

WELDON B. STUTZMAN
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0318
IDAHO BAR NO. 3283

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IDAHO PUBLIC
UTILITIES COMMISSION

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 THE APPLICATION)	
OF IDAHO POWER COMPANY FOR A)	CASE NO. IPC-E-11-05
PRUDENCY DETERMINATION OF 2010)	
ENERGY EFFICIENCY RIDER)	
EXPENDITURES)	COMMENTS OF THE
)	COMMISSION STAFF
)	

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of Record, Weldon B. Stutzman, Deputy Attorney General, submits the following comments in response to Order No. 32232 issued on April 26, 2011 and Order No. 32283 issued on June 30, 2011.

BACKGROUND

On March 15, 2011, Idaho Power Company filed an Application requesting a Commission Order establishing that its expenditures of \$42,479,692 in Energy Efficiency Rider funds in 2010 were prudently incurred expenses. In responding to Staff's production requests, Idaho Power discovered that \$526,781 had been inadvertently charged to the Idaho Energy

Efficiency Tariff Rider rather than the Oregon Rider. On July 1, 2011, the Company by written letter reduced its request for a prudence determination to \$41,952,911 rather than \$42,479,692.

Consistent with the Commission's instructions that Idaho Power should pursue demand-side management programs, Idaho Power has implemented or manages a wide range of opportunities for all customer classes to participate in its demand-side management (DSM) 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.

The Company states its 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 million were Idaho Rider funded expenses. Application, p. 4.

Since the Energy Efficiency Rider was implemented in 2002, Idaho Power has steadily increased the breadth of its DSM and energy efficiency programs, as well as the level of funding for the programs. The Application states that the Company in 2010 continued to expand its DSM programs to increase participation and energy savings. The Company currently offers sixteen energy efficiency programs, three demand response programs, several educational initiatives, and offers savings to customers through market transformation programs. Application, p. 3. Overall, energy savings from all efficiency activities in 2010 totaled 187,626 annual (or first year) 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 Report provides detailed cost-effectiveness information by program and energy savings measures as well as detailed financial information separated by expense category and jurisdiction. The Company uses four analyses to determine cost-effectiveness of the programs: the total resource cost perspective, the utility cost perspective, the participant cost perspective, and the rate 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 other reports completed by the Company or third parties. The Report contains specific information for each

program, including the Company's 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 and the letter filed on July 1, 2011, Idaho Power requests that the Commission issue an Order designating the Company's expenditure of \$41,952,911 in Energy Efficiency Rider funds in 2010 to be prudently incurred expenses.

STAFF ANALYSIS

The Idaho Energy Efficiency Tariff Rider, commonly referred to as the DSM Rider, funds 92% of the Company's DSM activities. Program participants get the benefit of a direct bill reduction, but all ratepayers benefit from the avoided generation, transmission, and distribution costs that would otherwise be necessary to supply adequate and reliable electricity to Idaho Power's customers.

Staff Attachment A compares Idaho Power's reported utility costs of \$24.6 million for its sixteen energy efficiency programs in 2010 to the estimated present value of utility benefits of \$111.3 million over the projected lives of the installed measures. This analysis results in a 4.53 benefit/cost ratio. Idaho Power's three peak demand reduction programs are projected to have average annual costs of \$10.6 million, which compares favorably with the reported average annual benefits of \$14 million for a benefit/cost ratio of 1.32. Net benefits to the utility indicate that future rates paid by the utility's customers will be lower than they would be without the investment.

Staff Attachment B compares the 2010 DSM Idaho Rider revenue from each major customer class to DSM program expenses and benefits attached to each class. As was the case in 2009, benefits accruing to the residential class in 2010 were disproportionately lower than for other classes, particularly the industrial and irrigation classes. The table shows that the residential class funded 46% of the DSM rider revenue, but only received 24% of DSM

expenses, 24% of total energy savings, and 12% of peak load reduction achieved through the rider funding. In contrast, the irrigation class funded 14% of rider revenue, but received 36% of total rider expenses, mainly through its 77% share of total peak reduction. In 2010 as in 2009, the inequity between the customer classes was somewhat mitigated by the annual investment in market transformation efforts through the Northwest Energy Efficiency Alliance (NEEA) which frequently benefits the residential class more than other customer classes. However, this benefit does not bridge the disparity between customer classes. Staff recognizes that cost-effective DSM programs benefit all customers as a whole, regardless of the funding source, but nonetheless, Staff is concerned about the disparity between DSM revenues provided by the residential class and DSM benefits received. However, Staff does not suggest that the Company should discontinue more cost effective programs in one class in exchange for less cost effective programs in another class simply to promote DSM revenue/program cost equity. Instead, 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.

While reviewing all expenditures charged to the DSM Rider Account for 2010, Staff calculated the Rider account balance and found it to be equal to the amount reported by the Company in the 2010 DSM Annual Report when amended to exclude the incorrect assignment of \$526,781 to Idaho. A summary of the rider account balance for 2010 is below:

2010 Beginning Balance:	\$ (9,718,518)
2010 DSM Funding plus Accrued Interest:	34,605,272
2010 DSM Expenses	41,952,911
2010 Year End Balance	\$ 17,066,157

In 2010, Idaho Power charged approximately \$2.8 million, or 6% of the total DSM budget, in labor expenses to the DSM rider account. Staff is concerned with two issues regarding labor costs: first, the wage and salary increases for DSM rider-funded employees, and second, the exclusion of “purchased services” and “other expense[s]” from the administrative budget category.

Staff notes that all Idaho Power DSM rider-funded employees received a 2.5% wage increase on January 9, 2010. In addition, many rider-funded employees received additional salary increases throughout the year. The average wage increase for rider-funded employees was

approximately 4.7%. Staff expressed concern in last year's comments that salary and wage increases for DSM positions are automatically recovered through a DSM prudence review rather than in the more appropriate venue of a general rate case. This is particularly troublesome in the context of state-wide economic conditions and the wide discrepancy between the stagnant consumer price index, 1.5%, and the average wage increase for rider-funded employees, 4.7%. Staff recommends that the estimated \$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 upcoming general rate case.

Regarding Staff's second concern, Staff notes that Idaho Power spent approximately \$5.5 million, or 13 % of the DSM budget, on payments to contractors for Idaho Power Company program administration. These expenses are included in the "purchased services" category of expenditures. Additionally, approximately \$997,000 was spent on marketing, program evaluation, and program training, which Idaho Power categorizes as "other expense[s]". Staff believes that third-party program administration (exclusive of NEEA payments), marketing, program evaluation, and program training are so fundamental to Company program implementation that they are more accurately described as administrative expenses. Categorizing these expenditures as separate and distinct from administrative expenses creates an impression that administrative costs are lower than they actually are. For example, the Company reports that 6% of its DSM budget was spent on "labor/administration". When expenses associated with critical administrative functions such as third-party program administration, marketing, program evaluation, and program training are included as administrative expenses, the labor/administration budget increases to approximately 21% of the total DSM budget. This more accurately represents program administration expenses. If the Company prefers to distinguish between internal and external administrative expenses rather than lump all administrative costs together, it should consider restructuring the expense categories for transparency.

To date, the Commission has received one comment from an Idaho Power customer regarding this Application. This customer opposes paying the surcharge. This Application is not a decision about the level of funding for energy efficiency; however, it is an evaluation of whether or not the expenses incurred by the Company for its DSM programs in 2010 were prudent. The Commission has consistently directed Idaho Power to provide cost-effective DSM

programs in order to reduce the future rate increases required to fund more costly generation investments that will be necessary to serve Idaho Power's customer load.

With the exception of the wage and salary increases that Staff recommends be based on salary adjustments ultimately approved by the Commission in a general rate case, Staff believes that Idaho Power's DSM efforts in 2010 were prudent and cost-effective. Although there are still issues to be addressed, the Company has worked to achieve the program evaluation goals outlined in the Memorandum of Understanding (MOU) signed by utility representatives in December 2009 and the recommendations made by Staff in its 2008-2009 prudency determination comments regarding program deficiencies. In particular, 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.

Despite the substantial improvements achieved by the Company this year, several areas of Idaho Power's DSM implementation continue to present issues:

(1) Insufficient separation between DSM evaluation and implementation teams. Last year, Staff identified the conflict of interest created when the person responsible for the final decisions on program implementation is also the person to whom the evaluation team leader reports. The Company's 2010 organization chart of DSM-funded employees shows that this aspect of the organizational structure remains unchanged from 2009. Two Energy Efficiency Program leaders who head the program implementation teams report to the same Manager of

Customer Relations & Energy Efficiency as the Customer Research and Analysis Leader, who is responsible for DSM program evaluation.

Staff identified specific examples in the 2010 DSM Annual report where the conflict of interest resulting from the same person leading both the DSM implementation and evaluation teams at Idaho Power could have produced questionable results. First, the large budgets and low cost-effectiveness of demand response programs has fostered at least the appearance of conflict: three of the four demand response evaluations planned for 2010 were delayed by at least a year and the fourth was neither completed nor rescheduled. None of these programs produce a TRC ratio over 1.37. To be fair, two of those delayed evaluations were for the Irrigation Peak Rewards program which will change significantly as the result of a Commission order approving Idaho Power's request to alter the structure of incentive payments to irrigators.

Further, all three demand response programs have notable shortcomings. In addition to the generous 20 year program life and despite the mild summer, the Irrigation Peak Rewards program does not appear to have interrupted irrigators as frequently as it could have to avoid relying on incremental cost generation resources. Expenses for the FlexPeak program rose dramatically without a subsequent increase in demand reduction and the Company did not address this issue in the DSM report. The A/C Cool Credit program continues to suffer from low cost-effectiveness ratios despite enjoying a 20 year program life. Staff is concerned that the evaluations could have been strategically delayed to allow time for program implementation to improve before undergoing an external review. For example, the 2010 DSM report shows that the FlexPeak program would have a process evaluation ending in February 2011. However, no process evaluation was conducted and, as mentioned above, it has since been eliminated. The Company did not explain why the evaluation plan published in March 2011 referenced a September 2010 to February 2011 Flex Peak process evaluation that was not conducted.

In addition to the three delays and one elimination of demand response program evaluations, Staff noticed several other major changes to the evaluation plan between 2009 and 2010. In total, Commission receipt of three energy efficiency program evaluations was delayed by at least a year, two evaluations were eliminated, and two were conducted ahead of schedule. In response to Staff's first production request, the Company explained why each evaluation was rescheduled or removed. Many of these explanations seem reasonable, but in other cases the Company cited factors it should have anticipated before publication of the evaluation plan,

making last minute changes seem unreasonable. These factors include outsourcing program applications, regional studies by organizations with which Idaho Power partners, energy code updates, and reductions in program participation due to declining economic conditions. Staff understands that the Company should retain flexibility to adjust its evaluation plan according to unforeseen developments. However, the significant differences between the 2009 and 2010 plans diminish the value of publishing an evaluation plan other than to state, as recommended by the MOU, that programs will be evaluated on two-to-three year cycles. Again, the large discrepancies 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.

(2) Less than optimal marketing for the A/C Cool Credit Program. This program continues to be afflicted by imperfect but correctable marketing efforts. While many of the filters used to determine which residential customers receive direct mail marketing materials are effective and useful, Idaho Power continues to target customers for enrollment if their electrical usage for the previous summer was at least 500 kWh. Staff noted in last year's comments that these methods unnecessarily distribute marketing materials to customers who have electric water heaters but lack central air conditioners. A more appropriate metric would be to target customers whose electrical use increases significantly between spring and summer months, because this is more indicative of central air conditioning than relatively high year-round electrical use.

(3) Insufficient on-site verification of Building Efficiency projects. To correct this, Idaho Power plans to hire a third-party consultant to provide field installation verifications on at least 5% of completed projects in 2011, as stated in the Company's response to the Staff's first production request. Staff notes that while installation verification of 5% of completed projects would be an improvement, Cadmus' process evaluation of this program recommends inspecting 10% of all completed projects.

(4) No disclosure of major changes to program life benefit-cost ratio calculation methods. 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. There is no explanation of this calculation change in the DSM Report.

(5) Mathematical errors. Appendix 4, DSM Expenses and Performance 2002 – 2010, on pages 131-142 of the DSM Report suffers from several mathematical errors. The costs and savings for 2010 are not included in the total for several programs. Several other program totals are not the sum of the yearly figures provided, and in other cases the program life benefit-cost ratios are incorrect.

(6) Accounting Errors. In its July 1, 2011 letter to the Commission, the Company acknowledged inadvertently charging \$526,781 to the Idaho Energy Efficiency Rider which should have been charged to the Oregon Rider. While Staff appreciates the disclosure and the correction anticipated in the 2011 DSM Report, it is concerned that such a large error could occur and very nearly go unnoticed.

STAFF RECOMMENDATION

Staff believes that Idaho Power's DSM efforts in 2010 were generally prudent and cost-effective. The Company made significant progress in reaching the goals outlined in the MOU, and Staff looks forward to the Company making further progress on those goals and addressing the issues discussed in these comments. Despite the progress made this year, Staff recommends that the Company file an addendum to the 2010 DSM Report that includes an explanation of the changes to its program life benefit-cost ratio methodology, a revised Appendix 4 with corrections highlighted, and an explanation of how the Company's accounting practices have been improved to prevent the incorrect allocation of program expenses. This addendum will ensure that outside parties and future reviews have access to complete and accurate information regarding the Company's 2010 DSM Report.

Staff recommends that Idaho Power's energy efficiency rider expenditures of \$41,832,841 in 2010 be determined prudent by the Commission. This is the total amount requested by the Company in its July 1, 2011 letter except for \$120,070 spent on wage increases for DSM rider funded employees. Staff recommends the wage increase be deemed prudent if and to the extent the Commission approves recovery of wage increases in the Company's general rate case.

Respectfully submitted this 18th day of July 2011.



Weldon B. Stutzman
Deputy Attorney General

Technical Staff: Stacey Donohue
Lynn Anderson

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Attachment A

Idaho Power Company's 2010 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-Cost)	Utility B/C Ratio
Ductless Heat Pumps	20	\$ 426,533	\$ 189,231	\$ 237,302	2.25
Energy Efficient Lighting	5	10,347,541	2,501,278	7,846,263	4.14
Energy House Calls	20	1,113,261	762,330	350,931	1.46
Energy Star Homes Northwest	25	919,699	375,605	544,094	2.45
Heating & Cooling Efficiency	20	1,294,243	327,669	966,574	3.95
Home Improvement	45	9,108,030	944,716	8,163,314	9.64
Home Products	15	1,229,476	832,161	397,315	1.48
Rebate Advantage	25	176,281	39,402	136,879	4.47
See Ya Later, Refrigerator	8	942,941	565,079	377,862	1.67
Weatherization Assistance	25	4,321,334	1,321,132	3,000,202	3.27
Weatherization Solutions	25	361,849	228,425	133,424	1.58
Building Efficiency, Commercial	12	7,326,483	1,509,682	5,816,801	4.85
Easy Upgrades, Commercial	12	24,008,222	3,974,410	20,033,812	6.04
Holiday Lighting, Commercial	10	112,279	46,132	66,147	2.43
Custom Efficiency, Comm/Indust.	12	41,374,386	8,778,125	32,596,261	4.71
Irrigation Efficiency	8	8,259,177	2,200,814	6,058,363	3.75
Total Energy Efficiency		\$ 111,321,735	\$ 24,596,191	\$ 86,725,544	4.53

Peak Demand Programs	Utility Benefit	Utility Cost	Net Benefits (Benefits - Cost)	Utility B/C Ratio
AC Cool Credit (20 year projected)	34,911,044	31,346,915	3,564,129	1.11
Commercial Flex Peak (10 year projected)	26,760,987	23,558,953	3,202,034	1.14
Irrigation Peak Rewards (20 year projected)	191,869,987	133,824,526	58,045,461	1.43
Average Annual Peak Demand, Projected	14,016,500	10,614,467	3,402,033	1.32

Sources: IPC's 2010 Demand Side Management Report, Supplement 1: Cost Effectiveness

Attachment B

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

Customer Sector	MWh Sales	Revenue from DSM Rider (millions)*	DSM Expenses (millions)*	MWh/yr 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	4,793,139	\$16,043,165	9,947,011	41,939	38.60	37%	46%	24%	24%	12%
Commercial	3,616,430	\$9,063,079	6,343,816	46,002	18.05	28%	26%	15%	26%	6%
Industrial	2,838,110	\$4,919,074	8,437,235	65,148	18.05	22%	14%	20%	37%	6%
Irrigation	1,661,014	\$ 4,698,830	15,233,486	10,575	245.50	13%	14%	36%	6%	77%
Market Transformation (NEEA)		\$	2,271,656	14,567		0%	0%	5%	8%	0%
Total	12,908,693	\$34,724,148	42,233,203	178,231	320.20	100%	100%	100%	100%	100%
Sources:	IPC production response no. 19 and July 1, 2011 letter	IPC production response no. 18 and July 1, 2011 letter	Derived	Appdx. 5, pg. 143-144 DSM Report and July 1, 2011 letter	Appdx. 5, pg. 143 DSM Report and July 1, 2011 letter	Derived	Derived	Derived	Derived	Derived

*The difference between the total amount of revenues and expenses reflect DSM revenues that are not collected through the rider (e.g. \$1.3 million for WAQC, etc.) and the DSM funding shortfall.

CERTIFICATE OF SERVICE


I HEREBY CERTIFY THAT I HAVE THIS 18TH DAY OF JULY 2011,
SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN
CASE NO. IPC-E-11-05, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO
THE FOLLOWING:

JASON B WILLIAMS
LISA D NORDSTROM
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-MAIL: jwilliams@idahopower.com
lnordstrom@idahopower.com

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

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

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



SECRETARY

CERTIFICATE OF SERVICE