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MEMORANDUM

To: Utah Public Service Commission

From: Utah Division of Public Utilities
Phil Powlick, Director
Energy Section
Abdinasir M. Abdulle, Technical Consultant
Jamie Dalton, Utility Analyst II
Artie Powell, Manager

Date: November 6, 2008

Ref: Docket No. 08-035-56, "Assessment of Long-Term System-Wide Potential for Demand-Side and Other Supplemental Resources."

RECCOMENDATION

The Division recommends that the Commission acknowledge Mid-America Energy Holding Company (MEHC) and PacifiCorp ("Company") compliance with Transaction Commitment No. 44(a), Energy Efficiency and DSM Management, approved in Docket No.05-035-54.

ISSUE

On October 24, 2007, the Division recommended the Commission to consider a formal regulatory review process to address comments and issues on the report entitled "Assessment of Long-Term System-Wide Potential for Demand Side and Other Supplemental Resources" ("DSM Potential Report") prepared for the Company by the Quantec consulting group. This report, originally released on July 11, 2007, was prepared to meet MEHC and Company compliance with Transaction Commitment No. 44(a), Energy Efficiency and DSM Management, approved in Docket No. 05-035-54. On April 21, 2008, the Commission issued an Order requesting comments from interested parties to be filed by June 27, 2008.

The Division along with other interested parties expressed concern that there was insufficient time to thoroughly review the document before the comment deadline. After consulting with the interested parties, the Division filed a memorandum with the Commission requesting a time extension to file comments. In this memo, the Division recommended that the Commission adopt a document review process and schedule. The Commission's June 27, 2008 Scheduling Order outlined the following schedule:

- July 18, 2008 - Interested parties submit initial comments to the Company;
- August 13, 2008 - A Technical Conference is held to discuss and respond to comments;
- August 29, 2008 - The Company officially files the DSM Potential Report based on input from the Technical Conference;
- Sept 12, 2008 - Formal comments on the document are due to the Commission.

In accordance to the above schedule, the interested parties submitted the initial on the July 18 comment date and participated in the subsequent August Technical Conference. In this Technical Conference, the Company responded to the issues raised by the interested parties and received additional input and clarification.

On August 20, 2008, the Company requested additional time to prepare and file its revised report and the Commission granted it in its Order (Docket No. 08-035-56) issued on August 28, 2008. This resulted in the Commission issuing another order on September 25, 2008 postponing the due date of the final comments on the report from September 12, 2008 to November 6, 2008.

DISCUSSION

Under commitments approved by the Commission in the MEHC acquisition of PacifiCorp (Docket No. 05-035-54), MEHC and PacifiCorp were directed to conduct a company-defined third-party market potential study of additional Demand Side Management (DSM) and energy efficiency opportunities within PacifiCorp's service areas. The commitment outlined that the study include the following objectives:

- Identify additional DSM opportunities;

- Recommend programs/actions to pursue cost-effective DSM opportunities;
- Consult with DSM advisory groups, Commission staff, and other interested stakeholders to direct ongoing DSM efforts; and
- Report study findings back to DSM advisory groups, Commission staff and other interested stakeholders.

To meet these objectives, the Company developed the DSM Potential Report. While the report appeared to meet the minimum standards outlined under Commitment No. 44(a), the Division identified several issues of concern. First, the report was not formally filed with the Commission and it was not clear how each party's issues, comments, and concerns were to be integrated into the document. Second, the Division had concerns regarding some of the contents of the report. Specifically, the Division could not clearly understand how the report's findings would be integrated into the IRP. The Division also questioned why Class 2 DSM resources were determined using TRC criterion only and had concerns about the clarity and accuracy of data listed in the appendix.

On September 15, 2008, the Company has formally filed its revised report and provided a summary of the comments of each participating party along with responses to these comments. In this memorandum, the Division will provide the comments it submitted during the review process.

The Division and some of the other interested parties were concerned about the assumptions used in determining the "achievable" DSM potential. Specifically, the parties were questioning the use of this achievable potential in the IRP process. During the Technical Conference held on August 13, 2008, the Company explained that the magnitude of the achievable potential identified in the report is preliminary because the cost effectiveness screening was based on proxy avoided costs and the achievable screening was based on vendor assumptions. The Company is working with Quantec to develop supply-curves based on the technical potentials screened only by Company assumptions regarding DSM programs that are achievable. The supply curves will be

used in the Company's IRP models to identify DSM program cost effectiveness. The resources found to be cost effective will be incorporated into the Company's IRP. The Division believes that this is a reasonable approach.

The Division was also concerned about the fact that the report uses only the Total Resource Cost test (TRC) in determining the economic potential of Class 2 DSM resources. In its response to this issue at the August Technical Conference,, the Company indicated that:

“the cost-effectiveness screening used in the study was for general opportunity assessment purposes only. The Company intends to use the IRP modeling process to determine the amount and value of DSM resources to be pursued. The TRC perspective is the appropriate measure, since it allows DSM resources to be evaluated against supply options on a level playing field. Program filings, whether amendments to existing programs, or the introduction of new programs, would adhere to the specific cost-effectiveness criteria for the particular state in which the filings occur.”

The Division believes that the Company's explanation is reasonable given the fact that the potential resources identified in this report will not be used as it is in any planning or implementation process.

The Division also had several questions about the report's survey results. The Division was concerned that some of the survey results were not necessarily representative of the populations examined. Moreover, there were questions about how the survey was administered. The Company provided additional detail to help clarify some of the Division's concerns and was able to better demonstrate that the survey and the associated methodologies were based on sound statistical method and were consistent with industry standard procedures. More details of the Company's explanation can found in the Company's responses to the Division's comments, Item 2 under the sections "Specific Comments". The Division is satisfied with the Company's explanation.

Finally, the Division was concerned about the numbers reported in Table C.43 of Appendix C, particularly, the measure costs. For example, the measure for existing evaporative coolers on a single family residence is \$4 whereas the measure cost for an existing home central A/C premium air conditioning is \$281,164. The Company has explained that the measure costs reported in Table C.43 are the year-20 (2027) incremental measure costs for *all* potential installations. This cost is the product of the per-unit costs of the measure and the number of installations. This explanation satisfies the Division's concern.

On July 18, 2008, The Division, National Energy Laboratory (NREL), Southwest Energy Efficiency Project (SWEEP) and Utah Clean Energy (UCE) submitted their comments.

The Division believes that the Company's DSM market potential study addresses potential DSM and energy efficiency opportunities within PacifiCorp's service areas as outlined in the above-mentioned objectives. Therefore, the Division recommends the Commission acknowledge MECH and PacifiCorp compliance with Transaction Commitment No. 44(a), Energy Efficiency and DSM Management, approved in Docket No.05-035-54.

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