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IDAHO PUBLIC UTILITIES COMMISSION

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October 22, 2010

**VIA HAND DELIVERY**

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

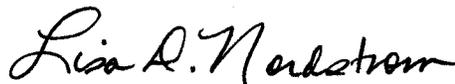
Re: Case No. IPC-E-10-27  
**IN THE MATTER OF IDAHO POWER COMPANY'S REQUEST TO MODIFY  
RECOVERY OF INCENTIVES PAID TO SECURE DEMAND-SIDE  
RESOURCES**

Dear Ms. Jewell:

Enclosed for filing please find an original and seven (7) copies of Idaho Power Company's Application in the above matter.

In addition, enclosed are nine (9) copies each of Ric Gale's and Darlene Nemnich's testimonies filed in support of the Application. One copy each of Mr. Gale's and Ms. Nemnich's testimonies have been designated as the "Reporter's Copy." In addition, a disk containing a Word version of the aforementioned testimonies is enclosed for the Reporter.

Very truly yours,

  
Lisa D. Nordstrom

LDN:csb  
Enclosures

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IDAHO PUBLIC  
UTILITIES COMMISSION

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER )  
COMPANY'S REQUEST TO MODIFY ) CASE NO. IPC-E-10-27  
RECOVERY OF INCENTIVES PAID TO )  
SECURE DEMAND-SIDE RESOURCES. ) APPLICATION  
\_\_\_\_\_ )

COMES NOW, Idaho Power Company ("Idaho Power" or "Company"), and in accordance with Idaho Code §§ 61-502, 61-503, and 61-524 and RP 052, hereby requests that the Idaho Public Utilities Commission ("IPUC" or "Commission") issue its order on or before March 15, 2011, accepting the Company's demand-side resources business model. To this end, Idaho Power also requests authorization to: (1) move demand response incentive payments into the Power Cost Adjustment on a prospective basis beginning June 1, 2011, (2) establish a regulatory asset for Custom Efficiency program incentive costs beginning January 1, 2011, and (3) change the carrying charge on the Energy Efficiency Rider from the customer deposit rate to the Company's

authorized rate of return. The Company does *not* request a change in customer rates at this time. In support of this request, Idaho Power states as follows:

### **I. BACKGROUND**

1. In the early 1990s, Idaho Power first adopted a focused, substantial and increasingly active approach to the development of demand-side resources with its customers. During the ten years from 1990 to 2000, Idaho Power operated approximately twelve programs in all customer sectors (plus several pilots) and initiated participation in Northwest Energy Efficiency Association (“NEEA”) in 1997. The Company spent just over \$41 million during those ten years and saved a cumulative 26 average megawatts. At that time, Idaho Power was in an energy deficit position. Therefore, the program focus was on purchasing energy efficiency resources; demand response programs were not implemented at that time.

2. As described more fully in the testimony of Mr. John R. Gale, energy efficiency measures implemented during that time period were treated for ratemaking purposes the same as supply-side resources. While the concept had merit, the model as then applied had a negative financial impact on the Company. The results of Case No. IPC-E-97-12 dealing with the cost recovery of these energy efficiency expenditures combined with the emerging electric industry restructuring phenomenon led to eventual dismantling of the Company’s energy efficiency effort. Under the restructuring paradigm, the market would be the provider of all needed resources, both demand and supply side. The dramatic impacts of the 2000-2001 Western Energy Crisis ultimately exposed the flaws in “the market will provide it” concept and set the Company on course

to reinvigorate its Integrated Resource Plan ("IRP") and rebuild its energy efficiency capability.

3. Following the Western Energy Crisis, both the Idaho Commission and the Company moved to restore and enhance the energy efficiency effort at Idaho Power. From a complete cold start, Idaho Power's energy efficiency and demand response programs (referred to herein as "demand-side resources" or "DSRs") have progressed to the point where the Company now has a robust suite of energy efficiency and demand response programs and is spending nearly 5 percent of its revenues on these activities. Among the successes are the institution of the Energy Efficiency Advisory Group, the Energy Efficiency Rider funding mechanism, the Fixed Cost Adjustment decoupling mechanism, the prudence Memorandum of Understanding, the energy efficiency incentive workshops, the build-out of a complete suite of programs for all customer classes, along with the growth in annual energy efficiency savings from 19,000 MWh in 2004 to 148,000 MWh in 2009, and the installation of demand response capacity of 290 MW in 2010.

4. Cost-effective demand-side resources are highly desirable in a carbon-constrained world. Idaho Power is uniquely positioned to optimize the communication and delivery of DSR programs. While most agree that the pursuit of DSR is a worthy endeavor, Idaho Power's current DSR business model is inferior to investments on the supply side. As set forth below and in the testimony accompanying this Application, Idaho Power recommends specific actions that can bring the DSR to an equal footing. A robust and healthy business model for energy efficiency will provide for the optimal

procurement of cost-effective demand-side resources and is a matter of good public policy.

## **II. DEMAND-SIDE RESOURCE BUSINESS MODEL**

5. Cost-effective DSR is Idaho Power's resource of choice – both from a cost standpoint and from an environmental perspective. The cleanest, most efficient resource portfolio is the one a utility does not have to build. The Company believes that demand-side resources should be pursued diligently and that funding should not unduly impede its acquisition. Otherwise, customers are left with the ultimately higher cost “pay me later” position when the Company is later forced to acquire higher cost resources to match customer loads.

6. Even though cost-effective energy efficiency is the resource of choice by virtually all stakeholders, demand-side resources are faced with the most challenging regulatory scrutiny for cost recovery. The challenges include elevated prudence evaluation standards, protracted proceedings, overcoming the fixed cost recovery disincentive, asymmetric risk and reward propositions, and no earnings opportunity thus far.

7. From a regulatory standpoint, successful DSR business activities require clear and achievable guidelines for prudence. There must be a timely recovery of out-of-pocket expenditures that appropriately recognizes the time value of money and does not negatively impact cash flow in a significant way. Economic disincentives to reduce load must be removed via better pricing, decoupling, or some other mechanism that does not strand fixed cost recovery. And finally, the Company must have the ability to

earn on the energy efficiency investments just like any other business activity in which the Company is engaged.

8. As enumerated in Mr. Gale's testimony, several important regulatory issues should be resolved in order to further the pursuit of cost-effective DSR. These include: (1) a more straightforward approach to prudence determination, (2) solidifying the Fixed Cost Adjustment mechanism, (3) optimizing Idaho Power's participation in third-party initiatives such as the NEEA, the Northwest Regional Technical Forum, the Integrated Design Lab in Idaho and other state and regional efforts to advance energy efficiency research and market transformation, (4) addressing the growing Energy Efficiency Rider negative balance (and its subset of issues), and (5) implementing a realistic earnings opportunity for Idaho Power for its investments in DSR.

9. To address these issues, Idaho Power will continue to advocate for its view of the proper regulatory/business model in existing forums and in new filings. New actions include proposals to address the growing Energy Efficiency Rider ("Rider") negative balance, including the proposals requested in this filing. A Rider with an extended negative balance breaks the symmetry of the mechanism and negatively impacts the Company's cash flow. The Rider balance is presently negative by more than \$16 million and has been negative since April 2008. The large growing balance reflects success associated with increasing programs, expenditures, and savings in DSR. However, continuing to increase the amount is problematic. The Company believes there is a more appropriate path that would allocate some of the expenses to more suitable alternatives for recovery. As discussed below and in the Direct Testimony of Darlene Nemnich, Idaho Power recommends: (1) moving demand

response incentive payments into the Power Cost Adjustment ("PCA") on a prospective basis beginning June 1, 2011, and (2) establishing a regulatory asset for Custom Efficiency program incentive payments through Commission order beginning January 1, 2011.

### **III. RECOVERING DEMAND RESPONSE INCENTIVES IN THE PCA**

10. Demand response programs have become a significant and mature resource for reducing the varying summer peaking needs on the Idaho Power system. Currently, the Company has three Demand Response programs: (1) the A/C Cool Credit Program, which provides summer peak reduction benefits by cycling participating residential customers' air-conditioning units, (2) the Agricultural Irrigation Peak Rewards Program, which switches off participating customers' irrigation pumps during times when additional system peak resources are needed, and (3) the FlexPeak Management Program, which reduces commercial and industrial load when called upon during system peak times.

11. In 2009, Idaho Power's three programs provided 218 MW of resources available to meet system peak needs. In 2010, preliminary estimates indicate that these programs reduced peak by approximately 290 MW. Demand response resources are selected similar to other generating resources in the IRP and are dispatched by system operators just like any other peaking resource used by the Company. Starting with the 2009 IRP, demand response resources were included in the Power Supply Planning model, AURORAxmp.

12. All costs for the demand response programs are presently recovered through the Rider. Currently, the Idaho Rider charge is 4.75 percent of base rates

applied to all customer groups. Idaho Power tracks the costs of its demand response programs by program and expense type. These cost categories include incentives, administrative costs, materials and equipment, marketing costs, labor, and evaluation.

13. Idaho Power requests authority to remove recovery of customer and demand-aggregator contractor incentive payments for all Company demand response programs from the Rider balancing account (Idaho rate schedule 91) and transfer these costs to the PCA for 100 percent recovery on a prospective basis. While the impact of this change will not be seen until next summer, the magnitude of the funds not collected through the Rider over the 2011 air-conditioning and irrigation season will significantly reduce the negative Rider balance. Table 2 of Ms. Nemnich's Exhibit No. 1 indicates demand response incentive payments are expected to be nearly \$13.7 million in 2011 and a similar amount in 2012.

14. Idaho Power recommends that all 2010 actual demand response program costs, even the incentive costs for reduced load for the summer peak season, continue to be recovered through the Rider. However, Idaho Power proposes to begin shifting the recovery of the demand response incentive costs to the PCA beginning with the Company's forecast of April 2011 through March 2012 power supply costs, currently expected to be approximately \$13.7 million. Idaho Power proposes to include these costs in the PCA in a manner that is consistent with the current PCA methodology. The Company would forecast Idaho demand response incentive payments just as it does for its forecast of fuel, purchased power, and surplus sales. This forecasted amount of demand response incentive costs would be included in PCA rates, effective June 1, 2011.

15. As part of a future filing, the Company intends to request that a normal or base level of expenses related to demand response incentives be placed into base rates. Then annually as part of the PCA case, the forecasted level of Idaho incentive payment expenses will be compared to the normal level included in base rates to determine the level of demand response cost recovery to be included in the PCA forecast. Any deviations between actual demand response incentive costs and forecasted costs will be included in the following year's PCA true-up.

#### **IV. CAPITALIZING ENERGY EFFICIENCY INCENTIVE PAYMENTS**

16. In addition to moving demand response incentive costs to the PCA, Idaho Power is proposing to change the method of recovering a portion of the energy efficiency program incentive costs. Currently, all energy efficiency incentive costs are recovered through the Rider balancing account. As explained in the testimonies of Mr. Gale and Ms. Nemnich, the Company is proposing to capitalize the direct incentive payments associated with the Custom Efficiency program to enable the Company to earn a return on a portion of its demand-side resource activities. The Company proposes to start booking incentive payments to a regulatory asset account beginning January 1, 2011. The balance in the account would be included in the Company's revenue requirement at the time of a future rate case and would be amortized over four years. The then-current Commission authorized rate of return would be applied as a carrying charge during the deferral period and the amortization period. This treatment will keep the selected demand-side resource assets on par with supply-side assets.

17. The Custom Efficiency program is a mature program that started in 2003 and has grown into the largest program in terms of megawatt-hour ("MWh") savings in

the Idaho Power portfolio. In 2008 and 2009, the Custom Efficiency program saved 41,059 and 51,836 MWhs, respectively. In 2009, this represented almost 40 percent of the total MWh savings on a system-wide basis for programs implemented by Idaho Power. Additionally, this program historically is one of the most cost-effective programs in the Idaho Power portfolio. Over the life of the program, Customer Efficiency has a high Utility Benefit/Cost Ratio of 5.37 and Total Resource Benefit/Cost Ratio of 2.05. In 2009 alone, the Customer Efficiency Total Resource Benefit/Cost Ratio was 3.56. Custom Efficiency incentive payments are estimated to be approximately \$5.2 million in 2011 and \$5.6 million in 2012 (Exhibit No. 1, Table 2). The investments made under Custom Efficiency tend to be in tangible assets (i.e., lighting upgrades and motor rewinds) and similar to physical plant except it is not owned by the Company, it is owned by the customer. The program's maturity, high benefit/cost ratio, and detailed verification process were major factors in the selection of this program for cost deferral and capitalization.

#### **V. RIDER CARRYING CHARGE**

18. Because of the large negative balance existing in the Rider and because it will take almost two years to work this balance down given the prospective nature of the Company's previously stated requests, Idaho Power requests that the Commission authorize the carrying charge on the remaining balance to reflect the Company's authorized rate of return (currently 8.18 overall rate of return with a 10.5 return on equity component) instead of the interest rate on customer deposits (currently 1.0 percent). Changing the current carrying charge is particularly important should the Commission decide against part or all of the Company's requests.

## **VI. IMPACT ON THE ENERGY EFFICIENCY RIDER**

19. Exhibit No. 1, Table 1, to Ms. Nemnich's testimony shows a three-year forecast of the Rider balance with current expected revenues and current forecast of demand-side resource expenditures. If neither of the Company's proposals is approved by the Commission, the estimated 2010 year-end negative balance of \$17,009,140 grows to a negative \$29,677,151 in 2012. Absent Commission approval of the two Company proposals, clearing the balance in one year would require a 7.5 percent Rider. The Rider percentage would have to increase from 4.75 percent to 6.6 percent in January 2011 for the balance to be zero by the end of 2012.

20. If the Commission implements the Company's two proposals, the 2010 negative Rider balance of \$17,009,140 is projected to shrink to a negative \$3,356,306 in 2011. In the middle of 2012, it is expected that this account will approach zero. Table 2 of Exhibit No. 1 reflects the impact of the two proposals.

## **VII. MODIFIED PROCEDURE**

21. Idaho Power requests this Application being processed under Modified Procedure, i.e., by written submissions rather than by hearing. RP 201, *et seq.* If, however, the Commission determines that a technical hearing is required, the Company stands ready to present testimony and support the Application in such hearing.

22. In support of this Application, Idaho Power has submitted the pre-filed direct testimony of Mr. John R. Gale and Ms. Darlene Nemnich. Mr. John R. Gale, Idaho Power's Senior Vice President of Corporate Responsibility, describes: DSRs' importance to the resource portfolio, why utilities are good delivery vehicles for DSR programs, the regulatory conundrum of approving DSR expenditures, the necessary

regulatory/business model for DSR, where the points of contention are among the Company and the various parties, and Idaho Power's plan to address these issues. Ms. Darlene Nemnich, Idaho Power's Senior Regulatory Affairs Analyst, sets forth the Company's proposals for changes in how demand response incentive costs are recovered and for changes in how some of the energy efficiency incentive costs are recovered.

23. The Company respectfully requests that the Commission issue its order on or before March 15, 2011, to allow sufficient time to prepare and process a power cost adjustment docket prior to June 1, 2011.

#### **VIII. COMMUNICATIONS AND SERVICE OF PLEADINGS**

24. Communications and service of pleadings with reference to this Application should be sent to the following:

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#### **IX. CONCLUSION**

25. For the reasons set forth above and in the testimony that accompanies this Application, Idaho Power respectfully requests that the Commission issue its Order on or before March 15, 2011, accepting the Company's demand-side resources business model. To that end, the Company specifically requests authority to: (1) move demand response incentive payments into the PCA on a prospective basis beginning June 1, 2011, (2) establish a regulatory asset for Custom Efficiency program incentive

costs beginning January 1, 2011, and (3) change the Rider Carrying Charge from the customer deposition rate to the Company's authorized rate of return.

DATED at Boise, Idaho, this 22<sup>nd</sup> day of October 2010.

  
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LISA D. NORDSTROM  
Attorney for Idaho Power Company