Office of the Secretary
Service Date
August 18, 2011

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR A PRUDENCY DETERMINATION OF 2010 ENERGY EFFICIENCY RIDER EXPENDITURES	)))))	**CASE NO. IPC-E-11-05** **ORDER NO. 32331**

On March 15, 2011, Idaho Power Company filed an Application requesting a Commission Order finding that its expenditures of $42,479,692 in Energy Efficiency Rider funds in 2010 were prudently incurred expenses. Idaho Power has implemented or manages a variety of programs for customers of all classes to participate in demand-side management (DSM) and energy efficiency programs. The Energy Efficiency Rider, implemented in 2002, provides funds for Idaho Power's energy conservation programs. The Company's Application states its objectives are to (1) achieve all prudent cost-effective energy efficiency and demand response resources to meet its electrical system's energy and demand needs and (2) provide customers with programs and information to help them manage their energy usage. Application, p. 2. Idaho Power consults with an Energy Efficiency Advisory Group, formed in May 2002, that provides a broad range of recommendations, including input on new program proposals, modifications to existing programs, and overall expenditures of Rider funds.

Company expenditures on DSM-related activities in 2010 increased to $45.8 million, compared to expenses of approximately $35 million in 2009 and $21 million in 2008. Of the total amount, approximately $42.5 million were Rider funded expenses. Application, p. 4. Between 2002 and 2007, the Commission found that the Company had prudently incurred cost-effective DSM-related Rider expenses of $29 million. Application, p. 2 citing Order Nos. 30740 and 31039.

The Application states that the Company in 2010 continued to expand its DSM programs to increase participation and energy savings. The Company currently offers 16 energy efficiency programs, 3 demand response programs, several educational initiatives, and offers savings to customers through market transformation programs. Application, p. 3. Overall, the Application states that energy savings from the efficiency activities in 2010 totaled 187,626 MWh, an increase of 31% over the energy savings achieved in 2009. The demand response programs resulted in a total load reduction of 336 MW in 2010, compared with a reduction of 218 MW in 2009 and 61 MW in 2008. Application, p. 3.

The Company attached its 2010 DSM Annual Report to the Application. The Company uses four analyses to determine cost-effectiveness of each program: the total resource cost perspective, the utility cost perspective, the participant cost perspective, and the ratepayer impact measure. The Report also contains an evaluation section that includes the Company's evaluation plans, copies of completed program evaluation reports, research reports, and reports completed by the Company or third parties. The Report contains specific information for each program, including its 2010 activities, a section on customer satisfaction and evaluations providing an overview of process, impact, and market effect evaluations.

The Application states that independent, third party consultants are used to provide impact and process evaluations to verify that program specifications are met, provide viable recommendations for program improvement and validate energy savings achieved through the programs. During 2010, third party consultants provided evaluations on nine programs, including the heating and cooling efficiency, energy house calls, home improvement program, building efficiency, custom efficiency, and irrigation efficiency programs. Based on the information provided with its Application, Idaho Power requested that the Commission issue an Order designating the Company's expenditure of $42,479,692 in Energy Efficiency Rider funds in 2010 to be prudently incurred expenses.

On April 26, 2011, the Commission issued a Notice of Application and Notice of Modified Procedure, establishing a time period for interested parties to file written comments. The Commission subsequently granted Staff's Motion to Extend the Comment Period from June 27, 2011 to July 18, 2011, and extending the reply comment period to August 1, 2011. Written comments were timely filed by the Industrial Customers of Idaho Power (ICIP), the Idaho Conservation League (ICL), and the Commission Staff. Idaho Power filed reply comments on August 1, 2011.

WRITTEN COMMENTS

Idaho Conservation League Comments

The ICL filed written comments stating its support of Idaho Power's request for Commission approval of its 2010 Rider expenditures. ICL noted that each of the programs achieved a cost benefit ratio greater than one, as adequately demonstrated in Idaho Power's annual report. In addition, ICL believes the report satisfies the criteria contained in the Memorandum of Understanding for Prudency Determination of DSM Expenditures that provides standards for evaluating programs and reporting to the Commission.

Although ICL believes the Company's DSM expenses were prudently incurred, it did offer two specific comments. ICL noted that one of the four tests the Company uses to evaluate cost-effectiveness of the programs, the ratepayer impact measure test (RIM), examines "the potential impact the energy efficiency program has on rates overall." ICL Comments, p. 2. ICL noted that some programs have an RIM ratio of less than one indicating that, "all else being equal, DSM spending may cause utility rates to rise." ICL Comments, p. 2. The RIM test does not indicate whether individual customer bills will increase, and ICL suggests that the proper focus is on individual customer bills, rather than utility rates in general. ICL stated that although some programs have an RIM ratio of less than one, "this is no reason to find any of these programs imprudent." *Id.*

ICL's second specific comment addresses a gap between the economic benefits actually obtained by the DSM programs and the potential benefits that may be obtained. Noting that the Commission previously instructed Idaho Power to identify barriers that may prevent achieving the full potential of DSM programs, ICL states that Idaho Power's report does not discuss potential barriers or the Company's plan to close the gap between achievable and economic potential. ICL Comments, p. 4. ICL suggested the Commission instruct Idaho Power to address these barriers and the strategy to overcome them in each DSM annual report. *Id.*

Industrial Customers of Idaho Power Comments

The ICIP in its comments identified a discrepancy between Idaho Power's Integrated Resource Plan (IRP) and its DSM evaluation regarding the Company's peak demand reduction programs. ICIP contends that in the Company's 2011 IRP Idaho Power places limits 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 for its demand response programs. ICIP Comments, p. 4. In this prudency determination docket, ICIP asserts that the peak demand programs have resulted in a reduction of 336 MW in 2010. *Id.* ICIP suggested the Commission require Idaho Power to use the IRP caps in its cost-effectiveness analysis for these programs in prudency review dockets. ICIP Comments, p. 4. ICIP also recommended the Commission should "now order that Idaho Power must recognize the full potential of the demand response programs in its IRP process." ICIP Comments, p. 6.

ICIP also argues that Idaho Power uses stale avoided cost data in evaluating its programs, thereby likely overestimating the cost-effectiveness of its demand-side management programs. Idaho Power used the avoided cost from its 2009 IRP in calculating the cost-effectiveness of the programs in this case. ICIP noted that the Commission has substantially reduced the published avoided cost rates available to qualifying facilities, "and presumably the avoided cost applicable to the Company's demand-side management programs should also have decreased substantially at that time." ICIP Comments, p. 6. ICIP additionally notes that Idaho Power updated its DSM avoided cost values in its 2011 IRP filed with the Commission on June 30, 2011. ICIP requested "that the Commission require Idaho Power rerun their cost-effectiveness tests with the avoided cost contained in the 2011 IRP, and order the Company to use its most current avoided cost in future prudency determination cases." ICIP Comments, p. 7.

Third, ICIP discussed what it believes is a discrepancy in the evaluations of the A/C Cool Credit and the Irrigation Peak Reward programs, compared to the FlexPeak Management program. Specifically, the evaluation for the A/C Cool Credit and Irrigation Peak Rewards programs use a 20-year lifecycle calculation, and the FlexPeak Management program uses a 10-year lifecycle calculation. ICIP Comments, p. 7. ICIP recommended the Commission "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." ICIP Comments, p. 8.

Finally, ICIP addressed residential programs, asserting that "residential programs are not providing an equivalent ratepayer benefit to programs for other customer groups." ICIP Comments, p. 8. ICIP contends that the residential programs should be evaluated to determine if they can be improved, or should be discontinued. ICIP recommended the Commission "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" on how to improve the programs or reduce funding for programs as appropriate. ICIP Comments, p. 9.

Staff Comments

Staff comments state "that Idaho Power's DSM efforts in 2010 were generally prudent and cost-effective," and that the Company made significant progress in meeting the evaluation and reporting goals outlined in the Memorandum of Understanding. Nonetheless, Staff identified several areas it believes Idaho Power's DSM implementation presents specific problems. First, Staff stated there is insufficient separation between the DSM evaluation employees and the implementation teams, which results in the appearance of conflict of interest in the evaluation report. As an example, Staff identified three delays and elimination of one demand response program evaluation, as well as other changes to the evaluation plan between 2009 and 2010. Staff Comments, p. 7. Staff noted that the Company explained in discovery responses why each evaluation was rescheduled or removed but Staff thought at least some of the last minute changes seemed unreasonable. Staff Comments, pp. 7-8. Staff stated that "the large discrepancy between the evaluations plan published in the 2009 DSM report and the evaluations delivered in the 2010 report suggest that evaluation scheduling could be designed to highlight implementation successes and minimize deficiencies." Staff Comments, p. 8.

Second, Staff criticized the Company's marketing for the A/C Cool Credit program, noting that materials are unnecessarily distributed to customers who have electric water heaters but lack central air conditioners. Third, Staff stated there is insufficient onsite verification of building efficiency projects. Fourth, Staff stated the Company "drastically changed its program life benefit cost ratio calculation methods from 2009 to 2010, resulting in about a 40% increase in stated cumulative average program life UCT and TRC cost-effectiveness," without explanation. Finally, Staff identified mathematical errors and an accounting error the Company later acknowledged in a letter to the Commission dated July 1, 2011. Idaho Power inadvertently charged $526,781 to the Idaho Energy Efficiency Rider that should have been charged to the Oregon jurisdiction. Staff Comments, p. 9.

Staff also noted that Idaho Power DSM Rider funded employees received a 2.5% wage increase on January 9, 2010, and received additional salary increases throughout the year averaging 4.7%. Staff is concerned that salary and wage increases for DSM employees are automatically recovered through a DSM prudency review rather than in a general rate case. Staff Comments, p. 5. Staff recommended that $120,070 in DSM Rider funds spent on wage increases not be approved in this case and instead be deemed prudent to the extent the Commission approves recovery of wage increases in the Company's pending general rate case. Staff Comments, p. 9.

Staff reviewed the cost-effectiveness of each of the 16 energy efficiency programs as provided in the information in the Company's Application. Staff Comments, Atch. B. Staff noted that the benefits accruing to the residential class are disproportionately lower than for other classes, particularly the industrial and irrigation classes. Staff analysis shows that the residential class funded 46% of the DSM Rider revenue, but received 24% of DSM expenses, 24% of total energy savings, and 12% peak load reduction achieved through the Rider funding. Staff Comments, pp. 3-4. In contrast, the irrigation class funded 14% of Rider revenue and received 36% of total Rider expenses. *Id.* Staff recognizes that cost-effective DSM programs benefit all customers but nonetheless expressed concern about the disparity between DSM revenues provided by the residential class and the benefits received. Staff urges the Company "to identify and develop DSM programs for the residential class in a balanced fashion to allow increased program participation, particularly in the higher energy rate blocks." Staff Comments, p. 4.

Staff concluded that Idaho Power's DSM efforts in 2010 were generally prudent and cost-effective. Staff recommended the Company's Energy Efficiency Rider expenditures of $41,832,841 be determined to be prudent by the Commission. This figure represents correction of the share that was mistakenly assigned to the Idaho jurisdiction rather than the Oregon jurisdiction, as well as Staff's recommendation that $120,070 spent on wage increases not be approved in this case.

Idaho Power Reply Comments

Idaho Power first addressed Staff's recommendation that the increase in Rider funded employee wages be disallowed pending approval of Company wage increases in Idaho Power's rate case. The Company notes its rate case is based on a 2011 test year and does not apply to expenses incurred in 2010. If the Commission determines the wage increases were not prudent, the Company states it would have to immediately expense the $120,070, eliminating the opportunity for the Company to recover the full 2010 costs of the DSM programs. Idaho Power Reply, p. 3. The Company also argues that tying the disposition of a specific expense to a finding in a general rate case "would suggest that the Company can only provide wage increases to employees paid for by Rider funds during years in which the Company files a general rate case." *Id.* Finally, Idaho Power notes that the Company's evaluation demonstrates that the DSM programs were deemed to be cost-effective under the three cost-effectiveness tests required by the Memorandum of Understanding, and each of these cost-effectiveness tests included the Rider employee salaries. Idaho Power argues that it has met its obligation to provide cost-effective DSM measures even with the wage increases. Idaho Power Reply, p. 4.

Idaho Power next addressed Staff's and ICIP's concerns that some customer classes receive a greater percentage of Rider fund benefits than they contribute. The Company notes that the Commission previously recognized that there will always be some level of cross-subsidization of DSM programs occurring between a utility's various customer classes. Idaho Power Reply, p. 5. The Company maintains that all of its energy efficiency programs created system benefits for all customers, regardless of specific customer class measures. Nonetheless, the Company states that it continues to work on this disparity that particularly occurs in the residential class.

Idaho Power disagrees with Staff's suggestion that there is an appearance of a conflict of interest with having both the energy efficiency program leaders and the customer research and analysis leader report to the manager of customer relations and energy efficiency. The Company asserts it has nothing to gain by gaming the efficacy of cost-effectiveness of the programs, denies that the Company's evaluations of certain programs were strategically delayed, or that the evaluations in the 2010 DSM report were designed to highlight implementation successes and minimize deficiencies. Idaho Power Reply, p. 6. The 2010 DSM report shows that all of the programs meet the Staff-approved cost-effectiveness tests and that a change to the Company's internal employee reporting structure would not change the costs or cost-effectiveness of the programs.

Next, Idaho Power addressed Staff's and ICIP's criticisms of the Company's demand response programs, including Staff's criticism that the Company did not appear to have interrupted irrigators as frequently as it could have with the Irrigation Peak Rewards Program. The Company asserts the goal of the demand response programs is to reduce summer peak electric load during periods of high demand, and it is not designed to reduce real-time power supply costs. Idaho Power Reply, p. 7. The Company defended the use of a 20-year life for the A/C Cool Credit program and the FlexPeak Management program, noting that regardless of the program life used in the cost-effective analysis of demand response programs, they are all cost-effective from a program life perspective and from a one-year perspective. Idaho Power Reply, p. 9.

Idaho Power responded to ICIP's criticism that the Company did not use inputs from its 2011 IRP to analyze and value its programs. The Company asserts that it cannot use the inputs from the 2011 IRP until the Commission acknowledges it, and that the appropriate IRP for the 2010 prudency review is the 2009 IRP. Idaho Power Reply, p. 10.

Idaho Power also denied that it placed a cap on its demand response programs, as suggested by ICIP. The Company stated that the results of its 2011 IRP analysis demonstrated that 351 MW (the cap claimed by ICIP) was a reasonable estimate of the demand response potential that would economically reduce Idaho Power's future peak demands. Idaho Power Reply, p. 11. The Company noted that it has achieved approximately 400 MW of demand reduction potential through the administration of its DSM programs, an increase of more than 100 MW from 2010. Idaho Power Reply, p. 11.

The Company disagrees with Staff's recommendation that the Company file an addendum to the 2010 DSM report to explain discrepancies. The Company explained that it modified its benefit/cost ratio methodology as part of its continuing efforts to enhance its DSM programs. The Company admits it should have explained this change in methodology in the 2010 DSM report, but asserts it met with Staff and ICIP on July 8, 2011, where the Company explained the change in methodology. Idaho Power Reply, p. 12.

Regarding the accounting errors discussed by Staff, the Company stated it identified the accounting error and updated its prudency request in this docket through a letter dated July 1, 2011. In addition, the Company developed a data repository implemented in 2011 to help reduce similar errors in the future. Idaho Power Reply, p. 12. The Company admits it misallocated some Oregon funds to Idaho jurisdiction; however, it corrected the error and has implemented new automated systems to minimize the risk of similar occurrences in the future. Idaho Power Reply, pp. 14-15.

The Company contends its 2010 DSM efforts produce savings at a benefit/cost ratio of greater than one when analyzed from the perspective of total resource costs, utility costs, and participant costs. The Company requests that the Commission issue an Order designating Idaho Power's expenditure of $41,952,911 in Energy Efficiency Rider Funds in 2010 as prudently incurred expenses.

COMMISSION DECISION

The Commission has fully reviewed the information in this case and has determined to approve Idaho Power's 2010 DSM expenditures in the amount of $41,952,911 as prudently incurred. The evidence demonstrates that the Company actively evaluates its energy efficiency programs to ensure they meet reasonable standards, resulting in tangible benefits to all customers. Importantly, Idaho Power is making a good faith effort to meet the evaluation and reporting requirements in the Memorandum of Understanding so that the Commission and third parties are informed of program implementation and results. Finally, the evaluations of the different programs demonstrate their effectiveness, as shown by most of the cost/benefit ratios for each program.

The record demonstrates the Company has worked to achieve the program evaluation goals outlined in the Memorandum of Understanding signed by Idaho Power and other utility representatives in December 2009. In addition, Idaho Power has addressed identified program deficiencies in the past year. Specifically, the Company has:

> (1) Adjusted the Net-to-Gross (NTG) calculation for the Custom Efficiency program from 100% to a more realistic 69%. In any other cases where a program's reported NTG is 100%, the Company has specified that the NTG calculation has already been incorporated into the deemed savings calculated by the Regional Technical Forum (RTF).
>
> (2) Begun evaluating the cost-effectiveness assumptions for each DSM program annually.
>
> (3) Eliminated the Holiday Lighting program when it became clear that one of the program's main goals, market transformation, had been achieved.
>
> (4) Increased the installation verification rate for the Easy Upgrades program from 1.7% in 2009 to 5.6% in 2010. While Staff appreciates this improvement, Staff notes that Cadmus, who conducted a process evaluation of this program in 2010, recommends that 10% of projects be verified to meet industry standards.
>
> (5) Eliminated incentives for Easy Upgrades measures that were not cost-effective in 2010.

Staff Comments, p. 6.

Idaho Power uses four tests to evaluate cost-effectiveness of each of its efficiency programs: the total resource cost test (TRC) "reflects the total benefits and costs to all customers (participants and non-participants) in the [utility] service territory;" the utility cost test (UTC) "calculates the costs and benefits of the program from the perspective of . . . the utility implementing the program; the participant cost test (PCT) "assesses the costs and benefits from the perspective of the customer installing the measure." ICL Comments, p. 2 *quoting* the Memorandum of Understanding, Atch. 1. A cost/benefit ratio greater than 1.0 under each of these tests means the program is prudent for the utility and all ratepayers, whether they participate in a program or not. The MOU states "that all programs and individual measures should have the goal of cost effectiveness from the total resource, utility, and participant perspective." Idaho Power's DSM report shows that all the programs pass these three most significant tests. DSM 2010 Report, Supplement 1.

The Commission appreciates the thorough review of Idaho Power's report and programs provided by Staff and the other interested parties. The diligent review provided by Staff and other third parties helps Idaho Power identify limitations and potential problems in DSM programs, and is vital to the Commission's understanding of the programs' effectiveness. The Commission has carefully considered each of the points raised in the written comments and has concluded that no corrective action need be directed by the Commission. The Company in its report shows improved compliance with the standards contained in the Memorandum of Understanding, and the Commission expects those efforts, and the oversight by Staff and others, will continue. The Commission further expects the Company to make adjustments to individual programs as their effectiveness changes, consistent with outstanding Commission instructions that Idaho Power pursue all cost-effective programs.

On the record in this case, the Commission approves Idaho Power's 2010 DSM expenditures in the amount of $41,952,911 as prudently incurred.

O R D E R

IT IS HEREBY ORDERED that the Commission approves Idaho Power's 2010 DSM expenditures in the amount of $41,952,911 as prudently incurred.

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 18th day of August 2011.

PAUL KJELLANDER, PRESIDENT

MACK A. REDFORD, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

bls/O:IPC-E-11-05_ws3