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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

DARLENE NEMNICH

1 Q. Please state your name and business address.

2 A. My name is Darlene Nemnich. My business
3 address is 1221 West Idaho Street, Boise, Idaho 83702.

4 Q. By whom are you employed and in what capacity?

5 A. I am employed by Idaho Power Company ("Idaho
6 Power" or "Company") as a Senior Regulatory Analyst.

7 Q. Please describe your educational background.

8 A. In May of 1979, I received a Bachelor of Arts
9 degree in Business Administration with emphases in Finance
10 and Economics from the College of Idaho in Caldwell, Idaho.
11 In addition, I have attended the electric utility
12 ratemaking course offered through New Mexico State
13 University's Center for Public Utilities, the Edison
14 Electric Institute's Electric Rate Advanced Course as well
15 as various other ratemaking courses.

16 Q. Please describe your work experience with
17 Idaho Power.

18 A. In 1982, I was hired as an analyst in the
19 Resource Planning Department. My primary duties were the
20 calculation of avoided costs for cogeneration and small
21 power production contracts and the calculation of costs of
22 future generation resource options. In 1989, I moved to
23 the Energy Services Department where I performed economic,
24 financial, and statistical analyses to determine the cost-
25 effectiveness of demand-side management ("DSM") programs.

1 In 2000, I was promoted to Energy Efficiency Coordinator.
2 In that capacity, I coordinated the Company's effort to
3 grow customer programs and education in energy efficiency
4 promotion. I was responsible for complying with regulatory
5 and financial requirements in the area of energy
6 efficiency. In 2003, I was promoted to Energy Efficiency
7 Leader where I managed the Company's DSM effort, including
8 strategic planning, design and development of programs,
9 regulatory compliance, and overall management of the
10 department. In 2006, I left the Company to pursue personal
11 opportunities. In 2008, I returned to the Company to my
12 current position as a Senior Regulatory Analyst in the
13 Regulatory Affairs Department. My duties as Senior
14 Regulatory Analyst include the development of alternative
15 pricing structures, analysis of the impact on customers of
16 rate design changes, and the administration of the
17 Company's tariffs.

18 Q. What is the purpose of your testimony in this
19 matter?

20 A. The purpose of my testimony is to present the
21 Company's request for a determination of \$46,356,160 of DSM
22 expenses incurred in 2012 acquiring demand-side resources
23 as prudently incurred. This amount includes \$25,857,603
24 funded by the Idaho Energy Efficiency Rider ("Rider"),
25 \$6,019,109 of Custom Efficiency program incentive payments

1 funded by the Company and placed in a regulatory asset
2 account, and \$14,479,447 of demand response program
3 incentive payments that will be included in the April 15,
4 2013, Power Cost Adjustment ("PCA") filing. I will
5 describe these components in more detail later in my
6 testimony. My testimony will provide a background of
7 recent Idaho Power DSM prudence and funding cases, review
8 2012 DSM program performance, discuss 2012 DSM expenses and
9 adjustments, review cost-effectiveness and evaluation, and
10 summarize how this filing satisfies the Memorandum of
11 Understanding for Prudency Determination of DSM
12 Expenditures filed in Case No. IPC-E-09-09 ("DSM MOU").

13 **I. BACKGROUND**

14 Q. Please provide a brief history of recent cases
15 where the Idaho Public Utilities Commission ("Commission")
16 has determined that the Company's DSM expenses have been
17 prudently incurred.

18 A. This is Idaho Power's fifth request for a
19 determination of prudence related to Rider expenses since
20 the Rider was established in 2002. The first filing for a
21 determination of prudence occurred in June 2008 as part of
22 the 2008 general rate case, Case No. IPC-E-08-10. Idaho
23 Power requested that the Commission find that its 2002-2007
24 DSM expenditures of \$29 million were prudently incurred.
25 The Commission issued Order Nos. 30740 and 31039 finding

1 the \$29 million in DSM expenditures prudent. As part of
2 Case No. IPC-E-09-09, Commission Staff ("Staff"), Idaho
3 Power, and other investor-owned utilities operating in
4 Idaho worked together to establish an agreed-upon set of
5 terms for future reporting and evaluating of DSM
6 expenditures and programs. In January 2010, the Staff,
7 Idaho Power, Avista Corporation, and Rocky Mountain Power
8 signed the DSM MOU. This DSM MOU provides a set of
9 guidelines for evaluation and reporting of DSM performance
10 with the purpose of facilitating an objective and
11 transparent Staff and Commission assessment of the
12 utilities' DSM efforts.

13 In March 2010, concurrent with the filing of the
14 *Demand-Side Management 2009 Annual Report*, Idaho Power
15 filed its second request for a determination of prudence
16 related to Rider-funded efforts when it filed Case No. IPC-
17 E-10-09 for the 2008 and 2009 DSM expenditures of \$50.7
18 million. Idaho Power provided two supplements to the DSM
19 2009 Annual Report in an effort to satisfy the guidelines
20 set forth in the DSM MOU. These were *Supplement 1: Cost-*
21 *Effectiveness* and *Supplement 2: Evaluation*. On November
22 16, 2010, the Commission issued Order No. 32113 finding
23 that the 2008 and 2009 DSM expenditures were prudently
24 incurred.

25

1 On March 15, 2011, Idaho Power filed its third
2 request for a determination of prudence related to Rider-
3 funded efforts in Case No. IPC-E-11-05 for the 2010 DSM
4 expenditures of \$42.5 million. This amount, which was
5 later modified to \$41.9 million due to an accounting
6 adjustment, was found to be prudently incurred by the
7 Commission in Order No. 32331 on August 18, 2011.

8 Finally, on March 15, 2012, Idaho Power filed Case
9 No. IPC-E-12-15 requesting an order that the Company had
10 prudently incurred \$42.6 million in DSM expenditures in
11 2011. On October 22, 2012, the Commission found that the
12 Company prudently incurred \$42.5 million in DSM
13 expenditures in 2011. (Order No. 32667 and Reconsideration
14 Order No. 32690.) In these orders, the Commission denied
15 recovery of \$82,855.50 of A/C Cool Credit program expenses
16 and declined to decide the reasonableness of the Company's
17 increase in Rider-funded labor-related expenses of \$89,601
18 included in the 2011 DSM expenses until Idaho Power
19 provides evidence by which to better assess the
20 reasonableness of these expenses.

21 Q. Please review recent regulatory activity that
22 has impacted Idaho Power's funding of DSM resources.

23 A. The Commission issued Order No. 32245 on May
24 17, 2011, authorizing Idaho Power to account for Custom
25 Efficiency program incentive payments as a regulatory

1 asset. On December 30, 2011, as part of the 2011 general
2 rate case Order No. 32426, the Commission approved Idaho
3 Power's request to move a base level amount of demand
4 response program incentive payments from the Rider into
5 base rates and be tracked as part of the PCA mechanism.
6 The 2013 PCA filing, which will be filed April 15, 2013,
7 will be the first time that the PCA will include an
8 adjustment reflecting a true-up to actual demand response
9 incentive amounts.

10 Idaho Power requests that the 2012 Rider-funded DSM
11 expenses, the 2012 Custom Efficiency program incentive
12 payments, and the 2012 demand response program incentive
13 payments be reviewed for prudence together.

14 **II. 2012 DSM PROGRAM PERFORMANCE**

15 Q. Please provide an overview of Idaho Power's
16 DSM efforts in 2012.

17 A. 2012 marks the ten-year anniversary of DSM
18 funding through the Rider. In 2012, on a system-wide
19 basis, Idaho Power offered customers 17 energy efficiency
20 programs, three demand response programs, participated in
21 market transformation programs through the Northwest Energy
22 Efficiency Alliance ("NEEA"), and offered several ongoing
23 education initiatives. These are listed in Table 1 below:

24

25

Table 1. DSM Program and Activity List

Program by Sector	Operational Type	State	Savings
Residential			
A/C Cool Credit.....	Demand Response	ID/OR	44.9 MW
Ductless Heat Pump Pilot.....	Energy Efficiency	ID/OR	445 MWh
Energy Efficient Lighting.....	Energy Efficiency	ID/OR	16,709 MWh
Energy House Calls.....	Energy Efficiency	ID/OR	1,192 MWh
ENERGY STAR® Homes Northwest.....	Energy Efficiency	ID/OR	537 MWh
Heating & Cooling Efficiency Program.....	Energy Efficiency	ID/OR	689 MWh
Home Improvement Program.....	Energy Efficiency	ID	457 MWh
Home Products Program.....	Energy Efficiency	ID/OR	887 MWh
Oregon Residential Weatherization.....	Energy Efficiency	OR	12 MWh
Rebate Advantage.....	Energy Efficiency	ID/OR	187 MWh
Residential Energy Efficiency Education Initiative.....	Other Programs and Activities	ID/OR	n/a
See ya later, refrigerator®.....	Energy Efficiency	ID/OR	1,576 MWh
Weatherization Assistance for Qualified Customers.....	Energy Efficiency	ID/OR	648 MWh
Weatherization Solutions for Eligible Customers.....	Energy Efficiency	ID	258 MWh
Commercial/Industrial			
Building Efficiency.....	Energy Efficiency	ID/OR	20,450 MWh
Commercial Education Initiative.....	Other Programs and Activities	ID/OR	n/a
Easy Upgrades.....	Energy Efficiency	ID/OR	41,569 MWh
FlexPeak Management.....	Demand Response	ID/OR	52.8 MW
Oregon Commercial Audits.....	Energy Efficiency	OR	n/a
Custom Efficiency.....	Energy Efficiency	ID/OR	54,253 MWh
Irrigation			
Irrigation Efficiency Rewards.....	Energy Efficiency	ID/OR	12,617 MWh
Irrigation Peak Rewards.....	Demand Response	ID/OR	339.9 MW
All Sectors			
Northwest Energy Efficiency Alliance.....	Market Transformation	ID/OR	17,741 MWh

2 Table 1 illustrates the broad availability of
3 programs offered by Idaho Power to its customers in energy
4 efficiency, demand response, and education.

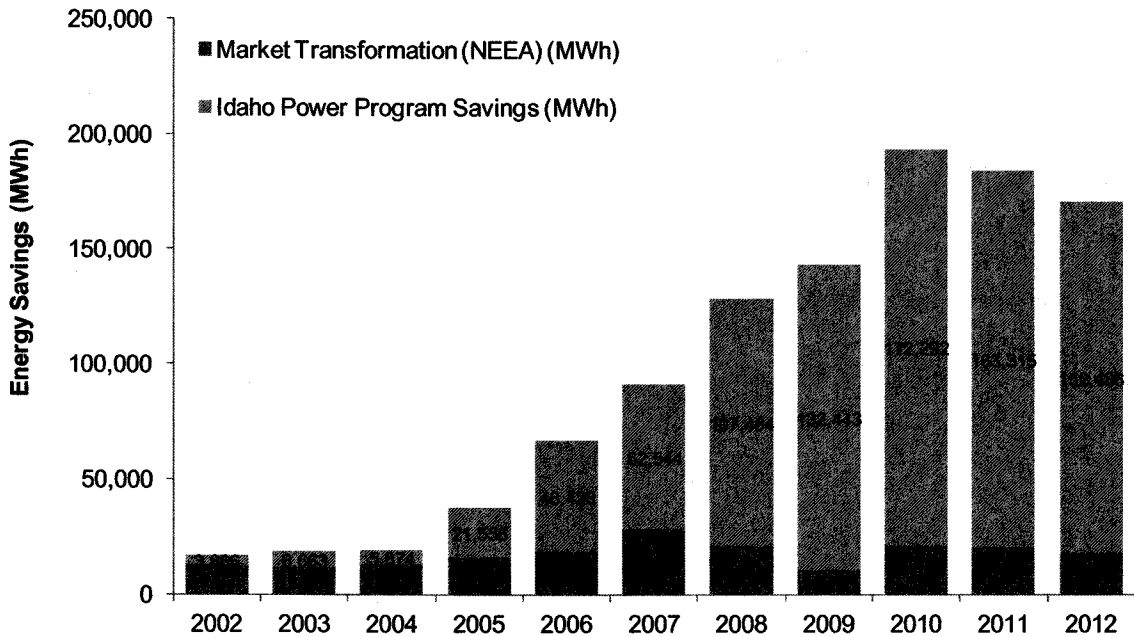
5 Q. What level of incremental annual energy
6 savings was achieved in 2012 with these programs?

7 A. On a system-wide basis, Idaho Power achieved
8 170,228 megawatt-hours ("MWh") in incremental annual energy
9 efficiency savings in 2012. This value includes NEEA

1 savings. Idaho Power's demand response programs provided a
 2 total demand reduction capacity of 438 megawatts ("MW") in
 3 2012. The A/C Cool Credit program and the FlexPeak
 4 Management program were used in 2012. Although there was
 5 demand reduction capacity available from the Irrigation
 6 Peak Rewards program, there was no operational or economic
 7 need to dispatch the program in 2012.

8 Table 2 shows the annual incremental energy
 9 efficiency savings in MWh since 2002 and Table 3 shows the
 10 annual peak demand reduction capacity in MW since 2004.

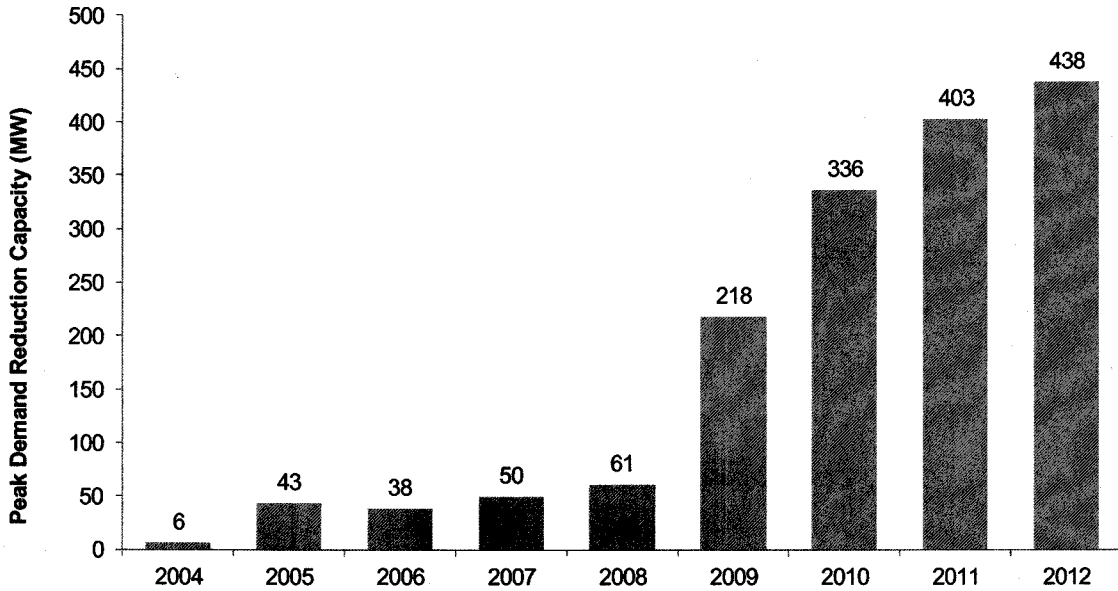
11 **Table 2: Idaho Power Energy Efficiency Savings**



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Table 3: Idaho Power Demand Response Capacity



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Table 2 shows a slight reduction in energy savings in 2012 as compared to 2011. Customer participation remained strong in most of the programs during the year. The reduced energy savings in 2012 were due in part to Idaho Power's and the region's increased evaluation, measurement, and verification activities that generally adjusted energy saving estimates downward.

10

11

Table 3 shows a demand reduction capacity increase for the year.

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The *Demand-Side Management 2012 Annual Report* ("DSM 2012 Annual Report"), Attachment No. 1 to the Application, provides details for each program, including a description of each program, 2012 performance and activities, cost-effectiveness, customer satisfaction, and evaluation

1 results. In addition, the DSM 2012 Annual Report provides
2 Idaho Power's DSM strategies for 2013.

3 Q. Please describe the opportunities for external
4 parties to provide input and guidance to Idaho Power's DSM
5 efforts.

6 A. In 2002, Idaho Power created the Energy
7 Efficiency Advisory Group ("EEAG") to provide a forum to
8 gather ideas and suggestions from customers and special
9 interest representatives on formulating and implementing
10 DSM programs. Members include customer representatives
11 from residential, irrigation, commercial, and industrial
12 sectors, as well as representatives for senior citizens,
13 limited-income individuals, environmental organizations,
14 state agencies, the Idaho Public Utilities Commission, and
15 Idaho Power.

16 Q. Has Idaho Power changed the way in which it
17 operates the EEAG?

18 A. Yes. In response to concerns raised by Staff
19 in Case No. IPC-E-12-15 and Commission recommendations in
20 Order No. 32667, Idaho Power implemented a number of
21 changes. To expand the participation in EEAG, Idaho Power
22 engaged members and attendees in an interactive session in
23 the July 19, 2012, meeting to explore how to increase the
24 effectiveness of the group. Suggestions from the EEAG
25 included providing more opportunity during the meetings for

1 questions and interaction, utilizing guest speakers,
2 teleconferences and webinars where appropriate, and
3 providing for the opportunity for members to suggest agenda
4 items. In addition, the Company has increased the number
5 of in-person meetings from three to four per year and will
6 continue to address recommendations received. In 2012, the
7 EEAG had three all-day, in-person meetings on February 22,
8 July 19, and November 6. Additionally, a webinar was held
9 on December 5 and a conference call was held on December
10 14. Idaho Power will continue to address the Commission's
11 recommendations concerning the EEAG from Commission Order
12 No. 32667.

13 **III. 2012 DSM EXPENSES AND ADJUSTMENTS**

14 Q. What amount of 2012 DSM expenses is the
15 Company requesting the Commission find were prudently
16 incurred?

17 A. In the delivery of energy efficiency, demand
18 response, and market transformation programs as well as
19 education and administrative costs, Idaho Power spent
20 \$25,857,603 of Rider funds, \$6,019,109 of Custom Efficiency
21 program incentive payments, and \$14,479,447 of demand
22 response program incentive payments for a total of
23 \$46,356,160 spent on demand-side resource acquisition in
24 2012. With this filing, Idaho Power requests the
25 Commission issue an order finding that these funds were

1 prudently incurred. Exhibit No. 3 to my testimony, 2012
2 Idaho DSM Expenses and Adjustments for Prudence Filing,
3 shows a breakout of these expenses by program and customer
4 sector and by funding account. Sixty-two percent of the
5 total amount was spent on incentives, 23 percent on
6 purchased services, seven percent on labor/administration,
7 and eight percent on materials, equipment, and other
8 expenses.

9 Q. Please compare the dollar amounts in Exhibit
10 No. 3 with Appendix 2, page 142 in Attachment No. 1 to the
11 Application, DSM 2012 Annual Report.

12 A. The first column of Appendix 2 labeled "Idaho
13 Rider" and the first column of Exhibit No. 3 labeled "Rider
14 Expenses" match at the row labeled *Total Expenses*. The
15 other columns in Exhibit No. 3 detail the Custom Efficiency
16 program incentive payments and the demand response program
17 incentive payments.

18 A few adjustments to these totals are needed to
19 accurately arrive at the total 2012 expenses for purposes
20 of the prudence determination. To aid in explaining the
21 adjustments, I have added a section at the bottom of
22 Exhibit No. 3 titled *Adjustments*.

23 Q. What adjustments should be made to the 2012
24 DSM expenses?

25

1 A. In Order No. 32667, and Reconsideration Order
2 No. 32690, the Commission denied a prudence determination
3 of \$82,856 in 2011 A/C Cool Credit program expenses.
4 However, the Rider accounting adjustment was not reflected
5 on the Company's books until 2012. This is explained in
6 footnote (a) which reduces the 2012 A/C Cool Credit program
7 expenses by \$82,856. Because the Commission already
8 reflected the adjustment in its prudence determination of
9 2011 expenses, it is appropriate to add this quantity to
10 the amount for the 2012 prudence determination. This is
11 the first adjustment shown at the bottom of Exhibit No. 3
12 in the row labeled *Adjustment for 2011 A/C Cool Credit*
13 *program exclusion*. This adjustment is further explained in
14 footnote (c).

15 The second adjustment area reflects accounting
16 corrections identified after the 2012 year-end financial
17 closing. They are reflected here for prudence
18 determination purposes and will be corrected in the
19 accounting books in 2013. The largest of these is
20 identified in the row labeled *Energy House Calls program*
21 *accounting correction* under the Year-end accounting
22 adjustments section in Exhibit No. 3. In 2012, in an
23 effort to streamline the Energy House Calls program, Idaho
24 Power brought the direct processing of payments to the duct
25 sealing contractors in-house through the DSM database and

1 incentive processing system. The DSM database was
2 originally designed to pay one incentive per customer per
3 project. However, the Energy House Calls program is unique
4 in that the system aggregates all of the individual
5 customer invoices into one payment to the contractor.
6 Because of this aggregation, starting in late 2011 all
7 payments to one of the contractors in the Energy House
8 Calls program was charged to the Idaho Rider even though
9 some of the jobs that the contractors completed were in
10 Oregon. This resulted in \$17,113 being charged to the
11 Idaho Rider in 2012 when it should have been charged to the
12 Oregon Rider. I have subtracted this amount from the 2012
13 Total Expenses. This adjustment does not impact the cost-
14 effectiveness of the Energy House Calls program. In
15 addition to the 2012 charges, in 2011, there were \$3,512 of
16 Energy House Calls program charges to that same contractor
17 that were incorrectly charged to the Idaho Rider. I
18 request that the Commission reflect this adjustment in
19 their records as necessary.

20 In addition, there were a few smaller adjustments
21 detected after 2012 accounting books closed. These amounts
22 were either applied to the wrong program work order task or
23 applied to the wrong jurisdiction and are also shown in the
24 Year-end accounting adjustment section in the row labeled
25 *Other miscellaneous accounting corrections*. They reduce

1 the Rider Expenses amount by \$839 and the Custom Efficiency
2 program incentives by \$113.

3 Q. In your review of 2012 DSM program activity,
4 did you find any other specific amounts that should be
5 adjusted?

6 A. Yes. I found two items I believe should be
7 adjusted from the total amount of DSM expenses that Idaho
8 Power includes in this filing.

9 Q. Please describe the first one.

10 A. When the decision was made to file for
11 authority to temporarily suspend the A/C Cool Credit
12 program, the Company notified its third-party vendor to
13 cease replacement of existing paging switches with AMI
14 switches. On December 14, 2012, the Company gave its
15 installation contractor a 15-day notice of termination for
16 the portion of the contract pertaining to the remaining
17 switch replacements and directed the vendor to immediately
18 discontinue switch replacements under the contract. The
19 intent of this letter was that all remaining switch
20 replacements should have been halted. In error, the
21 Company paid for the replacement of switches following the
22 date of the letter. I recommend that the expenses incurred
23 to replace switches after December 14, 2012, be removed
24 from amounts to be considered for a prudence determination
25 at this time.

1 Q. How many switches were replaced subsequent to
2 December 14, 2012?

3 A. From the 14th of December until the end of
4 2012, 481 switches were replaced.

5 Q. What did the Company do?

6 A. Upon discovery of this issue, the Company
7 determined that the correct action was to point out the
8 issue in this prudence review and to exclude those costs
9 from the amount the Company is requesting a prudence
10 determination on at this time.

11 Q. What amount is Idaho Power excluding from this
12 prudence filing relating to this issue?

13 A. Idaho Power is excluding the installation cost
14 paid to its vendor for the switches replaced from December
15 15th through the end of the year. The costs were \$32,090
16 and are reflected in Exhibit No. 3 on the line labeled
17 *Adjustment for A/C Cool Credit program switch installation.*

18 Q. How is the Company proposing to account for
19 this amount?

20 A. Idaho Power is excluding this amount from the
21 expenses it is requesting the Commission find as prudently
22 incurred in this filing. However, because the installation
23 of these switches still has value to the A/C Cool Credit
24 program, Idaho Power proposes to set aside this amount for
25 a future prudence review if or when the A/C Cool Credit

1 program resumes operation. At the time the program resumes
2 operation, these installed switches will be useful and
3 Idaho Power will ask for a prudence determination. This is
4 similar in concept to plant held for future use.

5 Q. What is the second item you found where you
6 are recommending a specific adjustment to the 2012 DSM
7 expenses for prudence determination?

8 A. While reviewing 2012 ENERGY STAR[®] Homes
9 Northwest program ("ENERGY STAR") incentive payments,
10 Idaho Power identified 10 incentives, out of a total of
11 410, that were inadvertently paid to customers who
12 submitted applications for ENERGY STAR gas heated homes.
13 Since non-electrically heated ENERGY STAR homes with
14 building permits dated after December 31, 2010, were
15 excluded from this program in 2011, these 10 incentives
16 should not have been paid. It should be noted that there
17 are kilowatt-hour ("kWh") savings from these homes,
18 primarily from more efficient cooling systems, but at this
19 time they are still not cost-effective. The costs and
20 savings of these 10 homes are included in the cost-
21 effectiveness analysis and the program remains cost-
22 effective. The Company determined that the correct action
23 was to report this issue in this prudence review and to
24 exclude those costs from the amount the Company is
25 requesting for prudence determination.

1 Q. What is the amount that Idaho Power is
2 excluding from this prudence filing related to this issue?

3 A. Idaho Power is excluding the 10 incentive
4 amounts. The incentives were \$400 per home, so the total
5 amount paid in error is \$4,000. This value is reflected in
6 Exhibit No. 3 on the line labeled *Adjustment for ENERGY*
7 *STAR® Homes Northwest incentives.*

8 Q. Are there any other prudence issues to be
9 considered?

10 A. Yes. In Order No. 32667, the Commission
11 declined to decide the prudence of the increase in 2011
12 Rider-funded labor-related expenses included in the 2011
13 DSM expenses until the Company provides evidence by which
14 to better assess the reasonableness of the expenses.
15 Company witness Mr. Timothy Tatum has sponsored testimony
16 in this case that provides information to determine the
17 prudence of the increase in 2011 and 2012 labor costs
18 charged to the Rider. Mr. Tatum has asked me to quantify
19 the increase in Rider-funded labor-related expenses
20 included in the 2011 and 2012 DSM prudence requests.

21 Q. Please explain your calculation.

22 A. In Table 4 below, I have quantified the
23 Company's understanding of Staff's calculation of the
24 Rider-funded labor-related expense increase that the
25 Commission excluded from the 2011 prudence determination

1 and I have replicated that calculation to quantify the
2 increase in Rider-funded labor-related expense amounts from
3 2010 to 2012. The total annual Rider-funded labor-related
4 expense is shown in column 1 and an estimate of the total
5 number of Rider-funded full-time equivalent employees
6 ("FTE") is shown in column 2 for each year from 2010 to
7 2012. These estimated FTE values are based on total hours
8 charged to the Rider, divided by a full-time equivalent
9 1,912 hours per year. Annual FTE numbers vary due to a
10 number of reasons including unfilled or back-filled
11 positions or number of actual vacation hours taken by
12 employees. In order to calculate the average labor expense
13 per FTE for 2010, column 1 is divided by column 2 and the
14 result is shown in column 3. This average labor expense
15 per FTE of \$96,520 is used as the basis for this analysis
16 because it was the average labor expense per FTE from 2010
17 when all Rider-funded labor costs were last deemed prudent.
18 Column 4 shows the 2011 and 2012 "deemed prudent" total
19 labor expense calculated by multiplying the yearly FTE
20 values in column 2 by the 2010 average labor expense per
21 FTE value of \$96,520. In column 5, the actual total labor
22 expenses in column 1 is compared to the "deemed prudent"
23 total labor expense in column 4, resulting in the
24 calculation of the increase in Rider-funded labor-related
25 expenses for 2011 and 2012.

