NEIL PRICE
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0314
IDAHO BAR NO. 6864

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5918

Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR AN ORDER DESIGNATING THE ENERGY EFFICIENCY RIDER FUNDS SPENT BY THE COMPANY DURING 2008-2009 AS PRUDENTLY INCURRED EXPENSES.	**CASE NO. IPC-E-10-09** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Neil Price, Deputy Attorney General, and in response to the Notice of Modified Procedure in Order No. 32038 issued on July 28, 2010, submits the following comments.

BACKGROUND

On March 16, 2010, Idaho Power Company filed an Application seeking an Order confirming that the Company's expenditures of $50.7 million in energy efficiency rider funds in 2008 and 2009 were prudently incurred. In its Application, Idaho Power stated it currently offers 16 energy efficiency programs, 3 demand response programs, and several educational initiatives designed to promote energy efficiency in Idaho. The Company asserted that it's annual energy savings from efficiency activities increased by 62% from 2007 to 2009, representing a first-year

savings of 140 Gigawatt hours (GWh) in 2008 and an additional 148 GWh in 2009. The Company also reported that its demand-side management (DSM) programs reduced its load by 48 MW in 2007, 61 MW in 2008, and 218 MW in 2009.

Idaho Power's 2008 and 2009 Demand-Side Management Reports state that these programs are providing a cost-effective resource to customers and the Company. In 2009, all energy efficiency programs but one are said to have produced savings with benefit/cost (B/C) ratios greater than 1.0 when calculated from a total resource cost (TRC) perspective, a utility cost (UCT) perspective, and a participant cost perspective. The one exception is the small Holiday Lighting program ($33,930 utility cost), which although reportedly cost-effective from the UCT and participant perspectives (B/C ratios of 1.6 and 1.2, respectively), was not TRC cost-effective with a 0.85 B/C ratio.

ANALYSIS

As indicated by Idaho Power's Application in this case and more directly shown by Appendix 4 in its Demand-Side Management 2009 Annual Report, the Company's DSM expenditures have steadily increased from about $2 million in 2002 to about $20 million in 2008 and nearly $34 million in 2009. More than 90% of the Company's funding for DSM is derived from its Idaho Energy Efficiency Tariff Rider (DSM Rider), which is the subject of the Application's request for a prudency determination. The benefits of these expenditures, in addition to the direct bill reductions enjoyed by DSM program participants, are the avoided supply-side costs that would otherwise be necessary for generation and transmission resources sufficient to meet a larger load requirement by customers. Appendix 4 of the 2009 DSM Report states that first-year energy savings from DSM programs increased from less than 2.0 average megawatts (aMW) or nearly 17 million kilowatt-hours (kWh) in 2002 to nearly 17 aMW or 148 million kWh first-year savings in 2009. The Report's Revised Supplement 1, Cost Effectiveness, lists energy efficiency measures as having widely varying average lives ranging from three years for furnace modifications to 40 years for insulation in ceilings and walls.

In addition to energy savings, the 2009 DSM Report claims that peak demand savings increased from near zero in 2002 to 236.6 megawatts (MW) in 2009. Peak demand savings, while generally not resulting in significant energy savings, reduce the Company's need to build new peaking facilities such a gas-fired combustion generating plants and transmission lines.

Staff Attachment A shows Idaho Power's reported utility costs of $18.4 million for its energy efficiency programs in 2009 compared to its estimated present value of utility benefits of $88.8 million over the projected lives of the measures installed, resulting in a reported 4.8 benefit/cost ratio. Additionally, the peak demand reduction programs are projected to have average annual benefits of $22.3 million compared to average annual costs of $15.9 million, resulting in a 1.4 utility B/C ratio for those three programs. Utility net benefits transfer to its customers in the form of future rates being lower than they otherwise would be.

As could be expected, the tremendous ramp-up of Idaho Power's DSM efforts were not always executed flawlessly and, as explained by Staff in Case Nos. IPC-E-08-10 and IPC-E-09-09, the Company's post-implementation evaluations of programs did not keep up with overall program growth. Credible and transparent program evaluations are necessary for both optimizing program performance and for enabling the Company, its customers, and the Commission to have assurance that actual program results are as claimed. The Staff found that Idaho Power was not alone in its program evaluation deficiencies and, as a result, invited each of Idaho's three investor-owned electricity utilities to a DSM evaluation workshop convened in the fall of 2009. The result of this workshop was a Memorandum of Understanding (MOU) that was signed by the IPUC Utilities Division Director and representatives of each of the utilities in December 2009. A copy of the MOU was included with the Company's 2009 DSM Report in its Supplement 2, Evaluation. The Application contains language specifically addressing how the Company complied with the requirements of the MOU and the MOU's Attachment 1, which contained Staff's additional expectations regarding DSM cost-effectiveness and evaluations.

Staff Attachment B compares 2009 DSM Rider revenue from major customer classes to DSM program expenses and benefits accruing to those classes. While each of the major classes have DSM programs available to them, the residential program expenses and benefits appear disproportionately low compared to that class's DSM revenue contribution. A small portion of this disparity is mitigated by the fact that the Northwest Energy Efficiency Alliance's (NEEA) market transformation savings have benefitted residential customers disproportionately more than other customer classes. At least in the short-run, DSM program costs and benefits may be expected to be disproportional among customer classes. In the long-run, however, Staff expects utilities to find ways to pursue all cost-effective DSM while striving toward customer class equity. If necessary, this could be accomplished through changes in DSM funding distribution.

Staff has reviewed all expenditures charged to the DSM Rider Account for 2008 and 2009 and calculated the DSM rider account balance equivalent to that reported by the Company in the 2009 DSM Annual report. Below is a summary of the rider account balances for 2008 and 2009:

2008 Beginning Balance	**$ 1,483,075**
2008 DSM Funding plus Accrued Interest	13,454,883
2008 DSM Expenses	(18,880,276)
2008 Year End Balance	**$ (3,942,318)**
2009 Beginning Balance	**$ (3,942,318)**
2009 DSM Funding plus Accrued Interest	26,045,264
2009 DSM Expenses	(31,821,464)
2009 Year End Balance	**$ (9,718,518)**

During the course of its review, Staff discovered several questionable expenses charged to the DSM Rider Account. Those expenses include tee shirts, water bottles, multiple purchases at Starbucks, and several individual meals purchased at local restaurants by local employees using Company credit cards (One Cards). Staff does not recommend an adjustment to the DSM rider balance at this time because any adjustment would be de minimus and would not have any material effect. However, Staff expects the Company to be good stewards of rate payer funds and strive to decrease the personal use of Company One Cards in the future. Staff will continue to review such expenditures in 2010 and will propose adjustments to the DSM rider balance as appropriate. Expenses that have been excluded from rates during general rate proceedings must also be excluded from the DSM tariff rider expenses. Staff expects the Company to properly verify the prudency of all meals, travel and other miscellaneous expenses during future DSM prudency reviews.

Staff notes that approximately $2.3 million in labor expenses have been charged to the DSM rider account during 2009. Staff is concerned that salary and wage increases for DSM positions are automatically recovered through the DSM rider regardless of whether or not those increases are approved in a general rate proceeding. The apparent across-the-board salary range increase of 2.5% for nearly all DSM positions from July 2009 to August 2010 seems unwarranted given general economic conditions. Staff has opposed any and all salary and wage increases for 2010 for other utilities serving in Idaho. The 2.5% increase given to Idaho Power employees is excessive compared to the consumer price index (CPI). Staff recognizes that

review of salary increases during DSM prudency reviews that occur outside of general rate cases creates an unanticipated problem, which Staff may need to address in future proceedings.

As of this writing the Commission has received comments from at least 13 Idaho Power customers regarding the Application. Nine of those customers expressed opposition to the DSM surcharge and/or to Idaho Power being the administrator of those funds. Two customers supported the DSM programs. Two other customers' comments were more relevant to electricity rate levels and rate design than to the DSM programs. In addition, since 2008 at least 29 other customers have inquired about Idaho Power's DSM programs and the surcharge to fund them. Most of these customers do not like paying the surcharge. However, the Application in this case is not a rate application for future funding, but instead is a request for a determination that past expenses were prudently incurred. It is important for customers to understand that the Commission has required Idaho Power to provide cost-effective DSM programs that will reduce the Company's future costs of providing electricity to its customers. Absent demand-side efforts to improve energy efficiency and reduce peak load, the Company will be forced to invest in more costly supply-side generation and transmission resources and, as a result, retail electricity rates would increase more than they otherwise would.

Overall, the Staff believes Idaho Power's DSM efforts in 2008 and 2009 were generally prudent and cost-effective. The Company has not yet achieved all goals addressed by the previously discussed MOU and Staff's Attachment to it, but appears to be on a reasonable track toward those goals. Because the MOU agreement was not reached until the end of 2009, it contained language indicating Staff would allow reasonable leniency for achieving the MOU goals through 2009. Nevertheless, Staff's review of the DSM programs in this case has resulted in identification of a few issues, some of which are briefly discussed below.

-- Separation between DSM evaluation and implementation. Organization of Idaho Power's DSM employees appears to be essentially unchanged from July 2009 to August 2010. Although not specifically addressed in the December 2009 MOU or Staff's Attachment to it, Staff believes inherent conflicts of interest result from DSM evaluation responsibilities being placed under the direction of the Customer Research and Analysis Leader, who reports to the same Manager of Customer Service Relations & Energy Efficiency (Manager) as do the two Energy Efficiency Program Leaders who head the program implementation teams. The conflict of interest is enhanced by the Manager having the ultimate responsibility of deciding which

programs will be implemented – obviously, there is a conflict of interest in having prior decisions validated by post-implementation evaluation results.

-- Net-to-Gross (NTG). Net-to-gross adjustments to program savings primarily consists of removing the savings of program participants who would have achieved those savings even without the program. NTG can also adjust program savings for non-participant "spillover." One example of an unbelievable NTG ratio assumption is for the 100% NTG Idaho Power assumed for calculating the cost-effectiveness of its Custom Efficiency program. In reviewing confidential files, Staff found examples of participants who had already started their own efficiency efforts, but were able to later parse off some areas in order to be eligible for incentive payments from Idaho Power. Staff believes that 100% NTG for this large program results in an overstatement of its cost-effectiveness. In its defense, Idaho Power's Revised Cost-Effectiveness Supplement 1 to its 2009 DSM Report stated that Company believes there is "considerable spillover" in this program and, to its credit, it said that it completed a sensitivity analyses for Custom Efficiency that showed the program to be cost-effective from the TRC perspective down to 30% NTG. Clearly, NTG is an important program evaluation issue for which having a better understanding will help improve both program performance and credibility of reported benefits.

-- Inconsistent record-keeping. Again, in Staff's review of Custom Efficiency's confidential files, some inconsistencies in record-keeping seemed a little out of place for these very large projects totaling $6.1 million of utility costs in 2009.

-- Incentives being paid for projects prior to installation dates. For example, of the more than 1,900 Easy Upgrades projects for which incentives were paid in 2008 and 2009, about 3.5% had incentive payment dates that preceded the listed installation dates. Payment of incentives prior to installation of measures is contrary to program standards.

-- Continuing to offer incentives for non-cost-effective measures. For example, there are a few measures in the otherwise cost-effective Easy Upgrades program that are clearly not cost-effective with TRC benefit/cost ratios near or below 0.5. Idaho Power's explanation is that these few measures comprise less than one percent of incentives paid with DSM rider funds, that they were new measures in 2009, and that they will be reviewed prior to 2011 and removed from the program if they are still found to not be cost-effective. The Company further explained that it has been advised by customers, contractors, and company customer representatives to not change this program for two years in order to promote participation and provide consistency. Nevertheless, it is at least questionable for incentives to remain in place for even one year after

measures or programs have been discovered to be clearly not cost-effective, regardless of the relative market size of the measures or the desire for program consistency by people who directly benefit from continuation of non-cost-effective measures.

-- Possibly too few verifications of installations. For example, verification of Easy Upgrade installations dropped from 6.6% in 2008 to just 1.7% in 2009. In addition to hampering future program evaluation efforts, verification rates that are too low may invite fraud as well as make fraud or other problems more difficult to detect.

-- Less than optimal target marketing. For example, one of the key criteria for direct-mail promotions of the barely cost-effective AC Cool Credit (aka AC Cycling) program is that potential participants have used at least 500 kWh during their most recent July billing period. More cost-effective targeting could have been accomplished by comparing July bills to May bills, thus eliminating costs of multiple direct mail promotions annually for the many thousands of customers who heat their water with electricity or who otherwise have year round electricity use above 500 kWh/month, but who lack central air conditioners necessary to be eligible for the program. Idaho Power's brochure *Practical Ways to Manage Your Electricity Bill* lists electric water heaters as typically using 500 kWh/month and all other typical uses of electricity, excluding air conditioning and heating, as using an additional 500-600 kWh.

-- Possible continued evaluation deficiencies for some programs. It is not clear to Staff what the Company's plans are for future evaluations of its Irrigation Efficiency, Lighting Efficiency, and Weatherization Assistance for Qualified Customers (aka Low-Income Weatherization). Staff will continue to monitor those efforts, as well as all others. (Staff recognizes that the Weatherization program is not funded from the rider, but our intent is to review all DSM programs and costs during every prudency review process.)

CONCLUSION AND RECOMMENDATION

As previously stated and notwithstanding the issues described above, the Staff believes Idaho Power's overall DSM efforts in 2008 and 2009 were generally prudent and cost-effective. While the Company has not yet achieved all goals addressed by the previously discussed MOU and Staff's Attachment to it, Staff believes the Company is on a reasonable track toward meeting those goals and addressing progress in the issues previously described.

Staff recommends that Idaho Power's energy efficiency rider expenditures of $18,880,276 in 2008 and $31,821,464 in 2009 be determined prudent by the Commission.

Respectfully submitted this 13th day of September 2010.

for Neil Price
Deputy Attorney General

i:/umisc/comments/ipce10.9npla comments.doc

Idaho Power Company's 2009 Demand-Side Management Utility Benefits and Costs

Energy Efficiency Programs	Avg. Life	Utility Benefit (net present value of avoided costs)	Utility Cost	Net Benefit (Benefit-Costs)	Utility B/C Ratio
Ductless Heat Pump	18	$ 466,435	$ 142,004	$ 324,431	3.3
Energy Efficient Lighting	5	4,380,771	1,207,366	3,173,405	3.6
Energy House Calls	20	820,660	569,594	251,066	1.4
Energy Star Homes Northwest	25	644,080	355,623	288,457	1.8
Heating & Cooling Efficiency	18	1,453,211	478,373	974,838	3.0
Home Improvement	25	1,863,034	321,140	1,541,894	5.8
Home Products	15	1,338,878	511,313	827,565	2.6
Rebate Advantage	25	251,248	49,525	201,723	5.1
See Ya Later Refrigerator	8	595,133	305,402	289,731	1.9
Weatherization Assistance	25	4,838,818	1,294,862	3,543,956	3.7
Weatherization Solutions	25	240,800	162,995	77,805	1.5
Building Efficiency, Commercial	12	3,626,854	1,327,128	2,299,726	2.7
Easy Upgrades, Commercial	12	20,754,877	3,325,505	17,429,372	6.2
Holiday Lighting, Commercial	10	55,616	33,930	21,686	1.6
Custom Efficiency, Com./Indust.	12	38,638,074	6,061,467	32,576,607	6.4
Irrigation Efficiency		8,816,577	2,293,896	6,522,681	3.8
Total Energy Efficiency		**$ 88,785,066**	**$ 18,440,123**	**$ 70,344,943**	**4.8**

Peak Demand Programs	Utility Benefit	Utility Cost	Net Benefit (Benefit-Costs)	Utility B/C Ratio
AC Cool Credit (20 yr. projected)	$ 34,837,294	$ 32,016,033	$ 2,821,261	1.1
Commercial Flex Peak (10 yr. proj.)	$ 26,492,787	$ 23,823,632	$ 2,669,155	1.1
Irrigation Peak Rewards (10 yr. proj.)	$ 178,888,795	$ 119,099,366	$ 59,789,429	1.5
Avg. Annual Peak Demand , Projected	$ 22,280,023	$ 15,893,101	$ 6,386,921	1.4

Note: Appendix 3 in the 2009 DSM Report shows total Peak Demand program costs of $13,635,952 in 2009.

Sources: IPC's 2009 Demand Side Management Report and Revised Supplement 1, Cost Effectiveness

Attachment A
Case No. IPC-E-10-09
Staff Comments
09/13/10

Idaho Power's 2009 Demand Side Management (DSM) Customer Sector Comparisons

Most data from Table 2 & Appdx. 3 in IPC's 2009 DSM Annual Report	MWh Sales	Revenue from DSM Rider (millions)	DSM Expenses (millions)	MWh/year Energy Savings	MW Peak Load Shed	Share of MWh Sales	Share of Rider Revenue	Share of DSM Direct Expenses	Share of Energy Savings	Share of Peak Savings
Residential	5,294,557	$ 12.3	$ 8.9	25,980	40	38%	46%	27%	18%	17%
Commercial	3,867,536	$ 6.9	$ 5.2	41,460	27	28%	26%	16%	28%	11%
Industrial	3,136,405	$ 3.7	$ 6.1	51,836	7	22%	14%	18%	35%	3%
Irrigation	1,649,758	$ 3.7	$ 11.9	13,158	164	12%	14%	36%	9%	69%
Market Transformation (NEEA)		$ -	$ 1.0	15,813				3%	11%	0%
Other Activities		$ -	$ 0.0	10				0%	0%	0%
Total	13,948,256	$ 26.6	$ 33.1	148,257	237	100%	100%	100%	100%	100%

Attachment B
Case No. IPC-E-10-09
Staff Comments
09/13/10

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 13TH DAY OF SEPTEMBER 2010, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-10-09, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

LISA D NORDSTROM
DONOVAN E WALKER
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-MAIL: lnordstrom@idahopower.com
dwalker@idahopower.com

DARLENE NEMNICH
GREG SAID
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-MAIL: dnemnich@idahopower.com
gsaid@idahopower.com

BENJAMIN J OTTO
ID CONSERVATION LEAGUE
PO BOX 844
BOISE ID 83702
E-MAIL: botto@idahoconservation.org

ERIC L OLSEN
RACINE OLSON NYE ET AL
PO BOX 1391
POCATELLO ID 83204
E-MAIL: elo@racinelaw.net

ANTHONY YANKEL
29814 LAKE ROAD
BAY VILLAGE OH 44140
E-MAIL: tony@yankel.net

PETER J RICHARDSON
GREGORY M ADAMS
RICHARDSON & O'LEARY
PO BOX 7218
BOISE ID 83702
E-MAIL: peter@richardsonandoleary.com
greg@richardsonandoleary.com

DR DON READING
6070 HILL ROAD
BOISE ID 83703
E-MAIL: dreading@mindspring.com

SECRETARY