

# BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF )  
 IDAHO POWER COMPANY FOR ) CASE NO. IPC-E-09-05  
 AUTHORITY TO REVISE THE ENERGY )  
EFFICIENCY RIDER, TARIFF SCHEDULE 91 ) ORDER NO. 30814

On March 13, 2009, Idaho Power Company filed an Application for authority to increase its Energy Efficiency Rider, Tariff Schedule 91, from 2.5% to 4.75% of base revenues effective June 1, 2009. The Energy Efficiency Rider is a means for Idaho Power to fund most of its demand-side management (DSM), or energy efficiency, programs. The Rider, initially approved in 2002 to collect 0.5% of base revenues, was implemented as a \$.30-per-month charge to residential customers and a cents-per-kilowatt hour charge for all other customer classes. Irrigation customer charges were capped at \$15.00 per month per meter. In 2005, the Commission approved an increase in the Rider to 1.5% of base revenue applied uniformly to all customer classes, with residential charges capped at \$1.75 per month per customer and irrigation charges capped at \$50.00 per meter per month. The current Rider, in effect since June 1, 2008, is 2.5% of base revenue, with no caps for any customer class.

On April 10, 2009, the Commission issued a Notice of Application and Notice of Modified Procedure establishing a period for interested parties to file written comments. Order No. 30778. Written comments were filed by the Commission Staff, the Idaho Irrigation Pumpers Association, Inc., and the Northwest Energy Coalition – all in support of the proposed increase in the Rider – and by several residential customers of Idaho Power, all but one of whom oppose an increase in the Rider. By this Order, the Commission approves Idaho Power's Application to increase the Energy Efficiency Rider from 2.5% to 4.75% of base revenues.

## The Application

The Rider currently collects about \$17.4 million per year to support Idaho Power's DSM programs. If increased to a 4.75% Rider effective June 1, 2009, the Company forecasts Rider revenues of \$27.3 million in 2009, and \$33.2 million in 2010 and in 2011, for a total of \$93.7 million over the three-year period. The Company's Application states it anticipates DSM program expenditures to be \$29.7 million in 2009, \$29.5 million in 2010 and \$31.8 million in 2011; a total of \$91.0 million. Updated projections, however, show higher expenditures than

stated in the Company's Application. When Idaho Power filed its Application on March 13, it anticipated that costs for the Irrigation Peak Rewards program would increase from \$1.4 million in 2008 to \$7.2 million in 2009. The Company now estimates that this program will cost \$10.2 million in 2009.

By the end of 2008 the Rider-funded account had a deficit balance of \$3.9 million. As initially stated in Idaho Power's Application, the sum of 2009-2011 projected expenses and last year's deficit balance is \$94.9 million. If the Rider is increased as the Company proposes, Idaho Power projects the deficit in the Rider account will be \$1.2 million at the end of 2011.

Idaho Power included with its Application its *Demand-Side Management 2008 Annual Report*. Exhibit No. 1. This Report provides information regarding the Company's DSM programs, including customer participation, costs and funding sources, energy and demand savings, benefit/cost ratios, program histories, 2008 activities, and 2009 strategies. Idaho Power provides cost-effectiveness metrics for each of its programs in the detailed program descriptions in the 2008 DSM Report, as well as in Appendix 4 of the Report, which also provides a year-by-year history of program participation, costs and benefits. According to this Report, each of Idaho Power's major DSM programs is expected to produce more beneficial value in energy savings and peak load reductions over time than the program's cost. Idaho Power also completed post-implementation program evaluations for many of its programs and has used these evaluations to both modify programs and to verify their cost-effectiveness.

### **The Written Comments**

In its comments, Staff identified the Rider-funded programs, expenses for 2008 as stated by Idaho Power in its DSM Report, and recently updated projected expenses for 2009. Most programs are expected to have higher participation and costs in 2009 than in 2008, while a few are expected to decrease. Staff noted that projecting precise future DSM expense levels is difficult because estimates of future DSM expenses are subject to variables such as future integrated resource plans' (IRP) identification of cost-effective DSM and willingness and ability of customers to participate in new and existing programs. Staff Comments, pp. 2-3.

Staff projected 2009 DSM expenses to be \$32.5 million, nearly \$3 million higher than shown in the Company's Application and exhibits. The discrepancy results from updated projections provided by Idaho Power and is primarily due to greater-than-anticipated participation in the recently revised Irrigation Peak Rewards program. The most significant

revisions to this program were the addition of a dispatchable irrigation pump interruption and increased financial incentives for participation in this option. The \$8.8 million anticipated increase for this program represents nearly two-thirds of the \$13.7 million expected increase for the total portfolio of Rider-funded programs from 2008 to 2009. Staff Comments, Attch. A. Staff expects the Irrigation Peak Rewards program, as modified, is capable of reducing peak loads by about 200 megawatts (MW). Staff Comments, p. 3.

Staff reviewed the proposed funding level and supports Idaho Power's request to increase its Energy Efficiency Tariff Rider from the current 2.5% of base revenues to 4.75% of base revenues. Staff recognized, however, that the proposed increase may be insufficient to both fund on-going DSM expenses and recover the current Rider balance deficit. To the extent the 4.75% Rider proves to be insufficient, Staff recommended other funding alternatives be considered, such as recovering some DSM expenses from base rates as is currently the case for low-income weatherization. Another alternative is to capitalize, rather than expense, some DSM costs. Staff Comments, p. 5.

The Northwest Energy Coalition also supports Idaho Power's proposal to increase the Rider to 4.75% of base revenues, although the Coalition believes the increase "is insufficient to capture all the cost-effective energy savings potential in Idaho Power's service territory and to operate robust demand-response programs to reduce peak generation resource needs." Coalition Comments, p. 1. The Coalition noted that "using electricity more efficiently is the quickest and least-cost approach to meeting customers' power needs" because it reduces customers' bills and reduces loads during peak periods when Idaho Power's system is most stressed. *Id.* The Coalition expressed concern, however, that a majority of additional Rider revenue will be needed to pay for the expanded Irrigation Peak Rewards Program, the new commercial demand response program, and to pay the DSM program deficit. Coalition Comments, p. 3. The Coalition supports Idaho Power's request to increase rider funding, but recommended the Commission "increase the rider level beyond 4.75 percent to allow for increases in core efficiency program budgets and additional investments in NEEA [Northwest Energy Efficiency Alliance]." Coalition Comments, p. 4.

The Idaho Irrigation Pumpers Association, Inc. (Irrigators) filed comments in support of Idaho Power's proposed increase in the Rider. The Irrigators recognize that a large portion of the increases in the Company's DSM expenditures relates to the expansion of the Irrigation Peak

Rewards Program, but stated that “the new program is expected to increase the avoided summer peak demand under the program from the 35 MW that was realized in 2008 to approximately 230 MW by 2011.” Irrigators Comments, p. 1. The Irrigators noted the “avoided summer peak demand under the Peak Rewards Program or the A/C Cool Credit benefits the whole system by avoiding or deferring the acquisition of other higher cost system resources.” Irrigators Comments, p. 2.

Several members of the public filed written comments, all but one opposing an increase in the Energy Efficiency Rider. The customer expressing support conditioned it upon Rider funds “being spent in the most effective ways and that energy use is being reduced so as to keep the rates low because of reducing the need to build new generation and transmission [facilities].” Customers opposing a rate increase objected to other Company-proposed increases to pay for fixed cost adjustments (Case No. IPC-E-09-06) and for installation of advanced meters (Case No. IPC-E-09-07). One customer stated that if energy efficiency programs are successful, “I would expect Idaho Power to be DECREASING our rates due to the efficiencies they have already implemented per existing programs.” Another customer stated he had never participated in any conservation program, but had been paying into the Rider since its inception. This customer believes “each power user should pay for their own efficiency upgrade of its own facilities.”

### **Commission Discussion and Decision**

The most expensive electricity resources are additional generation, transmission and distribution facilities, regardless of whether the facilities are thermal, hydro, wind, solar or other alternatives. The least costly electricity resources are conservation and energy efficiencies achieved by customers on their own initiative using their buildings, appliances, lights, irrigation systems, and industrial processes more efficiently, thereby avoiding program administration costs. However, it is increasingly evident that without incentives most customers do not tend to use electricity as efficiently as rational economic theory suggests they should. This less-than-optimum efficiency is perhaps due to a combination of Idaho Power’s historically low electricity rates, lack of customer knowledge and related misconceptions about efficiency, and a perceived need for inordinately high implicit discount rates; that is, individuals and businesses often require much higher rates of return for energy efficiency investments than for competing, alternative investments.

The second least costly electricity resource is available when utilities prudently administer cost-effective programs that provide monetary incentives and education for customers to increase their efficiencies. Although administration of energy efficiency programs adds to utility costs, the programs can be cost-effective to the extent that the cash incentives and educational efforts result in customers improving their efficiencies beyond what they would do without such programs, and in amounts sufficient to cost-effectively recoup the administration costs. Prudently designed and managed programs are less costly than currently available supply-side resources. Appropriate post-implementation evaluations can be completed to show the actual cost-effectiveness achieved and be used to further improve ongoing programs. Idaho Power's own analyses, as well as regional and national analyses, show that there remain many efficiency programs that utilities or other entities can administer cost-effectively.

The Commission initiated the Energy Efficiency Rider in 2002 with a 0.5% Rider (Case No. IPC-E-01-13), increased it to 1.5% in 2005 (Case No. IPC-E-04-29), and to 2.5% in 2008 (Case No. IPC-E-08-03). By encouraging efficiency programs through relatively modest increases to the Rider, the Commission is delaying, or avoiding altogether, larger rate increases necessitated by Idaho Power's investment in new generation resources. Cost-effective DSM, including energy efficiency programs and load management programs, helps customers control their utility bills, reduces the need for higher-cost, supply-side resources, and increases system reliability. As can be seen by the DSM program detail, all customer classes are receiving benefits from Idaho Power's DSM programs. Precise comparisons between customer classes of DSM Rider revenue collected program dollars spent and energy savings realized are complicated by several factors, including imprecise allocation of NEEA savings and by the peak load savings goals of the air conditioning cycling and irrigation scheduling programs. Nonetheless, costly supply-side alternatives can be, and have been, avoided by customers using existing electricity resources more efficiently.

Based on the record, the Commission has determined that it is reasonable and appropriate to approve an increase in the Energy Efficiency Rider from 2.5% of base revenues to 4.75% of Idaho Power's base revenues for its Idaho service territory. Rate increases are never popular and are especially unwelcome in difficult economic times. However, the information provided shows that energy efficiency programs have been effective in creating more efficient use of electricity by customers, and in reducing the peak demand on Idaho Power's system.

These results mean that higher rates to support construction of new generating facilities have been delayed or avoided altogether. Of course, approving an increase to the Rider to fund specific energy efficiency programs does not constitute a determination that the program expenditures are reasonable and prudent. Idaho Power recently filed an Application for a prudency determination on past Rider-funded programs (Case No. IPC-E-09-09), and similar reviews will be necessary to ensure the programs achieve satisfactory and measurable results.

### **ORDER**

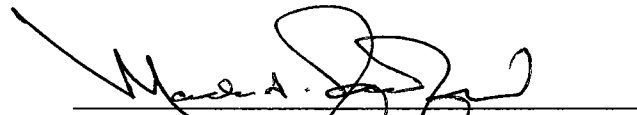
IT IS HEREBY ORDERED that the Application of Idaho Power Company for authority to revise the Energy Efficiency Rider, Tariff Schedule 91, to increase the Rider to 4.75% of revenues, is approved effective June 1, 2009.

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.

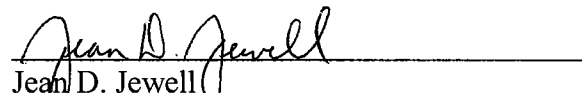
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 29<sup>th</sup>  
day of May 2009.

  
JIM D. KEMPTON, PRESIDENT

  
MARSHA H. SMITH, COMMISSIONER

  
MACK A. REDFORD, COMMISSIONER

ATTEST:

  
Jean D. Jewell  
Commission Secretary

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