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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: July 7, 2009

RE: Docket No. 09-035-27. RMP/Demand Side Resource Program Performance Standards.

RECOMMENDATION (Approval)

The Division recommends that the Commission approve the proposed Demand Side Resource Program Performance Standards as contained in this filing. This filing contains proposed revisions to these standards, pursuant to the Commission's April 2, 2007 Order under 07-035-T04.

ISSUE

In its order under Docket No. 07-035-T04, the Commission directed Rocky Mountain Power (the Company), the Division and the DSM Advisory Group (DSMAG) to develop recommendations that consider the relevance of existing Commission standards and guidelines used to review the prudence of DSM programs. On April 27, 2009, the Company filed its proposed revisions to the Utah Demand Side Resource Program Performance Standards to the Commission. In its filing, the Company and the DSMAG argue that there have been significant changes in the variables that have affected acquisition of DSM resources since these standards and guidelines were

established. On May 7, 2009, the Commission issued an Action Request to the Division requesting the Division to comment on the proposed and existing Demand Side Management Standards and Guidelines and report back to the Commission by July 7, 2009. This Memorandum is the Division's response to the Commission's Action Request.

DISCUSSION

The filed document lists a number of issues and changing conditions that, according to the DSMAG, warrant revision to the 1995 report entitled "Demand Side Resource Cost Recovery Collaborative Report," issued in March 1995 under Docket No. 92-2035-04. The Commission adopted the recommendations in the 1995 document and currently utilizes these recommendations to evaluate the cost-effectiveness of DSM programs.

Specifically, the DSMAG noted that there have been numerous changes in the delivery of Utah DSM programs. Among other things, the group argues that DSM program design has undergone a shift toward the use of incentives rather than loans to increase program participation. In addition, the DSMAG states that the IRP decrement analysis approach along with supply curve development has emerged as the new approach in the identification of avoided costs. They also note that there is a lack of guidance regarding relevant economic tests to evaluate cost-effectiveness of emerging small-scale renewable generation resources. The DSMAG also identified the need to coordinate with Questar Gas Company to ensure consistency in energy efficiency program design. This necessitates updates to the current guidelines contained in the 1995 report. Other issues, such as emerging state and federal statutes that affect utility energy efficiency policies likewise require modifications to the current document, according to the group.

To deal with these changes, the Company, Division and other DSM Advisory Group members have collaborated to develop a document entitled "Utah Demand Side Management and Other Resources: Benefit and Cost Analysis, Guidelines and Recommendations." As noted above, this document is attached to the filing and contains the proposed revisions previously referenced. The Division has issued comments and recommendations on several drafts over the past several

months. The finished product represents a consensus-based document. In this document, the DSMAG identified a number of recommended updates, which are found in the document. In general, the collaborative document recommends the following updates to the 1995 report:

- The 2001 California Standard Practice Manual (SPM) should continue to be the defining source for cost effectiveness tests, modified as needed to reflect Utah specific conditions.
- The Utility Cost Test (UCT) is recommended as the threshold cost effectiveness test in determining program prudence. Program prudence should be determined at the program approval stage.
- The number of stages in the DSM resource acquisition process should be reduced from the current five steps (planning, implementation, acquisition, evaluation, cost recovery) to three (planning, program approval/prudence review, and program performance reporting).
- The Company will provide the existing five cost effectiveness tests (Utility Cost, Participant Cost, Ratepayer Impact Measure, Total Resource, PacifiCorp Total Resource) at the program approval/prudence review stage and at the performance reporting stage of the DSM acquisition process.
- The Commission should retain the discretion to approve programs that are in the public interest.
- The Rate Impact Measurement (RIM) test should be changed to include full rate impacts over the life of the DSM resource.
- The Participant Cost (PC) test is useful in program design but should be accorded little weight in the approval of DSM programs.
- In general, cost effectiveness tests should be applied at the program level.
- Class 4 DSM public outreach programs should be exempt from direct cost-effectiveness testing. Rather, the DSMAG recommends that the cost of such programs should be rolled into the portfolio of all other DSM programs.
- The decrement approach as used in the Company's Integrated Resource Plan (IRP) should be used to develop avoided costs.
- Small-scale renewable resources may be evaluated on the same basis as energy efficiency and load management programs. The Commission may approve small-scale renewable resources that fail cost-effectiveness measures, but are deemed to be in the public interest.

Recently, both The Utah Industrial Energy Consumers (UIEC) and the Utah Association of Energy Users (UAE) filed petitions with the Commission to intervene in the matter of the Company's proposed adjustment to schedule 193 under Docket No. 09-035-T08. Within its petition, UIEC recommends that the Commission reevaluate the validity of DSM program cost effectiveness tests. If this recommendation is accepted, it is assumed that the subsequent proceeding may raise many of the issues relevant to the recommendations put forward by the DSMAG in this docket. The Division is willing to consider any additional information that may emerge and may be of value in the evaluation of DSM programs. However, the Division notes that the reevaluation of DSM Cost Effectiveness Measures has been a top priority for the DSM Advisory Group since it was directed by the Commission to take actions on existing cost effectiveness tests in 2007 and notes that there has been sufficient time and opportunity for all interested parties to participate in the process outlined in the Commission's order under 07-035-T04.

RECOMMENDATIONS

As the Division was a contributing team member on the DSMAG and approved the group's final draft of the collaborative document as filed, it recommends that the Commission adopt the group's proposed recommendations. Again, the Division recognizes that additional issues regarding the validity of cost effectiveness tests may come to light if the forthcoming review of Docket No. 09-035-T08 proceeds as requested by UIEC and UAE. However, as the Division has been actively involved in this process as a member of the DSMAG, and has been involved in the development and approval of the recommendations issued in the collaborative document, it recommends that the Commission approve the recommendations contained therein.

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