

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL**

**FROM: KARL KLEIN
DEPUTY ATTORNEY GENERAL**

DATE: MAY 7, 2013

**SUBJECT: IDAHO POWER'S APPLICATION TO DETERMINE PRUDENCY OF
2012 DSM EXPENDITURES, CASE NO. IPC-E-13-08**

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. The Company submitted a copy of its DSM 2012 Annual Report and testimony in support of its Application. The Company asks the Commission to process the Application under Modified Procedure. *Id.* at 9.

THE 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 also notes that the

Commission found 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. This Application 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 Application says that in 2012, the Company 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

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

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.

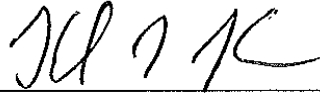
STAFF RECOMMENDATION

The Company requests that its Application be processed by Modified Procedure. Staff recommends that Idaho Power's Application be processed by Modified Procedure with a 90-day comment period, followed by a 14-day reply comment period.

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.

COMMISSION DECISION

Should the Commission issue a Notice of Application and Notice of Modified Procedure providing for a 90-day comment period, followed by a 14-day reply comment period?



Karl Klein
Deputy Attorney General

M:IPC-E-13-08_kk