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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE CONTINUATION)	
OF IDAHO POWER COMPANY'S A/C COOL)	CASE NO. IPC-E-13-14
CREDIT, IRRIGATION PEAK REWARDS,)	
AND FLEXPEAK DEMAND RESPONSE)	COMMENTS OF THE
PROGRAMS FOR 2014 AND BEYOND.)	COMMISSION STAFF
)	

The Staff of the Idaho Public Utilities Commission comments as follows in support of the Demand Response Programs Settlement Agreement filed in this case (the "Settlement"). Staff believes the proposed Settlement is just, fair, and reasonable, in the public interest, and should be accepted by the Commission.

BACKGROUND

Idaho Power Company has historically offered three voluntary demand response ("DR") programs: A/C Cool Credit; Irrigation Peak Rewards; and FlexPeak Management programs. On June 4, 2013, the Commission initiated this proceeding to examine whether the Company should continue or modify these programs. *See* Order No. 32823.

A. Prior Proceedings

In prior proceedings, the Commission "temporarily suspended" the A/C Cool Credit and Irrigation Peak Rewards programs for 2013 and approved changes to the FlexPeak program. The Commission suspended the first two DR programs and modified the third based on the Company's assertion that it would not experience a peak-hour generation deficit from 2013

through July 2016. *See* Order Nos. 32776 and 32805. In summary, these two prior Orders provided as follows.

1. Order No. 32776—A/C Cool Credit and Irrigation Peak Rewards

In Order No. 32776, the Commission approved a proposed settlement agreement entered into by the parties including the Idaho Irrigation Pumpers Association, Inc. (the “Irrigators”); Idaho Conservation League (“ICL”); Snake River Alliance (“SRA”); and Commission Staff. The parties agreed to suspend the A/C Cool and Peak Rewards programs for 2013 based upon Idaho Power’s 2013 Integrated Resource Plan (“IRP”). More specifically, the 2013 IRP showed that the peak-hour projected loads for the summer months of 2013, 2014, and 2015 did not show a “peak-hour deficit until July 2016 and therefore [there was] no need [to employ] peak-hour [DR] programs” like the A/C Cool and Peak Rewards programs. The Company relied on the same rationale for amending the FlexPeak Management contract.

The settlement approved in Order No. 32776 also provided that residential customers participating in the A/C Cool Credit program be provided a “continuity” payment of \$1.00 per month for the three summer months of 2013. The settlement also provided for continuity payments for those irrigation customers voluntarily participating in the four Peak Reward options. In addition to continuity payments, the parties requested that the Commission schedule an informal prehearing conference to set public workshops and develop a procedural schedule so that the parties and other interested persons may evaluate changes to the DR programs for calendar year 2014 and beyond. The Order approving the temporary suspension directed Staff to convene an informal prehearing conference for the parties to develop a schedule for the public workshops. Order No. 32776 at 8.

2. Order No. 32805—FlexPeak

In the FlexPeak Order, the Commission approved changes to the program which will reduce the cost of the program by about \$500,000 for 2013. Order No. 32805 at 3. As with the A/C Cool and Peak Rewards programs, the Commission directed that the public workshops also address “how to continue the FlexPeak program in the future.” *Id.* at 4. In accordance with the Orders mentioned above, an informal prehearing conference was scheduled to further evaluate the three DR programs. The Commission also directed that those entities already granted intervention would be parties in the new case. Order No. 32776 at 8.

B. Present Proceedings

As noted above, the prior Orders directed the parties to convene an informal prehearing conference to schedule public workshops. The prehearing conference in this case occurred on June 12, 2013. A series of five public workshops then occurred between July 10 and August 27, 2013. Workshop participants discussed how the Company includes DR in its IRP, how it calculates cost-effectiveness, the purpose of DR, and DR programs and their operational design. The last workshop also included settlement discussions that culminated in the proposed Settlement. *See* Notice of Informal Prehearing Conference, and Notices of Public Workshops.

STAFF ANALYSIS

Staff participated in all five stakeholder workshops designed to determine how to structure Idaho Power's DR programs for years when the IRP does not predict capacity deficits or a corresponding need for DR. The workshops began by providing foundational information on DR, including its intended purpose, how DR has historically been used by the Company, and examples of DR programs around the country. Later workshops explored DR's monetized value, including its value in years when the IRP does not identify a capacity deficit. Several workshops included breakout sessions in which DR program participants and other stakeholders examined program details and recommended changes that would make each program more responsive to the Company's resource needs, or lower costs. The final workshop focused on settlement negotiations where the incentive levels for residential and irrigation participants were established.

The Settlement provides for:

- 1) Continuing all three DR programs in 2014 and beyond, using existing participants and equipment when possible.
- 2) Establishing a \$16.7 million maximum annual value for the entire demand response portfolio. This value was established using the cost of a single deferred 170 megawatt ("MW") simple-cycle combustion turbine ("SCCT"), measured over the 20-year IRP planning horizon, plus the corresponding deferred energy savings for 60 hours. This value is included beginning in 2014 and shall be included in years when the IRP shows no capacity deficit.
- 3) Modifying the DR Programs to align the cycling season for all three programs, reduce the dispatch notification time for the irrigation program, reduce incentive payments to

irrigation and residential participants, and add three mandatory dispatch events per season for each program.

1. Continuing the DR Programs

Although the IRP does not show an immediate capacity deficit, Staff believes it is important to continue the DR programs for the next two years to ensure there are sufficient, reliable DR resources to meet anticipated deficits in 2016 and 2017. The workshops illustrated that reliable DR depends on committed customer participation. While it is relatively easy for residential customers to participate in DR programs, irrigation and commercial customers invest considerable effort and expense—particularly start up costs—and incur significant risk to participate in DR that will provide peak capacity to Idaho Power. Without an ongoing utility commitment to DR, many of these customers would not find it worthwhile to participate. Commercial and irrigation customers may be more likely than residential customers to stop participating in DR without a continuous DR program, but even residential participation would be negatively affected if Idaho Power changed its position on the value of DR every few years.

Staff also believes that using existing participants and equipment when possible makes the best use of previous investments in DR programs. Staff believes it is generally less expensive to use established participants and existing equipment than to recruit new participants, remove existing equipment, and re-install equipment at new locations. All three programs currently have equipment installed in the field, but Idaho Power only owns the equipment installed through the irrigation and residential programs. Equipment deployed through the FlexPeak program for commercial customers is owned by EnerNoc, the third-party aggregator. Previous investments in that equipment will not be preserved unless Idaho Power renews its contract with EnerNoc.

The proposed Settlement attempts to reduce costs and improve program responsiveness by decreasing incentive payments to irrigation and residential customers and increasing program dispatch requirements. As a result, Staff anticipates that some customers may stop participating in the programs. Since the current DR capacity of about 400 MW far exceeds the projected capacity deficit for 2016 and 2017, Staff believes the programs can absorb some attrition and still meet the IRP-identified need.

2. Valuing the DR Programs

Determining the value of the DR portfolio centered on two issues: 1) the size of the deferred resource, and 2) the number of years over which the value should accrue.

The IRP forecasts an 89 MW capacity deficit in 2016 and a 139 MW deficit in 2017. Assuming the Boardman to Hemingway transmission line is completed on time in 2018, the IRP does not forecast deficits again until 2024. In that year, the IRP forecasts a 39 MW capacity deficit that steadily grows to a 400 MW deficit in 2033.

Without DR, Idaho Power would need to build a supply-side peaking resource to meet demand in 2016 and 2017 and could use the same resource to meet excess demand until 2027. Building one, 170 MW SCCT would meet the Company's forecasted capacity deficit from 2016 through 2027. Beyond 2027, the deficits are projected to exceed the size of a single SCCT.

Staff believes that the compounding deficits forecasted after 2027 in the IRP planning period are large enough and grow quickly enough that instead of rapidly building a series of SCCTs, the Company is more likely to build a much larger resource. However, because that larger resource is needed so far in the future (only in the last six years of the IRP planning period), Staff does not believe it is reasonable to include it in the value of DR programs funded today. Consequently, Staff agrees the current value of DR, based on the projected 2016-2017 deficits and four years of deficits after Boardman to Hemingway, is the deferred capacity of one SCCT, plus the ancillary energy savings produced by maximum DR program dispatch.

The workshops also resolved another important issue: Over how many years should the levelized value of DR be calculated? To be consistent with the IRP-planning time lines, the workshop participants agreed to value DR over 20 years. Staff concurs that the deferred resource cost should be used to value DR over the entire period even though a capacity deficit is not identified by the IRP in some years. If a SCCT was built to meet load in six intermittent years, the cost of the resource would not be reduced for years when the resource was not needed. The Company would collect the full cost from ratepayers even though an IRP may show no capacity deficits in some years. Staff believes that participation and reliability would decline if the DR program was suspended further and therefore agrees it is reasonable to establish a 20-year levelized program value beginning in 2014.

Staff suggested, and workshop participants agreed, to value DR as equivalent to the lifecycle revenue requirement for a SCCT because that is what ratepayers would fund in the absence of DR. Staff agrees that Idaho Power's current practice of decrementing the value of DR by the effective load carrying capacity (ELCC) and including the value of deferred energy savings correctly adjusts DR value to reflect its limitations and benefits as compared to a SCCT.

Based on this methodology, the maximum annual levelized value of the DR portfolio is calculated to be \$16.7 million. In order for the portfolio to be cost-effective, annual program expenses must not exceed this amount. Previously, cost-effectiveness was determined by assuming that each MW of DR deferred a SCCT MW. While this was a reasonable approach with consistent capacity deficits, it is not an appropriate valuation with intermittent deficits. The Settlement bases the value of DR—and therefore its cost-effectiveness—on the actual size of the resource being deferred throughout the planning period.

Importantly, the value of the DR shall be reevaluated as the IRP changes. Although the Company's future IRP's will continue to be used to calculate the value of DR using the Settlement methodology, the avoided cost of capacity, determination of capacity need, and other financial inputs may change. Changes in any of these variables could significantly affect the total value of DR, which would directly affect the appropriate amount of annual program expenditures. Staff believes the Settlement provides a reasonable framework to value DR in the future as conditions change.

3. Modifying the DR Programs

The Settlement also makes several changes to the program design and incentive payments. The residential and commercial programs were shortened by 15 days on either end of the program season to match irrigation program dates. This will reduce costs, streamline dispatch processes, and align the programs more closely with Idaho Power's projected capacity deficits. The Company will dispatch each program at least three times a year, regardless of need, to ensure reliable participation and demand reduction. Idaho Power will not seek to actively expand the capacity of its programs, but additional residential customers who wish to participate will be allowed to enroll.

Incentive payments for each program were determined within the constraints of the total annual value calculation. To determine the maximum level of incentives, Staff subtracted the average annual administrative cost of the programs from the total annual value of the DR portfolio, and then proposed using half of the remaining sum as the ceiling on incentives. From that amount, workshop participants negotiated incentive levels designed to preserve committed participation while keeping costs as low as possible.

Incentive payments to residential customers were decreased from \$21/season to \$15/season which reflects the shorter program season. Incentive payments to irrigators were also significantly reduced and retained the fixed/variable payment structure. Parties agreed that three

dispatch events per year would be included in the fixed portion of the payment structure to ensure DR reliability. The variable portion of irrigation incentives was structured so that even in years when the programs are dispatched for the full 60 hours, the annual costs of the program will not exceed the annual value of the resource. Incentive payments for the commercial program were not specifically determined. However, the annual value calculation in combination with the residential and irrigation incentives prescribed in the Settlement gives the Company a clear guide on total expenditures.

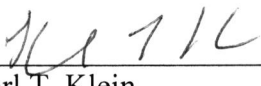
In addition to reduced incentives, irrigation participants also agreed to reduced advance notification of interruption from day-ahead to immediate dispatch for Option 1 and 2 participants and to four-hour advance notification for Option 3 participants. Fully dispatchable DR with shorter notification periods increases the resource value of DR.

Staff believes that the resource-based value calculation combined with cost savings and program modification helps the Settlement preserve previous investments in a valuable DR resource while limiting costs in years when it is not needed to meet load.

STAFF RECOMMENDATION

Staff recommends that the Commission accept the proposed Settlement as just, fair, and reasonable and in the public interest.

Respectfully submitted this 30th day of October 2013.



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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 30TH DAY OF OCTOBER 2013, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-13-14, BY MAILING A COPY AND E-MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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