

WELDON B. STUTZMAN
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0318
IDAHO BAR NO. 3283

RECEIVED
2009 MAY -1 AM 11:23
IDAHO PUBLIC
UTILITIES COMMISSION

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-09-5
TO REVISE THE ENERGY EFFICIENCY)	
RIDER, TARIFF SCHEDULE 91)	
)	COMMENTS OF THE
)	COMMISSION STAFF
)	

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. 30778 on April 10, 2009, submits the following comments.

BACKGROUND

On March 13, 2009, Idaho Power Company filed an Application for Commission approval of an increase to 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 Commission-approved means for Idaho Power to fund most of its demand-side management (DSM), or energy efficiency, programs. The Rider as initially approved in 2002 was designed to collect 0.5% of base revenues and was implemented as a \$0.30 per month charge to residential customers and a cents-per-kilowatt hour charge for all

other customer classes, with irrigation customer charges 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 Commission-approved Rider is 2.5% of base revenue, with no caps for any customer classes.

The current Rider, in effect since June 1, 2008, collects about \$17.4 million per year for Idaho Power's DSM programs. Exhibit No. 2 filed with the Application assumes a 4.75% Rider effective June 1, 2009, to forecast 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 that DSM program expenditures for 2009 are expected to be \$29.7 million in 2009, \$29.5 million in 2010 and \$31.8 million in 2011, for a total of \$91.0 million.¹ At the end of 2008 the Rider account had a deficit balance of \$3.9 million. The sum of 2009-2011 projected expenses and last year's deficit balance is \$94.9 million versus \$93.7 million of projected Rider revenue if the Rider is increased to 4.75% effective June 1, 2009, leaving a projected Rider deficit of \$1.2 million at the end of 2011 (as shown in Table II of the Application's Exhibit No. 2).

IDAHO POWER'S DEMAND-SIDE MANAGEMENT (DSM) PROGRAMS

Mr. Timothy Tatum's testimony submitted with the Application included Idaho Power's *Demand-Side Management 2008 Annual Report* as Exhibit No. 1. This Report contains a wealth of 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.

Staff's Attachment A lists Idaho Power's Rider-funded programs, expenses for 2008 per the above described 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. As Mr. Tatum explained on page 19 of his testimony, future DSM expense projections 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

¹ In Idaho Power's response to Staff Audit Request No. 4, the Company said it now expects its 2009 Rider-funded DSM expenses will be \$32.7 million (vs. the Application's \$29.7 million estimate). The primary cause of this changed expectation is higher than anticipated participation in the revised Irrigation Peak Rewards program.

new and existing programs, all of which make projecting precise future DSM expense levels quite difficult.

It is noteworthy that the 2009 projected DSM expenses in Staff's Attachment A, totaling \$32.5 million, are nearly \$3 million higher than is shown on Mr. Tatum's Exhibit No. 2. The discrepancy is per updated projections provided by Idaho Power in response to an audit request 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. When Idaho Power filed its Application in this Rider case on March 13, it had anticipated that its costs for the Irrigation Peak Rewards program would increase from \$1.4 million in 2008 to \$7.2 million in 2009, but the Company now estimates that this program will cost \$10.2 million in 2009. As can be seen on Attachment A, the \$8.8 million dollar expected 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 now expects the Irrigation Peak Rewards program will be capable of reducing peak loads by about 200 megawatts (MW).

COST EFFECTIVENESS OF IDAHO POWER'S DSM PROGRAMS

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 in Idaho are expected in the long-run to produce more beneficial value in energy savings and/or peak load reductions than the programs cost, both from the total resource cost (TRC) perspective and from the utility cost (UCT) perspective.²

Idaho Power has completed post-implementation program evaluations for many of its programs and has used these evaluations to both modify programs and to verify their cost-

² The TRC perspective compares the value of avoided supply costs to the total of the utilities' DSM program administrative costs and the direct cost of the measure's labor and materials, including any costs incurred by customers. In the TRC, utility incentive payments are viewed as transfer payments and are ignored. The UCT perspective compares the value of avoided supply costs to the only the DSM costs incurred by the utility, including incentive payments to participants and non-incented customer costs are ignored. The UCT is a misnomer in that customers, not utilities, are ultimately the beneficiaries of programs that pass that cost-effectiveness test.

effectiveness. It is Staff's understanding that the Company is in various stages of completing similar evaluations for additional programs.

STAFF ANALYSIS

Staff supported Idaho Power's initiation of its 0.5% Rider and programs in 2002 (Case No. IPC-E-01-13), the 2005 Rider increase to 1.5% (Case No. IPC-E-04-29), the 2008 Rider increase to 2.5% (Case No. IPC-08-03), and supports this increase in the Rider to 4.75% of base revenues. Staff recognizes that rate increases are especially unpopular during hard economic times. However, Staff is also aware that even more expensive supply-side alternatives have been and will continue to be avoided to the extent that customers use existing electricity resources more efficiently. Cost-effective DSM, including energy efficiency programs and load management programs, is a significant resource that helps customers control their utility bills, reduces the need for higher-cost, supply-side resources, and increases system reliability.

The least costly electricity resource is customers increasing the efficiencies and efficient use of their buildings, appliances, lights, irrigation systems, and industrial processes without utility intervention and administration. Staff believes the second least costly resource is available when utilities or other entities prudently administer cost-effective programs that provide monetary incentives and educational opportunities for customers to increase their efficiencies. The most expensive resources are additional generation, transmission and distribution facilities, regardless of whether the generation facilities are thermal, hydro, wind, solar or other alternatives.

In spite of many years of utility DSM programs, it remains evident that most customers, left on their own, do not use electricity as efficiently as rational economic theory suggests they should. Continued less-than-optimum efficiency is probably due to a combination of Idaho Power's historically low electricity rates, lack of knowledge and misconceptions about efficiency, and a perceived need for inordinately high implicit discount rates, i.e. individuals and business often, if not usually, requiring much higher rates of return for energy efficiency investments than for competing, alternative investments. This may be due to a skewed perception of risk, misinformation, and/or other factors. Whatever the reasons, the result is that 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. Even though such administration creates additional costs, the programs can be cost-effective to the

extent that the cash incentives and/or educational efforts result in customers sufficiently 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 expected to be less costly than currently available supply-side resources and appropriate post-implementation evaluations should be completed to show the actual cost-effectiveness achieved and used to further improve on-going programs.

As can be seen by the past DSM program detail shown in Attachment A, all customer classes are receiving benefits from Idaho Power's DSM programs. Precise comparisons among customer classes of DSM Rider revenue collected, program dollars spent and energy savings achieved are complicated by several factors, including imprecise allocation of NEEA savings and by the peak load savings goals of air conditioning cycling and irrigation scheduling programs.

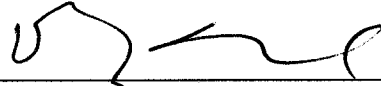
Staff has reviewed the Application's proposed funding level and supports Idaho Power's request to increase its Energy Efficiency Tariff Rider from the current 2.5% of base revenues to 4.75% of base revenues. However, Staff is cognizant that the proposed 4.75% may prove to be insufficient to both fund on-going DSM expenses and to recover the current Rider balance deficit. To the extent the 4.75% Rider proves to be insufficient, Staff believes it is reasonable to explore other funding alternatives in the future. Such alternatives may include recovering some DSM expenses from base rates, such as is currently the case for low-income weatherization. Another alternative is to capitalize, rather than expense, some DSM costs.

Staff has reviewed the Company's DSM program cost-effectiveness screening method and believes it is reasonable, although Staff suggests that Idaho Power not ignore perspectives other than the TRC and UCT. Staff continues to favor broader evaluations that include DSM cost-effectiveness from the additional perspectives of program participants and non-participants. It is not Staff's intent to validate the Company's cost-effectiveness calculations for any of its programs at this time, as such validation and additional review occurs during the course of a DSM prudency review.

STAFF RECOMMENDATION

Staff recommends approval of the Company's request to increase the Energy Efficiency Rider, Tariff Schedule 91, from 2.5% to 4.75% of base revenues effective June 1, 2009.

Respectfully submitted this 1st day of May 2009.



Weldon B. Stutzman
Deputy Attorney General

i:\misc:comments\ipce09.5\sladebab comments

Idaho Power DSM Rider Expenses

	<u>Updated 2009</u>			
	<u>2008 Reported</u>	<u>Budgeted</u>	<u>% Change</u>	<u>\$ Change</u>
AC Cool Credit	2,922,985	3,341,588	14%	418,603
Attic Insulation Pilot	123,454	379,404	207%	255,950
Ductless Heat Pump Pilot		117,317	New Program	117,317
Lighting, residential	1,011,850	1,458,896	44%	447,046
Energy House Calls	448,992	313,710	-30%	-135,282
Energy Star Homes	294,579	342,669	16%	48,090
Heating & Cooling	466,094	704,066	51%	237,972
Home Products	245,219	580,641	137%	335,422
Home Weatherization Pilot	51,670	171,102	231%	119,432
Rebate Advantage	79,547	83,713	5%	4,166
Refrigerator Recycling		416,947	New Program	416,947
Residential Total	5,644,390	7,910,053	40%	2,265,663
Comm. Bldg. Effic.	1,006,025	857,588	-15%	-148,437
Comm. Demand Response		299,395	New Program	299,395
Easy Upgrades	2,922,340	3,408,958	17%	486,618
Holiday Lighting	28,782	51,467	79%	22,685
Small Comm. AC Cycling		301,781	New Program	301,781
Custom Efficiency	3,948,617	5,456,819	38%	1,508,202
Commercial/Indust. Total	7,905,764	10,376,008	31%	2,470,244
Irrigation Efficiency	1,878,960	1,564,439	-17%	-314,521
Irrig. Peak Rewards	1,373,855	10,186,954	641%	8,813,099
Irrigation Total	3,252,815	11,751,393	261%	8,498,578
NW Energy Eff. Alliance (NEEA)	894,913	890,871	0%	-4,042
Residential Educ.	142,969	153,335	7%	10,366
Commercial Educ.	69,059	115,729	68%	46,670
Distribution Effic.	135,788	0	-100%	-135,788
Local Efficiency	22,714	14,000	-38%	-8,714
Other Program Total	1,265,443	1,173,935	-7%	-91,508
Total Direct Programs (above)	18,068,412	31,211,389	73%	13,142,977
Indirect Program Admin.	811,863	1,332,041	64%	520,178
Total Rider-Funded Expenses	18,880,275	32,543,430	72%	13,663,155

2009 Projected Base Revenues and Rider Expenses

	<u>Order No. 30754</u>	<u>Updated 2009</u>	<u>Rider</u>	<u>Share of</u>	
	<u>Base Revenues</u>	<u>Rider Est.</u>	<u>Expense % of</u>	<u>Rider</u>	<u>Share of Base</u>
		<u>Expenses</u>	<u>Base Rev.</u>	<u>Expenses</u>	<u>Revenue</u>
Residential	\$ 327,626,707	\$ 7,910,053	2.4%	24%	47%
Commercial/Industrial	\$ 290,891,988	\$ 10,376,008	3.6%	32%	42%
Irrigation	\$ 81,668,308	\$ 11,751,393	14.4%	36%	12%
All Other, incl. Admin., NEEA		\$ 2,505,976		8%	
Updated Total for 2009	\$ 700,187,003	\$ 32,543,430	4.6%	100%	100%
Audit Req. No. 4 Update		\$ 32,700,000			
Note: Residential DSM above excludes \$1.4 million in base rates for low-income weatherization.					

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 1ST DAY OF MAY 2009, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-09-05, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

LISA D NORDSTROM
BARTON L KLINE
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-MAIL: lnordstrom@idahopower.com
bkline@idahopower.com

TIMOTHY TATUM
JOHN R GALE
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-MAIL: ttatum@idahopower.com
rgale@idahopower.com



SECRETARY

CERTIFICATE OF SERVICE