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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF ROCKY MOUNTAIN POWER FOR AN INCREASE TO THE CUSTOMER EFFICIENCY SERVICES RATE	)))))	CASE NO. PAC –E-10-03

COMMENTS OF IDAHO CONSERVATION LEAGUE

COMES NOW Idaho Conservation League with the following comments on Rocky Mountain Power's request to increase the Customer Efficiency Services Rate. This Commission granted ICL's petition to intervene in this matter in Order No. 31071 issued on May 5, 2010. Based on Rocky Mountain's Application and the yearly Demand Side Management reports filed in case PAC-E-05-10, ICL generally supports the requested increase. We agree with the Commission and PUC Staff that, while any rate increase burdens rate payers, "demand-side management, conservation, and energy efficiency measures continue to be the least-cost resource that utilities can acquire to serve new load." Order No. 30543, at 6.

BACKGROUND

Rocky Mountain Power began collecting a Customer Efficiency Services Rate in 2006 initially set at 1.5% of retail revenue. Before collecting what the Commission labels a "DSM

Tariff Rider" Rocky Mountain had capitalized demand-side resource costs and collected them as a component of rates. *See* Order No. 29952, at 4. Rocky Mountain requested the switch away from capitalization because they believed the regulatory lag associated with this mechanism "made it financially difficult to improve existing DSM programs or implement new ones." *Id.,* at 4-5. The Commission approved the switch to the more immediate cost recovery mechanism provided by a tariff rider, but cautioned Rocky Mountain this approval must not be construed as a finding that DSM expenditures or programs "are or will be found to be reasonably and prudently incurred and executed." Order No. 29976, at 6.

Instead of determining whether any expense or program was prudent, the Commission explained the following process for this review:

> The Commission will examine the distribution of DSM program dollars both within and among customer classes, the cost effectiveness of the programs and the reasonableness and prudence of the Company s program management and administrative costs during general rate cases <u>and</u> in all proceedings proposing an adjustment to the DSM tariff rider.

Id., at 7 (emphasis added).

Within two years Rocky Mountain's DSM spending quickly outpaced the income generated by the DSM tariff rider, leading them to request an increase of 2.22% for a total rate of 3.72%. *See* Order No. 30543, Case PAC-E-08-01 (April 30, 2008). The Company requested this increase to fund DSM programs for 2008- 2009 and "retire the back balance of $349,000 by the end of 2009[.]" *Id.* While the Commission approved the requested increase, because the Company did not submit sufficient data regarding cost effectiveness results or forecasts, it refused to determine "the ultimate prudence of any particular program or expenditure." Order No. 30543, at 7. Instead the Commission reiterated the review process outlined above and directed the Company to provide sufficient information in its next general rate case. *Id.* The next general rate case ended with a stipulated settlement wherein the Staff accepted the Company's 2006-2007 DSM expenditures as prudent. Order No. 30783, at 6-7, Case No. PAC-E-08-07 (April 16, 2009).

This brings us to the current situation. The DSM tariff rider is set at 3.72%, which produces roughly $4.86 million per year. Order No. 30543, at 1. The Commission has accepted the DSM programs and expenses through 2007 to be reasonable and prudently incurred. Order No. 30783, at 6-7. Now Rocky Mountain requests a rate increase to 5.85%, producing $8.325 million per year, which is "designed to fund ongoing DSM program expenditures and reduce the back balance or yet to be recovered DSM expenses[.]" *Application,* at 5. The Commission has not found 2008-2009 DSM programs or expenses to be reasonable or prudent, and the most recent general rate case filed by Rocky Mountain does not include this determination. *See Application,* Case No. PAC-E-10-07 (May 4, 2010). Therefore, based on the review process outlined in Order No. 29976, before granting Rocky Mountain's proposed adjustment the Commission "will examine the distribution of DSM program dollars both within and among customer classes, the cost effectiveness of the programs and the reasonableness and prudence of the Company s program management and administrative costs[.]" Order No. 29976, at 7. ICL stresses that this Order explained the Commission would perform this review "during general rate cases <u>and</u> in all proceedings proposing an adjustment to the DSM tariff rider." *Id.,* (emphasis added).

Despite this clear directive to review program distribution, cost effectiveness, and prudency "in all proceedings proposing an adjustment to the DSM tariff rider," the Staff Comments in this case do not do so. *See Staff Comments,* at 2-3, (June 3, 2010). Instead the

Staff proposes to "further evaluate" the DSM program in the next general rate case. *Id.*, at 3. While general rate cases should include a comprehensive examination of utility demands, programs, and expenses, ICL contends that this Application to increase the DSM tariff rider provides the opportunity to focus on this discrete rate and associated suite of programs and expenses.

COMMENTS

ICL believes the tariff rider is an important mechanism for encouraging DSM investments in that it provides timely cost recovery. ICL wholeheartedly agrees with the Commission's prior statement "demand side management, conservation and efficiency measures continue to be the least-cost resource that utilities can acquire to serve new load." Order No. 30543. at 6. ICL also agrees with Staff "that demand-side management (DSM), including energy efficiency programs and load management programs, is a significant resource available to help ensure reasonable system reliability." *Id.,* at 5. We commend Rocky Mountain's efforts thus far in pursuing their DSM program and acknowledge the basis for the requested rate increase is to adequately fund program growth that continues to exceed forecasts. In the following comments, ICL intends to highlight some issues with individual DSM programs as well as the rapidly growing unrecovered back balance and associated carrying charge.

<u>Current DSM programs</u>

Load Management

Irrigation Load Control continues to be a highly successful program as demonstrated by passing the stringent Ratepayer Impact Measure. According to the California Standard Practice

Manual, when the RIM reveals a benefit to cost ratio greater than one, the program will result in lower rates and bills overall. Due to the run away success of the irrigation load control program ICL encourages Rocky Mountain and the Commission to pursue other load control programs, like for example Idaho Power's A/C Cool Credit or FlexPeak Management.

While load control proves to be not just cost effective, but actually a method to reduce overall rates, ICL is concerned that the current funding mechanism is insufficient to capture all cost effective opportunities. Rocky Mountain's Application explains the current bifurcated funding scheme will continue whereby the program expenses are recovered through the rider while the incentive payments are recovered through general rates. *Application,* at 12-13. The Application also reveals the program expenses for irrigation load control constitutes roughly 60% of the entire DSM program budget.[1] *Id.* Finally, the Application explains that as participation and program complexity continue to increase, the strain on company resources and staff is proving to be unsustainable. *Id.* To resolve this strain Rocky Mountain forecasts "a greater reliance on external resources for delivery of the program." *Id.*

ICL believes it may be time for Rocky Mountain and the Commission to move the entire irrigation load control program out of the DSM tariff rider. First, ratepayers are wary of any rate increases during the current economic conditions. By removing roughly 60% of the DSM program expenses from the rider, the Commission maybe able to reduce the requested increase without harming other programs. Alternatively, removing the expenses associated with this program could free up funds for other cost effective programs. Second, the load control program most closely resembles a supply side resource because it is a readily quantifiable amount of disbatchable load. Third, Rocky Mountain's forecasted need to increasingly turn to external

[1] In the 2008 DSM Report (Table 1, Page 4 and Table 2, Page 5) Irrigation Load Control program expenses accounted for 61% of the total. In the 2009 DSM Report (Table 2, Page 5) they accounted for 59%. Attachment 3 of the Application forecasts 2010 program expenses to account for 60% of the total.

resources provides an appropriate opportunity to rethink the structure of this program. ICL suggests the Commission should order the Company to study this option and report back shortly.

Irrigation Energy Services

This is the only program that failed the Total Resource Cost test during 2009. *See* Application, at attachment 2. According to Rocky Mountain, this program failed due to one-time transaction costs incurred when changing program administrators and "customer specific costs associated with equipment investments that delivered operational efficiencies in addition to energy efficiency benefits." *Id.,* at 10-11. After noting that seven customers accounted for 50% of the total cost of the program but collected only 12% of the incentives, the Company explained this seemingly economically irrational behavior by stating "there must be additional benefits beyond electrical savings that compelled this set of customers to proceed with these projects." *Id.,* at 11. However, the Company had already identified these "additional benefits" -- they are the "operational efficiencies in addition to energy efficiency benefits" delivered to specific customers. While ICL believes increasing irrigation operational efficiency is a laudable goal, because these are not energy efficiency benefits they are not a legitimate use of DSM tariff funds.

ICL believes these illegitimate costs may not be isolated to 2009. Looking backwards the Commission should require Rocky Mountain to isolate program spending that results in energy efficiency benefits from broader operational efficiencies and deem these later costs imprudent. Furthermore, because Irrigation Efficiency has a higher levelized cost per kilowatt-hour and lower benefit/cost ratio across all tests when compared to any other program, the Commission should direct the Company to focus future DSM tariff expenditures on this more prudent portfolio of programs:

Residential Programs

The Home Energy Efficiency Incentives program focuses on a range of appliance and building envelope measures that capture long-term energy savings. After changing some incentive structures, program savings in 2009 doubled while spending increased only 20% when compared to 2008. *Application,* at 6-7. For 2010, the Company forecasts expenditures to remain about the same, but does not provide any forecast of projected savings. *Id.* The Company explains that the program administrator believes there are "additional opportunity and potential program expenditures in 2010," but does not include these in the Application. *Id.* Moreover, the Application does not include "some of the key measures" related to heat pump water heaters and dustless heat pumps identified in the Northwest Power and Conservation Council 6th Power Plan. *Id.* The 6th Plan explains the largest remaining efficiency gains in the residential sector come from improved heat pump technology for both water and home heating or cooling. *Sixth Northwest Conservation and Electric Power Plan*, at 4-6 – 4-8.[2] ICL believes the Commission should direct the Company to focus more DSM resources on the residential sector.

This shift in focus need not result in further increasing the DSM rider tariff. The 2009 DSM report reveals a massive imbalance between residential and irrigation customers in terms of revenue collected and expenditures made. *2009 DSM Report*, at pp 31 – 33. Comparing Tables 16 and 17, residential customers contributed 44% of the DSM tariff revenue but received only 18% of the expenditures. *Id.* By contrast, the irrigators contributed only 27% of the revenue but received 72% of the expenditures not including the credit payments collected through general

[2] Available at: http://www.nwcouncil.org/energy/powerplan/6/default.htm

rates. *Id.* Further, according to the cost effectiveness tables in the Company's Application, the levelized cost per kilowatt-hour of savings available from the Home Energy Savings program is less than the Irrigation Energy Savings program. *Application,* at attachments 2 (2009 results) and 4 (2010 forecasts.) As explained above, ICL believes some of the expenditures that occur under the Irrigation Energy Saving program are not appropriate, therefore the Commission should direct the company to shift future expenditures to the more cost effective Home Energy Savings program.

The Refrigerator Recycling Program continues to offer the best cost/benefit ratios and the lowest savings per kilowatt-hour of the entire suite of DSM programs. *Application,* at attachments 2 (2009 results) and 4 (2010 forecasts.) ICL is encouraged the Company forecasts increased customer participation in this program and urges the Company to further promote this program.

Commercial/Industrial Programs

The Energy FinAnswer programs continue to be cost effective measures with increasing participation levels. The Application explains the Company continues to refine these programs in other markets to better align with emerging technology, code changes, and market conditions. *Application,* at 9-10. ICL encourages the Company to bring these refinements to Idaho. Even without these changes, the Company forecasts that in 2010 the Energy FinAnswers program will pass the strict Ratepayer Impact Measure test. *Id.,* at attachment 4, page 3. Because commercial and industrial efficiency has the potential to capture large kilowatt-hour savings from individual participants, ICL encourages the Company to continue to pursue these programs.

The Outstanding Back Balance

Rocky Mountain's Application fails to justify the recovery of the accumulated back balance. The Application provides a "forecasted" balance of $3.5 million by April 2010, but explains the Company only intends to reduce this balance by $1.25 million by April 2011. *Application,* at 5. However, neither the Application, nor the 2009 DSM report, provides any information on how the Company arrived at this forecast. The Application does not explain why the Company only intends to partially reduce this amount, it does not explain why continuing to incur substantial carrying charges is more prudent than fully retiring this balance, nor does it provide any forecast of the balance amount for 2011. Without these explanations and the data to support them, the Commission and ratepayers have no way to know if these carrying charges are prudently incurred expenses. ICL submits that another use of the over funding of the Irrigation Energy savings program dollars would be to apply these funds to fully retiring the back balance.

Moreover, Rocky Mountain's prior history indicates that increasing the rider amount will not reduce the accumulated balance; rather history indicates this balance will continue to expand. Rocky Mountain's previous request to increase the rate in 2008 was "designed" in part "to retire . . . the back balance," then totaling $349,000, by the end of 2009. Order No. 30543 at 1. However, the balancing account activity detailed in the 2009 DSM reports show the account instead grew to approximately $2.2 million. *2009 DSM Report* at 31, Case No. PAC-E-05-10 (March 15, 2010). Moreover, this report includes a carrying charge incurred in April 2009 of $15,755, an amount vastly out of line with any previous monthly carrying charge. *Id.* ICL is concerned that this apparent inability to control the accumulated balance and the resulting carrying charges diverts money that otherwise would be available for DSM programs.

CONCLUSION

Managing the demand side of the electrical meter continues to be the most cost effective manner to meet the needs of ratepayers. Furthermore, increasing overall efficiency may free up existing supply side resources for new customers, thereby promoting economic development. ICL believes the DSM tariff rider is a critical component of aligning rate incentives to encourage utility investments in efficiency. However, ICL also believes DSM tariff collections and expenditures should achieve some rough level of parity for each customer class and focus on the most cost effective programs available. ICL believes the Commission has previously explained that before granting any adjustment to the DSM tariff, they will examine the distribution of program dollars, the cost effectiveness of individual programs, and determine the prudence of program spending. ICL respectfully requests the Commission to incorporate the above comments when conducting this review.

Respectfully submitted this 4th day of June 2010.

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Idaho Conservation League

CERTIFICATE OF SERVICE

I hereby certify that on this 6th day of June, 2010, true and correct copies of the foregoing COMMENTS OF IDAHO CONSERVATION LEAGUE were delivered to the following persons via the method of service noted:

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