Office of the Secretary
Service Date
October 30, 2020

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR A DETERMINATION OF 2019 DEMAND-SIDE MANAGEMENT EXPENSES AS PRUDENTLY INCURRED	))))))	**CASE NO. IPC-E-20-15** **ORDER NO. 34827**

On March 13, 2020, Idaho Power Company ("Company") applied to the Commission for an order finding that the Company's demand-side management ("DSM") expenses for 2019 were prudently incurred. The Company requested the Commission find the Company prudently incurred $45,079,479 in deferred costs for 2019 DSM programs, which included $38,083,244 in Idaho Energy Efficiency Rider expenses, and $6,996,236 in demand response ("DR") program incentives. The Application summarized the Company's 2019 DSM program performance, expenses, adjustments, cost effectiveness, evaluations of the program, and input from stakeholders. The Company requested its Application be processed via Modified Procedure.

On April 6, 2020, the Commission issued a Notice of Application and Notice of Intervention Deadline. Idaho Conservation League, Idaho Irrigation Pumpers Association, Inc., Industrial Customers of Idaho Power, and City of Boise City ("Boise City" or "City") petitioned to intervene.

On May 6, 2020, the Commission issued a Notice of Modified Procedure setting an August 13, 2020 public comment deadline and an August 27, 2020 Company reply deadline. Order No. 34660. A technological glitch caused a delay in discovery. In order to allow the parties adequate time to review the delayed discovery and compile comments, the Commission amended the original comment deadlines. On August 3, 2020, the Commission issued Order No. 34739 extending the comment deadline to August 27, 2020 and the reply deadline to September 10, 2020.

Comments were received from Commission Staff and Boise City. The Company filed reply comments.

Having reviewed the record, the Commission now issues this final Order.

BACKGROUND

"DSM" generally refers to utility activities and programs that encourage customers (i.e., on the "demand-side" as opposed to the "generation side") to use less overall energy or use less energy during peak usage hours. The Commission has "consistently stated that cost-effective DSM programs are in the public interest and has admonished electric utilities operating in the State of Idaho to develop and implement DSM programs in order to promote energy efficiency." Application at 2 (quoting Order No. 32113 at 8). To further the Commission's stated objectives, the Company asserted it "implements and manages a wide range of opportunities for its customers to participate in DSM activities, to be informed about energy use, and to use electricity wisely." *Id.* The Commission will allow the utility an opportunity to recover its DSM expenses through rates if the Commission finds the Company prudently incurred those expenses. However, if the Commission finds the Company did not prudently incur DSM expenses, then it will not allow the Company to recover them through rates and the disallowed expenses will be borne by the utility's shareholders and not by customers. *See* Order No. 29103.

THE APPLICATION

The Company stated its 2019 DSM efforts included Northwest Energy Efficiency Alliance ("NEEA") market transformation activities, energy efficiency programs, DR programs, and educational initiatives. Application at 2-4. The Company stated it achieved 203,041 megawatt hours ("MWh") of incremental annual energy efficiency savings on a system-wide basis in 2019. *Id.* at 4. The Company noted its energy efficiency programs saved 184,933 MWh[1], including 40,380 MWh from the residential sector, 134,435 MWh from the commercial/industrial sector, and 10,118 MWh from the irrigation sector. *Id.* Additionally, the Company achieved 18,108 MWh of energy efficiency market transformation savings through NEEA initiatives. *Id.*

The Company funds its energy efficiency programs through the Idaho Energy Efficiency Rider included on customer bills at 2.75% of base rate revenues. *Id*. at 5. DR incentives are tracked through the annual Power Cost Adjustment. *Id.* With this Application, the Company asked the Commission to find that the Company prudently incurred $45,079,479 in system-wide expenditures related to its DSM programs in 2019. *Id.* The Company stated these expenses include $38,083,244 in Idaho Energy Efficiency Rider expenses and $6,996,236 in DR program incentive payments. *Id.* In 2019, the Company corrected its books to credit the Idaho Energy Efficiency Rider account for $13,264 in costs from the Oregon Multifamily Energy Savings Program that the Company had inadvertently charged to Idaho. *Id.* at 5-6.

[1] The savings from Idaho Power's energy efficiency programs in 2019, excluding the NEEA savings, represented a 17% increase over 2018 savings.

The Company's Application describes the Company's evaluation of its DSM programs and whether they were cost effective in 2019. *Id.* at 6. The DSM Report discusses the cost effectiveness of the Company's DSM programs and energy efficiency programs. *Id.* In support of its Application, the Company submitted the prefiled testimony and exhibits of Pawel Goralski, its annual DSM Report, and the results of its cost-effectiveness analysis. *Id. 3, 6.*

The Company explained it uses three tests to determine whether its energy efficiency programs were cost effective: (1) the total resource cost test ("TRC"); (2) the utility cost test ("UCT"); and (3) the participant cost test ("PCT").[2] *Id.* at 6. The Company reports that its overall energy efficiency portfolio was cost effective in 2019, passing the TRC, UCT, and PCT, with ratios of 2.72, 2.12, and 2.79, respectively. *Id.* Of the Company's 16 Idaho energy efficiency programs, 11 programs passed the TRC and UCT. Goralski Direct Testimony at 17, Table 3. Further, all energy efficiency programs with customer costs passed the PCT. Goralski Direct Testimony Exhibit No. 2. Five programs were not cost effective under either the TRC or UCT, or both. The Company intends to continue to work towards greater cost effectiveness for the Weatherization Assistance for Qualified Customers program, Weatherization Solutions for Eligible Customers Program, Energy House Calls, Residential New Construction Pilot Program, and the Heating and Cooling Efficiency Program, because they offer benefits that are difficult to quantify. Goralski Direct Testimony at 20-25; Application at 7-8.

As directed in Order No. 34469, the Company will begin using the UCT as the primary test for evaluating energy efficiency cost effectiveness in the 2021 Integrated Resource Plan ("IRP"). *Id.* at 6. These changes will occur during the 2020 program year to synchronize with the Company's annual planning cycle. *Id.*

The Company did not calculate a benefit/cost ratio when assessing whether its DR programs were cost effective. *Id*. Rather, the Company determined those programs' cost effectiveness based on the $16.7 million DR portfolio value specified in Commission Order No. 32923. The system-wide operating cost for the Company's three DR programs was $8.3 million,

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[2] The three tests examine a program's cost-effectiveness from different perspectives. In summary, the TRC compares program administrator costs and customer costs to utility resource savings. It demonstrates the full incremental cost of the measure to both participants and the utility in the service territory. The UCT compares program administrator costs to supply-side resource costs, assessing costs and benefits to the utility and its ratepayers. The PCT compares the costs and benefits of the customer installing the measure and assesses whether program participants will benefit over the measure's life. The Company cannot use the PCT for programs with no customer costs.

of which $7.8 million can be attributed to the Idaho-only jurisdiction. *Id*. The Company estimates the three DR programs would have cost about $11.5 million on a system-wide basis had the programs been dispatched for the full 60 hours permitted by Order No. 32923. The costs are less than the $19.8 million value of the demand as calculated in the 2017 IRP. *Id.*

The Company stated independent, third-party consultants provide impact and process evaluations to verify that program specifications were met, recommend improvements, and validate program-related energy savings. *Id.* at 9. In 2019, third-party consultants provided two combined program impact and process evaluations, two program option impact evaluations, two program summary analyses, a savings estimate analysis, and a demand reduction analysis. *Id*.

The Company proposed to eliminate the Flex Peak reporting requirements required by Order No. 33292. *Id.* at 10. The Company stated that the reporting requirement could be streamlined if eliminated because the Company already provides the required information for the Flex Peak Program in Supplement 2 in its DSM Annual Report. *Id.*

THE COMMENTS

Commission Staff and Boise City filed timely comments to which the Company replied. These comments are summarized below.

A. Staff Comments

Following its review of the Company's Application, prefiled testimony, the 2019 DSM Annual Report, and the Company's Production Responses, Staff recommended the Commission find the Company prudently incurred $45,028,314 in 2019 DSM related expenses. This amount consists of $38,032,079 in Idaho Energy Efficiency Rider expense (this includes an adjustment made by Staff)[3] and $6,996,236 in DR incentives (as proposed by the Company). Staff's general recommendation to approve the 2019 DSM expenses included concerns regarding the value of the Company's DR programs it argued needed to be reevaluated.

Staff's analysis included (1) Financial Review; (2) DSM Labor Expense; (3) Energy Efficiency; (4) Other Energy Efficiency Programs; (5) Demand Response; and (6) Flex Peak Reporting Requirement.

1. Financial Review

Staff noted the Company's DSM expenses were well documented and included controls the Company could adjust as needed to regulate proper payment of incentives. Staff noted two

[3] Staff's expense calculation and recommendation included adjustment of $51,165 for DSM total labor expense.

adjustments (1) in 2018 the Company incorrectly charged Idaho's tariff rider $13,264 for the Oregon Multifamily Energy Savings Program. The Company and Staff acknowledged this accounting error in Case No. IPC-E-19-11 and the correcting entry occurred in 2019 to accurately reflect the Company's 2019 DSM expenses; and (2) an internal audit revealed $122 overpayment that occurred in 2018. The Company corrected the tariff rider balance by adjusting the tariff rider in 2020 and it will be reflected in the 2020 prudency case according to Staff.

2. DSM Labor Expense

In Order No. 33908, the Commission approved a 2% cap on labor expense increases in the DSM rider. The following year in Case No. IPC-E-18-03, Staff discovered the Company incurred a 6.44% increase in total labor expense. The Company contended that the 2% cap should apply to the average wage expense per full-time-employee ("FTE") equivalent. The Commission agreed and accepted the Company's method for calculating the 2% cap.

Staff noted the Company's prudency request for rider-funded labor expense here contradicts the Company's method approved and request made in Case No. IPC-E-18-03. *See* Order No. 34141.The Company's total labor expense for 2019 was 1% more than its 2018 total labor expense. But because FTEs slightly decreased, the Company's labor expense per FTE actually rose by 3.6%.[4] According to Staff, the 2018 labor cap method from Case No. IPC-E-18-03 would require that $51,165 in 2019 total labor expense be disallowed here. Staff thus recommended removing $51,165 in 2019 labor expenses from the DSM rider account.

3. Energy Efficiency

Staff reviewed the Company's energy efficiency programs and confirmed the Company exceeded the 2019 energy efficiency resource acquisition target. Staff stated the Company's total energy profile had a UCT of 2.72 and a TRC of 2.12. Staff commented that 95% of the Company's energy efficiency measures had a UCT above 1.0.

Staff highlighted the Company's Custom Projects measure in the Commercial and Industrial Energy Efficiency program increased its energy efficiency savings by 50% over 2018 and contributed 38% of the total kWh savings. Over 90% of the Company's large-power service customers have participated in the program. DSM Annual Report at 114.

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[4] In its Response to Production Request No. 5, the Company indicates that it applies the 2% cap as a perpetual annual 2% increase in the labor expense per FTE, using the 2016 level as a baseline. According to Staff, it is not clear, based on Order No. 33908, that this is the proper application of the 2% cap.

Staff mentioned the Company's Irrigation Efficiency Rewards program dropped by 47% from 2018. This was largely due to a decrease in deemed savings from the Regional Technical Forum ("RTF")—although the program still passed the UCT with a ratio of 2.44. Since the RTF, the Company has worked to ensure the deemed savings are accurate.

Staff noted 14 of the Company's programs (about 5% of the Company's total DSM programs) had UCT ratios below 1.0:

- Energy House Calls (10 programs)
- Smart Thermostats (1 program)
- Irrigation Efficiency Rewards Sprinkler Replacement (1 program)
- Outdoor LED Lighting (2 programs)

Staff believed the Energy House Calls programs were critical and should be considered going forward. Staff noted this year was atypical for Energy House Calls because Energy House Calls had process and impact evaluations in 2019, which raised the programs' expenses by 13%. Staff suggested the Energy House Call programs would have passed the UCT without the added evaluation expenses.

4. Other Energy Efficiency Programs

Staff analyzed the Company's Residential New Construction Pilot program, Energy Independence and Security Act ("EISA"), and the Small Business Direct Install ("SBDI").

Staff noted the Residential New Construction Pilot program launched in 2019, replacing the ENERGY STAR Homes Northwest program, and that the new program had 5% more participants in 2019 than the old program had in 2018. Staff added that the Company adjusted its incentive levels in early 2020, replacing a single incentive with a tiered incentive structure.

Staff worried about the potential effects of Phase II of EISA, if implemented. According to Staff, lighting comprised 67% of total residential savings in 2019. Staff mentioned that if EISA Phase II is implemented, then savings from general-use bulbs could decrease between 75-90% from current levels. Staff supported the Company's decision to use pre-EISA savings until lightbulb requirements change. Staff also encouraged the Company to prepare for its claimed energy savings from lighting to decrease if the new EISA standards become effective.

Staff also mentioned the Company launched the SBDI in November 2019 but suspended it in March 2020 due to the Covid-19 health emergency. Staff noted the suspension occurred before the Company could expand the SBDI program to larger markets, and Staff understood the program may not yield actionable data until 2021.

5. Demand Response

Staff verified the Company implemented the minimum required DR events for the calendar year, properly accounted for all costs, and incurred reasonable expenses based on past assumptions for calculating costs and benefits. Staff identified two concerns with how the Company calculates the DR programs' cost effectiveness. First, Staff questioned whether the Company overstated Value of Demand ("VOD"). Second, Staff questioned whether the Company could meet coincident peak if the Company were capacity deficient.

i. Overstatement of VOD

Staff believed the VOD benchmark amount under the current method for calculating the avoided cost of capacity and the avoided cost of energy may be overstated. Staff explained the VOD equation's fixed-value assumptions[5] improperly account for the avoided cost of capacity because they: (1) rely on outdated assumptions about the value of a single cycle combustion turbine ("SCCT") operating in the Company's system; and (2) overstate the avoided cost of energy compared to actual program performance.

Staff noted the Company relied on outdated assumptions about an SCCT's value in the Company's system. Specifically, the avoided cost of energy in the VOD used fixed-value assumptions that do not match actual operation. This includes fixed values for providing 390 MW of peak-system demand reduction for the full 60 hours permitted for the DR program season. Staff noted, however, these values were fixed in 2013.[6] Staff said the Company should regularly update the values to reflect how the Company operates the DR program within the Company's system. Staff noted that, since 2014, the DR program has provided less demand reduction in the amount of energy based on the 390 MWs of peak-system reduction, for fewer program hours, than authorized. Staff recommended the Company calculate the avoided cost of energy to reflect the limited use of the programs until the Company requires their full utilization.

ii. Inability to meet coincident peak when capacity deficient

Staff was concerned the Company's DR program would not consistently provide 390 MW of peak-system demand reduction if the Company became capacity deficient and had to fully dispatch the program.

[5] P. 8 of Staff's comments includes a diagram of the VOD calculation.
[6] *See* Order No. 32923.

6. Flex Peak Reporting Requirement

Staff did not oppose the Company's request to eliminate the Company's end-of-season Flex Peak Program reporting requirement. Staff stated the Company reports on Flex Peak and other DR programs in its DSM Annual Report, typically filed with the Commission in March, along with its DSM prudency application.

B. Boise City Comments

Boise City filed comments supporting the Company's DSM programs and efforts to ensure the programs reach areas and people where they will have the greatest impacts. The City requested the Commission support adequate funding for the Idaho Energy Efficiency Rider and opportunities to expand existing, and develop new, energy efficiency and DSM programs. Boise City stated its interest in the Company's energy efficiency programs partially arises because DSM aligns with Boise's goal of using 100% clean energy community-wide by 2035.

Boise City supported the Company's potential efforts to adjust the cost recovery amount to adequately fund the Idaho Energy Efficiency Rider. The City reasoned this would enable the Company to implement existing DSM programs and possibly deliver new programs.

Even though the Weatherization Assistance for Qualified Customers and Weatherization Solutions programs did not achieve UCT or TRC ratios greater than 1.0, the City supported continuing the existing programs and developing more programs to create opportunities for customers to conserve energy.

Boise City encouraged the Company to identify opportunities to expand existing and develop new energy efficiency and DSM programs that emphasize whole home and building efficiency where more than one energy source is utilized. The City stated this is an opportunity to coordinate and deliver energy efficiency and DSM programs with other utilities. The City also supported pilot programs that target customer behavior changes.

C. Company Reply Comments

The Company replied to Staff's recommendation to decrease the 2019 DSM labor prudency request by $51,165, and Staff's concerns with the Company's DR programs.

The Company disagreed with Staff's recommendation to decrease labor expense. The Company stated it determined the maximum allowable 2019 DSM labor expense consistent with the Commission's decision in Order No. 33908; Case No. IPC-E-17-03. The Company clarified it quantified maximum allowed labor expenses by escalating the dollars per FTE by 2% starting with

2016 baseline dollars per FTE. The Company stated this method conformed with Order No. 34141 where the Commission found the Company's 2% annual labor expense calculation was prudent, and explained it would be reasonable to look at the Company's methods of calculating the 2% rate cap in the next general rate case. The Company said it could modify its method for calculating the cap going forward if Staff's interpretation followed the Commission's intent.

The Company also indicated it did not oppose working with Staff to better understand Staff's concerns and recommendations for potential adjustments to the Company's DR programs.

COMMISSION DISCUSSION AND FINDINGS

The Company is an electrical corporation as defined by *Idaho Code* § 61-119 and a public utility subject to the Commission's jurisdiction under *Idaho Code* § 61-129. Based on our review of the record, the Commission finds that the Company prudently incurred $45,028,314 in deferred costs for its DSM programs—including $38,032,079 in Idaho Energy Efficiency Tariff Rider expenses and $6,996,236 in DR program incentives.

The Commission notes the Company's DSM labor expenses in 2019 exceeded the 2% cap on actual wage increases. The Commission thus finds it reasonable to disallow the amount above the cap—$51,165—of the Company's 2019 DSM total labor expenses. We disallow this amount to be consistent with our decisions in Case Nos. IPC-E-17-03 and IPC-E-18-03.

In Case No. IPC-E-17-03, the Commission stated "[r]ather than establishing a cap on the rider-funded labor expense at 2016 levels, [it is] reasonable to include actual wage increases up to a 2% cap in the DSM rider." *See* Order No. 33908. In Case No. IPC-E-18-03, the Commission expanded upon the permissible DSM actual labor increase, stating "the Company argued the 2% cap should apply to *wages per FTE*" (emphasis added). The Commission then approved the Company's labor expenses based on the wages-per-FTE calculation. Order No. 34141. In both cases, the Commission noted that it would consider the method for calculating the 2% cap in the next general rate case.

Here, the Company's 2019 DSM labor expense calculation violates the 2% cap approved in Order No. 33908. 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. *See* Order No. 34141. The Company's total wage expense per FTE in 2019 increased by 3.61%. The Commission agrees with Staff that the 2% cap should be applied to wages-per-FTE, not total wages.

Until the Company's next general rate case, when the Commission can consider the method for calculating total DSM labor expenses, the Company should continue to calculate its total DSM labor expenses under the previously accepted wages-per-FTE, keeping the annual wage increase per FTE at or below the 2% cap.

Finally, the Commission finds it reasonable to eliminate the requirement that the Company file an annual Flex Peak Program report. The data contained in this report is provided to the Commission through other filings made by the Company.

The Commission appreciates the Company's and the Energy Efficiency Advisory Group's ("EEAG") efforts to identify, select, and offer DSM programs that offer value to customers and increase the DSM savings available to the Company. The benefits of DSM depend on constantly evaluating opportunities and identifying ways to improve available programs. We encourage the Company and EEAG to continue working together to offer the most cost-effective programs to the Company's customers.

ORDER

IT IS HEREBY ORDERED that the Company's total 2019 DSM expenditures of $45,028,314, consisting of $38,032,079 in Idaho Energy Efficiency Tariff Rider expenses and $6,996,236 in DR program incentives, are approved.

IT IS FURTHER ORDERED that the Company stop filing its annual Flex Peak Program report.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order regarding any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

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DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 30th day of October 2020.

PAUL KJELLANDER, PRESIDENT

KRISTINE RAPER, COMMISSIONER

ERIC ANDERSON, COMMISSIONER

ATTEST:

Jan Noriyuki
Commission Secretary

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