Office of the Secretary
Service Date
December 20, 2013

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR A DETERMINATION OF 2012 DEMAND-SIDE MANAGEMENT EXPENDITURES AS PRUDENTLY INCURRED	)	**CASE NO. IPC-E-13-08**
	)	**ORDER NO. 32953**

On April 3, 2013, Idaho Power Company applied for an Order establishing that it prudently incurred $46,356,160 in demand-side management ("DSM") expenses in 2012, including $25,857,603 in Idaho Energy Efficiency Rider expenses, $6,019,109 in Custom Efficiency program incentive expenses, and $14,479,447 of demand response program incentive expenses. Application at 1.

We have thoroughly reviewed the record in this case, including written comments and analysis from the Company, Commission Staff, and Idaho Conservation League ("ICL"). Based on our review, we find that the Company prudently incurred $46,092,707 in DSM expenses in 2012, including $6,019,109 in Custom Efficiency program incentive expenses, $14,479,447 in demand response program incentive expenses, and $25,594,191 in Idaho Energy Efficiency Rider expenses. Our decision is more thoroughly described below.

PROCEDURAL BACKGROUND

On May 21, 2013, the Commission notified the public that the Company had filed the Application, and invited interested persons to file written comments. Order No. 32810. The Commission set an August 20, 2013 comment deadline, and a September 13, 2013 Company reply deadline. *Id.* Idaho Conservation League ("ICL") subsequently intervened in the case, and both Staff and ICL submitted timely written comments. The Company then submitted a timely reply. No other comments were received.

THE APPLICATION

In its Application, the Company says it has implemented or manages wide ranging opportunities for all customer classes to participate in DSM activities, consistent with the Commission's direction that the Company pursue DSM programs to promote energy efficiency. The Company says it uses DSM programs to: (1) provide customers with programs and information to help them manage their energy usage, and (2) achieve prudent cost-effective energy efficiency and demand response resources to meet the Company's electrical system's energy and demand needs. Idaho Power consults with an Energy Efficiency Advisory Group that provides a broad range of recommendations, including input on new program proposals, modifications to existing programs, and overall expenditures of DSM funds. *Id.* at 2.

The Company says it has progressively increased the breadth and funding level of its DSM activities since the Rider was implemented in 2002. The Company notes that the Commission found that the Company prudently incurred cost-effective, DSM-related Rider expenses of $29 million from 2002-2007, $50.7 million from 2008 and 2009, $41.9 million in 2010, and $42.5 million in 2011. *Id.* at 2-3, *citing* Order Nos. 30740, 31039, 32113, 32331, 32667 and 32690.

In the latter two Orders, the Commission also declined to decide the reasonableness of the Company's increase in Rider-funded, labor-related expense included in the 2011 DSM expenses until the Company provides evidence by which to better assess the reasonableness of those expenses. In this Application, the Company says it has included the evidence requested by the Commission. *Id.* at 3 and 8. In light of this evidence, the Company says this Application's $25,857,603 in Idaho Rider expenses include the previously excluded 2011 increase in Rider-funded labor-related expenses. The Company also quantifies the corresponding amount of increase in 2012 Rider-funded labor-related expenses, as measured from the 2012 labor expense level. *Id.* at 9.

The Company says that in 2012, it continued its DSM programs to increase participation and facilitate energy savings. The Company's DSM programs included energy efficiency programs, demand response programs, market transformation programs, and educational initiatives. The Company says 13 of its 15 energy efficiency programs in Idaho were cost-effective; the Weatherization Assistance for Qualified Customers and the Weatherization Solutions for Eligible Customers programs were not cost-effective. The Company says all three of its demand response programs are cost-effective from a long-term perspective, but that the A/C Cool Credit program was not cost-effective in 2012. *Id.* at 3-4. The Company says its efficiency activities produced 170,228 MWh in energy savings in 2012. *Id.* at 3.

The Company attached its DSM 2012 Annual Report to the Application. The DSM Report discusses the cost-effectiveness of the Company's DSM programs and energy savings measures, as well as financial information separated by expense category and jurisdiction. *Id.* at

5. The Company examines a program's cost-effectiveness using the following four tests: (1) the total resource cost test ("TRC"); (2) the utility cost test ("UCT"); (3) the participant cost test ("PCT"); and (4) the ratepayer impact measure ("RIM"). *Id.*[1] The DSM Report also describes the Company's plans to evaluate its DSM programs, and contains copies of completed evaluation reports and research reports. *Id.* The DSM Report also describes each DSM program, including 2012 activities, along with customer satisfaction and process, impact, and market-effect evaluations. *Id.* at 6.

The Company says independent, third-party consultants provide impact and process evaluations to verify that program specifications are met, recommend improvements to the programs, and validate program-related energy savings. *Id.* at 8. In 2012, impact evaluations were completed on six programs and a process evaluation was completed on one program. Third-party consultants researched cycling strategies for the A/C Cool Credit program and evaluated measure assumptions for the Irrigation Efficiency Rewards program. Additionally, Idaho Power analyzed the FlexPeak Management and Irrigation Peak Rewards programs and has submitted corresponding reports with the Application. *Id.*

The Company says that when it calculated the prudently incurred expenses referenced in the Application, it adjusted some of the amounts set forth in the DSM Report. Specifically, the Company included an $82,856 adjustment for the disallowance of 2011 expenses in the A/C Cool Credit program; accounting corrections that principally reflect incentives paid to customers from the Idaho Rider that 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. Additionally, $3,512 of the incentives paid to customers from the Idaho Rider, which should have been charged to the Oregon Rider, occurred in 2011. The Company asks the Commission to reflect this adjustment in its records as necessary. *Id.* at 7.

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[1] The four tests compare a program's cost-effectiveness from different perspectives. In summary, the TRC compares program administrator and customer costs to utility resource savings, and assesses whether the total cost of energy in a utility's service territory will decrease. The UCT compares program administrator costs to supply-side resource costs, and assesses whether utility bills will increase. The PCT compares the costs and benefits of the customer installing the measure, and assesses whether program participants will benefit over the measure's life. The RIM measures the impact to customer bills or rates due to changes in utility revenues and operating costs caused by an energy efficiency program.

COMMENTS AND DECISION

Staff and ICL filed comments, and the Company filed a reply. The parties agree on the prudency of all DSM expenditures except the DSM Rider-funded labor expense increases in 2011 and 2012. Staff also requested the Commission establish a 2012 year-end balance for the DSM Rider account. Lastly, Staff and ICL critiqued the Company's commitment to DSM, how the Company implemented and suspended its demand response programs, and relationships between the Company and the Northwest Energy Efficiency Alliance ("NEEA") and the CAES Energy Efficiency Research Institute ("CEERI"). The parties' comments are summarized below.

I. Prudency of DSM Expenditures

A. Summary of Calculations

The Company says it prudently incurred $46,356,160 in DSM expenses in 2012. The Company calculates this total DSM expense by adding: (1) $6,019,109 in Custom Efficiency program incentive expenses; (2) $14,479,447 in demand response program incentive expenses; and (3) $25,857,603 in Idaho Energy Efficiency Rider expenses.

ICL supports the prudency request. *See* ICL Comments at 1 and 3.

Staff generally supports it. But Staff disagrees with the Company about the amount of prudently incurred Rider expenses. Staff says the Company prudently incurred only $25,594,191 in Rider expense (instead of $25,857,603 claimed by the Company). Staff thus recommended the Commission find the Company prudently incurred $46,128,307 in total 2012 DSM expenses.[2] *See* Staff Comments at 4-8.

Staff also says the Commission should confirm that the ending Rider balance as of December 31, 2012, was $4,358,076 and allow the Company to accrue carrying charges on that balance starting January 1, 2013. *Id.* The Company, on the other hand, says the Commission should focus on the prudent expenditure of funds rather than the ending balance. *See* Reply at 12. Staff calculates its recommended Rider balance as of December 31, 2012 as follows:

[2] Staff miscalculates its total recommended 2012 DSM expenses. Staff's recommended total is $46,128,307. But the sum of the component DSM expenses recommended by Staff—$6,019,109 in Custom Efficiency program incentive expenses, $14,479,447 in demand response program incentive expenses, and $25,857,603 in Idaho Energy Efficiency Rider expenses—is $46,092,707.

Company Reported 2012 Beginning Balance	$(5,321,997)
2012 Funding plus Accrued Interest	35,101,807
Total 2012 Funds	29,779,810
2012 Booked Expenses	(25,739,188)
2012 Adjustments	227,853
2011 Labor Increase Adjustment	89,601
2012 Staff Recommended Ending Balance	4,358,076

Staff's ending balance is $317,454 more than the ending balance reported in the Company's 2012 DSM Annual Report because: (1) Staff recommended disallowance of $89,601 in increased labor expenses for 2011; and (2) another $227,853 in adjustments from 2012.[3]

Staff calculates the 2012 adjustments to Rider-funded expenses as follows:

2012 Booked Expenses	$25,739,188
2011 A/C Cool Credit Disallowance (Order No. 32667)	82,856
Energy House Call Program Accounting Correction	(17,113)
Miscellaneous Accounting Corrections	(839)
A/C Cool Credit Program Switch Installations	(32,090)
ENERGY STAR Homes Northwest Incentives	(4,000)
2012 Labor Increase Adjustment	(173,811)
Staff Recommended Prudent Expenditures	$25,594,191

Staff thus recommended that the Commission find the Company prudently incurred $25,594,191 in Rider-funded expenses during 2012. Except for Staff's recommended disallowance of $173,811 in incremental 2012 labor expenses, the Company and Staff concur on the adjustments to the 2012, Rider-funded expenses as reflected above. *See* Staff Comments at 4-5.

B. Incremental Labor Expenditures for 2011 and 2012.

Staff says the Commission should assess the prudency of the Rider-funded labor expenses during a general rate case. *See* Staff Comments at 6-7. The Company disagrees, and urges the Commission to review those expenses now. The Company notes that in its last prudency review proceeding, it sought to recover $89,601 in increased Rider-funded labor expenses from 2011. The Commission, however, found that there was insufficient evidence to decide whether the Company's claimed expenses were reasonable. The Commission declined to decide the prudency of the Company's 2011, Rider-funded labor expense increase until such

[3] Staff says the 2012 Rider-funded expenses exceed reported booked expenses because the booked expenses reflect a negative accounting entry that adjusts for Staff's recommended disallowance of 2011 Rider-funded expenses. Staff clarifies that the booked expenses help to determine the Rider account's ending balance but do not reflect the amount of Rider-funded expenses for which the Company seeks a prudency determination.

evidence was provided. *See* Reply at 3-6, citing Order No. 32667. And, while the Commission agreed with Staff's point that it would be best to vet the Rider-funded wage increase through the heightened scrutiny of a general rate case, the Commission ultimately declared the Company "may, but need not, wait until a general rate case to provide such supporting information." Order No. 32667 at 9.

Instead of waiting for a general rate case to address the prudency of its 2011, $89,601 Rider-funded labor expense increase, the Company seeks a prudency determination for those expenses in this proceeding. It also seeks a prudency determination for another $173,811 in Rider-funded labor expense increases from 2012. To demonstrate the prudency of its decisions to increase the Rider-funded labor expenditures in 2011 and 2012, the Company describes its total compensation process and provides a total compensation analysis from 2013 that compares total compensation for most Rider-funded employees to total compensation of similar employees at peer utilities. Application at 8-9; Tatum Direct, pp. 9-19.

Staff says the Company's total compensation analyses do not support the Company's decisions to increase Rider-funded labor expenditures in 2011 and 2012. First, Staff notes the Company's total compensation analysis shows that the Company, which just recently achieved annual revenues above $1 billion, has a total compensation that is relatively equal to that of utilities with annual revenues of up to $3 billion.

Second, the Company's analysis does not adjust for Regional Price Parities ("RPPs") that compare the costs of living in different states and metropolitan areas. Staff notes that when RPPs are factored into wage levels, the Company's employees enjoy a significant wage advantage over similar employees in other states. *Id.*

Third, information provided to the Company's compensation committee shows that the Company overstates salary increases for regional utilities (including Avista and PacifiCorp), local businesses, and State of Idaho employees. For example, Staff confirmed with Avista that Idaho Power's analysis overstated the general wage adjustment for Avista non-union employees each year from 2011-2013. Further, while the Company's analysis included a 1.75% wage increase for PacifiCorp union employees, it omits that PacifiCorp's non-union employees only received a 0.75% increase from 2011-2012. Staff thus urges the Commission to find that: (1) the Company failed to prove that its 2011 and 2012 incremental Rider-funder labor increases were prudent, and such increases should not be passed through to ratepayers; and (2) cap Rider-funded labor expenses at currently approved, 2010 amounts until the Company's next general rate case, at which time that cap can be adjusted as warranted. Staff Comments at 7-8.

In reply, the Company counters that its wage analysis was complete and accurate. Reply at 6-8.

First, the Company acknowledges that its revenue only recently put it in the $1-3 billion revenue category. The Company thus analyzed data for companies with less than $1 billion in revenues and companies with revenues between $1-3 billion. The Company says the median revenues of these companies average $1.118 billion, which is close to the Company's 2012 revenues of $1.075 billion. The Company says its compensation-setting process recognizes that its revenues tend to be lower than similar companies due to lower electricity prices, and that it is like the publicly-traded companies in the $1-3 billion category in terms of disclosure and filing responsibilities. The Company also notes the wages for employees in the $1-3 billion category are not necessarily higher than those of employees in the less than $1 billion category. Reply at 7-8.

Second, the Company says it is inappropriate for the Company to use RPPs to inform its labor increases; in actuality, regardless of RPPs, the Company must maintain wage levels that are competitive with peer utilities and service companies so it can attract and retain skilled workers. *Id.* at 8-9.

Third, the Company argues that Staff's critique of information the Company provided to its compensation committee in 2013 does not relate to its decisions in 2011 and 2012 to increase Rider-funded labor expenditures. The Company says the committee only used the information (which illustrated utility, business, and State wage increases) to consider 2013 general wage adjustments, not the 2011 and 2012 wage increases at issue here. Further, the Company reviewed, but did not rely on, state and local company wage data to market-price jobs or make general wage adjustments. Rather, the compensation based its recommendations on the competitive market adjustments other energy services, particularly the Company's regional utility peers. The Company also stresses that Avista's non-union compensation program differs from Idaho Power's program, and the Company lacks access to the PacifiCorp data that Staff says the Company should have considered because: "Unfortunately, since 2011, Idaho Power has been unable to establish a relationship with colleagues at PacifiCorp that can provide the requested information." And, in any event, this single, missing data point does not undermine the remainder of the wage analysis. *Id.* at 9-12.

Commission Decision on Prudency of Expenditures: Based on our review of the record, it appears the parties concur on the amount of prudently incurred DSM expenditures except for the amounts associated with the Company's incremental, Rider-funded labor expense increases.

The Company asks the Commission to find that it prudently incurred $89,601 in 2011 labor expense increases and $173,811 in 2012 labor expense increases. We find that Staff's arguments cast doubt on the prudency of the Company's decisions to increase these Rider-funded labor expenses. As an initial matter, we question the Company's attempt to support the prudency of its decisions to increase labor expenditures in 2011 and 2012 with evidence—such as its 2013 total compensation analysis—that did not exist when those decisions were made. Similar evidence from 2011 and 2012 is conspicuously absent from the record. The Company should make and support the prudency of its decisions with information that it relied upon to make those decisions.

We also question the accuracy and completeness of the Company's compensation analysis. We believe the Company should have considered RPPs when deciding whether to increase Rider-funded labor expenditures. We are further concerned that the Company overstated Avista's general wage adjustment for non-union employees, and included a more favorable 1.75% increase for PacifiCorp union employees while omitting that PacifiCorp's non-union employees only received a 0.75% increase. We believe it is important for the Company to accurately assess complete data from its peer utilities in Idaho. If the Company remains unable to obtain and consider this data when making compensation decisions because it cannot establish a suitable relationship with its utility colleagues, then it should contact Commission Staff for help in bridging that relationship gap.

Based on the above, we find the Company has not yet persuaded us that its 2011 and 2012 incremental, Rider-funded labor expenses were prudently incurred. We will, however, again defer ruling on the reasonableness of the Company's labor expenses to afford the Company another opportunity to provide sufficient supporting evidence. We would prefer that the Company revisit the incremental labor expenses in its next general rate case. But the Company may, if it desires, raise that issue again in an earlier filing. We suggest the Company work with Staff to determine what kind of evidence the Company should provide to substantiate its claims.

Based on the above, we find that in 2012, the Company prudently incurred $46,092,707 in total DSM expenses, consisting of: (1) $25,594,191 in Idaho Energy Efficiency Rider expenses (i.e., $27,768,002 - $173,811 in 2012 labor expense increases); (2) $6,019,109 in Custom Efficiency program incentive expenses; and (3) $14,479,447 in demand response program incentive expenses. We further find that the Rider balance as of December 31, 2012, is $4,358,076, and it is reasonable for the Company to accrue carrying charges on that balance starting January 1, 2013.

II. Other Issues

ICL and Staff note that the Company's DSM programs are generally well run and provide cost-effective opportunities for ratepayers to participate in energy savings programs. *See* ICL Comments at 1; 3; Staff Comments at 8. Further, Staff says the program managers are committed to energy efficiency and demand reduction, and the research and evaluation team consistently delivers rigorous evaluations that are used to improve the programs. *See* Staff Comments at 8. But ICL and Staff are concerned about the Company's commitment to, and communications with, stakeholders about, pursuing all cost-effective DSM. For example, in 2012 the Company: (1) announced without explanation that it would not renew its contract with NEEA, which delivered almost 18,000 MW of cost-effective energy savings in 2012 and provided for market transformation (Staff Comments at 12-14; ICL Comments at 2); (2) would not discuss the status of its CEERI funding partnership or why the Company would not fund CEERI energy efficiency research and development efforts (Staff Comments at 14-15; ICL Comments at 2); (3) abruptly suspended cost-effective demand response programs without adequately notifying stakeholders, thereby fostering the notion that demand response programs are expendable and that the Company can eliminate them at whim despite having invested millions of ratepayer dollars into the programs over the past ten years. *See* ICL Comments at 2-3; Staff Comments at 8-10.

In light of these concerns, ICL and Staff ask the Commission to: (1) affirm that cost-effective demand response programs are a prudent use of ratepayer funds and Idaho Power should fully leverage the existing investment;[4] (2) affirm that supporting market transformation, research, and development by participating in the CEERI is essential to closing the gap between Idaho's cost-effective energy efficiency potential and acquired savings; and (3) order the Company to convene an EEAG meeting to discuss 2013 DSM alternative costs and the Company's relationships with NEEA and CEERI. *See* ICL Comments at 1-3; Staff Comments at 8-17.

The Company argues that these issues are beyond the scope of this proceeding. Further, the Company notes that after the Staff submitted its comments, the Company convened an EEAG meeting to discuss 2013 DSM alternative costs. Lastly, the Company says it properly implemented its demand response programs and promptly responded to changes in the IRP that impacted those programs. The Company explains it could not have notified stakeholders any earlier because it did not have the final results of the load and resource balance. The Company says the load and resource balance was finalized in June 2012, "just prior" to November 30, 2012 Integrated Resource Planning Advisory Council ("IRPAC") portfolio design workshop. The Company then shared the information with the EEAG three business days later, on December 5, 2012. The Company thus says it "moved as quickly as possible" to share the information once the impacts were known. *See* Reply at 13-15.

Commission Decision: We agree with the Company that this proceeding focuses on whether the Company prudently incurred DSM expenses. But Staff and ICL's comments are well-taken. We have consistently directed the Company to pursue all cost-effective DSM programs in an effort to benefit all Idaho Power customers by delaying the need to build new, costly generating facilities. We are concerned that the Company's recent actions have fostered a stakeholder perception that the Company is retreating from its DSM commitments.

We also understand the other parties' frustrations to the extent the Company has failed to collaboratively and proactively involve stakeholders in DSM planning. For example, once the Company knew of the load and resource balance results, it took five to six months to share that information with the EEAG, and a mere two weeks after that to apply to suspend the demand response programs. The Company may have "moved as quickly as possible" in filing to

[4] We addressed this issue in our Order approving the settlement in Case No. IPC-E-13-14. That case focused on whether and under what terms the Company's A/C Cool Credit, Irrigation Peak Rewards, and FlexPeak demand response programs should continue. Our Order specifically finds that ". . . it is important for the Company to continue its [demand response] programs. . . ." It also notes that the settlement "allows the Company to leverage prior [demand response] investments. . . ." Order No. 32923 at 7.

suspend the programs after sharing the information with the EEAG. But its delay in sharing that information with the EEAG in the first place understandably caught EEAG members off-guard. The Company also decided not to participate in NEEA and CEERI without discussing the matter, in advance, with the EEAG.

In Case No. IPC-E-12-15, we expressed concern "that the Company may not be using the EEAG as we intended or to its fullest potential." We also directed the Company "to use the EEAG meetings to improve customer awareness of energy efficiency programs, and to allow customers, Staff, and other interested persons to provide information and have an advisory role." *See* Order No. 32667 at 18. Based on the record in this case, we remain concerned that the Company does not fully utilize the EEAG and proactively and collaboratively involve the EEAG in the DSM-related decisions. The Company's decisions regarding NEEA and CEERI may or may not have merit. But the Company should have consulted the EEAG in reaching those decisions. In light of the stakeholders and our continuing concerns about how the Company utilizes the EEAG, we find it reasonable to direct the Company to file a report with the Commission explaining the Company's perspective on the EEAG's purpose and value, whether or not the EEAG is working, and how the EEAG could be improved. The Company shall file this report within 60 days of the date of this Order.

ULTIMATE FINDINGS OF FACT AND CONCLUSIONS OF LAW

Idaho Power is an electrical corporation. The Commission has jurisdiction and authority over Idaho Power and the issues in this case under Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000, *et seq.* Based on our review of the record and the discussion above, we find that Company prudently incurred $46,092,707 in total DSM expenses, consisting of: (1) $25,594,191 in Idaho Energy Efficiency Rider expenses (i.e., $27,768,002 - $173,811 in 2012 labor expense increases); (2) $6,019,109 in Custom Efficiency program incentive expenses; and (3) $14,479,447 in demand response program incentive expenses. We further find that the Rider balance as of December 31, 2012, is $4,358,076, and that that it is reasonable for the Company to accrue carrying charges on that balance starting January 1, 2013.

ORDER

IT IS HEREBY ORDERED that Idaho Power's 2012 DSM expenditures are approved as prudently incurred in the amount of $46,092,707 as described above.

IT IS FURTHER ORDERED that the Company take such actions as are directed in the body of this Order.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 20th day of December 2013.

Paul Kjellander

PAUL KJELLANDER, PRESIDENT

Mack A. Redford

MACK A. REDFORD, COMMISSIONER

Marsha H. Smith

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Jean D. Jewell

Jean D. Jewell
Commission Secretary

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