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July 23, 2012

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
Boise, Idaho 83702

Re: Case No. IPC-E-12-15
Determination of 2011 Demand-Side Management Expenses Prudently Incurred – Idaho Power Company's Reply Comments

Dear Ms. Jewell:

Enclosed for filing in the above matter are an original and seven (7) copies of Idaho Power Company's Reply Comments.

Very truly yours,

Julia A. Hilton

JAH:csb
Enclosures

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR A DETERMINATION OF 2011 DEMAND-SIDE MANAGEMENT EXPENDITURES AS PRUDENTLY INCURRED	CASE NO. IPC-E-12-15 IDAHO POWER COMPANY'S REPLY COMMENTS

Idaho Power Company ("Idaho Power" or "Company") respectfully submits the following Reply Comments in response to the Notice of Amended Comment Deadlines set forth in Order No. 32569 and Comments filed on June 25, 2012.

I. BACKGROUND

On March 15, 2012, Idaho Power filed an Application requesting that 2011 Company expenditures of $35,623,321 in Idaho Energy Efficiency Rider ("Rider") funds and $7,018,385 in a regulatory asset account (Custom Efficiency incentives) for a total of $42,641,706 were prudently incurred Demand-Side Management ("DSM") expenses. On April 12, 2012, the Idaho Public Utilities Commission ("Commission") issued a Notice of Application and Notice of Modified Procedure, Order No. 32512, establishing a 60-day comment period and a 14-day reply comment period. On June 11, 2012, the

Commission issued Order No. 32569 extending the comment period to June 25, 2012, and the reply comment period to July 23, 2012.

In responding to Commission Staff ("Staff") production requests, Idaho Power discovered that $345 had been inadvertently charged to the Idaho Energy Efficiency Rider rather than the Oregon Energy Efficiency Rider. The Company explained the error to Staff in discovery requests and seeks a determination that expenditures of $35,622,976 in Rider funds and $7,018,385 in Custom Efficiency incentives for a total requested determination that $42,641,361 were prudently incurred.

The Staff, Idaho Conservation League ("ICL"), and the Industrial Customers of Idaho Power ("ICIP") submitted comments in this case. Idaho Power appreciates that Staff's and ICL's comments were generally supportive of Idaho Power's DSM efforts. Staff recommended a partial disallowance of Rider expenditures and critiqued the Company's demand response programs, labor expenses, and some energy efficiency programs. ICIP made general assertions regarding the calculation of costs that are not appropriately addressed in a proceeding to determine the prudence of funds spent under existing Commission guidelines. Because the Company does not respond to every issue raised by the parties, silence on an issue should not infer agreement.

II. IDAHO POWER'S DEMAND RESPONSE PROGRAMS ARE USEFUL AND COST-EFFECTIVE

While Staff's comments taken as a whole were supportive, the Company disagrees with the statement that the Company's demand response programs are not being used to their full potential and that demand response programs may be cost-prohibitive in the near term. Staff Comments at 13. Staff implies that low market prices, low demand, and cooler weather mean that the programs are not utilized to their full potential; however, the programs are not designed to be cost-effectively dispatched in such times. Rather, they are intended to meet system loads in times of extremely high demands, high market prices, low water conditions, transmission constraints, and in system emergencies.

III. THE COMMISSION SHOULD FIND ALL A/C COOL CREDIT PROGRAM EXPENDITURES WERE PRUDENTLY INCURRED

Staff recommended that the Commission find that $165,711 in A/C Cool Credit program incentives funded from the Rider were not prudently incurred expenditures. This figure represents the dollar amount of incentives paid to 7,891 participants affected by software problems the Company encountered when dispatching the program. Staff Comments at 9-11. The Company disagrees with Staff's characterization of the difficulties the Company experienced with the A/C Cool Credit program as "imprudent use of ratepayer funds." The program is complex and, when the Company encountered issues, it promptly approached Staff for recommendations and quickly took corrective action.

A large-scale, residential air conditioning cycling program such as the A/C Cool Credit program is complicated to dispatch. The program has approximately 36,000 individual residential customers, the largest number of active participants in any of Idaho Power's DSM programs. In 2011, the program used four different types of switches, two different communications methods, and different software and firmware programs to dispatch each demand reduction event.

When the Company, at the end of the 2011 cycling season, discovered these issues through a third-party evaluation and its own end-of season program analysis, it promptly alerted Staff and solicited input from Staff and the Energy Efficiency Advisory Group ("EEAG") to remedy the problems. Immediately upon discovering these issues, Idaho Power began taking corrective action. This is precisely what Staff has communicated as an expectation for DSM operations—transparency and continuous improvement.

Further, Staff implies that because in 2010 Idaho Power chose not to use Rider funds for the amounts paid as customer incentives to those A/C Cool Credit program participants who were not cycled, it should now be disallowed from funding customer incentives to non-cycled participants from the Rider. However, there is a distinction between discovering problems with the program before or after the cycling season. In 2010, Idaho Power was informed prior to the cycling season that paging services had been discontinued in certain areas. The Company decided that in order to retain participants, it should follow through on its commitment to pay participant incentives at shareholder's expense. However, in 2011, Idaho Power implemented the program with the reasonable belief that the equipment and software were operating as intended. It was only during post-season analysis that the Company discovered otherwise. Perhaps if the Company had knowingly made incentive payments to program participants with knowledge that those participants were not receiving signals, the Company may have made the same decision as it did in 2010. That was not the case. As is true for the majority of DSM programs, the best the Company can do is recover its costs dollar-for-dollar. It is inappropriate for the Commission to deny recovery of program expenses that were incurred based upon the reasonable expectation that participants were receiving dispatch signals.

In an effort to remedy past problems and improve the program, the Company is phasing out radio-controlled paging switches and replacing them with Advanced Metering Infrastructure ("AMI"). Utilizing AMI is an efficient and reliable way to dispatch demand response events and the Company plans to continue using new technology to improve the program. This represents a significant investment in the program that the

Company believes will alleviate issues and ensure that the program runs correctly. However, like any program involving new technology, and taking into account the geographic dispersion and volume of customer participants, the number of controlled compressors, and the sophistication of software needed to dispatch a signal to every switch on every compressor, unforeseen issues may arise. The Company will continue to evaluate the program to ensure consistent improvement.

IV. CUSTOMER-SPECIFIC INCENTIVE PAYMENT INFORMATION FOR THE FLEXPEAK MANAGEMENT PROGRAM IS UNECESSARY FOR ANALYSIS OF THE PROGRAM

Staff recommends that the Commission order Idaho Power to detail the amount of incentives paid by its contractor, EnerNOC, to participants in the FlexPeak Management program. Staff Comments at 12-13. The Company does not have and is not entitled to this information. As stated in EnerNOC's comments submitted in this case, this information is a highly confidential trade secret. Furthermore, the incentive amounts do not reflect the value of EnerNOC's services or the value added to program participants. The program is efficient and, as evidenced by cost benefit ratios, cost-effective. Detailed incentive payment information is unnecessary for Staff's analysis of whether the program funds were prudently spent.

V. THE IRRIGATION EFFICIENCY REWARDS PROGRAM IS WELL-RUN AND NEW TOTAL RESOURCE COST ("TRC") TEST VARIATIONS ARE UNNECESSARY FOR ITS EVALUATION

Idaho Power seeks to clarify several of Staff's statements in its discussion of the Company's Irrigation Efficiency Rewards program.

Staff pointed out a potential mischaracterization of the Regional Technical Forum's ("RTF") status of the Company's savings estimates. Staff Comments at 14. The Company believes that Staff misinterpreted the Company's Demand-Side

Management 2011 Annual Report ("2011 DSM Report"), which states that the "measures are currently under review." 2011 DSM Report at 98. "Under review" in the sentence references Idaho Power's efforts to review the measures within the program through a University of Idaho Study mentioned in the 2011 DSM Report and does not refer to the RTF's measure status. *Id.* Although the RTF's measure status lists these savings as "out of compliance," in May 2012, the RTF extended Idaho Power's opportunity to obtain approval of planned changes to the irrigation hardware measures to November 14, 2012.

Staff compared the reported increase in program costs and non-electric benefits ("NEB") between 2010 and 2011 program years using inequivalent data points. The increase in NEBs in 2011 is largely attributable to the treatment of participant costs in the Custom Incentive Option within the program. Staff states that the program budget (the Utility Cost) increased by 7 percent; however, NEBs are used in the calculation of the TRC and should be compared to the TRC and not the Utility Cost (the program budget). The correct comparison shows that the TRC increased by 91 percent. 2011 DSM Report, Appendix 4 at 146-147.

Staff recommends that the Company include the TRC ratio with and without NEBs in its DSM Annual Report. The Company disagrees with this approach because it deviates from the guidelines and cost-effectiveness tests set forth in the Memorandum of Understanding for Prudency Determination of DSM Expenditures ("DSM MOU"), which Staff, the Company, and other utilities have established as expectations for DSM programs and which was approved in Order No. 31039. DSM MOU at 9-10. This new calculation would create an Idaho-specific TRC, which would be calculated differently from the methods directed by the national standards, such as the End-Use Technical Assessment Guide (TAG) manual and the California Standards Practice Manual which cite the application of NEBs in the TRC. The DSM MOU entered into by Staff and utilities promotes such consistency and recognizes that NEBs are "important and prudent factors to asses in analyzing cost-effectiveness." DSM MOU at 9-10.

Idaho Power's third-party evaluation of the program summarized, "Overall, the results of IPC's Irrigation Efficiency Rewards program process evaluation show that it is a robust, ambitious, and leading edge irrigation program." 2010 DSM Annual Report, Supplement 2: Evaluation. The Company believes that additional ratio requirements, such as running the TRC with and without NEBs, are unnecessary to analyze the program and believes that the guidelines set forth in the DSM MOU accurately assess its value.

VI. STAFF MAY HAVE MISCALCULATED THE TOTAL RECOMMENDED AMOUNT OF EXPENDITURES

Staff recommends that the Commission approve Rider expenditures of $35,728,206 as prudently incurred. Staff Comments at 17. The Company believes that Staff's recommendation contains a calculation error. In spite of recommending a disallowance, Staff's total recommended amount is greater than the Company's request that the Commission approve $35,622,976 as prudently incurred Rider-funded expenditures.

VII. THE COMMISSION SHOULD ALLOW RECOVERY OF ALL RIDER-RELATED LABOR COSTS

Staff recommends that the Company not fund any future wage increases through the Rider until the increases can be vetted through a general rate proceeding.

Staff states that 2010 DSM labor expenses were approximately 6 percent of the total DSM budget and that, in 2011, labor expenses had increased to 7.5 percent of the total DSM budget. Staff Comments at 8. This is not an "apples-to-apples" comparison because 2010 Idaho Rider expenses included the Custom Efficiency incentives that were moved into a regulatory asset account in 2011. To accurately compare 2010 and 2011, the amount in the 2011 regulatory asset should be included with the Rider expenses. Like 2011, the labor expenses of $2,637,729 are approximately 6 percent of the total amount of $42,641,361 requested for prudency. This demonstrates that labor expenses have not dramatically increased between 2010 and 2011 as implied by Staff's Comments.

Importantly, with the exception of the Home Improvement Program, all programs reviewed for prudence in this case were deemed cost-effective pursuant to the three cost-effectiveness tests required by the DSM MOU. Notably, each of those cost-effectiveness tests included the Rider employee salaries, inclusive of the wage increases at issue.

Staff's recommendation that the Company not fund wage increases through the Rider is not appropriate in a case for determination of DSM expenditures as prudently incurred. As the Company set forth in Case IPC-E-11-05, the setting of prospective rates in a general rate case based upon a determination of prudent levels for salaries in a test year is very different than evaluating the prudence of costs already incurred. Following a general rate case, if the Commission determines that recoverable salary expenses are appropriately set at levels lower than those proposed by the Company, the Company has the ability to react to such a Commission directive and prospectively adjust employee compensation and any other expenses disallowed or adjusted by Commission order. However, in this case, the Company has already expended the funds. If the Commission approves Staff's recommendation, the Company will have no ability to recover any of those expenses. This is a wholly inequitable result, and the Commission should deny Staff's recommendation.

In addition, tying the disposition of a specific expense such as payroll to a finding in a future general rate case filing poses significant practical problems on a forward-looking basis. If the logic of Staff's recommendation is followed, it 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. Again, this yields an inequitable result for the Company. The timing of when the Company chooses to file a general rate case should not dictate when Rider-funded employees should receive wage increases.

With the anticipation that cost recovery will be allowed through the Rider, the Company has funded a significant amount of program expenses demonstrated to be cost-effective at its own risk. If Rider payroll-related expenditures are disallowed, the Company will be penalized the amount of the disallowance even though it was demonstrated to be cost-effective. Expenditure disallowance highlights the asymmetric risk and reward proposition for the majority of the Company's cost-effective energy efficiency efforts. The best the Company can do is recover its expenses for its efforts. The Commission should consider this lack of symmetry and conclude that Staff's recommendation is not warranted.

VIII. THE COMPANY'S COST OF CAPITAL IS THE APPROPRIATE INTEREST RATE FOR THE CUSTOM EFFICIENCY PROGRAM INCENTIVES RECORDED IN A REGULATORY ASSET ACCOUNT

Idaho Power maintains that the currently recognized cost of capital is the appropriate interest rate for the Customer Efficiency program incentives recorded in a regulatory asset account. By using the cost of capital as the interest rate for a DSM program capitalization account, DSM program expenditures are treated in a manner similar to the recovery of costs associated with other capital investments the Company makes to serve its customers. This concept was supported by the Commission in the past in Order Nos. 22299 and 22758. Staff also supported using the then-current cost of capital in the stipulation in Case IPC-E-10-27.

IX. PROPOSED CHANGES TO EEAG MEETINGS

Staff suggested increasing the frequency and depth of the EEAG meetings to provide better outcomes for the advisory group. In May, the Company sought and obtained input from EEAG members, several of whom travel to attend meetings, on meeting frequency in order to optimize the use of advisory group members' time. Most supported more frequent meetings. In order to increase effectiveness of the EEAG, Idaho Power's July 19 EEAG meeting included a mini-workshop on objectives and content to improve EEAG meeting quality. The EEAG provided constructive suggestions, such as wanting to learn more about DSM emerging issues and struggles, program evaluation, Idaho Power hosted webinars to EEAG members to provide information and education on specific programs, and a longer-term meeting scheduling. Idaho Power is evaluating the suggestions and is looking for ways to incorporate them.

While EEAG meetings are open to the public, the meetings are held primarily for EEAG members. The Company relies upon its EEAG members for advice and input because the 12-member committee represents various stakeholder groups such as each major customer group, governmental and environmental entities, and the Company. The Company strives for balance when relying on member representatives.

X. ICIP'S COMMENTS ARE NOT APPROPRIATELY ADDRESSED IN THIS PROCEEDING

ICIP's comments describe issues, concepts, and testimony currently being contested in Commission Case No. GNR-E-11-03, a docket in which it is not an intervening party, in order to recommend that the Commission use decisions that they have not yet made in that case to find that expenditures for all DSM programs in the future be assessed in the same manner as Public Utility Regulatory Policies Act of 1978 avoided costs for determining prudence. While the comments of ICIP may identify interesting issues and concepts proposed in a different docket, they are only tangentially related to the subject of this case. At issue in this docket, Case No. IPC-E-12-15, is whether the Company's DSM expenditures in 2011 were prudently incurred.

Idaho Power asserts that the 2011 DSM expenditures were prudently incurred. Furthermore, the Company has applied the same methodology that it has applied in every prudence determination approved by the Commission since the inception of the Rider to establish the alternate costs derived in the 2011 Integrated Resource Plan to determine cost-effectiveness of DSM programs.

The Company believes in this proceeding it is most appropriate for the Commission to focus on the determination of whether the Company's 2011 DSM expenditures were prudently incurred. It is inappropriate to recommend that avoided cost calculations or rates, not yet determined in a separate docket, be used to determine the prudence of past DSM expenditures, which have already been incurred by the Company. Similarly, it is inappropriate to recommend that future DSM expenditures, which are not the subject of the prudence determination in this case, be determined by avoided cost calculations without allowing the parties the opportunity to present testimony and arguments for such a change in methodology. If the Commission finds any merit in ICIP's Comments, the Company recommends that an evaluation on whether to change the current avoided cost methodology for DSM expenditures would most appropriately be addressed in a separate docket where the subject can be thoroughly evaluated by all parties.

XI. CLARIFICATION OF ISSUES RAISED IN ICL COMMENTS

Idaho Power appreciates ICL's general support of Idaho Power's 2011 DSM expenditures and would like to clarify a few issues ICL raised.

ICL pointed out that Idaho Power did not include some of the information found in Portland Energy Conservation, Inc.'s ("PECI") impact evaluation of the A/C Cool Credit program in its 2011 DSM Report. The Company includes copies of all evaluations in its DSM Annual Report, Supplement 2: Evaluations, but it is not required and it would not be practical to repeat all the information and findings from each evaluation separately in the DSM Annual Report as well. The Company has taken PECI's recommendations into account, including testing various cycling strategies occurring in the summer of 2012 and these results will be included in the 2012 DSM Annual Report.

ICL proposes that the Commission focus on increasing customer participation in programs with Ratepayer Impact Measure ("RIM") scores greater than 1.0. However, the RIM test, also called the "no losers" test, was specifically excluded from tests the Commission directed the Company to use:

> To screen the cost-effectiveness of potential DSM projects, the advisory group shall use the following tests: total resource cost, utility cost and participant cost. However, these tests are merely guidelines that should not be used to exclude projects that may be desirable as good public policy. The advisory group is not required to use the non-participant ("no losers") test.

Order No. 28894 at 6. Therefore, as directed by the Commission, the Company pursues all cost-effective DSM programs by aiming to have benefit-cost ratios greater than one under the TRC, Utility Cost Test, and Participant Cost Test for each program.

The ICL points out a "huge" gap between economic and achievable potential that is shown in the Company's most recent potential study, conducted in 2009. ICL

Comments at 4. Economic potential calculates savings when cost-effective measures are installed. Nexant Potential Study, August 14, 2009, page 1-2. There is no expectation that the Company or any energy efficiency organization could achieve the economic potential. On the other hand, achievable potential is potential that the consultant deemed achievable by the Company, and Idaho Power has consistently exceeded its achievable potential. Due to inevitable changes in economic, technical, and societal characteristics and Idaho Power's consistent ability to exceed achievable potential identified in the Nexant study, Idaho Power is currently under contract with EnerNOC Utility Solutions to complete a new potential study which should be available by August 2012.

XII. CONCLUSION

In 2011 Idaho Power achieved substantial DSM results by following the guidelines set forth in past Commission orders. Although some programs encountered issues, the Company took immediate action to rectify them as soon as possible and has taken steps to improve programs and prevent issues from arising in the future. Accordingly, Idaho Power respectfully requests that the Commission issue an order designating Idaho Power's expenditure of $42,641,361 DSM funds, $35,622,976 of which are Rider funds and $7,018,385 are Custom Efficiency incentives, as prudently incurred.

DATED at Boise, Idaho, this 23rd day of July 2012.

JULIA A. HILTON
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 23rd day of July 2012 I served a true and correct copy of IDAHO POWER COMPANY'S REPLY COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

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Christa Bearry, Legal Assistant