Office of the Secretary
Service Date
May 7, 2015

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR APPROVAL OF NEW TARIFF SCHEDULE 82, A COMMERCIAL AND INDUSTRIAL DEMAND-RESPONSE PROGRAM (FLEX PEAK PROGRAM).	))))))	**CASE NO. IPC-E-15-03** **ORDER NO. 33292**

On February 4, 2015, Idaho Power Company applied to the Commission for an Order authorizing the Company to implement a new schedule—Schedule 82, Flex Peak Program—and continue recovering its demand response program expenses in the current manner. The Company proposes to implement the program by June 15, 2015.

On March 4, 2015, the Commission issued a Notice of Application and Notice of Modified Procedure that set an April 8, 2015 deadline for interested persons to comment on the Application, and an April 15, 2015 deadline for the Company to reply. The Industrial Customers of Idaho Power (ICIP) intervened as a party in the case.[1] Commission Staff, ICIP, and the Idaho Conservation League (ICL) filed timely comments, and the Company filed a timely reply.

The Commission has reviewed the record. Based on our review, we enter this Order authorizing the Company to implement a new Schedule 82, Flex Peak Program, to be effective on the service date of this Order as more fully explained below.

THE APPLICATION

With this Application, the Company proposes to offer a new demand response program—the Flex Peak Program—that would enable commercial and industrial customers to voluntarily reduce their loads on summer peak days. The Company implemented an earlier version of the program—the FlexPeak Management Program—in 2009. Since then, the earlier program has achieved between 8.5 and 39.3 megawatts (MW) of generation level reductions per year.

A third party—EnerNoc, Inc.—managed the Company's earlier program. The Company's contract with EnerNoc has expired, however, and the Company believes it can save costs for all customers and increase program transparency by self-managing the new Flex Peak

[1] On April 24, 2015, another entity, EnerNoc, Inc., filed a Petition to Intervene. EnerNoc withdrew its Petition on April 27, 2015.

Program. The Company reports that most of its Energy Efficiency Advisory Group (EEAG) members cautiously support the Company managing the new program.

The Company notes that, in Order No. 32923, the Commission approved a settlement agreement that set the following design parameters for the Company's prior FlexPeak Management Program:

> a. Participants. Idaho Power will not actively seek to expand the capacity of the FlexPeak [Management] Program. Participants are industrial and large commercial customers.
>
> b. Program Details. The FlexPeak Management Program will be available from June 15 through August 15, Monday through Friday, from 2:00 p.m.-8:00 p.m., excluding holidays. Each dispatch event will last up to four hours per participant within the available program hours. Dispatch events will not occur more than 60 hours per season. In the event of a system emergency, demand response capacity from the FlexPeak Management program will be available. Idaho Power will conduct a minimum of three dispatch events per season. There will be two hours advanced notice to participants.
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> c. Incentive. A fixed and variable payment structure may be appropriate, as long as the variable portion is low enough that it does not prevent the program from being dispatched. If a variable and fixed incentive structure is used, a minimum of three dispatch events will be included in the fixed incentive. The variable incentive will be paid to participants if Idaho Power conducts dispatch events in the FlexPeak Management program for more than the three minimum dispatch events.

See Case No. IPC-E-13-14, Demand Response Programs Settlement Agreement, pp. 7-8. The Company claims its new program incorporates these parameters.

The Company would offer the new program to commercial and industrial customers that the Company serves under Schedules 9, 19, or a special contract. The Company will promote the program to past commercial and industrial demand response program participants. As explained in proposed Schedule 82, customers who intend to participate must apply to participate in the program before each program season.

The Company proposes a program season of June 15 through August 15, during which the Company will call at least three dispatch events. The events will occur between 2:00 p.m. and 8:00 p.m., Monday through Friday, excluding holidays, and last from two to four hours per day but not more than 15 hours per week or 60 hours per season. The Company will give participants at least two hours notice before an event occurs.

The Company's proposed incentive structure includes fixed and variable payments. The fixed payment would be $3.25 per kilowatt (kW) per week multiplied by either: (1) the actual kW reduction received during a dispatch event; or (2) nominated kW if there is no event.[2] The variable payment would be $0.16 per kilowatt-hour (kWh) reduced, effective after the first three events have been called for the season. The Company would send checks to participants within 30 days after the season ends.

The Company expects its total program costs will range from $1.1 million per year without variable payments, to $1.4 million per year if the program has 35 MW of nominated reductions and is dispatched for 60 hours. The Company does not propose to change customer rates that fund the program, and believes the current level and method of recovery will adequately fund the program for the foreseeable future.

The Company explains that, in furtherance of Commission Order No. 32426, the Company moved about $2 million of commercial and industrial demand response incentive payments into base rates effective January 1, 2012. The Company has since recovered or credited deviations from this base through the annual Power Cost Adjustment (PCA).[3] The Company clarifies that demand response costs tracked through the PCA include only the incentives paid to participants, or the amounts paid to third-party demand aggregator contractors. The Company expects that the Flex Peak Program's incentive payments would range from about $0.9 million per year with no variable payments, to about $1.27 million if the program is dispatched for the maximum hours allowed. The Company currently recovers its labor costs associated with administering demand-response programs through the Energy Efficiency Rider.

The Company proposes to recover its Flex Peak Program expenses in the same way it recovers its current commercial and industrial demand-response program expenses. In other words, it would recover its Flex Peak Program incentive payments through base rates, and track

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[2] "Nominated kW" is the amount of kW that a program participant commits not to use during a program event. The Company expects participants to reduce their load by the nominated kW during each hour of each event for the event's duration.

[3] The PCA is a cost recovery mechanism that lets the Company adjust its rates up or down to reflect the Company's changing power supply costs. While the change in costs is reflected in rates, neither the Company nor its shareholders receive any financial return from the PCA. Instead, the PCA allows the Company to pass the benefits or costs of the change to its customers.

deviations from the base through the PCA. The Company explains that this recovery method would enable it to pass the program's annual cost savings to customers by June of the following year. The Company would continue to recover program labor expenses and administrative expenses through the Energy Efficiency Rider. The Company's DSM Annual Report would discuss all program activities, how the program impacts the Energy Efficiency Rider, and what program incentives will be included in the PCA.

THE COMMENTS

Commission Staff, ICIP, and ICL filed comments in the case, and the Company filed reply comments. The comments are summarized below.

A. Commission Staff

Staff "cautiously supports" the Company's Application to self-manage the new program. Staff estimates the new program will decrease costs by $600,000 per year. Staff notes that customers will be better off if the Company can deliver the same reliable resource for less money. Staff is concerned, however, that some of the Company's proposed changes—such as a new way of measuring event-demand reduction, and not providing participants with real-time load monitoring services and mid-event coaching on curtailment—could decrease the program's performance, reliability, and customer participation. Staff thus suggests the Commission approve the program as a one-year pilot. Staff also suggests that the Company file an end-of-season report within 80 days after the season ends. The report would discuss the number of participants and participating sites, MW of demand response under contract, MW of demand response realized and incented per dispatch, percent of nominated MW achieved in each dispatch event by participant, and a detailed cost analysis of the program. Staff also suggests that the Company revise its proposed tariff to specify that the Company will notify participants of a program event two hours before an event, rather than "at least" two hours before an event.

B. ICIP

Like Staff, ICIP supports the Company managing the new program. ICIP favors the transparency that arises from the Company self-managing the program through a filed tariff, instead of through a third-party that might have different contracts with different participants. ICIP also offers suggestions on how the Company might improve the program. In summary, ICIP suggests that the Company: (1) calculate incentive payments, in part, by using EnerNoc's method of determining whether a customer achieved its nominated kW reduction (ICIP believes the Company's proposed method to calculate the baseline may discourage participation); (2) offer real-time data to participants; (3) monitor the mix of program participants to ensure smaller customers are participating (program participants will no longer be actively coached about curtailment during an event, which ICIP says could be problematic for smaller, less sophisticated customers); and (4) pay participants for the first hour of an event that the Company calls but then cancels within two hours of the scheduled start time (ICIP notes it can take a customer four hours to prepare for the start of an event and then return to normal after the event ends).

C. ICL

ICL asks the Commission to deny the Application because the Company has not shown its proposed program will be equivalent to, and cost the same or less money than, the program run by EnerNoc. ICL observes that the EnerNoc program consistently delivered verified cost-effective demand reductions. EnerNoc also provided coaching and real-time energy usage data, which the Company will not provide. Moreover, EnerNoc was contractually obligated to nominate some amount of demand reduction potential each week, and if it could not find the potential it paid a penalty to cover the Company's cost of procuring alternate supplies. ICL notes that the Company does not propose equivalent protections for ratepayers. ICL also claims that the alleged benefits of a Company-run program—including program transparency, the ability to cross-market efficiency programs, and cost savings—"are speculative and hard to quantify." Meanwhile, the Company "makes no effort to explain why these speculative benefits outweigh the risk to customers of less reliable performance and less robust metering and data collection." ICL thus asks the Commission to deny the Application, and direct the Company to re-engage the potential third-party administrators who responded to the Company's request for proposals (RFP).

D. Company Reply

In its reply, the Company agrees with Staff's recommendation that it prepare an end-of-season report, and to file a report in Case No. IPC-E-15-03 by November 2, 2015. The Company also agrees to modify the proposed tariff's event notification language to clarify that notification will occur "on or about two hours" before an event instead of "at least" two hours before an event. The Company otherwise re-affirms that the Commission should authorize the Company to manage the Flex Peak Program as filed. The Company acknowledges the other parties' suggested changes. But it believes there is no need to change the program before determining whether the Company can successfully run it. *Id.* at 2-3. The Company's replies to the other parties' concerns are summarized below.

In reply to Staff's and ICIP's concerns about the Company not offering real-time load monitoring, the Company notes that it surveyed some of the prior program's participants and was advised that many of those participants do not need the Company to provide real-time load monitoring. The Company notes that to provide real-time load monitoring to all participants, it would have to invest considerable resources to develop software that would potentially benefit just a few participants. The Company also doubts it could provide real-time load monitoring in time for the 2015 season. *See* Reply at 3-5.

In reply to concerns about how the Company's program will calculate incentives and the baseline from which to determine whether a customer has achieved its nominated kW reduction, the Company clarifies that it will calculate original baseline kW using the three days out of the immediate past ten non-event business days. *See* Reply at 5. The Company also explains that its proposed symmetrical day-of-load adjustment[4] is consistent with industry practices, will accurately measure and compensate participants for their load reduction, and will protect all customers from paying for load reduction that was not achieved. *Id.* at 6-7. The Company proposes to symmetrically cap this adjustment, and asserts that doing so is standard industry practice and will protect participants and the Company from the volatility associated with large adjustments to the original baseline kW. *Id.* at 7-8.

In reply to ICIP's recommendation that the Company pay incentives for the first hour of an event that the Company has cancelled within two hours of the scheduled start time, the Company notes that event cancellations are rare. Further, participants receive weekly capacity payments based on their weekly nominations regardless of whether events are called or cancelled, and the Company maintains that these capacity payments will fairly compensate participants even if an event is cancelled. *Id.* at 8.

The Company also replies to ICIP's recommendation that the Company calculate a participant's reduction based on the average reduction over an event period, and that the Company not use the proposed hour-by-hour adjustment for underperformance. The Company

[4] The Company explains that the day-of-load adjustment is the difference between the average original baseline kW and the average actual metered kW during the two hours before the participant receives notice of an event. The adjustment accounts for customers using more or less load than their original baseline kW predicts on the day of an event. Reply at 5-6.

stresses that its proposal to use the average load production to meet the overall nomination, with a per-hour adjustment for every hour the nomination is not achieved, will ensure that load reduction is achieved for the whole event rather than just part of the event. The Company thus maintains that the hour-by-hour adjustment will more accurately measure and incentivize true load reduction that system operators can depend upon. *Id.* at 8-9.

In reply to Staff's recommendation that the program be approved as a one-year pilot, the Company asserts that designating the program as a one-year pilot would be inconsistent with the Demand Response Settlement Agreement approved in Order No. 32923, which directs the Company to take a long-term view when implementing demand response. The Company also believes that designating the program as a pilot could negatively impact program enrollment. The Company notes that it has agreed to submit an end-of-season report and impact evaluation that will thoroughly review the program's performance and enable stakeholders to provide feedback to the Company. *Id.* at 9-10.

Lastly, in reply to ICL's claim that the benefits of the Company's proposed program are "speculative and hard to quantify," the Company notes that the benefits of its proposed program are no more speculative than those in programs offered by third-party vendors. The Company explains that the benefits it offers (e.g., lower cost, more timely payments, and greater transparency) differ from benefits that a third-party provider might provide (e.g., real-time load monitoring and coaching during events), but that the Company's program will nevertheless provide a good overall value to customers. And, since the Company will operate its program without mark-up or profit, it would be unreasonable to require its shareholders to "cover any cost impact that results from [the Company] actually realizing fewer demand reductions than [it] intends to acquire," as suggested by ICL. *Id.* at 10.

For these reasons, the Company asks that it be allowed to implement Schedule 82 and manage the Flex Peak Program as stated in the Application, and that it be allowed to continue recovering program expenses in the same manner that it currently recovers commercial and industrial demand response program expenses. *Id.* at 11.

FINDINGS AND DISCUSSION

The Commission has thoroughly reviewed the record in this case. Based on our review, we find it just, fair, and reasonable to approve the Company's request to: (1) manage the

Flex Peak Program as described in the Application; and (2) continue recovering program expenses in the same manner that it currently recovers commercial and industrial demand response program expenses. The Commission strongly supports the use of commercial and industrial demand response-programs. And, while EnerNoc's program was robust and cost-effective, customers will benefit if the Company can deliver similarly reliable demand response at the same or less cost. We appreciate the suggestions offered by Staff, ICIP, and ICL. But given the lack of near-term capacity deficits, it is a reasonable time to allow the Company an opportunity to administer its own program more efficiently. We find that it would be premature to modify the proposed Flex Peak Program before allowing the Company a chance to show that it can successfully run a reliable and cost-effective program with robust customer participation. Consistent with the Company's Reply, we find it reasonable to direct the Company to file a revised Schedule 82 that requires the Company to notify participants "on or about two hours" before an event.

We are mindful of the intervenors' concerns about the Company running a commercial and industrial demand response program. Consequently, we find it reasonable to direct the Company to file, one-year from the service date of this Order, a one-time report that discusses its experience in running the program, how the program's costs and benefits compare to those achieved under the prior program, how participants have performed under the structure, and whether changes might improve the program (e.g., offering real-time load monitoring, coaching, etc.). We further find it reasonable and in the public interest to direct the Company to file an annual end-of-season report within 80 days after the season ends each year. The annual end-of-season report should include the number of participants, number of participating sites, MW of demand response under contract, MW of demand response realized and incented per dispatch, percent of nominated MW achieved in each dispatch event by participant, and a detailed program cost analysis.

ORDER

IT IS HEREBY ORDERED that Idaho Power Company's Application is approved as discussed above. The Company shall promptly file a revised Schedule 82, Flex Peak Program, that modifies the event notification language as specified above. The tariff shall be effective on the service date of this Order.

IT IS FURTHER ORDERED that the Company shall file an end-of-season report each year within 80 days after the Flex Peak Program season ends for that year, as discussed above.

IT IS FURTHER ORDERED that the Company shall file, one year from the service date of this Order, a separate one time report as discussed above.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. 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 7th day of May 2015.

Paul Kjellander

PAUL KJELLANDER, PRESIDENT

Mack A. Redford

MACK A. REDFORD, COMMISSIONER

Kristine Raper

KRISTINE RAPER, COMMISSIONER

ATTEST:

Jean D. Jewell

Jean D. Jewell
Commission Secretary

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