DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: SCOTT WOODBURY

DATE: NOVEMBER 22, 2005

SUBJECT: CASE NO. PAC-E-05-10 (PacifiCorp)
DSM PROGRAM CHANGES AND ADDITIONS
DSM COST RECOVERY

APPLICATION

On September 6, 2005, PacifiCorp dba Utah Power & Light Company (PacifiCorp) filed an Application with the Idaho Public Utilities Commission (Commission) requesting approval of a suite of energy efficiency and demand-side management (DSM) programs for its commercial, industrial, agricultural, and residential customers in the State of Idaho. The Company also requests approval of an associated cost recovery mechanism and related deferred accounting authorization.

The proposed funding mechanism is a 1.5% DSM tariff rider that will begin on January 1, 2006 with funds to be collected as a line item on customer bills. A residential customer using 750 kWh monthly would see a monthly increase of about $1.00. Based on current rates the proposed tariff rider will collect an estimated $1.8 million annually. The Company asks that the deferred accounting and DSM programs requested become effective November 15, 2005 or coincident with the service date of the Commission's Order approving the Application, whichever is later.

The Application states that all customer classes will have an opportunity to participate in programs. The new programs are: irrigation efficiency to complement the existing irrigation load control program, FinAnswer Express for commercial and industrial lighting, motors, etc., and residential refrigerator recycling.

Revisions to existing programs include revamping/increasing Low Income Weatherization rebates, discontinuing low interest loans to business customers in Energy FinAnswer and instead paying incentives for energy and demand savings. The proposed enhanced energy efficiency programs offer a combination of information and cash incentives to help customers install energy efficient equipment or make permanent operational changes to reduce energy consumption and save money.

The Low Income Weatherization program has weatherized 561 dwellings since 1990. Market experience indicates that new program introductions and proposed program enhancements will likely increase Idaho participation. Increased participation will allow more PacifiCorp customers to benefit from energy savings and simultaneously help control system energy costs.

Cost Recovery

Current cost recovery for PacifiCorp DSM expenditures was authorized by Order No. 22299 issued in January 1989 in Case No. U-1500-165. Order Nos. 22299 and 22758 established the capitalization of demand-side resource costs and the use of a carrying charge. The Company has deferred DSM costs and amortized DSM expenditures over the useful lives of the measures. While this cost recovery mechanism has been adequate for historic levels of participation and expenditures, the Company contends that the associated regulatory lag for recovery of prudently incurred DSM expenditures has made it financially difficult to improve existing DSM programs or implement new ones. Moreover, the Company contends that minimal customer awareness of DSM investments exists when the expenditures are amortized and included in general rates. In addition to removing a Company financial disincentive for increases in DSM activity, PacifiCorp contends that the proposed recovery mechanism will increase customer awareness of DSM investments and help increase participation in the new and enhanced programs.

PacifiCorp proposes to establish a DSM balancing account, defer all DSM program investments made on or after the service date of the Commission's Order approving the Application, and account for them in the DSM balancing account. The DSM balancing account would be offset by revenue collected through a newly established surcharge mechanism and referenced as a new line item on the bills of PacifiCorp retail electricity users effective January 1, 2006. In addition to DSM program expenses, the proposed DSM balancing account would calculate reciprocal carrying charges to be added or credited to the balance. PacifiCorp proposes that the carrying charges be set at the current Allowance for Funds Used During Construction (AFUDC) rate. Expenses posted to the DSM balancing account would be subject to applicable prudency reviews for DSM investments. Costs and carrying charges included in the DSM balancing account would not be included in the calculation of Company revenue requirements for a general rate case. Additionally, PacifiCorp proposes that DSM investments made prior to the service date of the Commission's Order approving this Application continue to be recovered through general rates until fully amortized.

The Company proposes to label the line item charge "Customer Efficiency Services" on the customer bill and in the description section of Schedule 191. The line item surcharge will be calculated as a percentage of the base charges before the application of Schedule 34, the Pacific Northwest Electric Power Planning and Conservation Act Residential and Farm Kilowatt-Hour Credit (also known as the "BPA Credits"), because these credits vary by year and by rate schedule and are available primarily for agricultural and selected non-irrigation customers. All customer groups will have access to programs funded directly through Schedule 191 or through the Northwest Efficiency Alliance, thus delivering a system benefit in addition to participant benefits.

The amount collected will be set based on a forecast of Commission-approved DSM program investments. The Company will review balancing account activity on an annual basis and adjust it based on the account balance and the forecast activity of the approved programs. The Company proposes the initial annual review be completed after January 1, 2007 to coincide with the first full year of Schedule 191 collections. The annual review and recommendation for a change (if any) in the collection rate would be completed within 60 days of the end of the fiscal year, with the first such review being completed no later than March 1, 2007.

The objective of the line item surcharge will be to set a collection rate projected to result in a zero balance in the DSM balancing account by the following review period. PacifiCorp intends to provide the Commission quarterly reports on the account's activity. The Company proposes to set the rate to initially collect approximately $1,825,000 – approximately 1.5% of retail revenue based on rates in effect after September 16, 2005. Any future changes to the collection rate will be filed by PacifiCorp for Commission approval prior to implementation and will not occur automatically.

Description of New Programs

Schedule 155 New Tariff – Irrigation Efficiency

PacifiCorp proposes to initiate a comprehensive Irrigation Efficiency program that will offer no-cost equipment exchange, equipment testing and incentives for energy efficiency measures installed. This program will complement the Company's load control offering and increase services available to irrigation customers. The irrigation efficiency program will include the following components: nozzle exchange, prescriptive incentives for certain pivot equipment, pump check and water management consultation, and a pump testing and system analysis. In addition to energy and water savings from nozzle replacement, pivot measures and improved equipment operation resulting from the water management consultation, the Irrigation Efficiency program will offer program-funded energy engineering services and incentives for properly installed energy efficiency measures such as pump repairs and system upgrades. The overall program is designed to be delivered by a third-party program administrator under contract with the Company.

Schedule 115 New Tariff – FinAnswer Express

The proposed FinAnswer Express program (FE) is based on a successful program of the same name operating in the Company's Utah and Washington markets. The FE program provides prescriptive incentives for common energy efficiency measures (EEM) with minimal transaction complexity. EEM categories include efficient lighting, premium motors and mechanical upgrades associated with heating and cooling. Both new construction and retrofit projects are eligible for the FinAnswer Express program. The FE program is available to commercial and industrial customers on the majority of Idaho rate schedules.

The incentives are based on the equipment installed, i.e., per fixture or per horsepower (HP) or per ton. The FE program also provides a customer incentive calculation for measures not listed on the prescriptive incentive tables. Experience in other markets, the Company states, has shown the FE program to be popular with trade allies, i.e., equipment distributors and installing contractors that sell standard and high efficiency equipment to customers. The Company is considering proposals for sales support functions designed to assist these equipment distributors and contractors in their sales and installation of high efficiency equipment. These services will be similar to the services currently provided in the Utah and Washington markets.

Schedule 117 New Tariff – Refrigerator Recycling

The proposed residential Refrigerator Recycling program is similar to a successful Utah program operated as "See Ya Later Refrigerator." The program will offer an incentive to residential customers and landlords to permanently discontinue use of their second refrigerators and freezers, and/or replace their primary refrigerators and freezers with new, more energy efficient models. Interested customers will be directed to call a toll free number to schedule a pick-up time. All appliances collected will be recycled so they are not placed back in use through secondary market sales. All recycling processors will meet current local and EPA guidelines. PacifiCorp anticipates that the program will be administered by the same vendor delivering this PacifiCorp program in Utah.

Description of Revised Programs

Schedule 21 Revisions – Low Income Weatherization Services

PacifiCorp's current Low Income Weatherization program has been in place for approximately 15 years. It provides rebates to two local non-profit agencies (i.e., eastern Idaho Special Services Agency and Southeastern Idaho Community Action Agency) for weatherization services they complete in electrically heated homes. The proposed changes were determined through discussions with Staff from these two partnering agencies and the Community Action Partnership Association of Idaho during the 2005 general rate case, Case No. PAC-E-05-1. The revisions are intended to increase customer participation and available incentives for the installation of additional cost effective measures. Proposed revisions include: (1) increasing the available annual program funding up to $150,000 annually, (2) increasing rebates from a maximum of $1,000 per home to an average annual rebate of $1,500 per weatherized home, (3) increasing agency administrative cost reimbursement from $150 per completed home to 15% of PacifiCorp's rebate on installed measures with set maximums, and (4) expanding available program delivery incentives by providing a rebate to the Company's partnering agencies of 50% of the costs associated with additional measures installed in homes regardless of heating source – including compact fluorescent light bulbs, replacement refrigerators and water heater measures in homes with electric water heaters. Additionally, to promote the installation of efficiency measures that have become cost-effective in the last decade, incentives will be offered for homes in which services were provided under this tariff prior to October 1, 1993, once per individual measure and up to two times per dwelling. The Company will evaluate Schedule 21 program activities within two years of the Commission's approval of these proposed revisions to determine if further revisions are warranted.

Schedules 120/122 Revisions – Commercial Energy Services

PacifiCorp proposes that Schedules 120 and 122 be closed to new service, but that they remain as approved schedules to assist in the administration of the few remaining loans originated under the schedules. When the loans are repaid, PacifiCorp will seek Commission approval to cancel these schedules in a separate tariff filing.

Schedule 125 New Tariff – Energy FinAnswer

The Energy FinAnswer program has been operational in Idaho as a loan-based energy efficiency program for approximately 15 years and this filing is a revision of an existing program. The current program is covered by existing Schedules 120 and 122, and provides program-funded energy engineering and loans to business customers. PacifiCorp proposes to continue the Company-funded energy engineering and add an incentive offer of $0.12 for first year energy savings (kWh) and $50 per average monthly demand savings (kW) occurring during the peak periods specified in the customer's rate schedule, up to 50% of the approved project costs. To increase participation, the incentive offer will replace the loan offer (which will be discontinued). This incentive offer and level is the same as that offered by PacifiCorp in Utah. As described above, Schedules 120 and 122 will be amended to manage the administration of existing loans. All new program services will be offered under a new Schedule 125, and will include various enhancements to increase new construction participation and early program involvement to capture lost opportunities. It will also require a minimum savings above code and preclude incentives for fuel switching. PacifiCorp will make the incentive offer after the Company-funded or approved engineering analysis is complete and prior to customer equipment purchases. The incentive is to be paid as a single payment by Company check.

On September 30, 2005, the Commission issued a Notice of Application in Case No. PAC-E-05-10. The Commission Staff conducted public workshops in Preston and Rigby, Idaho. The workshops provide the public an opportunity to meet with Commission Staff and PacifiCorp representatives and to ask questions and receive information regarding the Company's Application. Following the workshops the public was provided an opportunity to submit written comments or to offer public testimony at hearings in Rexburg and Preston, Idaho. In addition to comments and testimony received from the Company's customers, comments were also filed by Commission Staff.

Staff Comments

Staff generally supports PacifiCorp's proposal to increase its pursuit of cost effective DSM through its various new, revised and expanded programs. Staff believes that further diversification of PacifiCorp's resources through DSM will reduce the Company's operational risks by reducing the growth of its reliance upon supply-side resources. Staff notes that PacifiCorp's relatively aggressive DSM implementation in many of its other states (i.e., 3% of revenues in Utah and Washington and 2.35% in Oregon) will eventually reduce those states' share of the Company's multi-state cost allocations. Thus, in addition to DSM being cost-effective from a resource acquisition standpoint, it is important, Staff contends, for DSM to be aggressively pursued in Idaho to avoid unnecessary increases to Idaho's jurisdictional cost allocations.

Staff summarizes by customer class projected DSM revenue collections, program costs and program benefits. Staff identified two concerns about this information. Its first concern was that DSM direct program benefits to customer classes appeared too disproportionate to the DSM funds collected from each class. Staff's second concern was that DSM program costs were projected to quickly outpace DSM revenue. While Staff does not believe it is necessary for DSM program costs and benefits to be distributed in exact proportion to DSM contributions, Staff thinks that the residential class's 13% of 3-year projected total program expenditures is too small compared to that class's 38% of total revenue collected from DSM programs. Staff is also concerned that the two non-NEEA residential programs are too limited in applicability and may not allow many residential customers a reasonable opportunity to participate in DSM programs.

In addition to the obvious discrepancy of direct program benefits, Staff contends that there is another less obvious reason for DSM to be distributed roughly equally among customer classes. That is, to the extent that DSM programs succeed in reducing energy consumption and peak demand more for one customer class than for another, such programs will change future class cost of service allocations, which will exacerbate the inequity.

Staff informally expressed its concerns to PacifiCorp. In response, Attachment C to Staff's comments was provided to Staff by PacifiCorp to describe its DSM objectives and its request for proposal (RFP) process to achieve those objectives. In short, PacifiCorp is in the process of seeking additional or changed DSM resources from the residential as well as other customer classes through a RFP process. The Company anticipates changes to its DSM program portfolio by March 2006. Because the Company is seeking to seek a wider breadth of DSM programs for the residential class, Staff believes that some of its initial concerns could be alleviated and is cautiously optimistic. Staff is not yet able to state that the currently proposed program portfolio, let alone a modified one, will be prudently managed or that it will result in cost effective savings. Before Staff could recommend that DSM revenue collections be increased beyond the requested 1.5% to make up for the projected shortfall, the Company would have to demonstrate that its programs are equitably distributed and prudently planned, implemented and evaluated. While it may be possible for PacifiCorp to make such demonstrations in the next 14 months, Staff believes it might take considerably longer.

PacifiCorp is proposing that its surcharge be set at 1.5% of base charges. The Commission, Staff notes, has approved similar surcharges to recover the costs of conservation programs in the past. Avista currently collects 1.25% and Idaho Power 1.5%. Staff has consistently recommended a uniform application of DSM tariff riders without caps and continues to make that recommendation in this case.

In conclusion, Staff supports PacifiCorp's Application to begin collecting a 1.5% tariff rider on January 1, 2006, to fund a more aggressive DSM program portfolio. As such, the rider would be applied uniformly, without caps, to all customer classes, with the exception of special contract customers. Staff recommends that the Commission formally recognize that the portfolio of programs contained in the Application is expected to undergo changes, including a broadening of residential programs, and that the Company should be allowed, and in fact is expected, to deviate from its portfolio whenever prudent and cost-effective DSM opportunities arise.

Staff recommends that the accounting for the DSM program as outlined by PacifiCorp be accepted with one exception. Reciprocal interest is appropriate, Staff contends, but the interest should be accrued at the customer deposit rate, not the Company AFUDC rate. This, Staff contends, is consistent with the accounting treatment Idaho Power established in 2002 and that ordered by the Commission in Avista Case No. AVU-G-01-1.

Staff further recommends that the Commission state that its approval of the DSM tariff rider should not be construed as a determination that the use of the rider funds for any particular DSM program is reasonable and prudent; that such determination must come only after programs have been implemented. At such time that the Company requests a Commission determination that its DSM programs have been reasonable and prudent, Staff's review will include an examination of distribution of DSM program dollars both within and among customer classes, prudent program management and cost-effectiveness.

Customer and Interested Party Comments

Timothy Shurtz provided public testimony in Rexburg. Mr. Shurtz believes that the energy conservation programs proposed by the Company are both good and valuable. Mr. Shurtz recommends, however, that the Commission delay implementation until the first of April, possibly the first of May when the programs might be more affordable and after customers have finished with the higher energy costs of winter.

Bevan Jeppesen also testified in Rexburg. Mr. Jeppesen does not understand why he is being asked to pay more money and then turn around and have to jump through hoops to try and get that money back for improvements on his farm. The other thing he has a hard time with is that as a farmer and irrigator, he is doing everything that he can right now to be efficient with the power and water that he uses. He makes sure that his pivots are all maintained. Mr. Jeppesen has a real struggle with somebody taking money out of his farm and then wanting to give it back to him for things that he is already doing. Mr. Jeppesen is against any kind of rate hike and resents having to subsidize his neighbors. Mr. Jeppesen sees the farms that will benefit from the Company programs are farmers that have let things really go to pot. They have not upgraded or maintained their systems, so he questions why he should have to pay money into a fund to help them out. Mr. Jeppesen would be more supportive of the Company's proposal if there were a cap at a certain level rather than a flat 1.5%.

The final public witness in Rexburg was Shawn Webster. Mr. Webster is also a farmer and resents having to fund a rate increase to buy some variable frequency drives (VFDs) for other people when he has already upgraded and especially when he is not interested in buying a second one.

COMMISSION DECISION

PacifiCorp has requested approval of a new DSM cost recovery mechanism and enhanced energy efficiency programs for commercial, industrial, agricultural and residential customers. Does the Commission find it appropriate to approve the Application as filed? If not, does the Commission believe that modifications are necessary, e.g., reciprocal interest at the customer deposit rate (Staff) or AFUDC rate (PCp)? Tariff rider with or without caps?

Scott D. Woodbury

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