Office of the Secretary
Service Date
April 1, 2011

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AN INVESTIGATION OF APPROPRIATE COST RECOVERY MECHANISMS FOR IDAHO POWER'S ENERGY EFFICIENCY PROGRAMS	)))))	**CASE NO. IPC-E-10-27** **ORDER NO. 32217**

On October 22, 2010, Idaho Power Company filed an Application requesting that the Commission issue an Order "accepting the Company's demand-side resources business model." Application, p. 1. The Application sought authorization to adjust ways for the Company to recover the costs of some energy efficiency programs. More specifically, the Company proposed to (1) move certain demand response incentive payments into the annual 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. Application, p. 1.

Idaho Power identified several objectives with its Application, including addressing a growing negative balance in the Energy Efficiency Rider account, and implementing an opportunity for the Company to earn on its investments in the demand-side resource (DSR) programs. Application, p. 5. Currently, all costs for DSR programs are recovered through the Energy Efficiency Rider (Schedule 91), which is presently 4.75% of base rates. The Rider balance has been negative since April 2008, and is now negative by more than $16 million. Application, p. 5. The Company estimated the 2010 year-end negative balance of $17,009,140 in the Rider account will grow to a negative $29,677,151 in 2012.

Idaho Power requested authority to remove recovery of customer and contractor incentive payments for three demand response programs from the Rider balancing account to the PCA for 100% recovery on a prospective basis. Specifically, (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 customer irrigation pumps during times when additional system peak resources are needed; and (3) the Flex Peak Management program, which reduces commercial and industrial loads when called upon during system peak times. Application, p. 6. The Company stated demand response incentive payments for these programs are expected to be nearly $13.7 million in each 2011 and 2012. Application, p. 7. The Company proposed to include these costs in the PCA consistent with the current methodology. The Company would forecast demand response incentive payments to be included in PCA rates effective June 1, 2011. In a future filing, the Company would request that a normal or base level of expenses for incentive payments be placed into base rates. Each year as part of the PCA case, the forecasted level of payment expenses would be compared to the normal level included in base rates to determine the level cost recovery to be included in the PCA forecast. Deviations between actual demand response incentive costs and forecasted costs would be included in the following year's PCA true-up.

Idaho Power also proposed to change the method for recovering energy efficiency program incentive costs for a fourth DSM program currently recovered through the Rider. Specifically, the Company proposed to capitalize the direct incentive payments associated with the Custom Efficiency program to enable the Company to earn a return on this portion of its demand-side resource activities. The Company proposed to start booking these incentive payments to a regulatory asset account beginning January 1, 2011. Application, p. 8. The Company would include the balancing account in its revenue requirement in future rate cases with a four-year amortization period. The Custom Efficiency program began in 2003, and in 2008 and 2009, the program saved 41,059 and 51,836 MWh, respectively. The Company estimated Custom Efficiency incentive payments to be approximately $5.2 million in 2011 and $5.6 million in 2012. Application, p. 9.

The Company projected that if the Commission implements the two proposals, the 2010 Rider balance of negative $17 million would shrink to a negative $3,356,306 in 2011, and start reducing the negative balance in the Rider account. Application, p. 10. The Company expects the Rider balance account to approach zero in the middle of 2012. *Id.*

Finally, the Company also requested that the Commission authorize a carrying charge on the Energy Efficiency Rider. The Company expects it will take almost two years to eliminate the negative balance in the Rider account if the Company's proposals are implemented. The Company requested a carrying charge on the remaining balance, the same as the Company's authorized rate of return (currently 8.18 overall rate of return with a 10.5 return on equity component) rather than the interest rate on customer deposits, which currently is 1%. Application, p. 9.

On November 24, 2010, the Commission issued a Notice of Application and Notice of Intervention Deadline. Petitions to Intervene subsequently were filed by the Industrial Customers of Idaho Power; the Idaho Conservation League, Northwest Energy Coalition and Snake River Alliance (Conservation Parties); the Idaho Irrigation Pumpers Association, Inc.; and the Community Action Partnership Association of Idaho (CAPAI). On January 14, 2011, the Commission issued Procedural Order No. 32160 establishing a schedule for processing the case, including a settlement conference scheduled for February 7, 2011. All parties except the Idaho Irrigation Pumpers Association participated in the settlement conference. The parties subsequently proposed a new procedural schedule, anticipating that a settlement agreement would be filed with the Commission. Accordingly, on February 14, 2011, the Commission issued Procedural Order No. 32178 vacating the schedule set forth in Order No. 32160 and adopting a new schedule. The new schedule provided for the filing of comments and a hearing for oral argument on the proposed settlement agreement for March 30, 2011.

THE STIPULATION

Idaho Power filed the Stipulation on March 3, 2011, along with its Motion for Approval by the Commission. The Stipulation was signed by Idaho Power, Commission Staff, CAPAI, and the Conservation Parties. The Irrigation Pumpers Association did not participate in settlement discussions and did not sign the Stipulation, but did not oppose it. The Stipulation implements most of the Company's proposals, with modifications. The Stipulation would place recovery of incentive payments for three programs in the PCA, as Idaho Power proposed, but includes a provision to separate the DSM costs and allocate them to each customer class based on the amount that would have been recovered from each class through the Rider. The Custom Efficiency incentive payments would be capitalized as the Company requested, but with a seven-year amortization period instead of four. This regulatory asset would include a carrying charge equal to the Company's approved rate of return. Finally, the Stipulation provides that the carrying charge for the Rider deferral balance will not be increased from the 1% rate, equal to that on customer accounts, currently in place.

The Stipulation was opposed by the Industrial Customers. The Industrial Customers opposed the Stipulation in general, arguing that implementing the proposed changes is tantamount to increasing the Energy Efficiency Rider from 4.75% to 6.6%. The Industrial Customers believe "the proposal simply masks increased conservation expenditures, and thereby would authorize substantial additional rate recovery for demand-side programs from that currently authorized for Idaho Power." Reading Direct, p. 6. The Industrial Customers stated there is no compelling reason to reduce the negative deferral balance within a two-year period, and that the Stipulation leaves unanswered numerous questions that will need to be answered in Idaho Power's next rate case.

Idaho Power, Commission Staff, and the Conservation Parties identified reasons to support the cost recovery changes proposed in the Stipulation. The Conservation Parties stated that the Stipulation "provides a critical piece of regulatory support so that Idaho Power has the proper incentives to pursue cost-effective DSM." By changing the funding approach for some demand-side resource investments, the Conservation Parties believe they are better aligned with the business interests of the Company and the acquisition of lowest cost resources. Hirsh Direct, p. 2. The Conservation Parties note that the Commission has "steadfastly" directed Idaho utilities to pursue all cost-effective DSM programs. Accordingly, Idaho Power's DSM programs have flourished over the last seven years. The Conservation Parties believe the proposal establishes the proper regulatory structure to remove economic disincentives for Idaho Power to invest in DSM. Hirsh Direct, p. 2.

Staff supports the Stipulation as providing a balanced approach for the Company to recover DSM program costs. Staff believes it is appropriate for the Company to earn a return on some of its demand-side resources similar to its ability to earn a return on supply-side resources. Lobb Direct, p. 2. Staff noted that demand response programs that are viewed as capacity resources with a variable payment from year to year should be treated more like capacity-related supply-side resources with cost recovery through base rates and PCA true up. Lobb Direct, pp. 7-8. Once some DSM costs are moved to base rates, Staff believes they can be "more effectively evaluated and incorporated in overall customer rates as part of a general rate case." Lobb Direct, p. 8.

COMMISSION DISCUSSION

The Commission's Rules of Procedure direct the Commission's consideration of settlements submitted to it for approval. Rule 276 states that "the Commission is not bound by settlements." Instead, the Commission will "independently review any settlement proposed to it to determine whether the settlement is just, fair and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy." IDAPA 31.01.01.276.

First, the Commission recognizes and appreciates Idaho Power's commitment in recent years to improve its DSM programs, including the promotion of programs that provide direct incentives to customers to use energy efficiently and wisely. The Company's Application identifies the growth in annual energy efficiency savings from 19,000 MWh in 2004 to 148,000 MWh in 2009. Application, p. 3. The programs that are the subject of the Application in this case are among the most effective of all the Company's efficiency programs. Hirsh Reply Testimony, p. 1. Idaho Power has properly responded to the Commission's directive to pursue all cost-effective DSM programs, and the results have been significant and measurable.

The gain in energy conservation programs has not come without cost. The Commission increased Idaho Power's Energy Efficiency Rider to 2.5% of customer base rates in 2008 and to 4.75% in 2009. Order Nos. 30560 and 30814. Accordingly, Rider funds have increased to an expected $38 million in 2011. As different programs are implemented and evaluated, and become familiar to customers, DSM program expenditures have also increased. In recent years expenditures have outpaced Rider funds. Idaho Power anticipates total DSM expenditures for 2011 to be approximately $43.4 million, adding approximately $5.4 million to the Rider deferral balance. Lobb Direct, p. 6.

The funding adjustments proposed by Idaho Power in this case ultimately may be appropriate to ensure DSM programs are adequately funded and that the Company recovers approved expenditures in a timely manner. The specific proposals, however, raise issues and concerns that are more properly vetted in a rate case. Expenditures that are expected to be included in rate base, or that are included in the PCA after determining a normalized cost for customer base rates, present issues of concern for all customers. As recognized by the parties that signed the Stipulation, including costs for recovery in the PCA affects cost allocations among customer classes. These and other issues are best considered in a general rate proceeding. Accordingly, the Commission will not approve the Stipulation in this case, and anticipates reviewing proposals to adjust DSM cost recovery in Idaho Power's next rate case.

The Commission shares the parties' concern over the amount of the Energy Efficiency Rider deferral balance. In addition, the deferral balance includes expenditures that have already been deemed prudent and appropriate by the Commission. Specifically, as noted by Idaho Power, the Commission has already determined that its DSM expenditures through 2009 were prudently incurred. Gale Reply, p. 8; Order No. 32113, Case No. IPC-E-10-09. Accordingly, the current Rider deferral balance of nearly $17 million includes approximately $10 million in expenditures that have been approved by the Commission for recovery. To address this problem, and provide timely recovery of these expenditures, the Commission will authorize recovery of $10 million of the deferral balance in Idaho Power's PCA this year. When the Company files its annual PCA case by April 15, the Commission will approve recovery of $10 million beginning June 1, 2011. As recognized by the Stipulation, including these expenditures in the PCA should not result in a shift of costs among customer classes. Accordingly, recovery of the $10 million Rider deferral balance in the PCA will include a provision to separate the DSM expenditures and allocate them to each customer class based on the amount that would have been recovered from each class through the Rider.

ORDER

IT IS HEREBY ORDERED that the Stipulation is not approved by the Commission. To provide timely recovery of DSM expenditures already approved by the Commission, the Commission authorizes recovery of $10 million of the Energy Efficiency Rider deferral balance in Idaho Power's PCA rates, effective June 1, 2011.

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 1st day of April 2011.

JIM D. KEMPTON, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

MACK A. REDFORD, COMMISSIONER

ATTEST:

Jean D. Jewell