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KARL T. KLEIN
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0312
IDAHO BAR NO. 5156

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5983

Attorney for the Commission Staff

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** **STAFF'S ANSWER TO IDAHO POWER'S PETITION FOR RECONSIDERATION**

Idaho Power Company has petitioned the Commission to reconsider Order No. 32667. *See* Idaho Power's Petition for Reconsideration.[1] In that Order, the Commission finds that the Company prudently incurred $41,942,123.50 in 2011 demand-side management (DSM) expenses, including $34,923,738.50 in net Rider expenses and $7,018,385 in Custom Efficiency Program incentive expenses. *See* Order No. 32667. The Company argues that the Commission should increase the amount of the prudency determination by $616,382, to $42,558,505.50, because the Commission's initial determination erroneously: (1) includes a $526,781 accounting error adjustment that was already reflected in last year's (2010) DSM prudency request; and (2) excludes $89,601 in Rider-funded, labor expense increases by deferring a finding on those increases until the Company provides evidence of reasonableness.

[1] On November 14, 2012, Idaho Power filed an errata to its petition to correct some of the figures set forth in the Petition. *See* Errata to Idaho Power Company's Petition for Reconsideration. Staff's response is to the Petition as corrected by the errata.

In answer to the Petition, Staff agrees in part and disagrees in part with the Company's request. As discussed below, Staff agrees that the Commission should find that the accounting error adjustment does not reduce the DSM expenses that the Company prudently incurred in 2011, and that the actual, prudently incurred Rider expenses in 2011 were $35,450,519.50. But Staff disagrees with the Company about labor expenses. Staff believes the Commission should deny the Company's Petition as to the labor expense increases, and continue to defer its findings on the prudency of such expenses until the Company provides evidence of their reasonableness.

STANDARD OF REVIEW

Idaho Code § 61-626 authorizes interested persons to petition the Commission to reconsider any matter determined in a final order. Rule 331.01 of the Commission's Rules of Procedure mandates that the petition: (1) specify "the ground or grounds why the petitioner contends that the order ... is unreasonable, unlawful, erroneous or not inconformity with law; and (2) state "the nature and quantity of evidence or argument the petitioner will offer if reconsideration is granted." The petition "must state whether the petitioner ... requests reconsideration by evidentiary hearing, written briefs, comments, or interrogatories." RP 331.03.[2] Then, within 28 days after the petition is filed, the Commission must "determine whether or not it will grant such reconsideration, and make and enter its order accordingly." *Idaho Code* § 61-626(2). If reconsideration is granted, the order must specify how the matter will be reconsidered, and the matter must be reheard, or written briefs, comments or interrogatories must be filed, within 13 weeks after the date for filing the petition. *Id.* If reconsideration ultimately is ordered, the commission must issue its order upon reconsideration within 28 days after the matter is finally submitted for reconsideration. *Id.*

ARGUMENT

The Commission's Order should reflect that the accounting adjustment does not reduce DSM expenditures that were prudently incurred in 2011. However, the Commission should reject the Company's arguments regarding the labor expense increases, and find that the

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[2] Idaho Power's Petition does not specify the method by which the Company wants this matter to be reconsidered. Staff believes that the matter may properly be reconsidered through the parties' briefs, and that a hearing is unnecessary.

Order appropriately defers a decision on the labor expenses until the Company provides evidence of reasonableness.

1. The Commission Order Should Reflect that the Accounting Adjustment does not Reduce DSM Expenditures Prudently Incurred in 2011.

In its Petition for Reconsideration, Idaho Power states that it believes that the Commission has included an accounting error adjustment that was already reflected in last year's (2010) DSM prudence request. Idaho Power believes that this is due to a misunderstanding of some accounting transactions done in 2010 and 2011.

In 2010, Idaho Power inadvertently charged $526,781 to the Idaho Rider which should have been charged to the Oregon Rider. In order to correct the error and as part of the 2010 DSM prudence request, Idaho Power reduced the requested amount to be deemed prudent by $526,781. However, the accounting adjustment was not reflected on the Company's books until 2011. Idaho Power states that because the Commission reflected the adjustment in its determination of prudence of 2010 expenditures, it is not appropriate to also reflect the same adjustment a second time in 2011.

Idaho Power states that the adjustment was reflected in its allowed 2010 DSM expenditures. However, it did not adjust its December 31, 2010 DSM Rider account balance to reflect this adjustment. As reported on page 4 of Staff's comments in that case and ultimately approved by the Commission, the ending balance in the DSM Rider account as of December 31, 2010 should have been reported as $(17,066,157) which would then carry forward to reflect the actual beginning balance for 2011. However, Idaho Power reported a beginning balance on January 1, 2011 of $(17,592,938). It is important to properly state the appropriate 2011 ending balance in the DSM Rider balancing account. In its comments in the current case, Staff used beginning balance reported in Idaho Power's 2011 Annual DSM Report $(17,592,938) to show consistency with what was being reported by the Company. That beginning balance still included the error from 2010. In order to reconcile with the ending balance being reported in the annual report, the accounting error adjustment needed to be removed from the balancing account. Staff illustrated this reconciliation on page 4 of its comments. The ending balance as of December 31, 2011 consistent with the Commission Order is $(5,149,195.50) as shown below:

Table 1

January 2, 2011 Beginning Balance	$(17,592,938.00)
2010 Accounting Adjustment Correction	526,781.00
Corrected Beginning Balance	(17,066,157.00)
2011 DSM Funding plus Accrued Interest	37,367,481.00
Balance Transfer to PCA	10,000,000.00
2011 DSM Expenditures	(35,623,321.00)
2011 Accounting Error –Transfer to Oregon	345.00
Adjustment to A/C Cool Credit Program	82,855.50
Labor Adjustment	89,601.00
Adjusted 2011 Expenditures for recovery	(35,450,519.50)
December 31, 2011 Ending Balance	$ (5,149,195.50)

The ending balance on December 31, 2011, inclusive of all the Commission's adjustments, should be $(5,149,195.50) as reflected in Table 1 above. The ending balance reported by the Company in its DSM Annual Report is $(5,321,997). The difference between the two ($172,801.50) can be easily reconciled as shown in Table 2 below, and is the total of the remaining three adjustments ordered by the Commission in the current case:

Table 2

Adjustment for A/C Cool Credit Program	$ 82,855.50
Accounting Error – transfer to Oregon Rider	345.00
Adjustment for 2011 Labor Increases	89,601.00
Total of Commission Adjustments	$ 172,801.50

The total of the three Commission adjustments in this case is $172,801.50, which is exactly the difference between the Commission's calculated ending balance of the DSM Rider account and the ending balance reported in the Company's DSM Annual Report. When the accounting error adjustment in question is properly reflected, the 2011 ending balance is $(5,149,195.50) and the prudent 2011 Rider expenditure for recovery is $35,450,519.50 as shown above in Table 1. The Commission Order found that the Company had prudently incurred $41,942,123.50 in 2011 DSM expenses, including $34,923,738.50 in ***net*** Rider expenses and $7,018,385 in Custom Efficiency Program incentive expenses. The difference between the 2011 Rider expenditure of $35,450,519.50 and the 2011 ***net*** Rider expense of $34,923,738.50 is the expense reduction of $526,781 that occurred in 2010 but was not booked until 2011.

For the above reasons, the Commission Order should reflect that the accounting error adjustment did not reduce the DSM expenses that the Company prudently incurred in 2011, and should find that the actual, prudently incurred Rider expenses in 2011 were $35,450,519.50 with a 2011 Rider ending balance of $5,149,195.50.

2. The Commission Should Deny the Company's Peition Regarding Labor Expense Increases

Idaho Power asks the Commission to reconsider its decision to defer its prudence determination for $89,601 related to the 2011 Idaho Rider-funded labor expense increase. In support of its request, Idaho Power states that the Idaho Rider-funded labor expenses were incorporated in the three cost-effectiveness tests and those expenses have been proved to be cost-effective. In Order No. 32667, the Commission does not dispute that the Company's DSM programs are shown to be cost-effective. Rather, the Commission has determined that the Company has not carried its burden of proof showing that the salary expense levels included in the calculation are reasonable. The Order states:

> ...the Company has the burden of proving that the increase in labor-related expenses is reasonable. Based on our review of the record, we find that the Company has not yet carried its burden. The record presently lacks sufficient evidence from which we may determine whether the increase in the Company's labor-related expenses is reasonable when compared to the benefits those expenses achieve.

Order No. 32667 at 9.

The Commission's Order further directs the Company to work with Staff to determine what types of information should be provided to better assess the reasonableness of those expenses. *Id.* Staff supports the Commission's decision to defer determining whether the labor expense increases were prudently incurred, and to allow Staff to work with the Company to identify information needed to determine the labor expense prudency in this case and in the future.

CONCLUSION

For the above reasons, the Commission should accept the Company's Petition for Reconsideration regarding the accounting error adjustment as noted above, and deny Idaho Power's Petition for Reconsideration with regard to the labor expense increase.

Respectfully submitted this 20TH day of November 2012.

Karl T. Klein
Deputy Attorney General

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 20th DAY OF NOVEMBER 2012, SERVED THE FOREGOING **STAFF'S ANSWER TO IDAHO POWER'S PETITION FOR RECONSIDERATION,** IN CASE NO. IPC-E-12-15, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

JULIA A HILTON
LISA D NORDSTROM
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
EMAIL: lnordstrom@idahopower.com
jhilton@idahopower.com

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

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

DR DON READING
6070 HILL ROAD
BOISE ID 83703
EMAIL: dreading@mindspring.com

BENJAMIN J OTTO
710 N 6TH STREET
BOISE ID 83702
EMAIL: botto@idahoconservation.org

KEN MILLER
SNAKE RIVER ALLIANCE
PO BOX 1731
BOISE ID 83701
EMAIL: kmiller@snakeriveralliance.org

Brenda Darrell
SECRETARY