.

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<sup>4</sup> In IPC-E-04-27 the Company’s Application said that the proposed Schedule 81’s benefit cost ratio with a \$7 credit was expected to be just 1.07 by the 10<sup>th</sup> year and increase to 1.42 over a 30-year period.

Nevertheless, Staff suggests this Application is not the appropriate case for prudence 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.

Respectfully submitted this 16<sup>th</sup> day of July 2008.



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Weldon B. Stutzman  
Deputy Attorney General

Technical Staff: Lynn Anderson

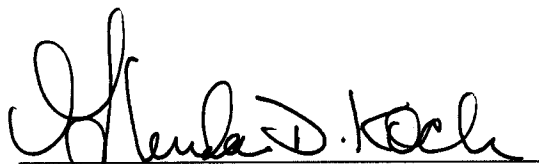
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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 16<sup>th</sup> DAY OF JULY 2008,  
SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE  
NO. IPC-E-08-12, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE  
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SECRETARY

CERTIFICATE OF SERVICE