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April 3, 2013

VIA HAND DELIVERY

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

Re: Case No. IPC-E-13-08
2012 Demand-Side Management Expenditures – Idaho Power Company's
Application and Testimony

Dear Ms. Jewell:

Enclosed for filing in the above matter please find an original and seven (7) copies of Idaho Power Company's Application.

Also enclosed for filing are nine (9) copies each of the testimony of Timothy E. Tatum and Darlene Nemnich. One copy of each of Mr. Tatum's and Ms. Nemnich's testimonies has been designated as the "Reporter's Copy." In addition, a disk containing a Word version of Mr. Tatum's and Ms. Nemnich's testimonies is enclosed for the Reporter.

The **confidential** exhibits to Mr. Tatum's testimony have been placed in a separate, sealed envelope. Because the exhibits are confidential, a Protective Agreement is enclosed. If the Protective Agreement is satisfactory, please have the Idaho Public Utilities Commission attorney sign and forward a copy of the fully executed Agreement to Idaho Power Company.

If you have any questions about the enclosed documents, please do not hesitate to contact the undersigned.

Very truly yours,

Julia A. Hilton

JAH:csb
Enclosures

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Attorneys for Idaho Power Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR A) CASE NO. IPC-E-13-08
DETERMINATION OF 2012 DEMAND-SIDE)
MANAGEMENT ("DSM") EXPENSES AS) APPLICATION
PRUDENTLY INCURRED.)
_____)

In accordance with RP 052 and RP 201, *et seq.*, Idaho Power Company ("Idaho Power" or "Company") hereby respectfully submits its *Demand-Side Management 2012 Annual Report* ("DSM 2012 Annual Report") and makes application to the Idaho Public Utilities Commission ("Commission") for an order designating Idaho Power's expenditures of \$25,857,603 in Idaho Energy Efficiency Rider ("Rider") funds, \$6,019,109 in a regulatory asset account (Custom Efficiency program incentives), and \$14,479,447 of demand response ("DR") program incentives included in the 2013 Power Cost Adjustment ("PCA"), for a total of \$46,356,160 as prudently incurred demand-side management ("DSM") expenses.

In support of this Application, Idaho Power represents as follows:

I. INTRODUCTION

1. The Commission has “consistently stated that cost-effective DSM programs are in the public interest and has admonished electric utilities operating in the State of Idaho to develop and implement DSM programs in order to promote energy efficiency.” Case No. IPC-E-10-09, Order No. 32113 at 8, *citing* Order Nos. 29784 and 29952. To further the Commission’s objective, Idaho Power has implemented and/or manages a wide range of opportunities for all of its customer classes to participate in DSM activities, to be informed about energy use, and to use electricity wisely. Through DSM programs, Idaho Power seeks to provide customers with programs and information to help them manage their energy usage and to achieve prudent cost-effective energy efficiency and DR resources to meet its electrical system’s energy and demand needs. To assist with the development and implementation of DSM activities, Idaho Power receives input and consultation from its Energy Efficiency Advisory Group (“EEAG”). The 13 members of the EEAG represent customers, state agencies, environmental groups, and other stakeholders who provide a broad range of recommendations, including input on new program proposals, modifications to existing programs, and overall expenditures of DSM funds. In addition to the EEAG, Idaho Power has worked to build and maintain relationships with trade allies, trade organizations, and regional groups involved in DSM activities.

2. Since the Rider was implemented in 2002, the Company has progressively increased the breadth and funding level of its DSM activities. The Commission found that the Company had prudently incurred cost-effective DSM-related Rider expenses of \$29 million from 2002 to 2007. Order Nos. 30740 and 31039. In addition, the Commission found that the Company’s 2008 and 2009 cost-effective DSM-

related Rider expenses of \$50.7 million were prudently incurred. Order No. 32113. Further, the Commission found that the Company prudently incurred cost-effective DSM-related Rider expenses of \$41.9 million in 2010. Order No. 32331. Most recently, in 2012 the Commission found that the Company prudently incurred \$42.5 million of cost-effective DSM-related expenses in 2011. Order No. 32667 and Reconsideration Order No. 32690.

3. In Order Nos. 32667 and 32690, the Commission declined to decide the reasonableness of the Company's increase in Rider-funded labor-related expenses included in the 2011 DSM expenses until the Company provides evidence by which to better assess the reasonableness of those expenses. As described in more detail below, the Company has included such evidence in the Direct Testimony of Timothy E. Tatum ("Tatum Testimony") filed contemporaneously with this Application.

4. As a result of Idaho Power's increased DSM activity over the last 10 years, Idaho Power's quarterly customer relationship surveys in 2012 indicate that the percentage of customers who have a positive perception of Idaho Power's energy efficiency efforts has steadily grown from 39 percent in 2003 to 60 percent in 2012, a positive increase of 54 percent. DSM 2012 Annual Report at 18.

II. 2012 DSM RESULTS

5. Idaho Power continued its DSM programs in 2012 in order to increase participation and facilitate energy savings. In 2012, Idaho Power offered its Idaho customers 17 energy efficiency programs, three demand response programs, several educational initiatives, and savings to customers through market transformation programs. Overall, annual energy savings from Idaho Power's energy efficiency activities in 2012 totaled 170,228 megawatt-hours. DSM 2012 Annual Report at 1.

6. To achieve these results, total system-wide expenditures on 2012 DSM-related activities increased to \$49,326,859. *Id.*, Appendix 2 at 142. The \$49,326,859 of system-wide, DSM-related expenses in 2012 include expenditures for customers in Oregon and other operations and maintenance expenses that are not before the Commission as part of this prudence request. Idaho Power is seeking a determination that \$25,857,603 in Rider expenses, \$6,019,109 in Custom Efficiency program incentives, and \$14,479,447 in DR program incentives included in the 2013 PCA were prudently incurred for a total of \$46,356,160. A summary of program expenditures by funding source in 2012 is provided in Exhibit No. 3 to the Direct Testimony of Darlene Nemnich (“Nemnich Testimony”) filed contemporaneously with this Application.

7. Results show that all three of Idaho Power’s DR programs are cost-effective when evaluated from a long-term perspective. From a one-year perspective, the A/C Cool Credit program was not cost-effective for 2012. Of the 15 energy efficiency programs offered in Idaho by Idaho Power, only the Weatherization Assistance for Qualified Customers and the Weatherization Solutions for Eligible Customers were not cost-effective in 2012. An explanation of the cost-effectiveness analyses and steps Idaho Power has taken to increase future cost-effectiveness of these programs is provided in the Nemnich Testimony.

III. THE DSM 2012 ANNUAL REPORT

8. In support of its Application requesting the Commission deem the Company’s total 2012 DSM expenses as prudently incurred, Idaho Power presents its DSM 2012 Annual Report as Attachment 1 to this Application.

9. The DSM 2012 Annual Report is submitted pursuant to the DSM reporting obligation set forth in Order No. 29419 and in accordance with certain agreed upon guidelines set forth in the Memorandum of Understanding for Prudency Determination

of DSM Expenditures (“DSM MOU”) submitted as part of the stipulation approved by Order No. 31039. In sum, Idaho Power’s DSM 2012 Annual Report contains the following:

a. Template. Idaho Power used previous DSM annual report formats as a guide for its DSM 2012 Annual Report. Two Supplements accompany the DSM 2012 Annual Report: *Supplement 1: Cost-Effectiveness* (“Supplement 1”) and *Supplement 2: Evaluation* (“Supplement 2”).

b. Table of Contents. The DSM 2012 Annual Report, Supplement 1, and Supplement 2 each have a detailed table of contents showing where specific program information can be found as well as the location of the cost-effectiveness analyses and the evaluation table.

c. Introduction Section. This section can be found on pages 1 through 21 of the DSM 2012 Annual Report. It provides an initial overview of program process evaluations, impact evaluations, and updated assumptions used to calculate program cost-effectiveness.

d. Cost-Effective Section. Supplement 1 provides detailed cost-effectiveness information by program and energy savings measure as well as detailed financial information separated by expense category and jurisdiction. In addition to the three benefit/cost analyses used in previous DSM annual reports (i.e., the total resource cost (“TRC”) perspective, the utility cost test (“UCT”) perspective, and the participant cost test (“PCT”) perspective), Supplement 1 contains the ratepayer impact measure (“RIM”), a cost-effectiveness test added in 2010. The RIM test measures the impact to customer bills or rates due to changes in utility revenues and operating costs caused by an energy efficiency program.

e. Evaluation Section. Supplement 2 contains Idaho Power's evaluation plans, copies of completed program evaluation reports, research reports, and reports done by Idaho Power or third parties. Supplement 2 also includes a compact disc containing market progress evaluation reports provided by the Northwest Energy Efficiency Alliance.

f. Program Specific Section. The DSM 2012 Annual Report contains the following information for each program or initiative: (1) a table listing the summary of the program participation; (2) performance and costs; (3) a description of the program; (4) 2012 activities; (5) a cost-effectiveness discussion, which includes whether a new analysis was conducted and new assumptions used; (6) a section on customer satisfaction and evaluations providing an overview of process, impact, and market effect evaluations that were conducted; and (7) a section describing strategies for implementation of each initiative for 2013. This section also refers to studies included in Supplement 2.

g. Expenses without Direct Energy Savings. In the section titled "Other Programs and Activities," the DSM 2012 Annual Report describes education initiatives and other DSM efforts that are not tied to direct energy savings. DSM 2012 Annual Report at 117-127. These efforts support the Company's overall DSM agenda. Other programs and activity expenses are shown in Appendices 2-4 and Exhibit No. 3 to the Nemnich Testimony.

10. The Nemnich Testimony also describes several adjustments to the total dollar amounts contained in the DSM 2012 Annual Report to arrive at the expenses the Company presents to the Commission for a determination of prudence. Nemnich Testimony at 11-21. These adjustments include: \$82,856 to adjust for the disallowance of 2011 expenses in the A/C Cool Credit program in Order No. 32667; accounting

corrections, most of which were incentives paid to customers from the Idaho Rider, which should have been charged to the Oregon Rider; an adjustment deferring a determination of prudence for some expenses incurred in 2012; and an exclusion of incentive payments paid to program participants that did not meet program requirements. *Id.* In addition, \$3,512 of the incentives paid to customers from the Idaho Rider which should have been charged to the Oregon Rider occurred in 2011. *Id.* at 13-14. The Company requests that the Commission reflect this adjustment in its records as necessary.

IV. EVOLUTION OF THE 2012 REPORT

11. The DSM 2012 Annual Report and accompanying Tatum Testimony and Nemnich Testimony provide a sufficient basis for the Commission to determine whether Idaho Power's DSM expenses were prudently incurred. In order to meet Commission Staff's expectations for assessing cost-effectiveness tests, methods, and evaluations as indicated in Attachment No. 1 to the DSM MOU, Idaho Power has included:

a. Cost-Effectiveness Measurements. In the DSM 2012 Annual Report, Idaho Power calculates cost-effectiveness from the RIM, PCT, UCT, and TRC perspectives at the program level, except for those programs with no customer costs in which case the PCT is not applicable. This includes DR programs which are evaluated at the UCT and TRC perspectives. Idaho Power also evaluates cost-effectiveness from the UCT and TRC perspectives for each measure within a program, where the measures are not interactive. Supplement 1 includes detailed results of the cost-effectiveness tests by program and by measure. Appendix 4 of the 2012 DSM Annual Report shows the historical UTC and TRC results for each of Idaho Power's energy efficiency and DR programs from a program-life perspective.

b. Net-to-Gross Adjustments. For the DSM 2012 Annual Report, Idaho Power used these ratios as an input to cost-effectiveness calculations where appropriate. For a detailed discussion of these adjustments, see pages 3-4 of Supplement 1.

c. Program Evaluations. 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 Idaho Power's programs. In 2012, impact evaluations were completed on six programs and a process evaluation was conducted on one program. Idaho Power contracted with third-party consultants to research cycling strategies for the A/C Cool Credit program and to evaluate measure assumptions for the Irrigation Efficiency Rewards program. In addition, Idaho Power conducted its annual internal analysis and reports for the Flex Peak Management and the Irrigation Peak Rewards programs. Copies of these reports can be found in Supplement 2.

V. RIDER-FUNDED LABOR-RELATED INCREASES

12. In case No. IPC-E-12-15, the Company requested that the Commission find its 2011 DSM expenses were prudently incurred. The Commission declined to decide the reasonableness of the Company's increase in Rider-funded labor-related expenses until the Company could provide evidence by which to better assess the reasonableness of such expenses. Order No. 32667 and Reconsideration Order No. 32690.

13. As described in the Nemnich Testimony, the \$25,857,603 in Idaho Rider expenses described above includes the 2011 increase in Rider-funded labor-related expenses excluded from the Commission's prudence determination related to 2011 DSM expenses. *Id.* The Nemnich Testimony also quantifies the corresponding amount

of increase in 2012 Rider-funded labor-related expenses, as measured from the 2010 labor expense level. In order to demonstrate prudence of these amounts, the Company has prepared a DSM Total Compensation Analysis, which is included as Exhibit No. 1 to the Tatum Testimony. The Tatum Testimony describes the regulatory background for Rider-funded labor-related expenses, the Company's approach to wages and compensation, and data demonstrating that Idaho Power DSM employee compensation levels are comparable to compensation levels for similar positions in peer utilities.

VI. MODIFIED PROCEDURE

14. Idaho Power believes that a technical hearing is not necessary to consider the issues presented herein and respectfully requests that this Application be processed under Modified Procedure; i.e., by written submissions rather than by hearing. RP 201, *et seq.* Idaho Power has, however, contemporaneously filed the Nemnich Testimony and Tatum Testimony in support of this Application. The Company stands ready to present the testimony in support of this Application in a technical hearing if the Commission determines such a hearing is required.

VII. COMMUNICATIONS AND SERVICE OF PLEADINGS

15. Communications and service of pleadings with reference to this Application should be sent to the following:

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VIII. REQUEST FOR RELIEF

16. As described in greater detail above, Idaho Power respectfully requests that the Commission issue an order designating Idaho Power's 2012 DSM expenses of \$46,356,160 funds in 2012, which includes the increase in its 2011 DSM Rider-funded labor-related expenses, as prudently incurred DSM expenses.

DATED at Boise, Idaho, this 3rd day of April 2013.



JULIA A. HILTON
Attorney for Idaho Power Company

**BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION**

CASE NO. IPC-E-13-08

IDAHO POWER COMPANY

ATTACHMENT 1

***DEMAND-SIDE MANAGEMENT
2012 ANNUAL REPORT***