# BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| **IN THE MATTER OF AVISTA'S APPLICATIONS FOR DETERMINATION OF ITS 2020-2021 ELECTRIC AND NATURAL GAS ENERGY EFFICIENCY EXPENSES AS PRUDENTLY INCURRED** | ) | **CASE NOS. AVU-E-22-13 AVU-G-22-05** <br><br> **ORDER NO. 35687** |

On August 1, 2022, Avista Corporation dba Avista Utilities ("Company") filed two Applications, each requesting the Commission issue an order finding that the Company's electric or natural gas energy efficiency expenditures from January 1, 2020 through December 31, 2021 were prudently incurred (referred to collectively as the "Applications"). The Applications summarize the Company's energy efficiency activities and their cost-effectiveness. The Applications include the Company's 2020 and 2021 Annual Conservation Reports and Idaho Incentive Modification Methodology document. The Applications also include the 2020/2021 impact evaluation reports of the Company's electric and natural gas energy efficiency programs. The Company requests its Applications be processed by Modified Procedure.

On September 8, 2022 the Commission issued a Notice of Applications and Notice of Intervention Deadline establishing a 21-day intervention deadline for interested parties. Order No. 35523. No one intervened.

On November 4, 2022, the Commission issued a Notice of Modified Procedure, establishing public comment and Company reply deadlines. Order No. 35587. Staff filed comments to which the Company replied. No other comments were received.

Having reviewed the record in this case we now issue this Order approving certain energy efficiency expenses as described in detail, below.

## THE APPLICATIONS

The Company requests a prudency determination for $13,236,234 incurred in 2020/2021 for its electric energy efficiency programs portfolio ("Electric Programs")—$7,730,146, or 58%, of total expenditures were paid directly to customers.

The Company's 2020/2021 third-party process and impact evaluations concluded the Company's Idaho Electric Programs cost-effectively saved 30,221 megawatt hours ("MWhs").[1]

[1] This is exclusive of the 6,994 MWhs of Northwest Energy Efficiency Alliance savings.

The Company's Electric Programs had an underfunded balance of about $4.4 million on January 1, 2020.[2] On June 30, 2022, the Company's Electric Program had an overfunded balance of about $4.9 million.

The Company measures the cost effectiveness of its Electric Programs using the Utility Cost Test ("UCT"), Total Resource Cost ("TRC") test, Participant Cost Test, and Ratepayer Impact Test. The 2020 UCT and TRC ratios for the Company's Electric Programs were 2.23 and 2.02, respectively. The 2021 UCT and TRC ratios for the Company's Electric Programs were 1.24 and 1.11, respectively.

The Company exceeded its energy efficiency targets set in its Integrated Resource Plan ("IRP") for 2020, but not in 2021. In 2020, the Company achieved 16,711 MWhs of electric savings, 109% of the IRP target of 15,387 MWhs. In 2021, the Company achieved 13,510 MWhs of electric savings, 93% of the IRP target of 14,504 MWhs.

The Company requests a prudency determination for $4,928,907 incurred in 2020/2021 for its natural gas energy efficiency programs portfolio ("Gas Programs")—$3,795,232, or 77%, of total expenditures were paid directly to customers.

The Company's 2020/2021 third-party process and impact evaluations concluded the Company's Gas Programs cost-effectively saved 652,548 therms.

The Gas Programs had an overfunded balance of $78,073 on January 1, 2020. By December 31, 2021, the Company had an underfunded balance of $2,067,047. This was primarily due to increased customer participation.

The 2020 UCT and TRC ratios for the Company's Gas Programs were 1.26 and 0.68, respectively. The 2021 UCT and TRC ratios for the Company's Gas Programs were 1.24 and 0.60, respectively.

In 2020, the Company saved 352,548 therms of gas, 84% of the IRP target of 421,270 therms. In 2021, the Company saved 300,000 therms of gas, 84% of the IRP target of 358,160 therms.

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[2] The underfunding was addressed in Order No. 33897 which authorized increasing Schedule 91 rates, effective October 1, 2017.

## THE COMMENTS

### Staff Comments

After reviewing the Applications, Annual Conservation Reports, EM&V, and responses to production request, Staff recommended approval of $13,206,688 in Electric Program expenditures and $4,919,548 for Gas Program expenditures as prudently incurred expenses for 2020/2021.

1. *Financial Review*

After its review of the Company's financial records, Staff determined the Company had correctly documented its expenses and instituted appropriate controls to ensure no improper incentive payments were made. The Company also corrected mistakes before its Demand Side Management ("DSM") reports were filed according to Staff. Staff believed that most of the Company's DSM expenses were prudently incurred. Staff did find two mileage reimbursements that were allocated incorrectly between Idaho and Washington. Staff removed the expense that should not have been allocated to Idaho. Staff also recommended the Commission disallow recovery for certain third-party cost-effectiveness evaluations prepared in 2020 for both the Electric Programs and Gas Programs due to both evaluations' lack of usefulness and lack of Company oversight.

Staff discussed the Company's overfunded electric rider balance of $4.9 million and the efforts to reduce the balance to $0. In Order No. 35545, the Commission authorized the Company to decrease the Schedule 91 rate by 1.4%, effective October 1, 2022. This adjustment, according to Staff, should reduce the balance to $0 by fall 2025.

Staff also discussed the Company's underfunded natural gas rider balance. At the end of the reporting year, the natural gas rider was underfunded by about $2.1 million. In Order No. 35575, the Commission authorized the Company to increase its Schedule 191 rate by 3.0%, effective November 1, 2022. This adjustment, according to Staff, should bring the tariff balance to $0 by fall 2025.

2. *Energy Efficiency Portfolio*

Staff reported the Company's Electric and Gas Program portfolio savings and UCT ratios for 2020 and 2021. The results are depicted in Tables 1 and 2, below:

Table 1(Total Electric Program Savings)

| Year | UCT Ratio | Actual Savings (MWhs) | Target Savings (MWhs) | % of IRP Target |
|---|---|---|---|---|
| 2020 | 2.09 | 16,711 | 15,387 | 109% |
| 2021 | 1.24 | 13,510 | 14,504 | 93% |

Staff discussed the decrease in Electric Program savings, which dropped 34% from 2019 to 2020 primarily due to the sunsetting of the Simple Steps, Smart Savings ("S^4") Program in fall 2020. The Electric Program savings decreased another 19% in 2021 when compared to 2020. This was not unexpected as Staff discussed the sunsetting S^4 Program and its potential impact on energy efficiency savings in Case No. AVU-E-20-13. Order No. 35129 at 3-4.

The end of the S^4 Program primarily impacted the residential electric sector which continued to be cost-effective with a UCT Ratio of 1.47 and 5,283 MWhs of Savings in 2020. S^4 accounted for 56% of the reported 2020 savings. Residential electric savings continued to decline in 2021—the first full year without S^4 savings. In 2021, the residential sector reported 1,431 MWhs of savings, a 73% decline from 2020, but remained cost effective with a UCT of 1.52.

For the non-residential electric sector in 2020, the Company reported a 2.01 UCT ratio and 11,213 MWhs of savings. Compared to 2019, the non-residential electric savings decreased 33% in 2020. In 2021, the non-residential electric sector was again cost-effective with a 1.34 UCT ratio and 11,943 MWhs of savings.

Table 2 (Total Gas Program Savings)

| Year | UCT Ratio | Actual Savings (Therms) | Target Savings (Therms) | % of IRP Target |
|---|---|---|---|---|
| 2020 | 1.64 | 352,548 | 421,270 | 84% |
| 2021 | 1.24 | 300,000 | 358,160 | 84% |

Compared to 2019, the Natural Gas Program savings increased 62% in 2020 before decreasing 14% in 2021 when compared to 2020. Staff cited Covid-19 limitations as reasons for the swings in participation and the savings associated with the Company's Gas Programs.

The Company's residential Gas Program was cost-effective with a 2.46 UCT ratio in 2020. In 2020, the Company reported 317,550 therms saved in the residential sector, a 176% increase from 2019. In 2021, the residential gas program was again cost-effective with a UCT of 1.47 and a savings of 276,057 therms. In both years, the HVAC program had high participation.

The Company reported that in 2020 its non-residential Commercial and Industrial gas program was cost effective with a UCT ratio of 1.01, but in 2021 it was no longer cost-effective with a UCT ratio of 0.64. Staff noted that this program is sensitive to participation.

*2.1 Low Income Weatherization*

Staff reported the Low-Income Weatherization Program ("Low-Income Program") was not cost-effective from either TRC or UCT perspectives with UCT ratios of 0.5 and 0.1 for the electric and natural gas sectors, respectively. The Low-Income Program funded 146 electric and 149 gas projects in 2020, which resulted in about 215 MWhs of electric savings and 5,495 therms of gas savings. The realization rates for both low-income programs in 2020 was 100%. In 2021, the Low-Income Program was not cost-effective, with TRC and UCT ratios of 0.29 and 0.35 for the electric and natural gas sectors, respectively. In 2021 the Low-Income Program funded 158 electric projects and 133 gas projects resulting in 154 MWhs of electric savings and 3,217 therms of gas savings. The realization rate was 140%.

*3. Cost-Effectiveness Analysis*

The Company filed two cost-effectiveness analyses for 2020 with its Applications—internal and third-party. Staff noted that in Order No. 35129 from the Company's most recent prudency filings (2018/2019) Staff recommended the Company conduct an internal cost-effectiveness analysis instead of using third party, but before the Commission's order was issued, the Company had already contracted with Cadmus for the 2020 evaluations.

Staff thought the Company's internal cost-effectiveness workpapers demonstrated improvement in quality over the third-party workpapers, but mentioned neither was without error. Staff recommended that the Company work to develop its "quality control, internal knowledge, and review processes to avoid the possibility of Staff recommending future adjustments on cost-effectiveness analysis labor hours" going forward. Staff Comments at 9. Staff also registered its concern with the Company's internal analysis using hard-coded, lump-sum inputs, which prevented Staff from verifying accuracy.

Staff believed the Company lacked adequate "oversight and quality control to its third-party contractors." *Id.* at 10. Specifically, Staff observed "a lack of oversight on the cost-effectiveness calculations conducted by the third-party contractors." *Id*. Staff discussed the scope of the third-party evaluator's analysis and the errors it uncovered in the avoided cost calculations leading to unreliable results. Staff opined that the Company should have corrected those errors.

Staff discussed the history of the Company's lack of oversight of third-party contractors and continued to believe that cost-effectiveness evaluations should be done in-house but impact and process evaluations should continue to be conducted by third-party contractors, with Company oversight. Because of the lack of oversight, Staff argued the expenses for the third-party cost-effectiveness evaluation—$29,524 for the Electric Program and $9,359 for the Gas Program—should be removed from recovery.

4. *Rebates and Incentives*

Staff reported that in response to the Commission's directive in Order No. 35129 for the Company to work with interested parties to develop a process to evaluate and update rebates and incentives objectively the Company provided an update. Staff noted the Company's filing included a document that includes "its incentive standards, factors that influence incentive revisions, sources used to determine savings, and the process for evaluating rebates." *Id*. at 12. Staff thought these criteria met the Commission's directive in Order No. 35129.

5. *NEEA*

Staff provided an update to the Commission's directive for the Company to conduct an independent EM&V to verify NEEA claimed savings and the cost-effectiveness of the NEEA program. According to Staff, the Company in collaboration with Idaho Power, "has selected a vendor, developed the scope of work, and is currently evaluating the workplan." *Id*. The Company expects results in the first quarter of 2023. Staff noted that it continued to find evidence of claimed savings from out of state code changes.

6. *Research and Development*

Staff reported that the Company has not proposed an update to its R&D program to include measurable targets and metrics for benefits to its Idaho customers as directed in Order No. 35129. Staff noted the Company has continued to seek research projects that align with the Commission's directive, but currently no research projects have been selected. Staff specifically mentioned the two electric transportation programs the Company proposed to fund with Schedule 91 R&D funding in 2022, but the Commission rejected.

7. *Staff recommendation*

Staff recommended that the Commission approve $13,206,688 in Electric Program expenditures and $4,919,548 in Gas Program expenditures as prudently incurred expenses between January 1, 2020, through December 31, 2021. Staff noted this recommendation reduces "the

Company's request by making adjustments to its third-party cost-effectiveness analysis expenditure and other misallocated expenses." *Id*. Staff reiterated its call for the Company to actively manage its third-party contracts "to ensure that the results are accurate, relevant, and useful to avoid the potential of future disallowances." *Id*. at 13.

**Company Reply**

The Company acknowledged Staff's comments noting that it appreciated Staff's review and offering the comments were reasonable and will help strengthen the Company's energy efficiency program. Notably, the Company appreciated Staff's recognition of its in-house cost-effectiveness model. However, the Company disagreed with Staff's recommendation to remove the third-party cost-effectiveness evaluation expenses. The Company owned the errors but argued the evaluation still provided "useful feedback regarding the assessment of its [EE Program] design, in addition to providing key insights used in making the [EE Program] adjustments" meaning it was used and useful. Company Reply Comments at 1-2. The Company thought that disallowance due to a single error, which it argued did not affect the result, was unfitting. The Company noted that the error was an overestimation of $176,477 out of $3.6 million of reviewed costs.

## COMMISSION FINDINGS AND DECISION

The Company is both an electrical and gas corporation, and the Commission has jurisdiction over it and the issues in this case under Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000, *et seq*.

Based on our review of the record, including Staff's comments and the Company's reply, the Commission finds that in 2020/2021 the Company prudently incurred energy efficiency expenses of $13,206,688 for its Electric Programs and $4,919,548 for its Natural Gas Programs. We appreciate Staff's thorough audit of the Company's energy efficiency expenses and its recommendation that protects customers from paying for any expenditures that were improperly allocated or unreliable. We agree with Staff that the third-party cost-effectiveness analysis continued to reflect the same lack of oversight that Staff and this Commission have described in past energy efficiency prudency determination cases. We are not reducing the Company's recovery because it contracted with Cadmus for the third-party cost-effectiveness analysis before Order No. 35129 was issued (which directed the Company to conduct its cost-effectiveness analysis in-house), but because the Company lacked sufficient oversight of the analysis which contained significant errors tainting its usefulness. This Commission does not believe customers should shoulder the cost of an analysis that provides incomplete insight into the cost-effectiveness of the Company's energy efficiency programs and hereby reduces the Company's recovery by $29,524 for the Electric Program and $9,359 for the Gas Program in addition to Staff's minor, uncontested travel-related adjustments.

We are pleased with the Company's updates to our directives in Order No. 35129. Specifically, we support the Company and Idaho Power collaborating on an EM&V to review NEEA claimed savings and cost-effectiveness. Understanding the actual value of NEEA continues to be important to this Commission's support of the Company's energy efficiency programs. We look forward to reviewing the forthcoming results of this review.

Additionally, we are pleased to learn the Company is working to develop criteria for its R&D program that contains measurable targets and metrics for benefits to its Idaho customers. We firmly believe that if Idaho customers are funding a portion of the Company's R&D program then the benefits of those projects should benefit Idaho customers.

Overall, we are pleased to learn the Company's energy efficiency programs are cost-effective from a UCT perspective. We realize there was a significant, but not unexpected, decline in overall savings for the Electric Program after the S^4 program sunset but are confident that the Company and its advisory group can find ways to continue offering cost-effective energy efficiency programs to both gas and electric customers. We look forward to reviewing the results from the Company's 2022/2023 energy efficiency programs.

## ORDER

IT IS HEREBY ORDERED that the Company's 2020/2021 energy efficiency expenditures are approved as prudently incurred in the amounts of $13,206,688 for its Electric Programs and $4,919,548 for its Natural Gas Programs—as described above.

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 24th day of February 2023.

ERIC ANDERSON, PRESIDENT

JOHN R HAMMOND JR., COMMISSIONER

EDWARD LODGE, COMMISSIONER

ATTEST:

Jan Noriyuki
Commission Secretary

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