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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO USE A PORTION OF THE 1997 REVENUE SHARING BALANCE TO FUND IDAHO POWER COMPANY’S 1997 AND 1998 PAYMENTS TO THE NORTHWEST ENERGY EFFICIENCY ALLIANCE.                                        | )))))) | CASE NO. IPC-E-98-12COMMENTS OF THECOMMISSION STAFF |

COMES  NOW  the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Brad Purdy, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued on November 16, 1998, submits the following comments.

Introduction

On October 13, 1998 Idaho Power Company (Idaho Power; Company) filed a request to use a portion of the 1997 revenue sharing balance to fund the Company’s 1997 and 1998 payments to the Northwest Energy Efficiency Alliance ( NEEA or the Alliance), totaling $2.43 million.

In addition to reviewing the testimonies, exhibits and workpapers filed with this Application, Staff has reviewed Idaho Power’s prior Application for recovery of anticipated NEEA costs, reviewed materials received through its having an ex officio representative on NEEA’s Board of Directors (e.g. Board Meeting Minutes and Notes) and reviewed project reports available on NEEA’s web site (http://nwalliance.org/).  The Staff also traveled to Portland and made on-site queries of NEEA staff and Idaho Power staff regarding certain operations and evaluations of programs, in particular the WashWise and LightWise programs, from which Staff received and reviewed more detailed supporting documentation for Exhibit’s 13 and 14 to the testimony of Margie Gardner filed in support of Idaho Power’s Application.

Idaho Power was denied a previous request to collect $4.05 million from its retail customers to fund its anticipated 3-year participation in NEEA from 1997 through 1999

(Case No. IPC-E-96-26).  At the conclusion of that case the Commission stated:

While we are convinced that, at the outset, NEEA appears to be a worthwhile endeavor and that recovery by Idaho Power of its investment in that organization would not violate the rate moratorium, our analysis does not end there.  It is premature at this juncture to determine whether any or all of the various programs funded by NEEA will ultimately prove to be prudent.  In the meantime, therefore, the Company is authorized to capitalize and defer the recovery of its investment in NEEA until additional data regarding the prudency [sic] of the various programs is available.  We give Idaho Power the assurance that we will provide for some form of rate recovery of any prudent DSM program and in determining whether NEEA has been prudent, we will consider all of its various projects as a whole rather than make a cost recovery determination on a project-by-project basis. (Order No. 27045, p. 6, July 16, 1997)

Prudence

While the Commission did not define prudence, the dictionary has as one definition, “skill and good judgment in the use of resources,” which seems appropriate.  A prudence standard as used in the context of utility regulation would generally require a utility to make decisions based on information available at the time the decision is made.  That decision would not later be criticized if conditions had changed or if reasonably made estimates proved to be inaccurate.  The utility would, however, be expected to be aware of changing conditions and to take corrective actions to mitigate negative impacts on its customers if, at some point, its original decision, in hindsight, appeared to be wrong.

Idaho Power’s Responsibility for Prudent Investments

With respect to Idaho Power’s participation in NEEA, prudence would require at a minimum that the Company’s decision to participate was based on realistic expectations that NEEA’s market transformation programs would be cost effective for its customers and that the Company monitor program results to ensure that they are, in fact, cost effective.  The Company would also be expected to ensure that the benefits provided by NEEA participation are achieved at a reasonable cost, in other words, that NEEA operates efficiently and achieves market transformation at least cost.

Although Idaho Power has appointed a very capable representative to serve on the Board of the Alliance, little evidence of additional research or proactive, independent participation has been presented in the Company’s filing or observed by Staff during the course of its analysis.  In fact, at a meeting with Idaho Power and NEEA staff on December 2, 1998 in NEEA’s Portland office, when asked about independent verification of NEEA project evaluations, Idaho Power said it had done none.  Staff believes the Company has a fiduciary responsibility to ensure that appropriate value is being received from contributions to NEEA to justify recovering these contributions from its customers.  As stated in Staff Comments filed in IPC-E-96-26 (p.13),

Staff support for Idaho Power’s participation in NEEA was contingent upon the Company being both active and effective in NEEA and that the Company be responsible for continuing to evaluate the effectiveness of NEEA and withdrawing from it if it becomes clear that its customers will not be able to get their money’s worth.  Relying on NEEA’s staff to evaluate cost-effectiveness for Idaho Power does not satisfy our conditional support.

Within the Funding Commitment clause of the Memorandum of Agreement establishing the Alliance is a statement that whenever a project adopted by NEEA includes delivery of local services, utilities will be given the first option to perform that function within their service territories.  From a telephone conversation with Darlene Nemnich on December 10, 1998, Staff  learned that Idaho Power has not exercised this option in the past for a variety of reasons, but has  recently formed an internal advisory group to consider doing so for select NEEA projects.  Apparently, one problem has been the logistics of exercising the local delivery option given that projects are accomplished through contracts with other parties.  Staff believes that if Idaho Power is successful in acquiring some local delivery of NEEA projects, greater utility “ownership” of projects will result, which should, in turn, provide greater benefits for its customers.

Financial and Operational Audits of NEEA

Since its inception NEEA has had two independent financial audits, one as of the end of August 1997 when there was a change of executive directors of NEEA and another for the year ended December 31, 1997.  Neither of these audits reflected any significant weaknesses in internal controls.  The few minor weaknesses noted in connection with the year-end audit were easily corrected.  So, relying on these independent audits, internal controls over the use of resources were adequate for 1997.  Essentially, 1997 was a start-up year for NEEA; only 14% of its expected total 3-year budget was received and not all of that was spent.  Thus, taken by itself, 1997 probably does not accurately reflect NEEA’s evolving project management skills and resource utilization.  Therefore, allowing full recovery by Idaho Power of funds advanced through 1998 may be premature.

Additional audits and evaluations will be done in the future.  The report from an operational audit currently being performed by Price Waterhouse-Coopers (PWC) is due on or after December 15, 1998, and an independent financial audit for 1998 is scheduled for May 1999 and should become available shortly thereafter.  It should be noted that the Memorandum of Agreement that created NEEA stated “the Alliance will monitor and evaluate, to track progress toward market transformation, each project approved by the Board of Directors, including tracking market changes that have occurred, documenting energy savings, and assessing appropriate exit strategies.  In addition, the Alliance will conduct a review at the end of five years to evaluate the effectiveness of the Alliance’s overall market transformation efforts.”

Cost-Effectiveness

It is far too early to judge whether NEEA’s projects in total are cost-effective and whether the geographic distribution of benefits is such that the projects are cost-effective for Idaho Power’s ratepayers.  Staff believes that the region-wide, overall benefit-cost ratio will likely be greater than 1.0 even after discounting some of the early calculations’ probable overstatements of benefits (e.g. assumption of stagnant baseline in WashWise), but data available from Margie Gardner’s Exhibits 13 and 14 indicate that the distribution of energy savings is currently lagging in Idaho and probably within Idaho Power’s service territory.  These exhibits also show that Idaho’s energy savings are projected to catch-up in later years, but whether that actually happens may depend, in part, on the actions and effectiveness of Idaho’s representatives on the NEEA Board.

An understanding of the fundamental difference between historical demand side management (DSM) programs and the investment in a “market transformation” organization is needed to make a decision as to whether to fund the Alliance.  In essence, a DSM program was a “spot fix” that usually provided financial incentive for a customer to make an investment enabling more efficient use of electricity.  The amount expended was compared to the energy savings expected from the changes made.  No future benefits beyond the life of the change “paid for” was considered.  The Alliance’s purpose is different in that it seeks to permanently transform markets by the programs it undertakes.  In the short term, its programs may not compare favorably if subjected to the same analysis as the historical DSM programs.  But this would be an unfair comparison because its long-term plan is to change the market so the sales of efficient products and processes will continue after incentives are discontinued.  This continuation will occur due to changes in government efficiency standards or permanent price reductions or increased availability made by manufacturers due to the broad public acceptance of these products.  This longer-term approach is inherently riskier than historic DSM programs.  However, if successful, the long-term benefits will be greater.

Lack of Customer Representation on NEEA’s Board

An issue that is outside the scope of this case but one that should be addressed in the future is the lack of representation of customers on NEEA’s Board.  The customer groups which are ultimately expected to pay for these programs are not directly represented on the Board.  Industrial, commercial and residential representatives should be considered to be added to the Board or used to replace less interested or affected parties currently on the Board.

Conclusion and Recommendation

In Case No. IPC-E-96-26, Staff supported Idaho Power’s participation in NEEA.  Our review of information available in this case has not changed our opinion.  However, in Case

No. IPC-E-96-26 the Commission adopted a very cautious approach to recovery of Idaho Power’s costs of participation in NEEA and denied recovery of these costs until such time that there was sufficient information to determine whether they were prudently incurred.  Although additional data regarding NEEA’s overall operations and its various programs has become available since Idaho Power’s prior Application was denied, there is still insufficient information for the Staff to determine whether Idaho Power’s participation in NEEA through the end of 1998 has been a prudent use of resources.  However, Staff is convinced that the Company’s participation through the end of 1997 was reasonable and prudent.  Not only is more audited information available for 1997 than for 1998, but 1997 was a start-up year with smaller costs and relatively little cause for concerns about first-year cost-effectiveness and geographical distribution of benefits.

Staff recommends that Idaho Power be allowed to recover its $850,000 payments to NEEA for calendar year 1997 plus carrying charges and that this recovery be deducted from revenue sharing funds as requested by the Company.

DATED  at Boise, Idaho, this            day of December 1998.

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Brad Purdy

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