

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

<b>IN THE MATTER OF IDAHO POWER'S</b>	)	
<b>APPLICATION FOR A DETERMINATION</b>	)	<b>CASE NO. IPC-E-14-04</b>
<b>OF 2013 DEMAND SIDE MANAGEMENT</b>	)	
<b>(DSM) EXPENSES AS PRUDENTLY</b>	)	<b>ORDER NO. 33161</b>
<b>INCURRED</b>	)	

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On March 17, 2014, Idaho Power Company (“Idaho Power” or “Company”) submitted its Demand-Side Management 2013 Annual Report (“DSM 2013 Annual Report”) and makes Application to the Idaho Public Utilities Commission (“Commission”) for an Order designating Idaho Power’s expenditures of \$21,748,331 in Idaho Energy Efficiency Rider (“Rider”) funds and \$4,203,155 of demand response (“DR”) program incentives included in the 2014 Power Cost Adjustment (“PCA”), for a total of \$25,951,486, as prudently incurred demand-side management (“DSM”) expenses.

On April 30, 2014, the Commission issued a Notice of Application, Notice of Intervention Deadline and Notice of Modified Procedure. *See* Order No. 33032. A comment deadline of 90 days from the date of the Order was established.

Thereafter, the Idaho Conservation League (“ICL”) and Industrial Customers of Idaho Power (“ICIP”) submitted Petitions to Intervene as a party. Both parties were granted leave to intervene as a party in this case. ICL, ICIP and Staff each submitted written comments within the established comment period. Thereafter, Idaho Power submitted reply comments.

**THE APPLICATION**

Pursuant to reporting requirements included in Commission Order No. 29419 and in accordance with agreed upon guidelines set forth in the Memorandum of Understanding for Prudency Determination of DSM Expenditures (“DSM MOU”), Idaho Power included a copy of its 2013 DSM Annual Report and Supplements 1 and 2. The Company also included the Direct Testimony of Darlene Nemnich, Senior Regulatory Analyst, with its Application. According to the Company, the DSM 2013 Annual Report and accompanying Nemnich testimony provide a sufficient basis for the Commission to determine whether Idaho Power’s DSM expenses were prudently incurred.

### ***2013 DSM Energy Savings and Expenditures***

In 2013, Idaho Power states that it offered 18 energy efficiency programs, one active demand response program, several educational initiatives, and savings to customers through market transformation programs. Idaho Power estimates annual energy savings from its energy efficiency activities totaled 107,284 megawatt-hours (“MWh”), which includes 18,346 MWh (preliminary estimate) stemming from the Company’s participation with Northwest Energy Efficiency Alliance in 2013.

The Company says that its overall energy savings is down this year. The DSM 2013 Annual Report explains that this reduction in energy savings in 2013 is due, in part, to Idaho Power and the region’s increased evaluation, measurement, and verification activities.

Idaho Power’s expenditures on DSM-related activities decreased in 2013, largely due to the suspension of two demand response programs. In 2013, the Company’s total system-wide expenditures on DSM-related activities totaled \$26,841,379. The \$26,841,379 of system-wide, DSM-related expenses in 2013 includes expenditures for customers in Oregon and other operations and maintenance expenses that are not before the Commission as part of this prudence request. In this filing, Idaho Power seeks a determination that a total of \$25,951,486 expenditures were prudently incurred in 2013 (\$21,748,331 in Rider expenses and \$4,203,155 in DR program expenses included in the 2014 PCA).

The Company’s direct testimony describes several adjustments to the total dollar amounts contained in the DSM 2013 Annual Report. The Company requests that the Commission accept the following adjustments:

A. Custom Efficiency Transfer. In Order No. 32826, the Commission approved the transfer of \$14,200,174 in customer efficiency incentive payments to the Rider account. Of this amount, \$13,037,493 was previously deemed prudent in Order Nos. 32667 and 32953 and therefore is not included in this prudence request. The \$1,162,681 remainder includes Custom Efficiency program incentive payments made from January 1, 2013, through May 31, 2013, with accrued interest. The \$1,162,681 is included in this request for a determination that 2013 DSM expenses were prudently incurred.

B. Rider-Funded Labor-Related Expenses. According to the Company, the Commission declined to decide the reasonableness of increases in the Company’s Rider-funded labor-related expenses for 2011 and 2012. Order Nos. 32667, 32690, and 32953. Due to these

Commission decisions, Idaho Power has excluded from this filing its 2013 increase in Rider-funded labor-related expenses amounting to \$269,432.

C. A/C Cool Credit Switch Expenses. In 2012, Idaho Power incurred \$32,090 in costs to install A/C Cool Credit switches after Idaho Power issued a letter to its vendor directing it to halt installation. Idaho Power set aside such amounts in its request for the Commission's prudence review of 2012 DSM expenses. Idaho Power states that the A/C Cool Credit program will be operational for the 2014 program season, and the switches will now add value to the program, and includes these expenses in this request for a prudency determination.

D. Prior Year-End Adjustments. In 2012, Idaho Power removed \$21,952 from its prudence request and the amount was also removed from the Rider in 2013. In order to avoid a double removal, the Company states, it is necessary to add \$21,952 to this prudence request.

E. Current Year-End Adjustments. Idaho Power transferred \$248 to the Idaho Rider account associated with the Home Energy Audit program, which was initially charged to the Oregon Rider account in error.

In the 2013 DSM Annual Report, Idaho Power calculates cost-effectiveness from the Rate Impact Measure ("RIM"), the Participant Cost Test ("PCT"), the Utility Cost Test ("UCT"), and the Total Resource Cost Test ("TRC") perspectives at the program level, except for those programs with no customer costs, in which case the PCT is not applicable. This includes DR and low-income weatherization programs which are evaluated at the UCT and TRC perspectives. Idaho Power also evaluates cost-effectiveness using the UCT and TRC tests for each measure within a program where the measures are not interactive.

The 2013 DSM Annual Report, Supplement 1 includes detailed results of the cost-effectiveness tests by program and by measure. The DSM 2013 Annual Report, Appendix 4 shows the historical UCT and TRC results for each of Idaho Power's active DR and energy efficiency programs from a program-life perspective. Results show that of the 15 energy efficiency programs for which the Company claims savings in 2013, 11 programs had benefit/cost ratios greater than 1.0 for both the TRC and UCT.

Two programs had benefit/cost ratios less than 1.0 for the TRC but greater than 1.0 for the UCT, two programs had benefit/cost ratios less than 1.0 for both the TRC and UCT, and one program had a benefit/cost ratio of less than 1.0 for the PCT.

The cost-effectiveness calculation for the FlexPeak Management program shows benefit/cost ratios greater than 1.0 from the TRC and the UCT perspective when evaluated from a five-year life-cycle perspective; cost/benefit analyses were not performed on the A/C Cool Credit and Irrigation Peak Rewards programs because they were suspended in 2013.

F. Net-to-Gross Adjustments. For the DSM 2013 Annual Report, Idaho Power used these ratios as an input to cost-effectiveness calculations where appropriate.

G. Program Evaluations. Independent, third-party consultants were used to provide impact and process evaluations to verify that program specifications were met, provided viable recommendations for program improvement, and validated energy savings achieved through Idaho Power's programs. In 2013, these independent third-party consultants conducted process evaluations on six programs and an impact evaluation on one program. In addition, Idaho Power conducted its annual internal analysis and reports for the FlexPeak Management and the Irrigation Peak Rewards programs. Copies of these reports can be found in the DSM 2013 Annual Report, Supplement 2.

Idaho Power stated that a technical hearing is unnecessary in this case and requested the Commission process its Application through Modified Procedure.

#### **STAFF COMMENTS**

Staff recommended the Commission approve the Company's request and find the Company prudently incurred DSM-related expenditures of \$25,951,486. This amount consists of \$21,748,331 in Rider expenses, and \$4,203,155 of demand response program incentive payments included in the annual PCA. Staff also recommended the Commission find that the appropriate Rider balance as of December 31, 2013, is \$6,685,745, and direct that the Company accrue carrying charges on this balance as of that date.

However, Staff objected to the Company's decision to "not spend" funds in the pursuit of cost-effective DSM. Idaho Power's actions led Staff to question its commitment toward pursuing all cost-effective DSM, including: their request to suspend DSM programs; their apparent intent to withdraw from the NEEA; failure to analyze the impact of a 40% fall in avoided costs on its cost-effective energy savings; and refusal to participate in partnership funding of an Idaho-based energy efficiency research and development effort.

Staff believes that a leading explanation of the declining DSM savings should be attributed to ineffective marketing of its DSM programs. Staff cited the HANSA survey as

support for their claim that most customers simply are not aware of the Company's programs. Staff recommended the Company increase its investment/participation in high viewership methods of marketing such as TV, billboards, radio, etc. Staff also compared Idaho Power's overall DSM marketing budget to national averages and found that the Company invests 2 to 3 percent in marketing while the national averages range from 4 to 8 percent. Staff attached a Company flyer containing counterproductive messages to prospective DSM customers. Staff criticizes the Company for largely failing to adapt its program implementation and offerings to an ever-changing DSM landscape.

Staff recommended the Commission direct Idaho Power to provide the EEAG with a DSM action plan explaining how the Company will increase its acquisition of cost-effective energy efficiency over the next year. The plan should include, but not be limited to, pilot programs and program delivery adaptations designed to address difficult to serve customer populations, independent third-party evaluation recommendations that will be adopted, new strategies to increase marketing effectiveness (including customer representative training, contractor outreach, and trade ally partnerships), as well as projections for program budgets, marketing budgets, energy savings acquisitions, and cost-effectiveness ratios.

### **ICL COMMENTS**

ICL does not take exception to Idaho Power's specific request. ICL states that Idaho Power's DSM investments for 2013 pass its preferred cost-effectiveness test, UCT. However, ICL had various objections to the marketing and administration of some programs.

ICL stated that its comments cover five main topics: the calculation of the avoided costs used to compare efficiency benefits; the appropriate cost and benefit test; a review of residential programs; a review of commercial and industrial program; and a review of Idaho Power's market transformation activities.

ICL stated that the 2013 DSM Report does not provide a detailed accounting of the avoided costs. According to ICL, the avoided costs for energy efficiency have never been explicitly reviewed and approved by the Commission. ICL argues that avoided costs for energy efficiency are artificially low because the methodology does not include all relevant avoided costs. It accounts for avoided capacity and energy but the Commission and other stakeholders have never formally vetted this methodology nor approved the resulting avoided costs. ICL

stated that current avoided cost methodology excludes other commonly accepted and measurable costs such as the costs of environmental compliance; transmission and distribution costs; etc.

ICL believes that the Commission should focus primarily on the UCT for determining cost-effectiveness because it takes into account the costs (incentives and administration) and benefits (avoided energy and capacity) controlled by the utility. ICL believes that this is particularly important in Idaho because current methodologies do not consider the non-energy benefits that accrue to participants in efficiency programs. The UCT uses the most accurate benefits and costs and measures from the perspective of the utility whether those benefits outweigh the costs.

ICL cited the lack of awareness of Idaho Power's residential programs and believes the Commission should order the Company to immediately engage with the EEAG group to develop a detailed plan to raise program awareness. ICL requests that the Commission find that the Company's marketing and administration efforts were imprudent.

ICL asserts that Idaho Power should increase the incentive for the Ductless Heat Pump pilot to increase participation. ICL criticizes the Company for its processes in the Energy Efficient Lighting program, labeling the requirement for a program specialist to perform a line item review of invoices as "onerous and cumbersome." ICL suggests that Idaho Power should expand a portion of the Energy House Calls program to other housing stock. ICL also criticized the Company's Home Products program, claiming that the process for customers to claim incentives and require after purchase submission of receipts is cumbersome. ICL cites similar concerns regarding Idaho Power's marketing and administration of its commercial/industrial programs.

ICL declares that it has serious concerns about Idaho Power's management of the relationship with NEEA in 2013. ICL claims that Idaho Power did not respond to its queries regarding how the Company planned to replace NEEA activities if the Company were to withdraw. ICL does not believe that Idaho Power works collaboratively with EEAG on this issue.

In conclusion, while this case focuses on 2013 actions, ICL recommended the Commission provide forward-looking guidance to explicitly review avoided cost calculations and prudently administer the Company's relationship with NEEA.

## **ICIP COMMENTS**

ICIP requests that the Commission require Idaho Power to take corrective measures to reverse what it views as a downward trend in energy efficiency achievement. ICIP included charts to demonstrate that DSM savings and expenditures have fallen since 2010. According to ICIP, expenses have fallen by 41% or \$19 million, and MWh fallen by 45% or 86,000 MWh.

ICIP touts the MWh savings for the commercial and industrial programs exceeded what the Company considered their “achievable potential.” ICIP believes that Idaho Power should increase its efforts, specifically in this sector which has shown to provide the greatest savings.

ICIP discussed the impact of the requirements of Section 111(d) of the Clean Air Act on Idaho. ICIP believes that Idaho Power’s conservation programs will play a significant role in the state’s ability to meet the EPA’s final targets. ICIP stated that it will be important for Idaho Power to implement programs that reverse the trend and increase DSM savings.

## **IDAHO POWER REPLY COMMENTS**

Following Staff’s Comments, Idaho Power engaged in an extensive discovery process with Staff and submitted its reply comments. Notwithstanding Staff’s agreement with Idaho Power’s request, the Company’s reply comments centered upon its objections to what it termed “Staff’s strong criticism of the Company and its DSM programs.” However, Idaho Power noted that none of the comments filed recommend a disallowance of the expenditures and incentive payments the Company included in its Application.

The Company stated that despite challenges it continues to work with its stakeholders through the EEAG to optimize its current programs and to explore and implement new programs and initiatives. Idaho Power has conformed to the MOU signed by Staff and Idaho’s IOUs. Idaho Power reiterated its initial request that the Commission issue an Order that the Company prudently incurred \$25,951,486 in DSM-related expenditures. The Company requests that the Commission limit its Order in this case to a determination of whether its 2013 DSM expenditures were prudently incurred.

Idaho Power’s reply comments sought to rebut each of the six reasons cited by Staff as to why the Summary within the Company’s 2013 DSM Report is inaccurate. The Company makes several claims to support its rebuttal: (1) increased participation in the public sector actually led to decreased energy savings; (2) inclusion of customers in non-electrically heated

homes may provide access to more energy savings, but these would not be cost-effective energy savings; (3) savings from Building Efficiency program projects vary from year-to-year because projects remain in process for multiple years due to long construction time-lines; the Customer Efficiency programs have a similar issue with long construction time-lines; impact evaluations and the changes in RTF savings estimates have had an impact on the reported savings over the years; and it is premature to draw conclusions for all three utilities (Rocky Mountain, Avista and Idaho Power) on activities and energy savings that have not been reviewed and approved by the Commission.

Idaho Power claims that comparing Idaho's IOUs' annual reported energy savings can be problematic because the underlying data may be dissimilar. Each utility has different savings estimates, participant cost information, and DSM alternative costs that impact the savings reported and cost-effectiveness analyses. The Company cited to a recent ACEEE study which found that Idaho Power's performance compares favorably to its utility peers in the region. Further, the Company stated that Staff's critique regarding the use of economic potential as a realistic goal for achievable potential is "inappropriate." According to Idaho Power, the EnerNOC Study and the ACEEE Study rightly consider achievable potential as a subset of economic potential.

Idaho Power believes that the parties' argument relating to future DSM expenses and the assessment of cost-effectiveness in the future should be addressed in subsequent proceedings. The Company asserts that Staff's complaint regarding DSM funds "not spent" would be better heard in the context of the EEAG group. Also, the Company believes that Staff's demand for an action plan is unnecessary because the information is already available in the 2013 DSM Report and to EEAG members.

Idaho Power disputes ICL's claims that the Company is not working collaboratively with the EEAG and NEEA in addressing the NEEA funding model, citing to several EEAG meetings where it was discussed. Idaho Power writes that it worked extensively with NEEA to resolve its concerns about NEEA's previous funding model. Idaho Power and other NEEA funders are currently considering how to finalize their 2015-2019 funding cycle agreements.

Idaho Power chides Staff for expecting the Company to make recommended program changes in 2013 even though the recommendations were made in December 2013. The Company remarked that Staff and intervenors should work with the Company through the EEAG

to use process evaluations as a method to make continuous program improvements, not as a means to criticize the Company's program administration before allowing the Company an opportunity to address or incorporate suggested program modifications.

Idaho Power does not believe that the Commission should focus exclusively on the UCT for determining cost-effectiveness. The Company says that it will, until directed otherwise, follow the MOU and ascertain whether programs meet all cost-effective tests. Idaho Power specifically referred to the Ductless Heat Pump pilot program which failed the TRC test.

Idaho Power referred to certain legal, regulatory and reporting requirements that compel the Company to analyze invoices and institute certain processes. These requirements are not always convenient and may or may not dissuade program participation. Nevertheless, the Company claims that it routinely solicits recommendations from the EEAG group to make processes more customer-friendly and thereby increase participation.

Idaho Power attempted to rebut Staff's concerns regarding ineffective marketing of the Company's DSM programs. The Company states that awareness of its programs compares favorably to other regional utilities. The Company complains that Staff and ICL's criticism of its marketing efforts contained very little substantive support. According to Idaho Power, marketing alone does not induce program adoption. The Company went on to summarize the findings of the HANSA study it conducted to analyze preferences of non-participants. Specifically, the Company pointed out the disparity between what "green" programs customers say they are willing to pay for and what they actually pay for. Finally, Idaho Power responds to Staff's criticism that the Company does not participate in high-viewership methods of marketing.

The Company argues that high-viewership methods are costly and ineffective. They claim that customers have complained in the past that television marketing is perceived as too expensive. Further, radio broadcasts have a higher cost and low effectiveness. Idaho Power says that its HANSA Study revealed that its customers prefer learning about energy efficiency through bill inserts and direct mail. Idaho Power continues to use bill inserts and direct mail because year-after-year studies show they are effective.

In regard to its commercial customers, Idaho Power states that it has a three-pronged strategy: (1) send targeted letters to small business customers, (2) conduct face-to-face visits with small business customers, and (3) continue to produce and distribute customer publications such

as the Easy Upgrades bill insert (August 2013) and the Energy @ Work newsletter (Spring and Fall). The Company formed a “New Ideas Team” to identify new energy savings measures.

### **COMMISSION FINDINGS**

The Commission has reviewed the record in this case, including Idaho Power’s Application, prefiled testimony, party comments, and the Company’s reply comments. The Commission commends Idaho Power for its continued commitment to subjecting its DSM programs to a thorough review process, including its collaboration with stakeholders to address meaningful issues and concerns raised by these parties.

The Commission acknowledges ICL’s concern that the Company should do more to raise awareness regarding its DSM programs. The public policy goals of ICL, and other like-minded conservation groups, seem to be perfectly aligned with the promotion of these DSM programs. The Commission appreciates ICL’s past efforts to increase public awareness and hopes that ICL will continue to promote and support Idaho Power’s DSM.

The Commission recognizes ICIP and Staff’s forceful concern regarding Idaho Power’s alleged waning commitment toward the acquisition of all cost-effective DSM and Staff’s critique of the Company’s inefficient marketing techniques. The Commission notes that Idaho Power issued a strong rebuttal of these claims, offering several reasons to explain the recent decline in its DSM expenditures and a defense of its marketing efforts. While the Commission is cognizant of the recent decline in energy savings, acknowledged by the Company in its Application, we are encouraged by the Company’s reply comments that its commitment to cost-effective DSM has not waned and that it has a renewed interest in taking action to procure all cost-effective DSM.

Finally, the Commission notes Staff’s proposal to levy penalties and/or adjustments. We limit our review in this case to whether the expenditures actually incurred by Idaho Power were prudent. The Commission will address the issuance of penalties or adjustments in the context of a specific request made by Staff or another party. In this case, the parties do not contest the expense amount or incentive payments submitted by the Company for a determination of prudence.

Based on our review of the record, the Commission finds that Idaho Power prudently incurred \$25,951,486 in DSM expenses, including \$21,748,331 in net Rider expenses and \$4,203,155 in demand response program incentive payments.

**CONCLUSIONS OF LAW**

Idaho Power is an electrical corporation. The Commission has jurisdiction and authority over Idaho Power and the issues in this case under Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000, *et. seq.*

**ORDER**

IT IS HEREBY ORDERED that Idaho Power's Application for approval of its calendar year 2013 DSM expenditures is approved as prudently incurred in the amount of \$25,951,486.

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.

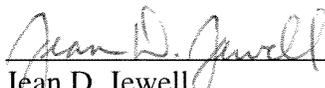
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 4<sup>th</sup> day of November 2014.

  
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PAUL KJELLANDER, PRESIDENT

  
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MACK A. REDFORD, COMMISSIONER

  
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MARSHA H. SMITH, COMMISSIONER

ATTEST:

  
\_\_\_\_\_  
Jean D. Jewell  
Commission Secretary

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