BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

Office of the Secretary

Service Date

May 12, 1999

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| **IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR RECOVERY OF ITS REMAINING DEFERRED DEMAND SIDE MANAGEMENT CONSERVATION EXPENDITURES.** | **)****)****)****)****)****)****)** | **CASE NO. IPC‑E‑98‑16****ORDER NO.  28041** |

**SYNOPSIS**

 On December 14, 1998, the Idaho Power Company (Idaho Power; Company) filed an Application for an Order authorizing the Company to use 1998 revenue sharing amounts to fund the Company’s remaining deferred demand side management (DSM) conservation expenditures which are not yet being amortized. By this Order, we authorize Idaho Power to offset the Company’s 1998 revenue sharing balance to recover all of its requested outstanding DSM, but take into account the Company’s current level of sales in calculating the recovery of that DSM.

**BACKGROUND**

 In Order No. 27660, issued in Case No. IPC-E-97-12, the Commission granted Idaho Power’s Application to increase its rates to recover its outstanding DSM expenditures (i.e., DSM expenditures that have been incurred but not yet authorized for recovery by the Commission) made through August 1997. The Commission also authorized the Company to accelerate the recovery of all its unamortized DSM (i.e., DSM authorized for recovery by the Commission but not yet collected from ratepayers) from 24 to 12 years. The Commission disallowed from recovery, however, the Company’s expenditures in its Commercial Lighting Program (CLP) incurred after the 1995 calendar year on the basis that the Company failed to demonstrate that the expenditures it made in that program were prudent.

 Petitions for reconsideration of the Commission’s decision to accelerate the amortization of Idaho Power’s DSM were filed and subsequently denied. The Commission’s decision to accelerate the recovery of Idaho Power’s DSM to 12 years is now pending on appeal before the Idaho Supreme Court in Docket No. 25055. In Order No. 27722 issued on reconsideration, the Commission acknowledged Idaho Power’s right to make a future offering of proof that its expenditures in the CLP were prudent.

**CURRENT CASE**

 Idaho Power proposes that the amount of the estimated payments for the Agricultural Choices Program be set aside from the determined 1998 revenue sharing amount. As payments for the Agricultural Choices Program are made, those payments would be credited against the revenue sharing balance. The payments would be reported to the Commission Staff and any monies that were not required to reimburse the Company for Agricultural Choices expenditures would then be available for disbursement as the Commission would require. If the amount set aside is too low, the Company would file a proposal to recover the additional amount required.

 The Commission conducted a technical hearing in this case on March 31, 1999. The only parties to present evidence during the course of that hearing were Idaho Power and the Commission Staff. FMC Corporation appeared through counsel.

##### Idaho Power

 During the hearing, the Company presented evidence regarding the development, implementation and administration of the CLP. In an effort to better explain it’s goals in implementing the CLP and the evaluations that it made of that program, Company witness Bruce Cleveland testified that Idaho Power desired a program in which all commercial customers could participate. The Company favored a straightforward program with easily understood eligibility requirements and with a uniform wattage calculation process providing easy administration and low administrative costs. *Tr*. p. 36.

 Mr. Cleveland noted that the Company chose the CLP because the one common energy use among all commercial customers is lighting. Moreover, a customer’s hours of operation are simple to quantify and it is easy to measure benefits with known energy lighting nameplate ratings for lamps and fixtures, he testified. The Company patterned the CLP after the successful Commercial Fluorescent Lighting Rebate Program Idaho Power offered to its customers in the 1980s. In addition, Mr. Cleveland noted, more than 80% of the savings through the CLP came from T8 lamps and electronic ballast combinations which had become the new standard in the lighting industry. Finally, the Company was aware of similar lighting programs implemented by utilities in other states that have proven to be cost-effective. *Tr.* pp. 36-37.

 Idaho Power states that it calculated the savings estimates used in the CLP by developing a standard energy calculation methodology that was systematic and uniform. Lighting wattage information for both old and new equipment was obtained from various sources. *Tr.* pp. 37-38. Idaho Power argues that, from the outset, it knew the CLP would be cost-effective even if some of its customers would have installed energy efficient lighting fixtures on their own without the availability of the program (known as “free riders”). *Id*. Idaho Power states that it conducted audits to verify that the CLP lighting measures installed under the program have remained in use at their intended locations. *Tr.* pp. 39-40. Idaho Power also presented the testimony of Gregory Said relating to the actual calculations supporting the Company’s Application.

##### Commission Staff

 Staff challenges two aspects of Idaho Power’s filing. First, Staff contends that the Company once again failed to demonstrate that it properly administered and evaluated the CLP making it impossible to determine whether the costs incurred under that program which the Company now seeks recovery are prudent. Second, Staff contends that the overall amount of revenue requirement increase sought by Idaho Power in this case should be offset by additional revenues the Company will begin receiving May 16, 1999 due to sales growth that has occurred since this rate increase was approved in Case No. IPC-E-97-12.

 Staff testified against ratepayer recovery of Idaho Power’s CLP expenditures in Case No. IPC-E-97-12. During the hearing in this proceeding, Staff witness Lynn Anderson noted that the Commission disallowed recovery of post-1995 CLP costs incurred by the Company in Case No. IPC-E-97-12, amounting to approximately $274,000, on the basis that the Company did not offer proof that the CLP expenditures are reasonable and because Idaho Power failed to conduct the impact evaluation that it indicated it was going to do. *Tr.* pp. 85-86.

 Staff argues, in this case, that Idaho Power has again failed to provide evidence of prudence with respect to the CLP. Staff contends that, as a general rule, DSM programs should be pre-evaluated for probable cost-effectiveness and should have implementation and evaluation plans completed before full-scale implementation of the program begins. *Tr.* p. 86. Moreover, programs should be continually monitored while they are operational. *Id*. Both preliminary and final program evaluations should reasonably estimate base line customer activity that would have occurred absent the program. *Tr.* pp. 86-87.

 Staff contends that Idaho Power failed to follow these guidelines in implementing the CLP. Staff notes that the Company failed to conduct the process evaluations it promised in its application when it first sought authority to implement the CLP in 1993. *Tr.* p. 87. Moreover, the Company’s 1995-conservation plan specifically stated that an evaluation of the CLP was scheduled for completion in 1996. *Tr.* p. 88. Staff concludes that the evidence provided by Idaho Power in this case provides no indication that the Company completed the process and impact evaluations that are normally expected for DSM programs and that the Company promised it would perform for the CLP. *Id.* Consequently, Staff recommends disallowance of the $274,000 invested in the CLP after 1995 through August 1997 as well as disallowance of the $396,000 incurred by Idaho Power since August 1997. Staff agrees, however, with Company witness Said’s correction of the later CLP amount to $422,600. *Tr.* pp. 16, 81. Staff recommends ratepayer recovery of Idaho Power’s other DSM costs subject to the offset of additional revenues received through increased sales as discussed below. *Tr.* pp. 91-92.

 Regarding the remaining $1,455,100 of DSM costs for which Idaho Power seeks recovery, Staff contends that $424,000 of the Agricultural Choices amount should not be recovered until after it has been incurred later this year. Thus, Staff contends that $1,031,100 of additional DSM cost is recoverable from customers now. Staff recommends, however, that the Commission correct its estimate of revenue that will be recovered from the various customer class rate increases scheduled to begin on May 16, 1999, resulting from the Company’s prior DSM request in Case No. IPC-E-97-12. This correction Staff contends, results from updating Idaho Power’s base year sales that were used to calculate the percentage rate increases necessary to collect $38.2 million in prior DSM costs and carrying charges. Staff testified that because of increased sales, Idaho Power will recover at least $709,100 of the $1,031,100 revenue requirement increase sought by the Company in this case. Staff recommends that the remaining $322,000, plus future Agricultural Choices Program costs (estimated to be $424,000) totaling a maximum of $746,000 be recovered by offsetting it against Idaho Power’s 1998 revenue sharing balance.

 In support of its position that the Commission should correct its prior revenue estimate by updating the base year revenue, Staff notes that in 1997 when the Company filed its Application in Case No. IPC-E-97-12 to accelerate the amortization of DSM costs from 12 years to 24 years, the most recent weather normalized annual revenue data was for 1996. Staff argues that because the Company’s Application contained a provision for truing up revenues actually collected compared to authorized revenue collections, there was no reason to suggest, even as the case was concluding in 1998, that the base year revenues used to calculate the percentage rate increases should be updated to reflect the growth that had occurred. *Tr.* p. 93.

Given that the Commission’s ultimate decision was a 12-year amortization period without a revenue true-up provision, however, Staff believes that it became very important to recognize the most up-to-date, weather normalized base year revenues at least at the onset of the rate increase that is scheduled for May 16, 1999. Based on an estimated 3.4% revenue growth from 1996 to 1998, Staff asserts that the May 16 scheduled rate increase will begin collecting at least $8,676 more per month than anticipated in Order No. 27660. *Tr.* p. 94. The net effect of this base year correction is that the Company’s DSM accounts would recognize that $709,100 of its current $2,125,800 request is being collected through the May 16, 1999 rate increase and would not need to be funded through revenue sharing or an additional rate increase. *Id.* Staff notes that the Company’s 1998 weather normalized revenues are now available. Preliminary indications are that revenues have grown by at least 3.3%, rather than 3.4%, since 1996. *Tr.* pp. 97, 146, 193-194.

 Staff notes that in authorizing the recovery of Idaho Power’s DSM in Case No. IPC-E-97-12, the Commission did not need to select a “test year” as it typically does in general rate cases. Instead, the Commission authorized the recovery of a finite amount of expenditures actually incurred by Idaho Power. The amount of those expenditures will not change, regardless of growth. Because the recovery of that finite amount was based on a percentage increase, Idaho Power’s actual recovery of that finite amount may under or over compensate the Company. This is why the Company originally proposed, and the Commission often uses, a true-up mechanism to ensure that actual revenues collected match the revenues authorized to be collected. *Tr.* p. 94.

 Staff concludes that while its proposal to utilize updated revenue data to calculate revenues collected from the May 16, 1999 rate increase does not constitute a full true-up (i.e., the Company will almost certainly still over collect its DSM revenue requirement because of future sales growth), it at least makes the start of a 12-year recovery more closely resemble the revenues that will actually be collected. *Tr.* pp. 94-95.

##### Idaho Power Rebuttal

 Idaho Power witness Rick Gale testified on rebuttal that it is easier to estimate savings from the CLP than for any other of Idaho Power’s DSM programs. The wattage decrease caused by replacing the original lighting with the new lighting is simply multiplied by the hours of lighting to determine the kWh savings. Thus, the saving estimates involve fewer assumptions and are simpler to make than the estimates for any other program. Mr. Gale further testified that the CLP has the lowest real levelized cost (7 mills per kWh) of any program in Idaho Power’s 1998 conservation plan. By this measure, the CLP has consistently been the Company’s most cost-effective program. *Tr.* pp. 166-167. Mr. Gale further testified that even if a substantial number of CLP participants would have installed the energy efficient lighting fixtures without the availability of the CLP, the CLP was still cost-effective. *Tr.* p. 168.

 Idaho Power objects to Staff’s proposal to update the revenues used by the Commission in granting DSM recovery in Case No. IPC-E-97-12. Mr. Gale argues that there were many issues in that case related to the amount of the rate increase. The Company disagreed with the Commission’s final Orders issued in that case on a number of points including the Commission’s application of a hypothetical debt rate to a 12-year amortization, the disallowance of the CLP, the $800,000 annual reduction to the ongoing operating and maintenance expenses and the write-off of six-months of the 1998 amortization period. The Company “accepted” the Commission’s Order, however, based upon the overall result recognizing the give and take of a contested proceeding and the ability of the Commission to weigh all factors. *Tr.* p. 178.

 Mr. Gale concludes that to focus on only one issue from Case No. IPC-E-97-12 and in effect make a single adjustment from a prior case and apply that single adjustment to the instant case is not fair or reasonable. *Id*.

# FINDINGS

 In Order No. 27660 issued in Case No. IPC-E-97-12, we denied Idaho Power the recovery of its post-1995 CLP expenditures stating:

Regarding the CLP, we find that Idaho Power failed to offer proof that the expenditures made by the Company were reasonable and, in fact, failed to conduct the impact evaluation that it said it was going to do in its 1995 Conservation Plan filed with this Commission. Moreover, we find that actions taken by Idaho Power rendered it difficult if not impossible for Staff to conduct an independent review of the prudence of the Companys CLP expenditures. We cannot impose upon the Company a burden of proof that is unnecessarily onerous. Neither can we countenance, however, Idaho Powers apparent lack of concern for, and cooperation in, the efforts of Staff to fully analyze the prudence of this particular expenditure.

Order No. 27660 p. 8.

 We went on to state that until Idaho Power demonstrates that its deferred expenditures in the CLP program after 1995 were prudently incurred, those expenditures would be disallowed. During the course of the hearing conducted in this case, it became increasingly apparent to this Commission that the Company utterly failed to conduct any of the program evaluations that it promised with respect to the CLP. *See*, *Tr.* pp. 54-73, 182-194. Idaho Power’s failure to perform program evaluations of the CLP notwithstanding, we find that the Company has presented sufficient evidence in this case from which to conclude that the CLP was a cost-effective program and that the Company’s expenditures in that program were prudently made. We note that the Company’s 1998 Conservation Plan indicates that the energy savings attributable to the CLP were obtained at a levelized cost of 7.3 mills per kWh which is well below Idaho Power’s avoided cost as listed in FMC’s Exhibit No. 201 to this proceeding.

 Although we agree with Staff that the Company’s cost effectiveness calculations are overstated due to various factors as cited in Mr. Anderson’s testimony, we are persuaded by Company witnesses that the program was, nevertheless, cost effective. Consequently, we hereby authorize for recovery all of Idaho Power’s expenditures made in the CLP. We admonish the Company, however, for its failure to conduct the evaluations and studies it promised in its initial Application in Case No. IPC-E-93-5 and in the 1995 conservation plan. Regardless of the cost effectiveness of the CLP, we remind Idaho Power of its obligation to honor the representations it makes to this Commission or to seek authority to deviate from those representations.

 We also find that, based upon the undisputed record, the Company’s residual expenditures actually made in the Agricultural Choices Program, Manufactured Home Acquisition Program and Partners in Industrial Efficiency Program were prudently incurred and are hereby authorized for rate recovery. We note that the prudence of these expenditures was never called into question in this case.

 Regarding the recovery of Idaho Power’s authorized DSM expenditures, we find that it is just and reasonable to consider increases in the Company’s revenues that have occurred since the base year that was used in Order No. 27660 in Case No. IPC-E-97-12. We are not persuaded by Idaho Power’s arguments that it would be inappropriate to update the Company’s revenues because the Company “accepted the Commission’s Order” issued in Case No. IPC-E-97-12, taken as a whole. *Tr.* p. 178.

 Neither do we find it persuasive that such updated data should not be used simply due to the many issues taken under consideration by the Commission in that proceeding. As Staff noted in this case, the Company is seeking the recovery of a finite amount of expenditures. The arguments made by Idaho Power in this case would be more persuasive had Case No. IPC‑E‑97‑12 been a general rate proceeding. In that event, it might be inappropriate to retroactively adjust a single revenue or expense item without considering changes in all other aspects of the Company’s operations.

 In this proceeding, however, it is our decision to allow Idaho Power to recover a finite amount of money and to set the Company’s rates as accurately as possible so that the Company neither over nor under collects that amount. Idaho Power admits in this case that its revenues have increased approximately 3.3% since 1996. *Tr.* pp. 193-194. In Case No. IPC-E-97-12, we relied upon the data available to us at that time (1996 revenues) to set the Company’s rates to recover, as closely as possible, the total amount of DSM expenditures authorized for recovery. Our statutory mandate is to set rates that are “just and reasonable.” *Idaho Code* § 61-502*.* We find that it would be unreasonable to use anything other than the most updated data in calculating the recovery of a finite, non-recurring expenditure that will not change regardless of customer or sales growth or any other outside factors.

 We now have available to us updated data which demonstrates that the prior approved rates will over collect the DSM revenue requirement determined in Case No. IPC-E-97-12. We hereby authorize Idaho Power to recover known and measurable DSM expenditures related to the Commercial Lighting Program, Manufactured Home Acquisition Program, Agricultural Choices Program and Partners in Industrial Efficiency Program, in the amount of $1,727,700. The Company is required to offset this amount, however, by $688,200, to reflect that the rates approved by Order Nos. 27660 and 27722 will collect 3.3% more revenue than previously estimated. Idaho Power is authorized to recover the net amount of $1, 039,500 by offsetting it against the Company’s 1998 revenue sharing balance.

 Finally, Idaho Power may recover from the 1998 revenue sharing balance an additional $424,000 for the portion of the Agricultural Choices Program that is not included above after these costs are actually incurred and audited by Staff.

# O R D E R

 IT IS HEREBY ORDERED that Idaho Power’s Application to recover various DSM expenditures is hereby granted pursuant to the terms and conditions set forth above.

 THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. IPC-E-98-16 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this order or in interlocutory Orders previously issued in this Case No. IPC-E-98-16. 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

 day of May 1999.

 DENNIS S. HANSEN, PRESIDENT

 MARSHA H. SMITH, COMMISSIONER

 PAUL KJELLANDER, COMMISSIONER

Myrna J. Walters

Commission Secretary

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