



RECEIVED
2009 APR 23 AM 10:21
IDAHO PUBLIC
UTILITIES COMMISSION

BARTON L. KLINE
Lead Counsel

April 24, 2009

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
P.O. Box 83720
Boise, Idaho 83720-0074

Re: Case No. IPC-E-09-02
EnerNOC

Dear Ms. Jewell:

Enclosed for filing please find an original and seven (7) copies of Idaho Power Company's Reply Comments in the above matter.

I would appreciate it if you would return a stamped copy of this letter for my file in the enclosed stamped, self-addressed envelope.

Very truly yours,

Barton L. Kline

BLK:csb
Enclosures

BARTON L. KLINE (ISB No. 1526)
LISA D. NORDSTROM (ISB No. 5733)
Idaho Power Company
P.O. Box 70
Boise, Idaho 83707
Telephone: 208-388-2682
Facsimile: 208-338-6936
bkline@idahopower.com
lnordstrom@idahopower.com

RECEIVED

2009 APR 23 AM 10: 22

IDAHO PUBLIC
UTILITIES COMMISSION

Attorneys for Idaho Power Company

Street Address for Express Mail:
1221 West Idaho Street
Boise, Idaho 83702

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER)	
COMPANY'S APPLICATION FOR)	CASE NO. IPC-E-09-02
APPROVAL OF AN AGREEMENT TO)	
IMPLEMENT A COMMERCIAL DEMAND)	IDAHO POWER COMPANY'S REPLY
RESPONSE PROGRAM.)	COMMENTS
_____)	

COMES NOW, Idaho Power Company ("Idaho Power" or "Company") and hereby replies to the Comments of the Industrial Customers of Idaho Power ("ICIP" or "Industrial Customers") filed on April 13, 2009.

I.

Idaho Power appreciates ICIP's continuing support of the Company's demand-side management programs. ICIP's Comments demonstrate its understanding that innovative, flexible, and cost-effective demand response ("DR") programs will not only benefit participating commercial and industrial customers but all customers by providing long-term reductions in costs and more efficient use of resources.

II.

The Irrigation Peak Rewards Program Is Not a Reasonable Comparator For the Commercial DR Program to Be Implemented Through the EnerNOC Agreement.

In its Comments, the ICIP makes specific recommendations for modifications to the February 23, 2009, agreement between Idaho Power and EnerNOC (the "Agreement"). The Agreement sets out the terms and conditions under which EnerNOC will act as an aggregator to deliver demand reduction voluntarily acquired from the Company's industrial and commercial customers (the "Commercial DR Program" or "CIDR Program"). Unfortunately, ICIP's proposals to change the CIDR Program are based on a faulty premise. The premise underlying the ICIP's proposal for changes to the CIDR Program is that a demand response program for industrial and commercial customers can be conducted in a manner that is substantially similar to the Irrigation Peak Rewards Program. On page 2 of its Comments, ICIP states, "The Program for the commercial and industrial customers purchases an identical product – dispatchable demand response – as does the Irrigation Peak Rewards program. It is therefore reasonable to use the Irrigation Peak Rewards Program as a benchmark against which to measure the EnerNOC aggregation program." (ICIP Comments, p. 2.)

ICIP's conclusion that demand response is a generic product and therefore programs for acquiring that generic product can also be generic is incorrect. Idaho Power has determined that while it is reasonable to implement a demand response program in which Idaho Power contracts directly with individual irrigation customers, it is not practical to implement the same type of program for commercial and industrial customers at this time.

III.

A Tariffed, Uniform DR Program Will Work with Irrigation Customers but It Will Not Work With Commercial and Industrial Customers.

Irrigation customers are alike in that they operate similar equipment on a similar load profile. Program implementation involves the installation of a standard control device that either turns off or does not allow irrigation pumps to turn on, and affects customer operations similarly in most cases. In almost all cases, the exception being the very few locations where fifteen minute metering is available on irrigation pumps over 1,000 cumulative horsepower on a single meter, all pumps and load on a single metered service point are controlled. Under these conditions, a tariffed, one-size-fits-all program will work.

In contrast, Idaho Power's commercial and industrial customers have a large variety of energy-using equipment associated with any one meter. Their usage varies greatly and their load profiles are very diverse. While one customer may operate Monday through Friday, 8 a.m. to 5 p.m., and use air-conditioning and lighting only, another may operate a food processing line 24 hours per day, seven days per week. One may have the flexibility to curtail their electric use at any time, and the other may only be able to do it at certain times. In order to accommodate each customer's individual needs and still deliver a firm peak load reduction, it is necessary to aggregate customers into a "reduction portfolio." EnerNOC has extensive experience in managing such a portfolio, which includes building an appropriate "reserve margin" of load reduction capacity so that a firm level of capacity can be guaranteed to Idaho Power. In addition, each commercial-industrial customer site will vary in the requirements to install

monitoring and control equipment, which is more easily managed by an experienced aggregator who can negotiate individual customer contracts accordingly.

Given the above-described variables, Idaho Power determined that the cost of the infrastructure required to operate a commercial-industrial customer DR program in-house, as well as the added time it would take to ramp a program into full-scale operation, made third-party implementation the best option.

Idaho Power has had five years to work with irrigation customers on a demand response program and obtain a level of confidence of demand reduction potential, utilizing historical data. In contrast, the Company's lack of experience and lack of historical data for a demand response program for commercial and industrial customers makes it difficult to determine demand reduction potential. EnerNOC is able to commit to a firm demand reduction amount that Idaho Power can utilize for planning purposes. EnerNOC assumes all risk of underperformance, including liquidated damages, which creates a system of checks and balances that is important to meet Idaho Power dispatch needs while being mindful of customer needs.

IV.

Under the CIDR Program, Payments to Participants Will Reflect Both the Cost to Acquire and Value of DR Provided by the Individual Participants.

On pages 4 and 5 of the ICIP's Comments, ICIP complains that industrial and commercial customers under the Agreement may not get paid as much as the irrigation class for demand response. Again, the ICIP bases this critique on its understanding that the product being purchased from the irrigators is identical to the product purchased under the CIDR Program. "There is no offer of justification for this price

disparity for the purchase of an identical product – dispatchable demand reduction.”
(ICIP Comments, p. 4-5.)

ICIP misunderstands the pricing arrangement under both the Irrigation Peak Rewards Program and the CIDR Program. The \$4.65 per billed kW of demand offered through the irrigation program is a capacity payment, and does not include the entire incentive paid to the customer. Participants in Peak Rewards also receive an energy credit associated with their monthly billed energy use. The combination of the capacity and energy payments to irrigation customers averages to about \$32 per kW per summer season, but varies by customer, depending on their individual monthly billed energy use. This does not include the labor costs, equipment costs, and overheads associated with operating this program.

Similarly, participants in the Commercial DR Program will be paid a capacity payment to make demand reduction available, but unlike the irrigation program, participants will be paid an energy payment each time an event is called. Irrigation customers are paid up to \$4.65 per kW of billed demand and \$0.031 per kWh for their billed energy usage in June and July. Customers participating under contract with EnerNOC will receive a kW payment and an energy payment associated with each DR event based on actual demand and energy reduction calculated from meter data. The amount paid per kW to the commercial and industrial customers will vary depending on the number of events called in a season and the frequency of events called in a week or month.

EnerNOC has publicly stated that participating customers who contract with EnerNOC will likely receive between \$25 and \$35 per kW annually, depending on the

number of events called, frequency of events called, and the equipment and installation costs EnerNOC must invest at the site of each participating customer. This range of payments is very similar to the yearly average of \$32 per kW that irrigation customers will receive.

Participants will enter into a standardized contract with EnerNOC. See confidential Exhibit F – *Form of Demand Response Services Agreement* – attached to the Agreement that was filed with the Company’s Application.

On page 3 of its Comments, ICIP expresses a concern that EnerNOC may take advantage of the inexperience of commercial and industrial customers when it negotiates contracts. Since customers like the Idaho National Engineering Laboratory, Micron Technology, and ICIP members like J. R. Simplot Company are Idaho Power’s most sophisticated customers in terms of both understanding and analyzing energy and demand use, it is difficult to believe that they could not readily evaluate the value of a proposed relationship with EnerNOC.

Idaho Power acknowledges that some other commercial customers are not as large and sophisticated as the large industrial customers described above. However, a fair number of potential participants in the CIDR Program are members of large national chains of companies such as Rite-Aid, Albertsons, Kroger (Fred Meyer-Smiths Foods), Home Depot, and others. One of the benefits of utilizing EnerNOC is that many national chains of commercial businesses have worked with EnerNOC in other jurisdictions and therefore are familiar with how EnerNOC operates and manages its demand reduction programs. The bottom line is that there is more customer sophistication associated with the CIDR Program than ICIP acknowledges.

V.

Other Comparisons to Irrigation Peak Rewards Program.

The ICIP makes several additional comparisons between the Commercial DR Program and the Irrigation Peak Rewards Program. Idaho Power agrees that there are (and should be) differences between the programs. The rationale supporting those differences is addressed in the following:

1. **Advance Notice Provisions.** ICIP notes that participants in the Irrigation Peak Rewards Program will receive notice of an event of curtailment by 4:00 p.m. on the day before the event begins. Under the CIDR Program, participants will receive a notice of curtailment 2 hours before the event begins. ICIP argues that, "If day ahead notice is sufficient for the Irrigation Peak Rewards participants, it should also be made available to the commercial and industrial participants in the EnerNOC managed program." (ICIP Comments, p. 4.)

Idaho Power evaluated dispatch needs, researched commercial and industrial DR programs throughout the country, and negotiated with EnerNOC to determine appropriate notification for a curtailment event. Industry practices for this type of program ranged from less than 10-minute notification to day-ahead notification, and many programs operate successfully with 10-minute to 30-minute advance notification. The Company considered that the attractiveness of the program to customers would decrease with shorter advance notice, while the usefulness of the program to meet the Company's dispatch needs would decrease with longer advance notice. In particular, the cost-effectiveness of the program is dependent on Idaho Power's ability to call an event during peak demand hours, and the Company reached what it determined to be

an appropriate balance between a 10-minute prior notice program and a day-ahead program. While Idaho Power recognizes there is a potential loss of some load reduction based on 2-hour notice, the program targets were determined with that in mind. In the case of the Irrigation Peak Rewards Program, the customer is given day-ahead notice of a DR event; however, events may be canceled by 1:30 p.m. the day of the event, which could result in less than 2-hour advance notification if an event were scheduled to begin at 2:00 p.m.

2. Opt-Out and Drop-Out Rights. ICIP again argues that the Commercial DR Program should emulate the Irrigation Peak Rewards Program with respect to opt-out and drop-out rights. However, in this case, that recommendation is misplaced. The opt-out and drop-out rights under the Commercial DR Program are more generous than the opt-out rights available to participants in the Irrigation Peak Rewards Program. Participants in the CIDR Program will never pay penalties for failure to perform and can drop out of the program at any time with no penalties, whereas Irrigation Peak Rewards participants will receive a \$500 penalty to withdraw from the program completely. Because commercial and industrial DR customers will be paid based on actual metered load reduction, the customer will be compensated for performance – if they do not reduce demand, they will not be compensated.

3. Dates of Potential Curtailments. ICIP notes that under the Irrigation Peak Rewards Program irrigators can be curtailed between June 15 and June 31, while under the CIDR Program, curtailments can occur between the dates of June 1 through August 31. ICIP again argues that the CIDR Program should emulate the Irrigation

Peak Rewards Program and shorten the season during when curtailments can be called by Idaho Power.

The active program months for the CIDR Program were determined based on Idaho Power's summer On-Peak times. While historical data suggests that the peaks tend to fall within a smaller window consistent with the irrigation program, the fact remains that peaks are fluid and may, within the next 5 years, fall outside of the window of June 15 to July 31, which the irrigation program uses. Given that the purpose of the CIDR Program is to reduce peak demand, in combination with the fact that the Agreement with EnerNOC extends over 5 years, it is important that Idaho Power maintain the flexibility to call events during the summer during *all* on-peak times, including all of June and August. This provides maximum value for the entire body of the Company's customers.

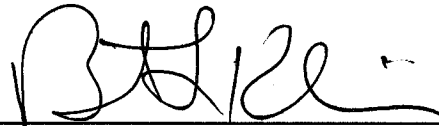
VI.

Conclusion

The ICIP's efforts to make the best parts of both the proposed Commercial DR Program operated by EnerNOC and the Irrigation Peak Rewards Program available to its members are understandable. Unfortunately, this approach fails to recognize the substantial difference between the types of customers involved. Use of an aggregator like EnerNOC will allow the Company to move forward much more quickly to implement DSM programs for the industrial-commercial class. EnerNOC is an experienced aggregator and has operated this program in numerous jurisdictions. The CIDR Program is a voluntary program that imposes very limited requirements on the industrial and commercial customers that choose to participate. Based on its experience,

EnerNOC believes that it can demonstrate to the Company's industrial and commercial customers that participating with EnerNOC in a demand response program will benefit the customer, EnerNOC, and Idaho Power. In fact, EnerNOC is sufficiently confident that it will be successful in marketing its program that it is willing to suffer economic consequences if it does not meet its goals. It would be unreasonable for Idaho Power to develop custom, tailored programs for each of its industrial and commercial customers in a timely manner. Idaho Power requests that the Commission allow the Company to proceed with the CIDR Program as presented without the changes proposed by ICIP.

Respectfully submitted this 23rd day of April 2009.

A handwritten signature in black ink, appearing to read 'B. L. Kline', written over a horizontal line.

BARTON L. KLINE
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 23rd day of April 2009 I served a true and correct copy of IDAHO POWER COMPANY'S REPLY COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

Commission Staff

Neil Price
Deputy Attorney General
Idaho Public Utilities Commission
472 West Washington
P.O. Box 83720
Boise, Idaho 83720-0074

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email Neil.price@puc.idaho.gov

Industrial Customers of Idaho Power

Peter J. Richardson, Esq.
RICHARDSON & O'LEARY PLLC
515 North 27th Street
P.O. Box 7218
Boise, Idaho 83702

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email peter@richardsonandoleary.com



Barton L. Kline