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IDAHO PUBLIC  
UTILITIES COMMISSION

Attorney for the Idaho Conservation League

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION )	
OF IDAHO POWER COMPANY FOR A )	
DETERMINATION OF 2011 DEMAND )	CASE NO. IPC-E-12-15
SIDE MANAGEMENT ("DSM") )	
EXPENDITURES AS PRUDENTLY )	COMMENTS OF THE IDAHO
INCURRED. )	CONSERVATION LEAGUE

COMES NOW The Idaho Conservation League ("ICL") with the following comments on Idaho Power's 2011 Demand Side Management ("DSM") investments. Based on the results of the cost effectiveness tests, largely derived from third party evaluations, Idaho Power's DSM spending in 2011 was prudent. Below ICL addresses several issue with the 2011 DSM investments. ICL also comments on the future of existing DSM programs because prior Commission orders and the DSM Memorandum of Understanding ("MOU") between Staff and Idaho's investor owned utilities establish this prudence review is the appropriate forum to raise these issues.

**I. The Standard for a Prudent Investment**

The Staff and Idaho Power have agreed in the past that the prudence of an investment is "based on the information available at the time the decision is made."<sup>1</sup> As more or new information becomes available that draws into question the prudence of an investment, the role of the regulator is to ensure the utility is "aware of changing conditions and to take corrective actions to mitigate negative impacts on its customers[.]"<sup>2</sup> The Staff and Idaho's three investor owned utilities entered into a *Memorandum of Understanding for Prudence Determination of DSM Expenditures*.<sup>3</sup> This MOU describes the guidelines applicable to reviewing demand side management investments, which if the utilities make a good faith effort to follow, creates a prima

<sup>1</sup> Order No. 27877, IPC-E-98-12.

<sup>2</sup> *Id.*

<sup>3</sup> *Memorandum of Understanding for Prudence Determination of DSM Expenditures*, Order No. 31039, IPC-E-09-09 (April 14, 2010).

facie showing of prudence.<sup>4</sup> Idaho Power's 2011 DSM Report documents this good faith effort. Accordingly, ICL generally supports Idaho Power's 2011 DSM investments.

## II. Idaho Power's 2011 DSM Investments Were Prudent.

The chief measure of prudence for energy efficiency is whether the programs are cost effective to the utility as well as ratepayers regardless of whether they participate in the programs. The Staff, in Attachment 1 of the MOU, expects "that all programs and individual measures should have the goal of cost effectiveness from the total resource, utility, and participant perspective."<sup>5</sup> The total resource cost test (TRC) "reflects the total benefits and costs to all customers (participants and non-participants) in the [utility] service territory."<sup>6</sup> The utility cost test (UTC) "calculates the costs and benefits of the program from the perspective of . . . the utility implementing the program."<sup>7</sup> The participant cost test (PCT) "assesses the costs and benefits from the perspective of the customer installing the measure."<sup>8</sup> A cost/benefit ratio greater than 1.0 under each of these tests means the program is prudent for the utility and ratepayers, both those who participate and those who do not.

In 2011, Idaho Power improved their calculation of the NPV by using a discount rate more applicable to the perspective a cost effectiveness test measures.<sup>9</sup> In 2010, the Company applied their weighted average cost of capital when calculating the net present value (NPV) of costs and benefits under all the cost effectiveness tests.<sup>10</sup> According to the National Action Plan for Energy Efficiency: "As each perspective portrays a specific stakeholder's view, each perspective comes with its own discount rate."<sup>11</sup> ICL endorses Idaho Power's use, in 2011, of a real discount rate when calculating the participant's bill savings. From the customer perspective, Idaho Power's weighted average cost of capital is not applicable; a customer cannot take the bill savings and invest them at the utility capital costs. Instead, a customer can invest their bill savings at a return more closely resembling the real discount rate used by Idaho Power. This change paints a more accurate picture of the cost effectiveness of DSM programs.

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<sup>4</sup> MOU at 2 – 6.

<sup>5</sup> MOU at 9.

<sup>6</sup> National Action Plan for Energy Efficiency, *Understanding Cost-Effectiveness of Energy Efficiency Programs: Best Practices, Technical Methods, and Emerging Issues for Policy-Makers* at 3-7 (November 2008).

<sup>7</sup> *Id.* at 3-6 (NAPEE calls this test the program administrator cost test in recognition that some DSM programs are run by third parties, not just utilities.).

<sup>8</sup> *Id.* at 3-5.

<sup>9</sup> *Idaho Power 2011 DSM Report, Supplement 1* at 3.

<sup>10</sup> *Idaho Power 2010 DSM Report, Supplement 1*.

<sup>11</sup> NAPEE at 4-7.

With one exception, each of the 19 programs offered in Idaho with measurable energy savings or demand reduction passed the utility, total resource, and the participant tests in 2011.<sup>12</sup> The one exception was the Home Improvement Program that had a TRC and PCT of 0.76.<sup>13</sup> The 2011 DSM report explains that during 2011 a third party impact review discovered an error in the model used to estimate the energy savings when initiating the program.<sup>14</sup> Because of the 2011 impact review, Idaho Power removed the non-cost effective incentive for adding attic insulation to gas heated homes. This kind of adaptation to new information and corrective action is prudent.<sup>15</sup>

The remaining 18 programs had a wide range of cost effectiveness results, ranging from 1.10 to 5.91 from Idaho Power's perspective and 1.10 to 3.00 from the perspective of all ratepayers.<sup>16</sup> From Idaho Power's perspective the A/C Cool Credit program was the least cost effective. In fact, when considered as a one-year program the result is less than 1.0. However, because A/C Cool is a demand response resource, available to meet summer peak demand for years to come, it is more appropriate to measure the cost effectiveness over a long-term prospective. Until the Commission measures the prudence of generation resources annually there is no justified reason to measure demand response programs based on one year of performance.

Idaho Power's DSM report also includes the Ratepayer Impact Measure (RIM) test, which "examines the potential impact of the energy efficiency program has on rates overall."<sup>17</sup> A RIM score less than one indicates the program could result in rate increases, while a score above one indicates rates are likely to decrease due to the DSM program. A RIM score less than one is not necessarily a bad thing since, while rates might increase, customer bills can decline due to reduced consumption.<sup>18</sup> The proper policy is to focus on reducing ratepayer bills, not utility rates, since the bill is where ratepayers feel the pain. Several DSM programs have RIM scores greater than one indicating that investing in these programs will reduce customer rates and bills.<sup>19</sup> Knowing that these programs that will reduce rates and bills it is imprudent for Idaho Power to not invest in

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<sup>12</sup> *Idaho Power 2011 DSM Report Supplement 1* at table 3, page 10.

<sup>13</sup> *Idaho Power 2011 DSM Report, Supplement 1* at 37.

<sup>14</sup> *Idaho Power 2011 DSM Report* at 45,

<sup>15</sup> *Order No. 27877, IPC-E-98-12.*

<sup>16</sup> *Idaho Power 2011 DSM Report Supplement 1* at table 3, page 10.

<sup>17</sup> NAPEE at 3-6.

<sup>18</sup> *Id.* at 6-4.

<sup>19</sup> *Idaho Power 2011 DSM Report, Supplement 1* at Table 3, Page 10 (Programs with a RIM greater than one are: A/C Cool Credit, Flex Peak Management, Irrigation Peak Rewards, Ductless Heat Pump Pilot, Energy Star Homes Northwest, Heating and Cooling Efficiency, Building Efficiency, Custom Efficiency, Easy Upgrades, and Irrigation Efficiency).

these programs. Further, the Commission should order the Company to focus specifically on increasing customer participation in programs with RIM scores greater than 1.0.

### III. The Commission Should Direct Idaho Power to Expand Cost Effective DSM Programs.

Based on prior Commission orders and certain provisions of the MOU, this prudence review case is the appropriate forum to comment on future DSM investments. When reviewing cost recovery mechanisms the Commission stated: "Idaho Power's energy efficiency programs are reviewed by Staff and other third parties and then by the Commission to evaluate their effectiveness. Existing processes enable the Company to determine which programs should be enlarged or scaled back, based on an analysis of cost effectiveness."<sup>20</sup> In Idaho Power's 2011 general rate case the Commission noted the need for headroom in DSM funding for future programs and stated: "We continue our commitment that the Company should pursue all cost-effective energy efficiencies."<sup>21</sup> Since this prudence review examines the cost effectiveness of DSM investments, ICL submits this is the appropriate forum to discuss whether to enlarge or scale back certain programs.

The MOU contemplates this forward-looking process. In the MOU, the Staff and Idaho Power agreed to describe, in the program specific sections of the DSM report, "Process changes completed or planned during the upcoming year, if any."<sup>22</sup> Further, in the impact and cost effectiveness section the Staff and Company agreed to describe "changes in programs due to evaluation results."<sup>23</sup> Idaho Power has described some changes arising from the third-party process and impact reviews, but has not discussed others.

More importantly, while the Company's energy savings efforts are laudable, Idaho Power has again failed to describe how it intends to close the gap between the available, cost effective DSM potential, and the energy savings it actually achieves. The Company's most recent DSM Potential Study reveals a huge the gap between economic potential and achievable economic potential.<sup>24</sup> The Study calculates there was 945 GWh of economic, or cost effective, potential available in 2009, with increasing amounts going forward.<sup>25</sup> Allowing for a substantial margin of error, 30% of this potential is 283.5 GWh. In 2011, Idaho Power acquired 179.4 GWh.<sup>26</sup> The

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<sup>20</sup> Order No. 32245 at 5, IPC-E-10-27 (review of appropriate cost recovery mechanisms).

<sup>21</sup> See Order No. 32426 at 21, IPC-E-11-08.

<sup>22</sup> MOU at 4.

<sup>23</sup> MOU at 5.

<sup>24</sup> Nexant, *Idaho Power Demand Side Management Potential Study – Volume 1*, (August 14, 2009).

<sup>25</sup> *Id.*, at Figure 3.1, Figure 4.1, and Figure 5.1.

<sup>26</sup> *Idaho Power 2011 DSM Annual Report* at 4 (including NEEA).

2011 DSM report reveals, again, that DSM programs are highly cost effective and describes several things Idaho Power could do to close this achievement gap. Knowing that cost effective DSM exists, and knowing the programs that can achieve this, it is imprudent for the Company to not expand DSM savings far beyond current levels.

The time has come for the Commission to direct the Company to finally explain their strategy for closing the achievement gap. Acquiring more savings from existing cost effective DSM programs is the first step to achieving this Commission's directive to "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."<sup>27</sup> The Commission has also recently clarified that current DSM funding levels do not limit this obligation stating: "Idaho Power should continue to pursue all cost effective DSM – even in excess of the Energy Efficiency Rider."<sup>28</sup> Because the Commission has stated that an analysis of cost effectiveness is the basis for enlarging programs, ICL submits that now is the time to wrestle with how to achieve all available, cost effective energy efficiencies. As a member of Idaho Power's Energy Efficiency Advisory Group (EEAG) ICL stands ready, willing, and able to work with the Company to close the achievement gap. This group of experts is a valuable resource to address the examples ICL notes below, as well as other opportunities to pursue all available energy efficiencies. One method the Commission could employ is to instruct the Company to work with the EEAG to develop a strategy to close the achievement gap between the available and achievable energy efficiency potential.

The Energy Efficiency Lighting Program is the most cost effective residential program from both the utility and ratepayer perspective with a utility cost ratio of 3.99 and total resource cost ratio of 2.48.<sup>29</sup> The 2011 DSM report states that the average older home has 38 light bulbs, while the average new home has 77.<sup>30</sup> Meanwhile Idaho Power's own residential end use survey reveals that 74% of customers have less than ten efficient bulbs "indicating there is market potential to install more CFLs per home in the future."<sup>31</sup> Despite recognizing this potential the 2012 strategies section states the company will "monitor the market" and "explore" a more

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<sup>27</sup> *Order No. 30201* at 12, IPC-E-06-09 (December 15, 2006). *See also Order No. 32331* at 10, IPC-E-11-05 (August 18, 2011); *Order No. 32113* at 8, IPC-E-10-09 (November 16, 2010) (citing *Order No. 29784* IPC-E-04-29 (May 13, 2005); *Order No. 29952*, RMP-E-05-10) (January 12, 2006) (authorizing RMP to initiate DSM programs and cost recovery)).

<sup>28</sup> *Order No. 32245* at 5, IPC-E-10-27 (review of cost recovery mechanisms).

<sup>29</sup> *Idaho Power 2011 DSM Report, Supplement 1* at Table 3, Page 10.

<sup>30</sup> *Idaho Power 2011 DSM Report* at 31.

<sup>31</sup> *Idaho Power 2011 DSM Report* at 32.

comprehensive program.<sup>32</sup> This is not a prudent response to changing information. Moreover, the Company brings up the bulb efficiency standards in the *Energy Independence and Security Act of 2007*.<sup>33</sup> But Idaho Power does not disclose whether they are actively opposing efforts by some to repeal this Act.<sup>34</sup> Like appliance standard and building codes, ensuring high standards for lighting will transform the market place and allow Idaho Power to phase out incentives. The Commission should order Idaho Power to explain their activities in supporting these vital national standards.

ADM Associates evaluated the impact of the Home Improvement Program and suggested several changes, including allowing participants to assign their incentive to the contractor.<sup>35</sup> This allows the contractor to discount the service immediately and engages them to “more effectively market and sell insulation improvements.”<sup>36</sup> This same suggestion can apply to any incentive program offered in cooperation with local contractors or service providers. Idaho Power should explain why they did not address this suggestion in the 2011 DSM report and why they should not apply this to other incentive programs.

PECI reviewed the A/C Cool Credit program and offered a few recommendations to improve this program.<sup>37</sup> While much of the evaluation, and Idaho Power’s DSM report, discuss the communications problems with the A/C units, the Peci report also offers a key suggestion – increasing the cycling rate. Peci found that at current cycles of 50% in Boise had a minimal effect on home temperatures, but limited the demand reduction achievements compared to a 60% cycling rate in Pocatello.<sup>38</sup> Peci also recommends targeting high energy users by using the Company’s AMI data.<sup>39</sup> The 2011 DSM report does not discuss these recommendations.

The residential programs are relatively balkanized product based incentives. In contrast, the Weatherization Solutions for Eligible Customers program is the beginnings of a whole house improvement program that can realize deep and lasting energy savings. The 2011 DSM report documents average home savings of 7,240 kwh to 11,333 kwh annually with a cost effectiveness ratio of 2.25 for both the utility and ratepayers.<sup>40</sup> ICL applauds Idaho Power for initiating a program that focuses on homes on the edges of poverty level and complements the low-income

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<sup>32</sup> *Id.*, at 33.

<sup>33</sup> *Id.*, at 32 – 33.

<sup>34</sup> Katie Howell, [Light Bulb Stokes Fury in Senate Hearing](http://www.nytimes.com/gwire/2011/03/10/10greenwire-light-bulb-law-stokes-fury-in-senate-hearing-90938.htm), N.Y. Times (March 10, 2011)(available at: <http://www.nytimes.com/gwire/2011/03/10/10greenwire-light-bulb-law-stokes-fury-in-senate-hearing-90938.htm>)

<sup>35</sup> ADM Associates, *Impact Evaluation of 2010 Home Improvement Program at 6-4, Idaho Power 2011 DSM Report, Supplement 2.*

<sup>36</sup> *Id.*

<sup>37</sup> Peci A/C Cool Credit Program Impact Evaluation at 52, *Idaho Power 2011, DSM Report Supplement 2.*

<sup>38</sup> *Id.*,

<sup>39</sup> *Id.*

<sup>40</sup> *Idaho Power 2011 DSM Report at 64 – 65.*

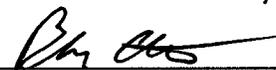
home program. To increase DSM savings ICL recommends the Company expand this type of whole house improvement program to all homes, but require a cost share from homeowners with higher income levels.

#### IV. Conclusion

Prudence of DSM investments asks whether, based on the information available at the time, Idaho Power invested ratepayer dollars to acquire cost effective energy savings. The 2011 DSM report documents that, overall, Idaho Power invested prudently in 2011. By using a more appropriate discount rate to measure the present value of customer bill savings, Idaho Power paints a more accurate picture of DSM cost effectiveness. While the Company discovered an error in the Home Products Program energy savings assumptions, it rectified this error based on the new information arising from the third party impact evaluation. The A/C Cool Credit program suffers from technical communication issues, but is cost effective when measured over the appropriate long term prospective. This case is the proper forum for the Commission to offer guidance on expanding existing DSM programs. The most obvious action in this category is to order the Company to expand all DSM programs with a RIM score above one, since this will reduce electric rates. Also, the Commission should order Idaho Power to: (1) describe its efforts to protect the lighting efficiency standards embodied in the *Energy Independence and Security Act of 2007*; (2) allow customers to assign incentives to contractors who install all DSM measures; (3) target high energy users AND increase the cycling rate in the A/C Cool Credit Program; and (4) expand the Weatherization for Eligible Customers program to all customers with a cost sharing provision based on household income.

ICL requests the Commission consider the above comments and issue an Order in this case approving Idaho Power's 2011 DSM spending and providing guidance on expanding current DSM programs in 2012.

Respectfully submitted on the 25<sup>th</sup> day of June, 2012

  
Benjamin J. Otto  
Idaho Conservation League

## CERTIFICATE OF SERVICE

I hereby certify that on this 25th day of June, 2012 I delivered true and correct copies of the foregoing COMMENTS OF THE IDAHO CONSERVATION LEAGUE to the following persons via the method of service noted:

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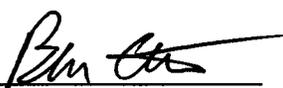
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