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November 20, 2020

ELECTRONIC FILING

Jan Noriyuki, Secretary
Idaho Public Utilities Commission
11331 W. Chinden Blvd., Bldg 8,
Suite 201-A (83714)
PO Box 83720
Boise, ID 83720-0074

Re: Case No. IPC-E-20-15
2019 Demand-Side Management Expenses – Idaho Power Company's
Petition for Clarification and/or Reconsideration of Order No. 34827

Dear Ms. Noriyuki:

Attached for electronic filing, pursuant to Order No. 34602, is Idaho Power Company's Petition for Clarification and/or Reconsideration of Order No. 34827.

If you have any questions about the attached document, please do not hesitate to contact me.

Very truly yours,

Lisa D. Nordstrom

LDN:sib
Attachment

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Attorney for Idaho Power Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF IDAHO POWER COMPANY FOR A)	CASE NO. IPC-E-20-15
DETERMINATION OF 2019 DEMAND-)	
SIDE MANAGEMENT EXPENDITURES)	IDAHO POWER COMPANY'S
AS PRUDENTLY INCURRED)	PETITION FOR CLARIFICATION
)	AND/OR RECONSIDERATION OF
)	ORDER NO. 34827
)	

Idaho Power Company ("Idaho Power" or "Company"), petitioner herein, pursuant to RP 33, 325, and 331, *et seq.*, and *Idaho Code* § 61-626, respectfully petitions the Idaho Public Utilities Commission ("Commission") for clarification and/or reconsideration of final Order No. 34827, dated October 30, 2020, issued in Case No. IPC-E-20-15 ("Order") concerning the (1) method for evaluation of the two percent Demand-Side Management ("DSM") labor cap previously ordered by the Commission,¹ and (2) establishment of a new baseline necessary to comply with the Order.

¹ *In the Matter of the Application of Idaho Power Company for a Determination of 2016 Demand-Side Management Expenditures as Prudently Incurred*, Case No. IPC-E-17-03, Order No. 33908, p. 6.

As discussed below, Idaho Power believes Order No. 34827 disallowing \$51,165 is not supported by the record in this case.

To the extent that the Commission believes the requested clarification goes beyond the scope of a clarification, then Idaho Power respectfully requests reconsideration of the issues identified herein. See, RP 325. This Petition is based upon the following:

I. LEGAL STANDARD

A party must seek reconsideration prior to initiating an appeal to the Idaho Supreme Court. *Idaho Code* § 61-627. An issue not presented to the Commission on reconsideration will not be considered on appeal. *Key Transp. Inc. v. Trans Magic Airlines Corp.*, 96 Idaho 110, 524 P.2d 1338 (1974). "The purpose of an application for rehearing is to afford an opportunity to the parties to bring to the attention of the Commission in an orderly manner any question theretofore determined in the matter and thereby afford the Commission an opportunity to rectify any mistake made by it before presenting the same to this Court." *Washington Water Power Co., v. Kootenai Environmental Alliance*, 99 Idaho 875, 879, 591 P.2d 122, 126 (1979) (citing *Idaho Underground Water Users Ass'n v. Idaho Power Co.*, 89 Idaho 147, 404 P.2d 859 (1965); *Consumers Co. v. Public Utilities Comm'n*, 40 Idaho 772, 236 P. 732 (1925)).

The Commission may grant reconsideration by conducting an evidentiary hearing; by reviewing the existing record; or by the submission of briefs, memoranda, written interrogatories, or written statements. RP 332; Order No. 32974, p. 11, Case No. IPC-E-11-15.

II. PROCEDURAL BACKGROUND

In Order No. 33908, issued in Case No. IPC-E-17-03, the Commission established a method for determining the appropriate level of incremental DSM-related labor to be collected through the Energy Efficiency Rider. "Rather than establishing the cap on the rider-funded labor expense at 2016 levels, we find it reasonable to include actual wage increases up to a 2% cap in the DSM Rider."²

Since that time, and in each subsequent DSM prudence request, the Company has evaluated DSM labor expense on a per full-time equivalent employee ("FTE") basis consistent with the Commission's directive. Idaho Public Utilities Commission Staff ("Staff") interpretation in Case No. IPC-E-20-15 Comments that "in this case, the Company's request for prudence for rider-funded labor expense is the opposite of its request in Case No. IPC-E-18-03,"³ did not represent the methodology Idaho Power used to evaluate DSM labor expense. The Company clarified in Reply Comments that it has "annually escalated the dollars per full-time equivalent employee ("FTE") by two percent, as authorized by the Commission in Order No. 33908, starting with the 2016 baseline dollar per FTE to determine the maximum allowed labor expense in a given year."⁴

In Order No. 34827, the Commission determined "the Company's labor expense calculation also contradicts the application of the 2% cap to wages-per-FTE as argued for by the Company and accepted by the Commission as just and reasonable in Case No. IPC-E-18-03."⁵

² Order No. 33908, p. 6.

³ Staff's Comments, p. 4.

⁴ Idaho Power Reply Comments, p. 3.

⁵ Order No. 34827, p. 9.

III. PETITION FOR RECONSIDERATION AND/OR CLARIFICATION

Idaho Power recognizes and appreciates the Commission's desire to review and limit labor cost increases that are charged to the Energy Efficiency Rider outside of a general rate case when labor costs are more comprehensively reviewed. The Company also appreciates that the Commission has established an acceptable level (two percent cap) of DSM labor cost increases, which provides for a better opportunity to maintain the salaries of the applicable job functions at levels that are competitive with market over time. However, in this case, Idaho Power does not agree the Company's labor expense calculation "contradicts the application of the 2% cap to wages-per-FTE as argued for by the Company," nor did Idaho Power apply the two percent cap to "total wages."⁶ While Idaho Power does not oppose the Commission's overall intent in applying the two percent labor cost cap, it appears the Commission unreasonably relied on a misunderstanding of the Company's DSM labor expense calculation, rendering the findings in Order No. 34827 erroneous and not supported by the record in this case.

A. The DSM Labor Method Cited in Staff's Comments, and Referenced by the Commission in its Order, Does Not Reflect the DSM Labor Evaluation Method as Applied by Idaho Power.

As noted in Idaho Power's Reply Comments, Staff incorrectly suggested the methodology in this case differs from the method the Company applied in Case No. IPC-E-18-03.⁷ Staff acknowledges in Case No. IPC-E-18-03 the Company contended the two percent cap should apply to wage expenses per FTE, and the Commission found that the

⁶ *Id.*

⁷ Idaho Power Reply Comments, p. 2.

Company's expenses were prudent and accepted the Company's methodology for calculating the two percent cap.⁸

In the present case, the Company did not change its methodology for determining if the DSM labor expense increase was under the two percent cap. Idaho Power disagrees with Staff's statement on page 4 of their Comments that "Applying the same labor cap methodology the Company requested in IPC-E-18-03 would require disallowing \$51,165 in labor expense in 2019." In fact, applying the same labor cap methodology the Company requested in IPC-E-18-03 would result in no labor expense being disallowed because the 2018 to 2019 DSM labor expense increase on an FTE basis was below the two percent cap. To clarify, in its request for a prudence determination of 2019 DSM expenditures, Idaho Power followed the same, consistent approach including actual wage increases up to a two percent cap as compared to the baseline 2016 dollars per FTE established under Order No. 33908. Idaho Power has evaluated DSM labor expense on a wages per FTE basis since the approach was first introduced by Staff in Idaho Power's 2011 DSM Prudence Case.⁹

The Company provides Chart 1 to demonstrate that while year-over-year wages per FTE increased by 3.6 percent from 2018 to 2019, the wage expense per FTE remains below the 2016 baseline after applying the approved two percent annual increase on a cumulative basis, with the 2016 to 2019 period experiencing a 1.9 percent compound annual growth rate.

⁸ Staff Comments, p. 4.

⁹ *In the Matter of the Application of Idaho Power Company for a Determination of 2011 Demand-Side Management Expenditures as Prudently Incurred*, Case No. IPC-E-12-15, Staff Comments, p. 8.

Chart 1. Idaho Power DSM \$ wages/FTE evaluation

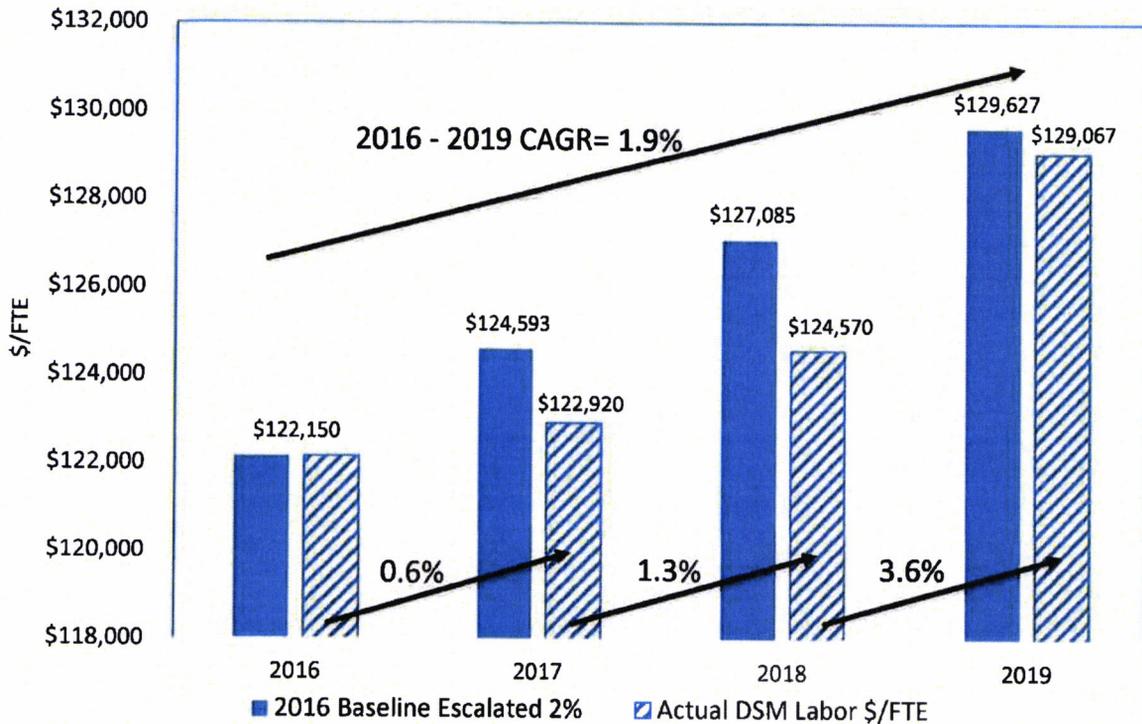


Chart 1 also highlights the additional operational flexibility in managing expenses provided to the Company by evaluating annual wage increases against the 2016 baseline. Instead of managing annual expenses to target the maximum allowed annual increase of two percent, which is a potential outcome of basing change only against the prior year, wage growth in 2017 was 0.6 percent, and in 2018 was 1.3 percent, saving customers money in each of these years. The method applied by the Company has provided operational flexibility without creating perverse incentives. As highlighted in Chart 1, had the Company applied Staff's approach to compare wages per FTE to the prior year only, it may have been incentivized to spend an additional approximately \$110,000¹⁰ in those

¹⁰ 2017 Baseline x FTE – Actual Wages x FTE = (\$124,593 x 26.82) – (\$122,920 x 26.82) = \$44,870; plus 2018 Baseline x FTE – Actual Wages x FTE = (\$127,085 x 26.19) – (\$124,570 x 26.19) = \$65,868

two years to not lose the potential to increase an average of two percent per year. Adopting Staff's methodology would hinder operational flexibility.

Additional operational flexibility is lost under Staff's methodology when considering impacts from changes in the Company's DSM employee experience and seniority composition over time. Idaho Power's DSM efforts have benefited from programs managed by a highly skilled, experienced workforce. For DSM teams comprised of mostly senior, highly-experienced staff, changes in staffing from employees retiring or leaving the Company may lead to new staff being hired at compensation lower in the wage range for the position reflecting the difference in DSM program administration experience. As the new team member gains experience and improves productivity to match prior more-senior staff, resetting the wage expense baseline upon hiring impedes the Company from recognizing the employee's performance through merit increases representative of attaining performance, and the associated pay, at the previous senior level.

This change in team composition is demonstrated in Table 1 below which highlights a scenario where two senior team members retire and are replaced with less senior staff, resulting in the wage baseline to be reset for the entire team under Staff's approach. Even without considering any annual general wage adjustments for the full team, the progress of the two new employees toward the productivity level of the senior staff may result in exceeding the two percent cap when compared against the prior year baseline.

Table 1. Change in Team Composition

		<u>Annual Salary Loaded</u>	<u>No.</u>	<u>Total Team Annual Cost</u>	<u>Labor \$/FTE</u>	
<i>Team Year 1, 5 senior employees</i>	DSM Emp. - mid-point of market ¹	\$129,067	5	<u>\$645,335</u>		
			5	\$645,335	\$129,067	Baseline
<i>Team Year 2, Two non-senior employees replace retirees</i>	DSM Emp. - First quartile of range	\$109,762	2	\$219,524		
	DSM Emp. - mid-point of market ¹	\$129,067	<u>3</u>	<u>\$387,201</u>		
			5	\$606,725	\$121,345	New Baseline
<i>Team Year 3, Non-senior employees move up to middle of range</i>	DSM Emp. - middle of range	\$116,197	2	\$232,394		
	DSM Emp. - mid-point of market ¹	\$129,067	<u>3</u>	<u>\$387,201</u>		
			5	\$619,595	\$123,919	2.12% Exceeds 2% cap

¹ Idaho Power benchmarks mid-point of market for base wages, not fully loaded wages.
DSM employee represents a composite employee based on mix of grades and employee hours charged to Idaho Energy Efficiency Rider in 2019.

Finally, the new method proposed by Staff could promote unintended results. For instance, if the Company were to experience severe business stress in a given year, requiring it to reduce employee wages significantly for a one-time event across the board, and then business conditions improved in a subsequent year, Staff's method would limit the Company's ability to restore wages for the Company's DSM group. In that example, the Company's DSM group employee wages in that subsequent year would be subject to a disallowance and future wage increases would now be capped at a two percent increase from the one-time significantly reduced level on a go forward basis.

A DSM labor rate based on actual wage increases up to a two percent cap as compared to the baseline 2016 dollars per FTE permits Idaho Power to efficiently manage its year-to-year expenses and foster the valuable work provided by its DSM professionals.

B. While a General Rate Case Continues to Be the Appropriate Venue to Reset DSM Labor Expense Base and Cap, Order No. 34827 Should Be Clarified to Establish a New Labor Base If the Commission Intended to Reset the Method in Its Order.

The Commission previously determined the “base and cap will be reset in general rate cases,”¹¹ and later reaffirmed the calculation methodology would be considered in the next general rate case.¹² Idaho Power agrees that a general rate case is the most appropriate time to reset DSM labor expense levels and the cap.

The DSM labor expense approach outlined by Staff does not conform with the Commission’s directive and establishes a new methodology and baseline to measure future DSM labor expense against. Under Staff’s approach, for 2020 Idaho Power would evaluate wages per FTE against a baseline of the 2019 labor expense after accounting for the \$51,165 disallowance. This sets a new baseline ceiling for future years, as each year would now be measured against the lower of 1) the prior year actual DSM labor plus two percent, or 2) the prior year DSM labor deemed prudent plus two percent.

In fact, applying Staff’s approach to set actual 2019 DSM labor after disallowance as the new baseline, and assuming future wage increases are two percent annually for 2020 through 2022 with no change in FTEs would lead to an approximately \$160,000 disallowance from establishing a new baseline alone as demonstrated in Table 2.

¹¹ Order No. 33908, p. 6.

¹² *In the Matter of Idaho Power Company's Application for a Determination of 2017 Demand-Side Management Expenditures as Prudently Incurred*, Case No. IPC-18-03, Order No. 34141, p. 5.

Table 2. Baseline Reset Impact

	<u>2019</u>	<u>2020</u> <u>2% Growth</u>	<u>2021</u> <u>2% Growth</u>	<u>2022</u> <u>2% Growth</u>
2019 Wages \$/FTE	\$ 129,067	\$ 131,648	\$ 134,281	\$ 136,967
2019 Wages \$/FTE after disallowance	\$ 127,062	\$ 129,603	\$ 132,195	\$ 134,839
Wages \$/FTE above new baseline		\$ 2,045	\$ 2,086	\$ 2,128
FTE	25.52	25.52	25.52	25.52
Wages Above New Baseline		\$ 52,189	\$ 53,233	\$ 54,297
2020 - 2022 Disallowance				\$ 159,718

The Company does not believe it was the Commission's intent for Staff's methodology to establish a new labor base, as it had previously expressed that is a determination to be made at the Company's next general rate case. However, if the Commission truly intends the Company "keep[ing] the annual wage increase per FTE at or below the 2% cap,"¹³ the Company requests the Commission clarify and/or affirm this new approach considering its prior statements.

IV. CONCLUSION

The Company appreciates the opportunity to clarify the methodology it has applied in evaluating DSM labor expense since 2017. In this Petition, the Company seeks for clarification and/or reconsideration of the method the Commission intends for the Company to apply when evaluating the level of labor to be recovered through the Rider.

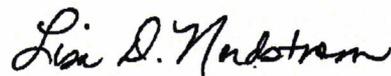
If the Commission intends to establish a new methodology outside of a general rate case, as recommended by Staff (evaluated on the change year-over-year, and not compared to the 2016 baseline), the Company asks the Commission to clarify their order and direct the Company implement the new method.

¹³ Order No. 34827, p. 9.

If, however, the Commission intended for the Company to continue to apply the method it has applied since Commission Order No. 33908 was issued (two percent applied to the 2016 dollars per FTE baseline) in lieu of setting a new baseline outside of a general rate case, the Company requests the Commission issue a decision reconsidering Order No. 34827 and find the \$51,165 was a prudently incurred expense.

Commission Rule of Procedure 331 requires that Idaho Power state the nature and extent of evidence or argument it will present or offer if reconsideration is granted. Should the Commission determine that either of the requested issues for clarification is more appropriate for reconsideration, Idaho Power believes that the evidentiary record could be augmented, if necessary, by written comments or oral argument at the discretion of the Commission.

Respectfully submitted this 20th day of November 2020.



LISA D. NORDSTROM
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 20th day of November 2020, I served a true and correct copy of IDAHO POWER COMPANY'S PETITION FOR CLARIFICATION AND/OR RECONSIDERATION OF ORDER NO. 34827 upon the following named parties by the method indicated below, and addressed to the following:

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