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April 25, 2013

**VIA HAND DELIVERY**

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

Re: Case No. IPC-E-13-04  
Second Amendment to Demand Response Agreement with EnerNOC, Inc. –  
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.

Sincerely,

Lisa D. Nordstrom

LDN:csb  
Enclosures

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION )  
OF IDAHO POWER COMPANY FOR ) CASE NO. IPC-E-13-04  
APPROVAL OF ITS AGREEMENT WITH )  
ENERNOC TO IMPLEMENT AND ) IDAHO POWER COMPANY'S  
OPERATE A VOLUNTARY COMMERCIAL ) REPLY COMMENTS  
DEMAND RESPONSE PROGRAM )  
\_\_\_\_\_ )

Idaho Power Company ("Idaho Power" or "Company") respectfully submits the following Reply Comments in response to the Comments filed on April 17, 2013, by the Industrial Customers of Idaho Power ("ICIP").

**I. PROCEDURAL BACKGROUND**

On March 7, 2013, Idaho Power filed a Petition requesting Idaho Public Utilities Commission ("Commission") approval of Amendment No. 2 ("Second Amendment") to the February 23, 2009, Demand Response Agreement between Idaho Power and EnerNOC, Inc. ("EnerNOC") under which Idaho Power provides its FlexPeak Management demand response program ("FlexPeak Program" or "Program") for its commercial and industrial customers ("Agreement"). The proposed modifications

reduce some of the FlexPeak Program's operating and pricing parameters, thus reducing the cost to customers, without suspending the program or impacting current participation levels for 2013. In response to Order Nos. 32762 and 32777, the Commission Staff and ICIP filed comments on April 17, 2013.

Idaho Power agrees with the ICIP that the FlexPeak Program is a valuable demand response program that should continue to operate during the 2013 program season and indeed it will continue to operate during the 2013 season. However, Idaho Power wishes to respond to several of ICIP's arguments so as to clarify the Company's position in this matter.

## **II. DISCUSSION**

### **A. The Cost-Effectiveness of the FlexPeak Program Is Demonstrated Annually in a Transparent Manner.**

The ICIP asserts that it is not possible to evaluate the cost-effectiveness of the FlexPeak Program based upon the information that is publicly available. More specifically, page 6 of its Comments states, "The ICIP appreciates that the Commission said it will continue to evaluate the program, based on cost-effectiveness. However, it is difficult to imagine how a thorough cost effective evaluation can take place in a vacuum." The ICIP continues by stating that "Those ratepayers, as well as the program participants, have the right to be assured that these program costs are cost effective."

Idaho Power agrees that its customers and regulators have the right to be assured that its demand-side management ("DSM") programs are evaluated for cost-effectiveness and are a good use of customer funds. However, the Company asserts that the necessary information to evaluate cost-effectiveness is publicly available and that these evaluations occur regularly.

1. **FlexPeak Program Evaluation and Documentation Is Publicly Available.**

As stated on page 19 of the Demand-Side Management 2012 Annual Report ("DSM 2012 Annual Report"), "Idaho Power's goal is for all programs to have benefit/cost (B/C) ratios greater than 1 for the total resource cost ("TRC") test, utility cost ("UC") test, and participant cost test ("PCT") at the program level and the measure level where appropriate." ICIP has previously stated that it "believes that the most meaningful test for evaluating the programs is the TRC test. That test includes both the costs incurred by the Company and the costs incurred by program participants." ICIP Comments, Case No. IPC-E-10-09, p. 6.

To verify the FlexPeak Program's cost-effectiveness, the Company uses participants' meter data to determine the total demand reduction achieved and reconciles this with each invoice received from EnerNOC to ensure that Idaho Power pays the appropriate amount due pursuant to the Agreement between Idaho Power and EnerNOC. Idaho Power also tracks the total Program costs used to calculate the FlexPeak Program's cost-effectiveness.

Idaho Power then provides both the assumptions and calculations for the cost-effectiveness of all of its DSM programs, including the FlexPeak Program, in several publicly available documents filed with the Commission. The methodology, assumptions, and expected cost-effectiveness of Idaho Power's three demand response programs are described in pages 66-79 of Appendix C of the Company's 2011 Integrated Resource Plan ("IRP"). In Idaho Power's DSM Annual Reports, the Company describes the actual cost-effectiveness of all of its DSM programs, including its demand response programs. Idaho Power reviews the cost-effectiveness of each of its programs annually and publishes them in Supplement 1 of the DSM Annual Report

titled "Cost-Effectiveness" and publishes the cost-effectiveness of the FlexPeak Program again in the FlexPeak Management Annual Report included in Supplement 2 of the DSM Annual Report titled "Evaluation." In the DSM Annual Report supplements, the Company describes how program cost-effectiveness is calculated:

Demand response programs are analyzed over the program life where historical program demand reduction and expenses are combined with forecasted program activity to better compare the program to a supply-side resource. While cost-effectiveness is determined over the program life, it is also calculated for each individual year."

DSM 2012 Annual Report Supplement 1: Cost-Effectiveness, p. 2. Idaho Power publishes both the annual and the program life TRCs for the demand response programs, including FlexPeak Program, in its annual FlexPeak Management and DSM reports. The customers who participate must believe this program is cost-effective from their perspective or they would likely not participate. The FlexPeak Program participants are knowledgeable business customers and their support of the FlexPeak Program has been documented in the EnerNOC customer surveys described on page 96 of the DSM 2012 Annual Report and referenced on page 7 of ICIP's Comments.

Idaho Power understands that ICIP is concerned that the participant incentive payment information is not publicly available to it and its participating members. However, the Company disagrees with ICIP's assertion on page 6 that "The ratepayers are buying a product, demand reduction, the cost of which neither the regulator nor the utility have any true idea as what it actually costs." Idaho Power knows exactly what the cost of the demand response provided by the FlexPeak Program is and publishes it each year in the Company's DSM Annual Report, thus ensuring that the regulator, customers, and other stakeholders know what that cost is as well. The costs are

reported by jurisdiction, funding source, and cost category in the most recent DSM 2012 Annual Report, Supplement 1: Cost-Effectiveness in Table 2. As reflected on the top of page 9 of Supplement 1, the FlexPeak Program cost \$3,009,822 million in 2012. Comparing the cost to the value of demand reduction achieved, the FlexPeak Program had a TRC ratio of 1.21 for 2012 and a program life TRC of 1.22, as shown on page 96 of the DSM 2012 Annual Report, page 6 of Supplement 1: Cost-Effectiveness, and page 10 of the FlexPeak Management Program 2012 Report that is included in Supplement 2: Evaluation filed in Case No. IPC-E-13-08. Absent information to the contrary, this analysis should be sufficient to assure stakeholders of the Program's cost-effectiveness without harming EnerNOC's competitive business model and the underlying success of the program. Idaho Power believes this is what the Commission intended when it stated:

Based on our review of the record, we find no need for the Company's future DSM reports to disclose EnerNOC's incentive payment information so long as the Company pays a reasonable price and the FlexPeak Management Program is cost-effective. We will continue to evaluate the FlexPeak Management Program based on its cost-effective performance.

Order No. 32667, p. 14.

2. **The Success of an Aggregator Program Under a Bilateral Contract Is Dependent on the Business Model that Makes It Attractive to Both the Aggregator and the Participants.**

ICIP has previously argued that it believes energy efficiency and demand response programs should be administered by third parties—not utilities. ICIP Comments, Case No. IPC-E-12-24, pp. 2-3. In its Comments filed in this case, ICIP now argues that "EnerNOC is essentially setting the participants' retail rates for power

received from Idaho Power” and that “EnerNOC is acting as a monopoly provider of demand response service in Idaho Power’s service territory.” ICIP Comments, pp. 6-7.

Idaho Power believes that ICIP misstates EnerNOC’s service relationship. Idaho Power contracts with EnerNOC to provide reduced demand for energy at peak times from commercial and industrial customers. In practice, the remuneration participants receive is negotiated between EnerNOC and the participant. The FlexPeak Program and its pricing model have been approved by Commission Order Nos. 30805, pp. 5-6, and 31098. Idaho Power’s system, and all Idaho Power customers, are the primary beneficiaries of the capacity it contracted to receive via the Agreement between Idaho Power and EnerNOC; the customers that voluntarily participate for financial gain in the FlexPeak Program administered by EnerNOC are not. It is not appropriate to directly regulate a voluntary customer activity under this type of third-party negotiated pricing model, the purpose of which is to minimize or delay the need to build new supply-side resources. In any event, Idaho Power seriously doubts that demand response aggregators like EnerNOC would be interested in continuing to provide such services if subjected to rate regulation as a utility, as ICIP implies it should be.

**B. Idaho Power Seeks to Engage Demand Response Stakeholders to Thoughtfully Determine the Role of Demand Response Now and in the Future.**

Idaho Power is quite dismayed by repeated statements that somehow the Company has a “dismissive attitude” toward its demand response programs, or that the Company intends to permanently curtail them in their entirety. This cannot be further from the truth. Idaho Power has nurtured these programs for more than nine years and worked with thousands of customers to ensure the programs’ success as capacity resources that benefit all customers. Idaho Power’s system has benefitted from up to

438 megawatts of demand response capacity that has served a vital role in efficient resource planning and acquisition. However, Idaho Power is mindful that these programs come at a financial cost and that it has an obligation to keep rates reasonable for the benefit of all customers.

Idaho Power has never experienced a situation like it did last December when it was faced with the prospect of knowingly operating demand response programs costing customers more than \$12 million a year when adequate system capacity would exist to serve anticipated peak loads. The Company believed that it was not appropriate to unilaterally decide which customers value more—lower rates or continued demand response availability. Out of respect for its stakeholders, Idaho Power quickly filed a case to temporarily suspend—not terminate—operation of two programs in the near-term until it could meet with stakeholders to get input on how all demand response programs should be valued and operated in future years. The Company believed this cautious course of action would best serve its customers by staying true to its mission of providing Idaho Power customers with reliable, responsible, and fair priced energy. Given the negative response received to date, Idaho Power cannot help but ponder that perhaps the Company overvalued the importance of lower rates in this instance.

To be clear, Idaho Power values its demand response programs and anxiously awaits the opportunity to thoughtfully discuss the future operation and funding of its three demand response programs in stakeholder workshops planned for this summer. It has always been the Company's intent to foster an appropriate role for demand response in its portfolio—it just would like assistance determining what that role is in periods of sufficient capacity.

1. **The FlexPeak Program Will Continue to Operate during the 2013 Program Season.**

Idaho Power wishes to reiterate what is at stake in this case. Under the proposed Second Amendment to the Agreement, the FlexPeak Program will remain fully operational and available to provide peak capacity during the 2013 program season. Although ICIP states that “Idaho Power is now essentially asking the Commission to freeze the FlexPeak Program . . .” on page 3 of its Comments, the effect of the proposed amendment is not to suspend program operation. Instead, Commission approval of the Second Amendment to the Agreement will reduce the potential dispatch hours and events to an amount that has only been exceeded in one of the four previous years (2011), and to reduce the amount of demand reduction that EnerNOC is responsible to secure. If approved, the Second Amendment to the Agreement will save customers approximately \$500,000. Participant incentive payments will remain equal to what customers would receive absent the Second Amendment to the Agreement, and the Program will be available for dispatch in 2013.

2. **The Capacity Surplus that Idaho Power Identified in the 2013 IRP Load and Resource Balance Has Multiple Contributing Factors.**

Idaho Power agrees with ICIP that investment in generation is “lumpy” and results in periods where demand response is less critical to minimize or delay the need to build additional generation capacity. However, Idaho Power disagrees with the implication that the sole “reason Idaho Power has a capacity surplus is that it just energized the 300 MW Langley Gulch gas plant in June of 2012.” ICIP Comments, p. 8.

Langley Gulch power plant was identified in prior IRPs that predicted a capacity deficit, so it cannot be concluded that the commissioning of the plant alone is

responsible for the capacity surplus. As stated on page 10 of Water and Resource Planning Director Mark Stokes' testimony in Case No. IPC-E-12-29:

During the 2011 IRP planning period, the load and resource balance continued to show that Idaho Power's existing and committed resources were insufficient to meet the projected peak-hour load growth, and significant capacity deficits continued to exist in the near-term summer months.

Mr. Stokes further testified that when the average load and peak-hour load forecasts were prepared for the 2013 IRP, "the impact of the recession continued to reduce forecasted load growth. As the Company began updating the generation forecast from existing and committed resources for the 2013 IRP, it became apparent that there were no near-term peak-hour deficits . . . ." Stokes Direct Testimony, pp. 10-11. To be clear, the amount of capacity available on Idaho Power's system is a function of *both* customer load and available resources to serve that load.

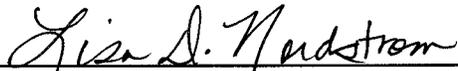
**3. Unused Capacity Provided by FlexPeak Program Participants Cannot be Readily Sold into the Market at a Profit.**

Finally, Idaho Power wishes to note several FlexPeak Program and customer-related issues that complicate the concept of selling unused demand response capacity discussed on pages 11-12 of ICIP's Comments. First, the FlexPeak Program was designed to provide capacity to Idaho Power and its customers during times of peak loads and was priced accordingly. Second, there is no capacity market in the Northwest and demand response should not be viewed as an energy product. Additionally, the program has been marketed to participants based on capacity need. Program events are intended to be called when Idaho Power is experiencing peak loads. The ability to call program events for the purpose of selling the capacity into the market (if available) could have detrimental effects on program participation.

### **III. CONCLUSION**

Having clarified or responded to the issues identified above, Idaho Power respectfully requests the Commission approve the Second Amendment to the Agreement between Idaho Power and EnerNOC without change or condition. Although the Company requested the Commission issue an order no later than May 31, 2013, EnerNOC's solicitation of customer participation will progress with greater clarity if an order is issued as soon as practicable in anticipation of the June 1 start of the program season.

DATED at Boise, Idaho, this 25<sup>th</sup> day of April 2013.

  
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LISA D. NORDSTROM  
Attorney for Idaho Power Company

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 25<sup>th</sup> day of April 2013 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:

**Commission Staff**

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