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IDAHO PUBLIC
UTILITIES COMMISSION

Attorney for the Idaho Conservation League, the NW Energy Coalition, and the Snake River Alliance

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE)
APPLICATION OF IDAHO POWER)
COMPANY FOR AUTHORITY TO)
INCREASE ITS RATES AND CHARGES)
FOR ELECTRIC SERVICE TO ITS)
CUSTOMERS IN THE STATE OF)
IDAHO.)

CASE NO. IPC-E-11-08

DIRECT TESTIMONY

NANCY HIRSH

October 7, 2011

1 **Q. Please state your name, affiliation, and highlight some of your qualifications.**

2 **A. My name is Nancy Hirsh. Since 1996, I have been the policy director for the NW Energy**
3 **Coalition, coordinating the work of the policy team in advocating for investments in clean and**
4 **affordable energy services. The NW Energy Coalition is an alliance of more than 110**
5 **environmental, civic and human service organizations, progressive utilities and businesses from**
6 **Oregon, Washington, Idaho, Montana, Alaska and British Columbia. We promote energy**
7 **conservation and renewable energy resources, consumer and low-income protection and fish and**
8 **wildlife restoration in the Columbia River Basin. The Coalition has 11 member organizations in**
9 **Idaho, including groups such as Advocates for the West, Idaho Rural Council, the Idaho**
10 **Conservation League, the League of Women Voters, the Snake River Alliance, and the South**
11 **Central Community Action Agency. In addition, I serve as Chair of the Board of the Renewable**
12 **Northwest Project and sit on Idaho Power's Energy Efficiency Advisory Group.**

13 **Previously, I spent twelve years in Washington, D.C. working for the National Wildlife**
14 **Federation and Environmental Action Foundation on federal energy policy and electric utility**
15 **issues, including providing assistance to state environmental and consumer organizations**
16 **working on utility resource planning. I have made numerous presentations to national and state**
17 **audiences on the importance of least cost resource planning and the role of energy efficiency and**
18 **renewable energy resource development in keeping utility customer bills affordable.**

19

20 **Q. Have you previously testified before the Idaho Public Utility Commissions or Commissions**
21 **in other states?**

22 **A. I have presented testimony in the 2004 Idaho Power rate case and the 2010 Idaho Power DSR**
23 **Recovery docket. In addition, I have testified before the Public Utility Commission of Oregon**
24 **and the Washington Utilities and Transportation Commission as well the District of Columbia**
25 **and Georgia Public Service Commissions.**

1 **Q. Please describe the purpose of your testimony in this case.**

2 **A. I offer this testimony on behalf of the NW Energy Coalition, the Idaho Conservation League,**
3 **and the Snake River Alliance – collectively the Conservation Parties – for two reasons. First, I**
4 **explain our support for the stipulation submitted by Idaho Power and signed by most parties to**
5 **this case. Second, I address two of the unresolved issues—funding for the low-income**
6 **Weatherization Assistance for Qualified Customers program and the adequacy of the Energy**
7 **Efficiency Rider Tariff. The overriding purpose of my testimony is to demonstrate that in times**
8 **of rising electric rates good public policy and utility management requires that ratepayers have**
9 **access to powerful tools to control their energy bills through programs that promote energy**
10 **efficiency.**

11

12 **Q. Please explain the Conservation Parties’ position on the Stipulation.**

13 **A. We support the stipulation as a reasonable balance of the competing interests in this case. The**
14 **Conservation Parties reviewed Idaho Power’s prefiled direct testimony and participated in the**
15 **settlement negotiations in this case. The overall revenue requirement contained in the**
16 **stipulation is less than one half of Idaho Power’s original request. This is a clear benefit to all**
17 **ratepayers. However, a sizeable portion of the revenue requirement not included in the**
18 **stipulation Idaho Power attributes to power purchases under the Public Utility Regulatory and**
19 **Policy Act of 1978 (“PURPA”). Instead of collecting these costs prospectively through rates, they**
20 **will be collected through the Power Cost Adjustment (PCA). This balances reducing the**
21 **immediate impact to ratepayers with Idaho Power’s need to timely recover the costs of this**
22 **largely carbon-free generation resource. But this resolution of the issue also sets up ratepayers for**
23 **potentially a large increase in future PCA adjustments. Consequently, now more than ever**
24 **customers need programs and incentives to reduce energy bills through efficiency investments.**

1 In terms of the cost of service methodology, the Conservation Parties agree with the
2 Company and Staff that the filed methodology is sound. The filed methodology demonstrates
3 that, all else being equal, residential rates should increase less than rates for the irrigation, large
4 commercial, industrial, and special contract customers. In the spirit of compromise, the
5 Conservation Parties agree to the stipulated increase being spread equally across all customer
6 classes for this specific filing. This shifting of cost recovery onto residential customers provides a
7 significant benefit to these other customer groups but should not set a precedent for future cost
8 allocation. As stated earlier, any increase in rates should be coupled with aggressive energy
9 efficiency opportunities. This cost allocation agreement highlights even more the immediate
10 impact on low-income customers and the fact that all non-residential classes could face even
11 higher rates in future rate proceedings. Maintaining strong energy efficiency programs that
12 accelerate cost-effective savings will serve those customer groups well.

13 We also support the rate design changes proposed by Idaho Power and included in the
14 stipulation. While we continue to believe that low residential customer charges provide an
15 appropriate conservation price signal, raising the rate to \$5.00 per month preserves this signal
16 and aligns the rate with other Idaho investor owned utilities. This level also recognizes the
17 differing perspective on which cost components properly belong in the customer charge.
18 Additionally, we appreciate Idaho Power's proposal to limit the application of the rate increase to
19 the wintertime third energy block. Until more refined data is available, we join the Company and
20 others in assuming this will mitigate rate impacts to electrically heated homes during times when
21 the risks of reducing usage could be high. However, this points again to the need to target energy
22 efficiency programs to increase energy and bill savings even when the costs of energy production
23 may be modest. Lastly, we support Idaho Power's proposal to expand the voluntary

1 opportunities to use time variant pricing in the near future and look forward to the “separate
2 filing prior to that time explaining the details of the proposed pilot.”¹

3

4 **Q. The stipulation indicates Idaho Power will initiate a separate proceeding to review the Fixed
5 Cost Adjustment. Please explain the Conservation Parties position on this term.**

6 **A.** We appreciate the Staff and Company agreeing to resolve the Fixed Cost Adjustment in a
7 focused and timely fashion. The Conservation Parties believe implementing a permanent
8 mechanism to decouple revenue from energy sales is sound policy and in the public interest.

9 While we believe the current pilot could be made permanent in this rate case, we recognize the
10 need of some parties to separate out this complex issue into a focused proceeding. Until Idaho
11 Power does not see a disincentive to reduce energy sales, we cannot expect them to pursue energy
12 efficiency with the full vigor the public deserves. We look forward to addressing the precise
13 design of this mechanism in the separate proceeding.

14

15 **Q. The stipulation indicates the parties could not resolve three issues including the level of
16 funding for low-income weatherization and the level of the energy efficiency rider. What is the
17 Conservation Parties’ position on these issues?**

18 **A.** We believe that as electric rates increase so must the funding for energy efficiency. Of course,
19 this funding must only go towards cost effective energy efficiency. But repeatedly Idaho Power’s
20 own studies indicate that, despite strong gains in efficiency over the years, substantial potential
21 remains yet to be realized. The Conservation Parties believe that the best method to determine
22 the appropriate level of funding for efficiency is to compare the documented level of cost effective
23 potential with the funding necessary to acquire this potential. For both low-income

¹ *Direct Testimony of Mike Youngblood* at 11, (June 1, 2011).

1 weatherization and energy efficiency generally, the potential is large and customers deserve
2 continued access to these powerful tools to reduce energy bills.

3
4 **Q. In regards to low-income weatherization, do you have any specific recommendation on the**
5 **appropriate funding level?**

6 **A.** The Conservation Parties defer to the experience and expertise of the Community Action
7 Partnership Association of Idaho (CAPAI) on the specific level of funding. I believe that CAPAI
8 recommends increasing funding from approximately \$1.2 million annually to \$2.7 million
9 annually.

10 We believe this level of funding is appropriate given that Idaho Power's most recent cost
11 benefit analysis of its weatherization program proves it is cost effective and the CAPAI agencies
12 have a large and growing backlog of potential projects. The 2010 DSM Annual Report reveals
13 that Weatherization Assistance for Qualified Customers (WAQC) had a benefit/cost ratio greater
14 than 1 under each of three rate tests.² While Idaho Power contributes some funding for this
15 program, the CAPAI agencies receive additional funding from the U.S. Department of Energy
16 (DOE). DOE requires the CAPAI agencies to audit each weatherized home pre- and post-
17 installation to verify that the projects are robust, properly installed, and result in verifiable energy
18 savings. Because the program passes all the benefit/cost tests Idaho ratepayers can rest assured
19 that funding low-income weatherization doesn't just help those folks on the margin, it results in
20 savings for all utility customers.

21 Moreover, the potential for cost effective energy efficiency continues to rise and CAPAI
22 continues to see a growing backlog of eligible program participants all while federal stimulus
23 program funding declines. Given the increased customer need, the opportunity for increased
24 savings and the impending rate increase, Idaho Power should provide adequate funding to

² *Idaho Power 2010 DSM Annual Report Supplement 1* at 45.

1 acquire this cost effective potential. Faced with this reality the Conservation Parties urge the
2 Commission to adopt CAPAI's recommended level of funding.

3

4 **Q. Please expand on the underlying policy reasons for your position.**

5 **A.** Low-income weatherization is not a social program. It is a cost effective energy savings
6 program that provides economic and energy benefits to both the customer and the utility.
7 Electricity is not an optional service in today's society. Electricity powers refrigeration, heating,
8 cooling, lighting, and home medical equipment. Without lights to do their homework by,
9 children will struggle in school. Faced with increasing energy bills, low and fixed income folks
10 may turn to alternative heating and lighting methods, such as candles, open oven, and space
11 heaters, which can pose serious health and safety problems. According to the National
12 Association of Regulatory Utility Commissioners (NARUC), the average household pays 5% of
13 their income for energy bills; meanwhile low-income households pay 16% or more.³ Faced with
14 this heavy energy burden, these families must chose between heating their home, purchasing
15 needed medicine, or putting food on the table.

16 Well-marketed and operated weatherization programs can significantly reduce the energy
17 burden on low and fixed income families. In particular, targeting weatherization services to
18 customers with high usage and those receiving LIHEAP bill assistance funds will ensure that
19 weatherization services assist those with the greatest need. The same NARUC resolution goes on
20 to find weatherized homes can save between \$300-400 each year, allowing these households a
21 better opportunity to pay future energy bills while meeting their other needs. But these savings
22 can only be realized if the program administrators have sufficient funding to meet the demand
23 for their essential, cost effective services.

³ *Resolution Supporting Adequate Funding for the Weatherization Assistance Program,*
Adopted by NARUC Board of Directors February 21, 2007.

1 Q. What are the benefits to the utility?

2 A. Idaho Power and all ratepayers save money from effective low-income weatherization
3 programs by reducing unpaid bills and avoiding the costs of disconnecting and reconnecting
4 customers. Weatherization measures that lower a customer's bill make it more likely that the
5 customer will make some payment on current and past due bills. In addition, low-income
6 weatherization provides the same benefits of other residential efficiency programs—peak load
7 reduction and deferring or avoiding more costly new generating resources.⁴

8 In a 2002 report submitted to then-president George Bush, the Entergy Corporation in
9 *Economics of Low-Income Electricity Efficiency Investment* concluded: "Nationwide, a one mill per
10 kWh investment will conservatively return more than \$26B over the average 16-year life of the
11 investment, a benefit:cost ratio of about 7."⁵ More specifically the report described some of the
12 utility benefits as:

13 Arrearage reduction (cost of money, uncollectibles, collection costs). A review of studies
14 of arrearage reduction benefits conducted for the Boston Edison Settlement Board by the
15 Tellus Institute shows that energy efficiency programs generate reductions in arrearages
16 ranging from \$0 to \$469 per participating household. An Oak Ridge National Laboratory
17 study, for example, found an average reduced arrearage value of \$32 per weatherized low-
18 income household relative to program costs of \$1,550. Similarly, a study of a Pacific Gas
19 and Electric low-income weatherization and education program found that reduced
20 carrying charges on arrearages range between \$4 and \$63 per weatherized household.

21
22 In Colorado, write-offs dropped 18 percent at weatherized homes. Further, arrearages
23 dropped 26 percent, emergency gas assistance calls dropped 74 percent, and bills were
24 reduced 22 percent. Total annual benefit to the utility is estimated at \$30.56 per
25 participating household on a \$2417 per household cost, not counting reductions in
26 complaints and collection costs, increases in comfort and health, and increases in
27 discretionary income. Another study found that all benefits associated with reduced
28 uncollectibles range between \$16 and \$58 per weatherized household.

29
30

⁴ Economic Opportunity Studies, *How Do Utility Residential Energy Efficiency Programs for Low- and Moderate-Income Consumers Work Now? What Makes Them Effective?* at 5-6, (October 3, 2008).

⁵ Jerrold Oppenheim & Theo MacGregor, *Economics of Low-Income Electricity Efficiency Investment*, at 5-6, (January 2002) available at <http://www.democracyandregulation.com/detail.cfm?artid=14&row=0>.

1 Site visits for terminations, reconnections. At least two site visits are required each time a
2 customer is terminated for non-payment and then reconnected. Typically, such site visits
3 cost at least \$35. Total savings, then, are the number of terminations avoided as a result
4 of the program times \$35. Massachusetts Electric Co. assumes the incidence of low-
5 income termination is twice that of other residential customers, which is 3 percent. Thus,
6 we compute this benefit (per average participant) as 6 percent times \$35, or \$2.10.
7

8 Interestingly, despite these documented benefits to all utility ratepayers, when Idaho
9 Power calculates the cost/benefit ratio of their program, WAQC, it only includes direct costs and
10 energy savings.⁶ Accordingly, the WAQC program is cost effective from an energy saving
11 standpoint, and extremely cost effective when one factors in the total benefits to the utility and all
12 ratepayers.
13

14 **Q. How does the level of funding you propose for Idaho Power compare to similar programs**
15 **funded by investor owned utilities in the region?**

16 **A.** Idaho Power currently spends about \$3.21 per residential customer for its low-income
17 program WAQC.⁷ In Washington, Avista serves about 238,050 electric customers and invests
18 over \$1.3 million in limited income weatherization, or \$5.46 per customer.⁸ Puget Sound Energy
19 serves about 961,872 residential electric customers and invests \$4.7 million per year in low-
20 income weatherization, or \$4.87 per customer. PacifiCorp's roughly 120,000 Washington
21 residential customers have access to almost \$1 million per year for low-income weatherization, or
22 \$8.33 per customer. In Oregon, PacifiCorp and Portland General Electric customers pay a state
23 mandated Public Purpose Fund to the Energy Trust of Oregon and the Oregon Housing and
24 Community Services agency. PacifiCorp serves 421,000 customers and contributes \$3.4 million.

⁶ Idaho Power Company, *Weatherization Assistance for Qualified Customers 2010 Annual Report* (April 1, 2011).

⁷ See Exhibit 801, Idaho Power Company's Response to CAPAI Discovery request No. 5.

⁸ Avista 2011 IRP at 2-6; Avista DSM 2010 Annual Report at 19.

1 Portland General Electric serves 717,719 residential customers and contributes \$11.6 million.⁹
2 Each PGE and PacifiCorp residential customer invests about \$8.00 in low-income weatherization.
3 ECONorthwest evaluated the weatherization programs in Oregon and concluded customers in
4 weatherized houses saved over 3,000 kWh per year.¹⁰ In Montana, NorthWestern Energy invests
5 at least \$1.8 million per year and has 300,000 residential customers, an investment of \$6.00 per
6 customer. For an example outside of the region, San Diego Gas and Electric doubled their low-
7 income energy efficiency and weatherization program between 2007 and 2010. Funding went
8 from \$11 million to \$20 million while doubling the number of households served to 22,500.¹¹
9 This dramatic increase was driven by the growing need for weatherization services among eligible
10 households.

11 Idaho Power has a strong WAQC program that is effectively and efficiently administered
12 by local community action agencies. The need for services is on the rise and Idaho Power's
13 investment in this successful program is not keeping pace with the need in its service territory as
14 the other investor owned utilities in the region are doing.

15

16 **Q. Turning to the second unresolved issue the level of the energy efficiency rider, did Idaho**
17 **Power propose any changes in their Application or prefiled testimony?**

18 **A. No. The last time Idaho Power asked to adjust the rider level was in May of 2009, where it**
19 **requested an increase to the current 4.75%.¹²**

20

21 **Q. Are the conservation parties requesting to increase the rider level in this case?**

⁹ ECONorthwest, *Report to the Legislative Assembly on Public Purpose Expenditures January 2009-December 2010*, at 25, (March 2011)(showing Total Low Income Weatherization funding).

¹⁰ *Id.*, at 33.

¹¹ Gregg Lawless, San Diego Gas and Electric, *Broadening Weatherization Programs and Partnerships*, Affordable Comfort Conference, (June 12-14, 2011).

¹² *See Order No 30184*, IPC-E-09-05.

1 A. No. The Conservation Parties merely ask the Commission to maintain the current rider level.

2

3 Q. Why does the stipulation leave the energy efficiency rider as an unresolved issue?

4 A. The stipulation does include a term that moves demand response incentives out of the energy
5 efficiency budget and tracks these payments through the power supply cost adjustment. The
6 Commission initially considered this accounting change in a prior case, IPC-E-10-27. At the
7 conclusion of that case, the Commission authorized Idaho Power to collect \$10,000,000 in
8 demand response incentives through the power cost adjustment in 2011. In the current rate case,
9 Idaho Power asked to make this a permanent change, something the parties all agree to in the
10 stipulation. Going forward demand response incentives will be collected and tracked through the
11 power supply cost adjustment mechanism. The stipulation establishes a base level of incentive
12 payments of \$11,252,265. In the next PCA case, Idaho Power will report the actual incentive
13 payments and collect or return any difference through the 2012 PCA rate. In short, ratepayers
14 will pay no more and no less than actual demand response incentives.

15 While not included in this rate case, the prior case, IPC-E-10-27, also included a change
16 in accounting for the Custom Efficiency program incentives. Instead of collecting this expense
17 through the energy efficiency rider, these incentives will accumulate as a regulatory asset to be
18 recovered through rates in a future proceeding.¹³

19 The Conservation Parties join the Staff and Idaho Power in specifically endorsing the
20 treatment of demand response incentives as power supply costs. We believe this accurately
21 recognizes demand response as a power supply issue, not a long-term on going energy savings
22 investment. Up until now, recovering demand response incentive payments through the energy
23 efficiency rider resulted in significant funding pressure on the rider balancing account, due to the

¹³ See *Direct Testimony of Greg Said* at 24 – 25, (June 1, 2011).

1 amount of the incentive payments. This change to a more accurate accounting of demand
2 response will reduce this pressure to some extent.

3 Other Parties to the settlement made the case that since the demand response incentives
4 will be recovered in the PCA, the rider should be reduced. The Conservation Parties did not
5 agree with this argument and as such, the level of the rider became an "unresolved issue."
6

7 **Q. In Rocky Mountain Power's 2010 rate case the Commission made a similar change and**
8 **moved the Irrigation Load Control Program incentives out of RMP's energy efficiency rider and**
9 **into power costs as a system resource. Along with this change, the Commission reduced the**
10 **energy efficiency rider level. Why shouldn't the Commission do the same thing in this case?**

11 **A. Because, as I will explain below, the facts in this case are different and they support expanding**
12 **the total funding for energy efficiency at Idaho Power. While I was not a party to the Rocky**
13 **Mountain Power 2010 rate case, I have reviewed the final order and some of the filings by the**
14 **parties. Based on my review I did not see any discussion of the level of cost effective energy**
15 **efficiency potential and the funding required to achieve this potential. As such, I cannot**
16 **comment on whether reducing the rider level due to a change in accounting was appropriate.**

17 **But the record in this Idaho Power case will be different. Again, the Conservation Parties believe**
18 **that the best method to determine the appropriate level of funding for efficiency is to compare**
19 **the documented level of cost effective potential with the funding necessary to acquire this**
20 **potential.**

21
22 **Q. Why did Idaho Power propose to move demand response payments out of the energy**
23 **efficiency rider and into power costs?**

1 A. According to Idaho Power's testimony in the IPC-E-10-27 case, the Company requested this
2 change to address the growing negative balance in the energy efficiency rider.¹⁴ This issue of
3 funding pressure on the energy efficiency rider did not appear in the Rocky Mountain Power rate
4 case. By contrast, Idaho Power continues to follow the directives repeated by this Commission to
5 acquire all cost effective energy efficiency. Because the available potential is quite large, Idaho
6 Power continues to experience pressure on the energy efficiency rider to provide sufficient
7 funding to meet this Commission directive.

8
9 Q. How much cost effective potential for energy efficiency exists?

10 A. Energy efficiency potential is analyzed in three tiers - overall technical potential,
11 economic potential, and then achievable economic potential. Technical potential gives the
12 absolute opportunity with no regard for the cost of the measure. Economic potential is a subset
13 of technical potential that zeros in on cost-effectiveness. Achievable economic potential narrows
14 the scope even more by applying expected customer participation rates given conventional
15 incentive levels. In Idaho Power's most recent DSM Potential Study the gap between economic
16 potential and achievable economic potential is huge.¹⁵ The Study calculates there was 945 GWh
17 of economic, or cost effective, potential available in 2009, with increasing amounts going
18 forward.¹⁶ Allowing for a substantial margin of error, 30% of this potential is 283.5 GWh or 2%
19 of energy sales. In 2010, Idaho Power acquired 187.6 GWh, or 1.39% of sales.¹⁷ While a laudable
20 achievement, this is less than Idaho Power's projection of future demand growth from their latest
21 IRP, which averages 1.4% with the peak growing at 1.8% annually.¹⁸ Current funding levels are

¹⁴ See Direct testimony of Rick Gale at 17, IPC-E-10-27 (October 22, 2010).

¹⁵ Nexant, *Idaho Power Demand Side Management Potential Study – Volume 1*, (August 14, 2009).

¹⁶ Id. at Figure 3.1, Figure 4.1, and Figure 5.1.

¹⁷ Savings shown in Idaho Power 2010 DSM Annual Report at 3 (including NEEA); Percentage of sales is based on 2010 kilowatt hour sales of 13,492 GWh used in the 2011 PCA, IPC-E-11-06.

¹⁸ 2011 IRP at 62, table 6.2 (Average) and p. 61, table 6.1 (Peak).

1 sufficient to acquire less than 20% of the cost effective energy efficiency potential available to
2 Idaho Power. It is important to note that a significant portion of the DSM funding has been for
3 demand response programs, which are not included in the economic potential of 945 GWh.
4 Current funding is not sufficient to actually avoid new supply side generation, merely defer it for
5 a few years. The Conservation Parties believe the public interest is best served by avoiding new,
6 expensive supply side resources. The first step to doing so is to ensure Idaho Power has sufficient
7 funding to acquire all cost effective energy efficiency.

8

9 **Q. Doesn't moving demand response incentives into power costs reduce the pressure on the**
10 **energy efficiency rider budget?**

11 **A.** The stipulation does reduce some pressure on the energy efficiency rider account by moving
12 certain costs into rates. But significant pressure remains based on our analysis of the funding
13 necessary to support existing programs, recover the prudently incurred back balance, and provide
14 a reasonable amount of headroom for both planned growth to achieve more of the identified
15 economic potential and meeting increased expectations to improve marketing, recordkeeping,
16 and EM&V. Reducing the rider percentage now is not supported by the facts and is bad public
17 policy.

18

19 **Q. Given that Idaho Power's rates are increasing, won't reducing the rider level mitigate this**
20 **impact to ratepayers?**

21 **A.** Reducing the rider level will have a negligible impact to each individual ratepayer, but a
22 sizable impact to Idaho Power's overall energy efficiency budget. Assuming the growth in sales
23 from actual 2011 to the 2012 forecast used in this rate case, maintaining a 4.75% rider will

1 generate an additional \$1,597,640 for Idaho Power's energy efficiency programs.¹⁹ When spread
2 across all customers, maintaining a 4.75% rider has a negligible impact of less than \$3.36 per
3 customer annually in 2012. By contrast, the total revenue increase of \$33,999,992 spread across
4 all 475,697 customers means each ratepayer will see their annual bills increase by \$71.47. While
5 this is an average across all ratepayers and actual numbers will vary, I believe it puts energy
6 efficiency investments into perspective. Maintaining the rider at 4.75% is lost in the noise of the
7 overall rate increase for each ratepayer but has a measurable impact on Idaho Power's energy
8 efficiency investments.

9
10 **Q. Over the past few years Idaho Power DSM investments have increased rapidly. What is the**
11 **harm in slowing down the growth in DSM investments now?**

12 **A.** Energy efficiency investments are the only part of utility rates that directly empowers
13 customers to take control of their energy bills. In the face of rising electric rates, now is not the
14 time to slow the growth of energy efficiency investments. Rather, as explained by the
15 Commission in 2008 upon increasing the tariff to 2.5%: "When the Commission approved the
16 initial rider, we described conservation and DSM programs as powerful tools customers can use
17 to mitigate the impact of rate increases."²⁰ In 2009, on the heels of a \$27 million rate increase, the
18 Commission again raised the rider to 4.75%.²¹ In doing so, the Commissioners acknowledged
19 that "administration of energy efficiency programs adds to utility costs . . ." but "cost-effective
20 DSM including energy efficiency programs and load management programs, helps customers
21 control their utility bills, reduces the need for higher-cost, supply-side resources, and increases

¹⁹ 2010 - 2011 firm Idaho sales of 812,166,191 from *Direct Testimony of Noe*, Exhibit 26, p. 1, line 9. Test year sales of 845,800,709 from Idaho Power *Motion in Support of the Stipulation*, Exhibit 2, page 1, line 23 minus line 19 (Hoku first block sales).

²⁰ Order No. 30560 at 6, IPC-E-08-03 (May 30, 2008) (citing Order No. 29026, p. 20, Case No. IPC- 02-2 and IPC- 02-3 (May 13, 2002)).

²¹ Order No 30722, IPC-E-08-10 (January 30, 2009)(approving a \$20,878,884 increase); Order No. 30754, IPC-E-08-10 (March 19, 2009)(approving a \$6,138,581 increase).

1 system reliability.”²² This statement reinforces the Commission’s thinking from 2008: “Even if
2 the Company’s DSM program costs increase, all cost-effective DSM programs will delay the need
3 to construct new, costly generating facilities. This delay in new investment and facilities will
4 benefit all Idaho Power customers.”²³ When electric rates rise, DSM funding is the only utility
5 investment that helps customers control their electric bills. To limit this “powerful tool” runs
6 counter to the public interest.

7
8 **Q. The stipulation includes moving demand response incentives into the power costs and
9 custom efficiency incentives into a regulatory asset account. Doesn’t this create enough
10 headroom in the energy efficiency budget between expected collections and expected expenses
11 to sufficiently support Idaho Power’s programs?**

12 **A.** While these changes do relieve some of the pressure on the energy efficiency budget, the
13 Conservation Parties believe several factors will quickly and appropriately consume any
14 headroom in the energy efficiency budget. Below we describe our specific analysis, but first a
15 simple analogy for our concerns might be helpful. Imagine DSM funding as a pie. This pie feeds
16 the suite of DSM programs, both energy efficiency and demand response, as well as other
17 expenses like marketing, evaluation, measurement, and verification. Currently this pie consists
18 of a single slice, the DSM tariff rider. When the Commission increased the rider to 4.75% the
19 staff “recognized, however, that the proposed increase may be insufficient to both fund on-going
20 DSM expenses and recover the current Rider balance deficit.”²⁴

21 The stipulation does create a second slice by collecting certain expenses through rates
22 thereby enlarging the DSM funding pie. But the demand for DSM investments continues to
23 grow as Idaho Power follows the Commission’s directive to pursue all cost effective energy

²² Order No. 30184 at 8, IPC-E-09-05 (May 29, 2009).
²³ Order No. 30506 at 5, IPC-E-08-03 (May 30, 2008).
²⁴ Staff Comments at 5, IPC-E-09-05.

1 efficiency and meet the Staff and other parties' expectations to increase marketing, expand
 2 residential programs, improve recordkeeping and increase evaluation, measurement and
 3 verification. The single slice of the DSM rider funding is no longer sufficient. After considering
 4 all of the factors, we believe the need for DSM program funding justifies a fully funded pie with a
 5 reasonable amount of headroom for growth.

6 The tables below quantify our concerns. Using round numbers, in 2010 the DSM
 7 expenses in Idaho were \$42.4 million.²⁵ Table 1 shows the increase in DSM rider generated
 8 revenues from 2010 actuals to the forecast for 2012 – the original slice of the pie at \$41 million.
 9 Table 2 shows the total level of DSM funding including the new slice of the pie at \$57 million.

Table 1: Rider Funding

	<u>2010</u>	<u>Proposed</u>
Revenue	\$812,166,191	\$845,800,709
DSM Tariff Rider	4.75%	4.75%
DSM Collections	\$38,577,894	\$40,175,534
Hoku Block 1 DSM		\$1,149,706
Total Rider Funding	\$38,577,894	\$41,325,240

**Table 2:
DSM Funding**

Demand Response Incentives	\$11,252,265
Custom Efficiency Incentives	\$5,193,650
Total DSM Funding in Rates	\$16,445,915
DSM Rider Funding	\$41,325,240
Total DSM funding	\$57,771,155

10 Taken alone these tables shows the overall pie for DSM funding is larger. But that is only
 11 part of the story. The more important part is to compare funding with projected DSM
 12 investments. Table 3 tells the rest. Removing the costs for demand response and custom
 13 efficiency incentives of \$16.4 million leaves \$26 million in expenses. In addition, ratepayers owe
 14 the Company \$8 million in prudently incurred expenses from 2010. Because the Commission
 15 has already determined these are prudently incurred expenses, the Conservation Parties believe

²⁵ 2010 DSM Report at 128.

1 Idaho Power has the right to collect this amount in a single year. Combined, projected expenses
2 to maintain DSM activities at 2010 levels and return the back balance brings the needed funding
3 for 2012 to \$34 million. Remember, this is the funding necessary to maintain energy efficiency
4 acquisitions and EM&V activities at 2010 levels. Any growth requires more money.

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Table 3:

DSM Expenses

Idaho Rider Funded DSM Programs 2010	\$42,479,692
Remove DSM Expenses Collected Rates in 2012	<u>\$(16,445,915)</u>
Remaining Energy Efficiency Only Expense	\$26,033,777
Prudent DSM Back Balance as of August 2011	<u>\$8,000,000</u>
Funding Needed in 2012 to Maintain 2010 Program Levels and Recover Back Balance	\$34,033,777

The important measure of whether the energy efficiency rider will provide sufficient funding is comparing the projected rider revenue in 2012 with the forecast of program expenses. Table 1 shows the projected revenue is \$41 million. Table 3 shows that to maintain 2010 program activities requires \$34 million. This creates headroom for growth of \$7 million.

Growth will come in several areas including acquiring additional energy savings as identified in the 2009 DSM Potential Study and the 2011 IRP, as well as responding to the Staff and other parties' requests for increased marketing, recordkeeping, and EM&V. The Commission has steadfastly instructed Idaho Power to acquire all cost effective DSM.²⁶ PUC staff and others have repeatedly admonished the Company to increase its marketing and EM&V efforts.²⁷ These efforts are not free.

²⁶ Order No. 32331 at 10, IPC-E-11-05 (August 18, 2011); Order No. 32113 at 8, IPC-E-10-09 (November 16, 2010)(citing Order No. 29784 IPC-E-04-29 (May 13, 2005), Order No. 29952, RMP-E-05-10)(January 12, 2006)(authorizing RMP to initiate DSM programs and cost recovery)).

²⁷ Order No. 32113 at 9, IPC-E-10-09 (November 16, 2010); Staff Comments at 6-7, ICIP Comments at 14-15, (September 13, 2010); Order No. 32331 at 4-5, IPC-E-11-05 (August 18, 2011); Staff Comments at 6-8, ICIP Comments at 8-9, IPC-E-11-05 (July 18, 2011).

1 Just increasing spending on EM&V to meet the expressed expectations of Staff and others
2 will increase the pressure on the DSM budget. Currently Idaho Power spends \$698,890 on
3 accounting and analysis, which is less than 2% of the DSM budget.²⁸ Other utilities spend 3-5%,
4 which for Idaho Power is \$1.27 million – \$2.1 million.²⁹ It simply is unfair to ask the Company
5 to invest more in EM&V and then refuse to provide sufficient funding to support this
6 investment.

7 As stated earlier in my testimony, Idaho Power current DSM program achievements are
8 laudable, but not sufficient to capture all the economic potential energy savings available in the
9 service territory. Achieving just 30% of the 945 GWh of economic potential identified in the
10 2009 DSM Potential Study, 283.5 GWh or roughly 2% of 2010 sales, is a reasonable target for
11 future years.³⁰ In 2010, Idaho Power acquired 178.2 Gwh, or 1.32% of sales. The 2011 IRP
12 projects annual load growth of 1.4% and peak growth of 1.8%.³¹ Growing to 2.0% of sales is 59%
13 greater than present levels, which requires energy efficiency spending to increase by roughly \$8
14 million. This alone swallows the entire headroom generated by a 4.75% rider. Energy efficiency
15 acquisition levels should aspire to offset load growth and capture all cost effective savings. A
16 reduction in the level of energy efficiency funding puts these efforts in jeopardy and will result in
17 higher costs in the future.

18

19 Q. Does the 2011 Idaho Power Integrated Resource Plan show increased program growth
20 despite reduced avoided costs?

²⁸ 2010 DSM Report at 128 Appendix 2.

²⁹ Schiller, Steve, *Energy Efficiency Evaluation, Measurement and Verification, Issues and Opportunities*, at 41 (January 4, 2011); (Idaho Power DSM spending of $\$42,479,695 \times 3\% = \$1,274,390.76$; $\$42,479,695 \times 5\% = \$2,123,984.60$)

³⁰ Based on 2010 kilowatt hour sales of 13,492 GWh used in the 2011 PCA, IPC-E-11-06.

³¹ 2011 IRP at 62, table 6.2 (Average) and p. 61, table 6.1 (Peak).

1 A. Yes. Idaho Power is on the path to increase energy savings. Current programs have grown at
2 roughly 38% per year from 2006-2010.³² The 2011 IRP plans for existing programs to expand by
3 122,640,000 kilowatt hours and new energy efficiency acquisitions of 26,280,000 kilowatt hours
4 annually.³³ Even using the 2011 IRP costs, current and future DSM programs remain cost
5 effective, with an overall total resource cost ratio of 2.3 and utility cost ratio of 4.4.³⁴ So even with
6 reduced avoided costs Idaho Power has identified and analyzed cost effective energy efficiency
7 potential that will require increased program funding compared to 2010 levels.

8

9 **Q. Are there other identified programs that might further increase cost effective energy**
10 **efficiency and require increased program funding?**

11 A. Yes. The Commission recently approved an agreement between Idaho Power and the Office
12 of Energy Resources concerning the K-12 Energy Efficiency Project.³⁵ Under this agreement,
13 OER may be eligible to collect efficiency incentives through Idaho Power programs. The Staff
14 commented that under this agreement “the additional \$9.6 million potentially invested by OER
15 through the three eligible DSM programs will exceed previous program demand forecasts and
16 therefore significantly increase the number of projects incented” and consequently the need for
17 additional program funding.³⁶ While some of these projects may qualify for the Custom
18 Efficiency program, and the incentives will come from rates, most projects are likely to increase
19 the pressure on existing DSM rider-funded budgets.

20

³² 2010 DSM Report at p. 4 figure 2.

³³ 2011 IRP at 38 – 41; See also 2010 DSM report at 12; 2011 IRP Appendix C at 72, table DSM 5 (existing energy efficiency portfolio) and 74, table DSM-10 (new energy efficiency portfolio).

³⁴ 2011 IRP at 39, table 4.2.

³⁵ Order No 32368, IPC-E-11-16 (September 29, 2011).

³⁶ Staff Comments at 3, IPC-E-11-16 (September 20, 2011).

1 Q. Will parties and the Commission have the opportunity to review these expanded DSM
2 programs in the future?

3 A. Yes. Maintaining adequate funding today does not foreclose parties from reviewing the
4 prudence of Company spending tomorrow. Instead, maintaining the rider funding level now
5 provides the opportunity to meet expectations for increased administrative costs and acquire
6 savings from existing programs and clearly identified new measures that are preliminarily shown
7 to be cost effective.

8
9 Q. In the past Idaho Power has spent more on DSM programs than the rider supplied in
10 funding. Why not continue this cycle of accumulating back balances and increasing funding
11 later?

12 A. It is true the Commission has regularly allowed Idaho Power to collect money spent on energy
13 efficiency when program expenses exceed program funding. In fact, the Commission recently
14 specifically rejected the argument of the Industrial Customers of Idaho Power that the utility
15 should cap DSM programs at the level supported by current rider funding.³⁷ But the
16 Conservation Parties believe that providing adequate funding with reasonable room for growth
17 reaffirms the directive to acquire all cost effective energy efficiency. Further, constant changes to
18 the energy efficiency rider level are confusing to the public and trade allies providing efficiency
19 services and programs. Finally, Idaho Power is currently using rider funding to recover an
20 approved back balance. Until they do so, we believe the Commission should support adequate
21 funding to prevent the back balance from continuing to grow and allow for timely recovery of
22 new programs and expectations for increased marketing, record keeping, and EM&V.

23 //

24 //

³⁷ Order No. 32245 at 5, IPC-E-10-27 (May 17, 2011)

1 **Q. Please summarize your recommendations.**

2 **A. The Conservation Parties believe the proposed Stipulation should be approved. In addition,**
3 **we believe the best method to evaluate funding levels for energy efficiency programs is to**
4 **compare the potential for acquiring all cost effective efficiency with the funds necessary to**
5 **achieve this full potential. The Commission should adopt the low- income weatherization**
6 **program funding recommended by the CAPAI Agencies. Also, the Commission should maintain**
7 **the current energy efficiency rider level.**

8

9 **Q. Does this conclude your testimony?**

10 **A. Yes it does.**

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE)
APPLICATION OF IDAHO POWER)
COMPANY FOR AUTHORITY TO)
INCREASE ITS RATES AND CHARGES)
FOR ELECTRIC SERVICE TO ITS)
CUSTOMERS IN THE STATE OF)
IDAHO.)

CASE NO. IPC-E-11-08

DIRECT TESTIMONY

OF

NANCY HIRSH

EXHIBIT 801

October 7, 2011

**Exhibit 801
Di, Hirsh
Conservation Parties
October 7, 2011**

Idaho Power Company's Response to Community Action Partnership Association of Idaho's First Production Requests to Idaho Power.

REQUEST NO. 5: Based on the number of Residential customers used for the test year and the Company's current funding level of its WAQC program, please state the WAQC per capita funding level for Idaho Power.

RESPONSE TO REQUEST NO. 5: The total average system Residential class customer count from the test year is 410,981. Using the 2010 actual WAQC program expenditures included in the 2011 Test Year of \$1,321,132, the average per capita expenditure for WAQC is \$3.21.

The response to this Request was prepared by Darlene Nemnich, Senior Pricing Analyst, Idaho Power Company, in consultation with Jason B. Williams, Corporate Counsel, Idaho Power Company.

CERTIFICATE OF SERVICE

I hereby certify that on this 7th day of October, 2011 I delivered true and correct copies of the foregoing DIRECT TESTIMONY OF NANCY HIRSH to the following via the method of service noted:

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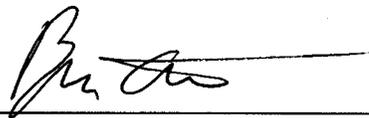
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