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DEPARTMENT OF COMMERCE  
Office of Consumer Services

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To: Utah Public Service Commission

From: Office of Consumer Services  
Michele Beck  
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Date: July 7, 2009

Re: Proposed Revisions to the Utah Demand Side Resource Program  
Performance Standards; Docket No. 07-035-T04

### 1. Background

Pursuant to the Commission's earlier Order in this docket, Rocky Mountain Power (the Company), the Division of Public Utilities (Division), the Office of Consumer Services (Office), and other parties have engaged in a collaborative process to update the Commission's 1995 DSM standards and guidelines (DSM Guidelines) used to evaluate the cost-effectiveness of current and proposed DSM programs. The updated DSM Guidelines will also be applied in the future to small scale renewable resources. The Office has actively participated in this process of revising DSM Guidelines and submitted comments to the Company on two earlier occasions (November 2008 and April 2009). Many of our recommended changes on earlier drafts were adopted and are reflected in the proposed DSM Guidelines.

### 2. Discussion

There have been various changes impacting the design and delivery of DSM programs since the Commission adopted initial DSM Guidelines back in 1995. These are set forth and described by the Company in a document entitled "Utah Demand Side Management and Other Resources: Benefits and Cost Analysis, Guidelines and Recommendations," which was filed with the Commission on April 27, 2009. The Office has been involved in the development of this document via the DSM Advisory Group and generally supports the recommendations contained therein. In this memo, the Office would like to bring to the Commission's attention two key, inextricably linked, issues addressed by the parties:

- Aligning the economic test relied on to assess the cost-effectiveness of DSM resources at the planning level (IRP) with the economic tests used to evaluate proposed DSM programs at the jurisdictional level (Utah); and
- Setting forth the economic tests that should be relied on by the Commission for determining cost-effectiveness at the jurisdictional level, including a threshold test for assessing program prudence.

Regarding these two issues, the parties recommended potential DSM resources be screened at the planning stage using the Utility Cost (UC) test and that the same test be applied to determine cost-effectiveness relating to program prudence at the jurisdictional level. Additionally, the revised DSM Guidelines provide the Commission the discretion to rely on all five tests (TRC, UC, RIM, etc.) to ascertain whether a proposed program is in the public interest.

A number of parties raised concerns whether the TRC test was appropriate for evaluating DSM programs because the TRC test, applied in the context of energy efficiency programs, includes costs relating to both the utility and program participants. To put candidate demand-side resources on the same footing as supply-side resources requires that the UC test be used to assess the cost effectiveness of candidate DSM programs. As proposed, the revised DSM Guidelines ensures consistency between the primary test used to screen DSM programs at the IRP stage and the program implementation stage.

The Office also notes that in a separate proceeding (Docket No. 09-035-T08), the Company has requested approval of an adjustment to the DSM Cost Adjustment tariff rider. This request significantly raises the level of the tariff rider to reflect higher levels of DSM that are expected to be acquired through July 2010. Two industrial groups have petitioned the Commission to suspend the tariff and establish a schedule for further proceedings. Both groups also requested a review of the cost-effectiveness of existing DSM programs, as well as raising other policy issues.

By shifting to the UC test to screen conservation resources, as proposed in the revised DSM Guidelines, the practical effect is that more DSM resources will likely be selected as cost-effective in future IRP case scenarios. Although we note that the issues raised by the industrial groups in the DSM tariff rider docket have not been addressed within this process of revising DSM guidelines<sup>1</sup>, the Office believes that the issues are significantly inter-related and the two dockets should be considered in context of each other.

### **3. Recommendation**

Absent the petitions by UIEC and UAE in Docket No. 09-035-T08, the Office would have supported and recommended approval of the revised DSM Guidelines. However, the Office believes that the issues brought up in connection with Docket No. 09-035-T08 need to be addressed and resolved by the Commission before it considers the evidence and renders important public policy decisions potentially changing the evaluation of DSM. Therefore, the Office recommends that the Commission's consideration of revisions to the DSM Guidelines be postponed until after a decision has been made in Docket No. 09-035-T08.

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<sup>1</sup> UAE participated in the collaborative process of revising DSM Guidelines, but did not raise any issues along the lines that it now raises in connection with the DSM tariff rider docket. . The Office is unaware of any UIEC participation in this process of revising DSM Guidelines.

