

## **DECISION MEMORANDUM**

**TO: COMMISSIONER KEMPTON  
COMMISSIONER SMITH  
COMMISSIONER REDFORD  
COMMISSION SECRETARY  
COMMISSION STAFF  
LEGAL**

**FROM: WELDON STUTZMAN  
DEPUTY ATTORNEY GENERAL**

**DATE: NOVEMBER 16, 2010**

**SUBJECT: IN THE MATTER OF AN INVESTIGATION OF APPROPRIATE COST  
RECOVERY MECHANISMS FOR IDAHO POWER'S ENERGY  
EFFICIENCY PROGRAMS, CASE NO. IPC-E-10-27**

On October 22, 2010, Idaho Power filed an Application requesting that the Commission issue an Order “accepting the Company’s demand-side resources business model.” Application, p. 1. The Application seeks authorization to adjust ways for the Company to recover the costs of its energy efficiency programs. More specifically, the Company proposes to (1) move certain demand response incentive payments into the Power Cost Adjustment on a prospective basis beginning June 1, 2011; (2) establish a regulatory asset for Custom Efficiency program incentive costs beginning January 1, 2011; and (3) change the carrying charge on the Energy Efficiency Rider from the customer deposit rate to the Company’s authorized rate of return. Application, p. 1.

Idaho Power identified several objectives with its Application, including addressing a growing negative balance in the Energy Efficiency Rider account, and implementing a realistic earnings opportunity for Idaho Power for its investments in the demand-side resource (DSR) programs. Application, p. 5. Currently, all costs for DSR programs are recovered through the Energy Efficiency Rider (Schedule 91), which is presently 4.75% of base rates. The Rider balance has been negative since April 2008 and is now negative by more than \$16 million. Application, p. 5. The Company estimates the 2010 year-end negative balance of \$17,009,140 in the Rider account will grow to a negative \$29,677,151 in 2012.

Idaho Power requests authority to remove recovery of customer and contractor incentive payments for the Company's demand response programs from the Rider balancing account to the PCA for 100% recovery on a prospective basis. The Company has three demand response programs that include incentive payments: (1) the A/C Cool Credit program which provides summer peak reduction benefits by cycling participating residential customers' air conditioning units; (2) the Agricultural Irrigation Peak Rewards program, which switches off participating customer's irrigation pumps during times when additional system peak resources are needed; and (3) the Flex Peak Management program, which reduces commercial and industrial loads when called upon during system peak times. Application, p. 6. The Company states the demand response incentive payments are expected to be nearly \$13.7 million in each 2011 and 2012. Application, p. 7. The Company proposes to include these costs in the PCA consistent with the current PCA methodology. The Company would forecast demand response incentive payments to be included in PCA rates effective June 1, 2011. In a future filing, the Company will request that a normal or base level of expenses for incentive payments be placed into base rates. Each year as part of the PCA case, the forecasted level of payment expenses would be compared to the normal level included in base rates to determine the level of demand response cost recovery to be included in the PCA forecast. Deviations between actual demand response incentive costs and forecasted costs would be included in the following year's PCA true-up.

Idaho Power also proposes to change the method for recovering a separate portion of energy efficiency program incentive costs currently recovered through the Rider balancing account. Specifically, the Company proposes to capitalize the direct incentive payments associated with the Custom Efficiency program to enable the Company to earn a return on this portion of its demand-side resource activities. The Company proposes to start booking these incentive payments to a regulatory asset account beginning January 1, 2011. Application, p. 8. The balancing account would be included in the Company's revenue requirement in future rate cases with a four-year amortization period. The Custom Efficiency program began in 2003, and in 2008 and 2009, the program saved 41,059 and 51,836 MWh, respectively. The Company estimates Custom Efficiency incentive payments to be approximately \$5.2 million in 2011 and \$5.6 million in 2012. The investments made under the program are tangible assets like lighting

upgrades and motor rewinds that are owned by customers rather than by Idaho Power. Application, p. 9.

The Company states that if the Commission implements the two proposals, the 2010 Rider balance of negative \$17 million is projected to shrink to a negative \$3,356,306 in 2011, and start reducing the negative balance in the Rider account. Application, p. 10. The Company expects the Rider balance account to approach zero in the middle of 2012. *Id.*

The Company also requests that the Commission authorize a carrying charge on the Energy Efficiency Rider. The Company expects it will take almost two years to eliminate the negative balance in the Rider account if the Company's proposals are implemented. The Company requests that the Commission authorize a carrying charge on the remaining balance the same as the Company's authorized rate of return (currently 8.18 overall rate of return with a 10.5 return on equity component) rather than the interest rate on customer deposits, which currently is 1%. Application, p. 9.

The Company requests that its Application be processed by Modified Procedure. Staff believes there may be significant interest in Idaho Power's Application from other parties. Rather than issue a Notice of Modified Procedure at this point, Staff recommends the Commission issue a Notice of Application and Notice of Intervention to provide an opportunity for interested parties to intervene. Following the intervention period the case may be processed by Modified Procedure if the parties agree that a hearing is not needed.

#### **COMMISSION DECISION**

Should the Commission issue a Notice of Application and Notice of Intervention Deadline in Case No. IPC-E-10-27?



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Deputy Attorney General

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