Peter J. Richardson (ISB # 3195)
Gregory M. Adams (ISB # 7454)
Richardson & O'Leary, PLLC
515 N. 27th Street
P.O. Box 7218
Boise, Idaho 83702
Telephone: (208) 938-7901
Fax: (208) 938-7904
peter@richardsonandoleary.com
greg@richardsonandoleary.com

Attorneys for the Industrial Customers of Idaho Power

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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO

PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR A PRUDENCY DETERMINATION OF ENERGY EFFICIENCY RIDER FUNDS SPENT IN 2010	))))))	CASE NO. IPC-E-11-05 COMMENTS OF THE INDUSTRIAL CUSTOMERS OF IDAHO POWER

COMES NOW, the Industrial Customers of Idaho Power ("ICIP"), and respectfully submits the following comments in response to Idaho Power Company's (the "Company's") request for a prudency determination regarding Energy Efficient Rider ("EE Rider") funds spent in 2010. As set forth below, ICIP respectfully request that the Commission order the Company to use values for demand response program achievements in EE Rider prudency dockets that are consistent with the program limitations placed on demand response programs in the Integrated

Resource Plan ("IRP"). ICIP also respectfully requests that the Commission require Idaho Power to rerun its cost-effectiveness analyses using its most current avoided cost figures. ICIP further respectfully requests that the Commission require the Company to use comparable evaluation methodologies for its three demand response programs, so as not to undervalue the cost-effectiveness of the FlexPeak Management Program compared to the A/C Cool Credits Program and the Irrigation Peak Rewards Program. Finally, ICIP submits that several residential programs are underperforming from a ratepayer perspective, and respectfully requests that the Commission require the Company to obtain third party evaluations of these programs to determine if they should be discontinued or significantly modified.

I. BACKGROUND

Idaho Power requests the Commission issue an order determining that its expenditure of $42,479,692 in EE Rider funds in 2010 was prudently incurred. According to Idaho Power, that expenditure resulted in 187,626 megawatt hours ("MWh") in energy savings in 2010, and a peak demand reduction of 336 megawatts ("MW"). Direct Testimony of Darlene Nemnich, p. 8 (March 15, 2011). Idaho Power states that it conducted its evaluation of the programs consistent with the requirements of the Memorandum of Understanding ("MOU") entered into by Commission Staff and the Idaho Utilities regarding prudency reviews in Case No. IPC-E-09-09. The Company states that its programs have generally passed the cost effectiveness tests called for in the MOU. But the Company's programs have not all passed the ratepayer impact test ("RIM"), which according to Idaho Power "measures the impact on customers' bills or rates due to changes in utility revenues and operating costs caused by an energy efficiency program." *Id.*

at pp. 12-13.

The Company states that third party firms conducted "process evaluations" on nine programs in 2010. *Id.* at pp. 16-17. But those process evaluations appear to be the only third party evaluations conducted for this 2010 prudency review, and they evaluated only "program delivery mechanisms in order to indentify constraints and potential improvements," not the actual cost-effectiveness of the programs. *Id.* at p. 20. The Company also re-evaluated the "optimum amount of demand response resource that Idaho Power can and should plan for in the long-term within the Integrated Resource Planning process." *Id.* at p. 18. As explained below, the Company appears to have now concluded that there is a cap on the overall amount of peak demand reduction Idaho Power will rely upon from demand response programs when it determines whether it needs to procure a new capital expenditure on a peaking resource. But the Company has not used those caps from the IRP process when evaluating the cost-effectiveness of its programs in this prudency review.

II. COMMENTS

A. Idaho Power improperly uses peak demand reduction benefits for its Demand Response programs in this case that are higher than the caps it imposed on the programs in the IRP process where the Company determines its need to build new peaking resources.

The success of Idaho Power's three demand response programs – the A/C Cool Credits Program, the Irrigation Peak Rewards Program, and FlexPeak Management Program – is important because the Company's 2011 IRP indicates that peaking needs are driving its perceived future resource needs. These programs could enable the Company to reduce its

peaking needs and prevent the need to incur future capital expenditures on future peaking plants. According to the recently filed IRP, "the value of reduced demand compared with building a supply-side capacity resource is nearly twice the value of the cost to run the program." *Idaho Power's 2011 IRP*, IPC-E-11-11, p. 42 (June 30, 2011). Yet the Company has set a cap of 351 MW through the end of 2030 on these three programs. *Id.* In the 2011 IRP, where the Company evaluates its peaking needs for purposes of planning to build a new peaking plant, the Company placed a limit of "330 MW for summer 2011, 310 MW in 2012 when the Langley Gulch plant comes on line, and 315 MW in 2013 and 2014." *Idaho Power's 2011 IRP*, at p. 42. But in this docket, where the Company seeks a prudency determination for cost-recovery purposes, the Company asserts that it already achieved a peak demand reduction of 336 MW in 2010. Direct Testimony of Darlene Nemnich, p. 8.

The Company also indicated in this case that its cost-effectiveness analysis for its demand response programs is not comparable to the costs and benefits of an actual peaking plant. In response to ICIP Production Request No. 6(c), the Company stated:

> Even though the Company uses the capacity cost of a SCCT for cost effectiveness, the Company believes further analysis is needed to determine the optimum level of demand response for its system and how to utilize this resource. For example, the irrigation and commercial demand programs are only available for 60 hours each summer during what the Company would expect to be peak times, whereas a peaker would be available any month of the year. Even if 60 hours were not the limit to the time period that customers were willing to be turned off, the appropriate interruption rate is very limited. Because of this limit, there is a defined amount of demand response that is useful on Idaho Power's system. The level of demand response will change as new load is added and as other supply-side resources are added.

For IRP purposes, "Demand response, because of its limited availability, cannot continually satisfy all of the load and resource balance deficits throughout the IRP planning period." *Idaho Power's 2011 IRP*, at p. 42. But that has not stopped the Company from using the programs' full potential in its cost-effectiveness analysis in the prudency determination.

It is not clear why the Company cannot better design its demand response programs such that they can in fact defer the need for future peaking resources. Nor is it clear why the Company cannot at least design some mechanism to properly account for the actual costs and benefits of its demand response programs that can be compared to the costs and benefits of a future peaking plant. If the Company is correct that demand response programs cannot be relied upon to defer future peaking needs, then the Commission should require the Company to use the IRP caps in its cost-effectiveness analysis for those programs in prudency review dockets.

The last time the Company sought approval to build a peaking plant –the 170 MW Evander Andrews gas plant — ICIP opposed issuance of a certificate of public convenience and necessity on the ground that the Company could meet its peaking needs with demand response programs and a virtual peaking plant using customers' standby emergency generators. The Commission granted the CPCN but also stated, "Idaho Power must diligently and vigorously pursue all available, cost effective DSM, conservation, and pricing options that could potentially displace or defer the need for additional future peaking generation." Order No. 30201, p. 12. The Commission also recently rejected the Company's request to place limits on the Irrigation Peak Rewards program, and stated "the Commission finds that adding language to limit

participation in the Program is not necessary, and could unduly discourage participation." Order No. 32200, at p. 11.

Idaho Power has spent substantial sums on its demand response programs, but it remains to be seen whether the Company will recognize the full benefits of those programs for purposes of displacing the need for future, rate-based peaking generation. The Company stated in response to ICIP Production Request No. 6(b) in this case, that considering the limits on demand response discussed above, the Company projects a peak hour deficit in 2015. Presumably, the Company's new IRP caps on its demand response programs will be used as justification to procure a new peaking resource to be online in that time frame. The Commission should now order that Idaho Power must recognize the full potential of the demand response programs in its IRP process. In any event, the Company must use the same numbers for peak load reduction in its cost-effectiveness analysis in prudency cases such as the current case, as it uses in the IRP process when evaluating its future peaking needs. Any other approach will require ratepayers to redundantly fund a new costly peaking plant in addition to costly demand response programs.

B. Idaho Power used stale avoided costs in evaluating its programs, and thereby likely overestimated the cost-effectiveness of its demand side management programs.

Idaho Power used the avoided costs from its 2009 IRP in calculation of the cost-effectiveness of its programs in this case. However, since that time the Commission has substantially reduced the published avoided cost rates available to qualifying facilities in March 2010 in Order No. 31025, and presumably the avoided costs applicable to the Company's demand side management programs should also have decreased substantially at that time.

Further, on June 30, 2011, Idaho Power filed with the Commission their 2011 IRP with updated DSM avoided cost values. *Idaho Power's 2011 IRP*, at Appendix C, p. 69. The avoided costs in the 2011 IRP are significantly lower in the near term than those used in the cost-effectiveness analysis in this case. Although the avoided costs used in this case are higher in the far term, the cost-effectiveness tests employ a net present value discounting process which gives near-term values a significantly greater effect.

It is very likely that some of the marginally cost-effective programs would no longer be able to pass the cost-effectiveness tests if Idaho Power were to use its most updated avoided costs from the 2011 IRP. There has been no showing by Idaho Power that these figures developed in lengthy IRP process were unavailable to Idaho Power at the time it filed this prudency case. ICIP therefore respectfully requests that the Commission require Idaho Power rerun their costs-effectiveness tests with the avoided costs contained in the 2011 IRP, and order the Company to use its most current avoided costs in future prudency determination cases.

C. The three demand response programs are not evaluated on the same basis.

The cost-effectiveness calculations for demand response programs represent 20-year lifecycle calculations for the A/C Cool Credits Program and the Irrigation Peak Rewards Program, and 10-year lifecycle calculations for FlexPeak Management Program. *See* Direct Testimony of Darlene Nemnich, at p. 12. According to the Company's Demand-Side Management 2010 Annual Report, the total resource costs for the A/C Cool Credits Program and the FlexPeak Management Program in 2010 were $2.0 million and $1.9 million respectively, with a savings of 39.0 MW and 47.5 MW respectively. *See Idaho Power's 2010 DSM Report*, at

p. 129. For approximately the same cost, the FlexPeak Management program achieved 22% more peak demand reduction. Yet the Company reports that somehow both the Utility Cost test and the Total Resource Cost test are virtually the same for each program. *Id.*, at p. 131. The Commission should require Idaho Power to use comparable evaluation methodologies for its three demand response programs, so as not to undervalue the cost-effectiveness of the FlexPeak Management Program compared to the other two programs.

D. The Company's residential programs appear to be falling short of expectations and need serious third party evaluation to determine if some should be modified or discontinued.

The Company's residential programs are not providing an equivalent ratepayer benefit to programs for other customer groups. According to the Company's analysis, seven of the residential programs failed the ratepayer impact test in 2010. *See Idaho Power's 2010 DSM Report*, at Supplement 1, pp. 15, 17, 19, 25, 35, 43, and 47 (stating that the Ductless Heat Pump Pilot, Energy Efficient Lighting, Energy House Calls, Energy Star Homes Northwest, Home Products, See ya later, refrigerator, and Weatherization Solutions for Eligible Customers Programs all received below a score of 1.00 for the RIM test). Thus, over half of the thirteen residential programs failed the test that measures the impact on customers' bills or rates due to changes in utility revenues and operating costs caused by a demand side management program. ICIP has raised concerns with the A/C Cool Credits program in the past, and it is obvious that many of the other residential programs need serious evaluation and analysis to determine if they can be improved, or if some should be discontinued.

The Commission has stated, "Idaho Power should seek to employ independent evaluators

for all of its DSM programs and take affirmative steps toward achieving measurable improvements in its documentation, verification and record-keeping processes for these programs." Order No. 32113, at p. 9. ICIP agrees, and believes that doing so will help the Company identify unsuccessful programs and keep overall expenditures within a reasonable level. As noted above, however, Idaho Power has not submitted any third party analysis of the cost-effectiveness of its programs in this case. Commission Staff pointed out in its Production Request No. 14 that the Company has delayed several third party evaluations scheduled prior to this case, including evaluations for seven of the residential programs. The Company's delay is not a faithful implementation of the Commission's directive quoted above, and we now have very little third party information with which to evaluate the prudency of the Company's expenditures in 2010.

The limited process evaluations do little to dispel ICIP's concern that the residential program has a serious free rider problem. *See* Global Energy Partners, *Process Evaluation of Idaho Company's Residential Energy Efficiency Programs*, pp. 7-1, 7-4 (Feb. 3, 2011) (noting that Idaho Power did not collect the necessary information to evaluate free ridership for the four programs evaluated, and noting that the limited information collected demonstrated free ridership problem for the Heating and Cooling Efficiency Program). The Commission should require Idaho Power to engage a qualified third party to fully evaluate the cost-effectiveness of each of its residential programs, including any free-rider problems, and report back to the Commission and interested parties on steps the Company will take to improve the programs or reduce funding for programs that cannot be improved.

III. CONCLUSION

ICIP respectfully requests the Commission require the completion of the additional analyses and steps in this and future EE Rider prudency reviews, as discussed above.

DATED this 18th day of July 2011.

RICHARDSON AND O'LEARY, PPLC

By:_____

Peter J. Richardson
Gregory M. Adams
Attorneys for the Industrial
Customers of Idaho Power

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 18th day of July, 2011, I caused a true and correct copy of the foregoing COMMENTS OF THE INDUSTRIAL CUSTOMERS OF IDAHO POWER to be served by the method indicated below, and addressed to the following:

Jean Jewell Idaho Public Utilities Commission 472 West Washington Street (83702) Post Office Box 83720 Boise, Idaho 83720-0074	( ) U.S. Mail, Postage Prepaid (x) Hand Delivered ( ) Overnight Mail ( ) Facsimile ( ) Electronic Mail
Jason B. Williams Lisa Nordstrom Idaho Power Company PO Box 70 Boise, Idaho 83707	(x) U.S. Mail, Postage Prepaid ( ) Hand Delivered ( ) Overnight Mail ( ) Facsimile (x) Electronic Mail
Gregory W. Said Darlene Nemnich Idaho Power Company PO Box 70 Boise, ID 83707	(x) U.S. Mail, Postage Prepaid ( ) Hand Delivered ( ) Overnight Mail ( ) Facsimile (x) Electronic Mail

Signed Nina M. Curtis
Nina M. Curtis