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Memorandum

TO: Public Service Commission

FROM: Division of Public Utilities
Philip Powlick, Director,
Artie Powell, Energy Manager
Abdinasir Abdulle, Technical Consultant
Jamie Dalton, Utility Analyst

DATE: August 18, 2009

RE: Docket No. 09-035-T08. Advice Filing 09-08 – Adjustment to the DSM Tariff Rider, Schedule 193. Phase II Scoping Recommendations

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RECOMMENDATIONS

The Division identified five main issue areas that it believes the Public Service Commission (Commission) should consider as it frames the Phase II scope of this proceeding. These are listed as follows:

- Monitoring the DSM 193 account and mitigating the impacts of unexpected occurrences.
- Establishing an annual DSM budget approval process.
- Evaluating the propriety of current DSM 193 account carrying charges.
- Opt-out provisions, Self Direction credits, and applicability of the DSM Surcharge.
- DSM program cost effectiveness test underlying assumptions.

These recommendations are discussed in detail below along with a brief review of the events that informed the development of the Division's recommendations.

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BACKGROUND

On June 11, 2009, Rocky Mountain Power (Company) submitted a filing with the Public Service Commission (Commission) requesting an increase in Schedule 193 – Demand-Side Management Cost Adjustment (DSM tariff rider). The Company requested that the current DSM tariff rider be increased from 2.1% to 6.16%. In this filing, the Company indicated that as a result of an unexpected increase in the rate of acquisition of demand side resources, DSM program expenditures are higher than current collections through the DSM surcharge. A major driver of these increased expenditures is the Home Energy Savings Program, which, for a combination of reasons related to the recent economic downturn, experienced participation rates that were higher than expected. This caused the DSM planned budget for the calendar year 2009 to be exhausted within the first few months of the year. The Company therefore was seeking the requested increase to eliminate the current balance in the demand-side management deferred (193) account, and to recover its ongoing DSM program costs.

The Division reviewed the Company's application and the intervention requests under this Docket. Based on its preliminary review, the Division recommended that the Commission suspend the Company's proposed tariff and convene a scheduling conference to allow interested parties appropriate time to investigate the issues and provide comments or testimony to the Commission. In response to intervenor concerns, the Commission convened a Scheduling and Technical Conference to determine a procedural schedule and to establish a process scope. It was determined that the proceeding would be divided into two phases. In Phase I, parties would determine how to best recover the balance of the DSM 193 account. In Phase II, all other issues regarding policies, concerns and associated recommendations would be discussed. A stipulation regarding resolution of Phase I issues was filed with the Commission, and is scheduled to be heard before the Commission on August 20, 2009. The Commission Scheduling Order for this Docket set August 18, 2009 as the deadline for parties to provide recommendations on the issues that should be addressed in Phase II.

DISCUSSION

The Division provides the following limited discussion of the recommendations previously identified. The Division recommends that the Commission include these as issues to be discussed in the Phase II portion of this proceeding.

Monitoring the DSM Account and Mitigating for Unexpected Occurrences

There are questions about the ability of the current DSM cost adjustment mechanism to limit unreasonable impacts or burdens on customers. While the recently-filed Stipulation addresses this issue in part, the Division believes that there is a need to explore additional methods of addressing unusually large or atypical impacts as they relate to the DSM surcharge. The Division argues that this points to the need for the establishment of a more systematic process to review the 193 budget account. Functions such as annual reporting and budgeting, semi-annual account true-ups, monthly reviews/reporting, and budget review triggers (that flag excessive monthly expenditures) should be reviewed or considered. The Division agrees that mechanisms should be implemented to help customers make timely projections and to prepare for potential rate impacts.

Budget Approval Process

Closely related to the above issue, the Division believes that there should be a more prospective process that assesses the overall scope of the DSM program, the strategies to be employed, and the level of resources devoted to it. The Division recommends that the Company be required to submit an annual DSM budget and plan for Commission approval similar to the process followed by Questar Gas Company.

Account Carrying Charge Rates

The Division has questions about applying the AFUDC interest rate to the 193 account balance. The Division raises questions about whether such a rate, which reflects the greater levels of investment risk for capital development projects, should be applied to DSM program acquisition, particularly when such programs have been vetted and approved by the Commission through the tariff review process.

Opt-Out, Self Direction Credits, and Applicability of the DSM Surcharge

Questions have been raised about whether parties who undertake their own energy efficiency/load management measures should be given the option to opt out of utility DSM programs or surcharges. While the Division is open to a discussion of this issue, the Division believes that this issue should be reviewed in the context of a broader discussion including, but not necessarily limited to, the Self-Direction Tariff provision adopted within the DSM tariff and authorized by 54-7-12.8(5) and the potential impacts on other customer classes. We also feel that this broader context should also include a discussion as to whether special contract customers should be required to pay DSM charges.

Cost Effectiveness Test Assumptions

The Division suggests that the Commission encourage the Company to more carefully scrutinize and review the assumptions underlying the Cost Effectiveness analyses used for each DSM tariff filing. We have been made aware that at least one party to this docket is concerned about whether deemed savings and assumed lifespans are correct for some specific DSM measures. In light of recent experience with the Company's assumed participation rates in the Home Energy Savings program, examining how customer participation is forecast may also be necessary. The Company should therefore draw upon this recent experience to more carefully evaluate the cost effectiveness assumptions for each of its future DSM program filings. The Division also notes that other parties have expressed concern about the efficacy of the current Commission-mandated DSM cost effectiveness tests themselves. The Division believes that the recent review of DSM cost effectiveness tests through the DSM Advisory Committee adequately addresses these concerns. However, the Division is willing to consider more-narrow concerns about the assumptions that may underlie tests used to evaluate specific measures.

CC: all parties of record