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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** **COMMENTS OF THE COMMISSION STAFF**

STAFF OF the Idaho Public Utilities Commission, by and through its Attorney of record, Dayn Hardie, Deputy Attorney General, submits the following comments.

BACKGROUND

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 requests the Commission find the Company prudently incurred $45,079,479 in deferred costs for 19 DSM programs, which included $38,083,244 in Idaho Energy Efficiency Rider expenses and $6,996,236 in Demand Response program incentives. The Application summarizes the Company's 2019 DSM program performance, expenses, adjustments, cost-effectiveness, evaluations of the program, and input from stakeholders.

"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 will allow the Company 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 rather than its customers.

The Company also requests authorization to eliminate the reporting requirement for the annual Flex Peak Program. 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 setting a twenty-one (21) day intervention deadline. Boise City, Idaho Conservation League, Industrial Customers of Idaho Power, and Idaho Irrigation Pumpers Association all timely petitioned to intervene in this matter.

STAFF ANALYSIS

Staff believes the Company's programs are generally well-managed and recommends that the Commission approve $45,028,314 in 2019 expenses as prudently incurred. Staff reviewed the Company's Application and testimony of Pawel Goralski, along with the 2019 DSM Annual Report and additional information provided by the Company. Staff recommends the Commission make one adjustment to the Company's request, decreasing its prudency request by $51,165 due to the Company exceeding the cap on labor expense increases.

In light of Staff's general recommendation to approve the 2019 DSM expenses, Staff does have concerns with the value of the Company's demand response ("DR") programs which warrants a reevaluation of the programs. Staff recommends that the Company work with Staff to address these concerns. Details of Staff's concerns are fully described in the "Demand Response" section below.

Finally, Staff does not oppose the Company's request to eliminate the Company's end-of-season Flex Peak Program reporting requirement.

Financial Review

Staff audited the Company's Energy Efficiency Tariff Rider expenses and DR expenses, which included sampling and reviewing more than 100 transactions across the Company's programs. Expenses were well-documented, and controls were in place and adjusted as needed to regulate proper payment of incentives and other costs. Staff recommends that the Commission find that the Company prudently incurred $45,028,314 in DSM-related expenses for 2019. This total consists of $38,032,079 in Idaho Energy Efficiency Tariff Rider expenses and $6,996,236 in DR incentives. DR incentives were included for recovery in the 2019 Power Cost Adjustment. Staff calculated the DSM Rider account balance as of December 31, 2019 in Table No. 1, below:

Table No. 1: Tariff Rider Reconciliation

2019 Beginning Rider Balance--Overfunded	$	5,258,957
2019 Tariff Revenue	$	32,423,932
Interest on DSM Rider	$	76,046
Total 2019 Funds	$	37,758,935
2019 Reported Expenses	$	(38,083,244)
Oregon Multifamily Correction	$	13,264
DSM Labor adjustment	$	51,165
2019 Ending Balance--Underfunded	$	(259,880)

In 2018, the Company incorrectly charged the Idaho tariff rider $13,264 for the Oregon Multifamily Energy Savings Program. The correcting accounting entry occurred in 2019. The Company and Staff acknowledged the correction in Case No. IPC-E-19-11. The correcting entry in Table No. 1 above reverses the tariff rider reconciliation from 2019 to accurately reflect the Company's 2019 DSM expenses.

The Company also identified a $122 overpayment of an incentive in 2018 while reviewing an internal audit report during work on this case. Because the overpayment was related to 2018 expenses and not the 2019 expenses, the adjustment is not reflected in Table No. 1. The Company has corrected the tariff rider balance by making an adjustment to the tariff rider in 2020, and it will be reflected in the 2020 prudency case next year. Staff appreciates that the Company's internal controls discovered this minor discrepancy and that it is correcting this error.

DSM Labor Expense

In Order No. 33908, the Commission approved a 2% cap on actual wage increases in the DSM rider. The following year, in Case No. IPC-E-18-03, Staff found the Company incurred a 6.44% increase in total labor expense in 2017, however, the Company contended that the 2% cap should apply to the average wage expense per full-time-employee equivalent. In that case, the Commission found that the Company's expenses were prudent and accepted the Company's methodology for calculating the 2% cap. The Commission further noted that the methodology would be examined in the Company's next general rate case. Order No. 34141 at 4-5.

In this case, the Company's request for prudency for rider-funded labor expense is the opposite of its request in Case No. IPC-E-18-03. The Company's total labor expense for 2019 was a 1% increase from its 2018 labor expense. However, due to a slight decrease in FTE, the Company's per-FTE labor expense rose by 3.6%.[1] Applying the same labor cap methodology the Company requested in IPC-E-18-03 would require disallowing $51,165 in labor expense in 2019. To be consistent with the methodology previously approved in Order No. 34141, Staff has removed $51,165 in labor expenses from the DSM rider account.

Energy Efficiency

The Company exceeded the energy efficiency resource acquisition target for 2019 established in the 2017 IRP. In addition to exceeding its IRP targets, the Company also maintained cost-effectiveness ratios well above the 1.0 level needed to show a net benefit. Its total energy efficiency portfolio had a UCT of 2.72 and a TRC of 2.12. There was an increase in kWh savings of 10 percent from 2018.

The Company's Custom Projects measure, in its Commercial and Industrial Energy Efficiency Program, increased its energy savings by 50 percent over 2018 and contributed 38% of the total kWh savings. Custom Projects has significant penetration, with more than 90% of the Company's large-power service customers having participated in the program. See DSM 2019 Annual Report at 114. However, based on updates to the Company's Energy Efficiency

[1] 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. It is not clear, based on Order No. 33908, that this is the proper application of the 2% cap.

Advisory Group (EEAG) in 2020, there is continued interest and participation in Custom Projects, which pays incentives for large energy efficiency and energy management projects.

The Company's Irrigation Efficiency Rewards savings dropped by 47 percent, due to a decrease in the deemed savings from the Regional Technical Forum ("RTF") in 2018. The Company has since worked to ensure the deemed savings are accurate. Despite the reduction in savings, almost all Irrigation Efficiency Rewards measures still passed the UCT in 2018 and the entire program had a UCT of 2.42.

Only 14 of the Company's 285 measures had a UCT below 1.0, meaning their benefits to the Company exceeded their cost. Out of those 14 failing measures, 10 were Energy House Calls measures. The Energy House Calls program provides efficiency measures to electrically heated manufactured homes. It is a relatively small and declining energy efficiency program, with participation dropping by 62 percent from 2012 to 2019. The entire program had a UCT of 0.96 in 2019. The program had process and impact evaluations in 2019, which raised expenses by approximately 13 percent. Excluding the evaluation expenses would have allowed the program to pass the UCT. Staff believes that evaluations are critical and should be considered when looking at the cost effectiveness of efficiency programs and measures but understands this was not a typical annual expense for an otherwise cost-effective program.

Another measure that failed the UCT in 2019 was smart thermostats in the residential Heating & Cooling Efficiency Program. With the support of Staff and the EEAG, the Company adjusted the smart thermostat at the beginning of 2020, removing the requirement that thermostats be installed by a licensed contractor and expanding the program to more models of thermostats. Based on the Company's reports to the EEAG in 2020, these modifications have led to an increase in participation. Staff appreciates the Company adjusting to improve programs and will be interested in the Company's results for participation and energy savings in 2020.

The other three measures that did not pass the UCT in 2019 were an Irrigation Efficiency Rewards sprinkler replacement measure and two outdoor LED lighting measures in the Multifamily Energy Savings Program. The two multifamily outdoor lighting measures each had a UCT of 0.90, and the entire Multifamily Energy Savings Program, which directly installs energy saving products in electrically heated multi-family buildings, had a 1.15 UCT.

Other Energy Efficiency Programs

Residential New Construction Pilot

The Residential New Construction Pilot program pays home builders an incentive for building new, all-electric single-family homes above the standard state energy code. The pilot launched in 2018, and in 2019 it fully replaced the ENERGY STAR Homes Northwest Program, with an increase in participation of nearly 5 percent.

The Company adjusted its incentives in early 2020, offering a tiered incentives structure for builders who exceeded the building code efficiency. See Table No. 2 below for a list of the old and new incentives for this program.

Table No. 2: Residential New Construction Pilot Incentives

2019 incentive	
20% or more above code:	$1,500
2020 incentives	
10-14.99% above code	$1,200
15-19.99% above code	$1,500
20% or more above code:	$2,000

EISA Impacts on Lighting Savings

Staff remains concerned about the effects of Phase 2 of the Energy Independence and Security Act ("EISA") on the Company's energy efficiency programs if the code is enacted. Though new standards are not yet effective as initially planned, if the regulatory environment changes and EISA does become effective, some estimates show savings for general use bulbs could decrease as much as 75-90 percent from current levels. Many of the Company's programs have lighting as a significant component of their savings. For example, the residential Energy Efficient Lighting and the lighting portion of Educational Distributions comprised 67 percent of total residential savings in 2019.

Staff supports the Company's decision to use "period 1/pre-EISA" savings until and if more stringent lightbulb requirements go into effect. Staff also encourages the Company to continue to pursue all available cost-effective energy efficiency measures, and to be prepared for its claimed energy savings from lighting to decrease if new lighting standards go into effect under Phase II of EISA.

Small Business Direct Install

The Company launched its Small Business Direct Install ("SBDI") program in November 2019 in southeast Idaho. In this program, the Company fully pays for a third-party contractor to audit and install cost-effective energy efficiency measures in small businesses. Staff had encouraged the Company for several years to start this program, based on the successes that Avista and Rocky Mountain Power had operating similar programs in Idaho and because small businesses can be a hard-to-serve market for energy efficiency efforts.

As with many direct-install programs, the Company suspended the SBDI in early 2020 due to the COVID-19 pandemic. This suspension occurred before the Company could expand the SBDI program to its more populous service territories. Staff appreciates the safety precautions that the Company has taken in energy efficiency programs and other programs due to COVID-19 and understands that it may be until the 2021 annual report that actionable data for this program is available.

Marketing

The Company's marketing efforts include digital, social media, and television commercials, the use of radio, print media, bill stuffers, and advertising at events within its service territory. The Company also creates newsletters, brochures, and flyers to send directly to customers as well as contractors and property managers. Staff appreciates the Company's efforts to adjust and update how it communicates with customers regarding its energy efficiency programs. Staff notes that the Company has increased its followers on Facebook and, to a lesser extent, Twitter, and increased its presence on LinkedIn to reach commercial and industrial customers. As in previous years, close to 25 percent of the Company's social media tweets promoted energy efficiency.

Demand Response

Staff believes the Company's implementation of Demand Response and the $6,996,236 of DR incentives paid during 2019 has satisfied the requirements as stipulated under the 2013 Agreement in Case No. IPC-E-13-14 and therefore are prudent. Staff verified that the Company implemented the minimum necessary DR events for the calendar year and that all costs were accounted for properly and the amounts are reasonable based on past assumptions used to calculate costs and benefits.

The Company calculates a Value of Demand ("VOD") benchmark, which is the metric used to determine the cost-effectiveness of its DR programs. The method of calculation and the assumptions used were from a settlement in Case No. IPC-E-13-14. The formula considers both the avoided cost of capacity *(first term)* and the avoided cost of energy *(second term)* credited to DR. Details of the current VOD amount is shown in the formula below.

$$VOD = \overbrace{\left(170MW \times \frac{1{,}000kW}{MW} \times \left[\frac{\$122}{kW} \times 93\%\right]\right)}^{\text{Avoided Cost of Capacity}} + \overbrace{\left(390MW \times \frac{\$20}{MWh} \times 60\ hr\right)}^{\text{Avoided Cost of Energy}}$$

$$VOD = \$19{,}756{,}200$$

Fixed Values	
Single Cycle Combustion Turbine:	*170 MW*
Effective Load Carrying Capacity:	*93%*
Assumed Peak Demand Reduction:	*390 MW*
Value to shift from on-peak to off-peak:	*$20/MWh*

All values in the equation are fixed, except the Levelized Cost of Capacity ("LCOC") currently stated as $122/kW. This value is updated following completion of each Integrated Resource Plan ("IRP"). Using the current LCOC method, the VOD benchmark is calculated at $19.8 million, which is fixed until the next IRP filing. The difference infers the $8.3 million spent in 2019 for the DR program is prudent since costs are far less than the VOD benchmark. This supports Staff's recommendation of prudence for the DR programs in 2019.

However, Staff has identified two concerns with the future of these programs as described in more detail below. Staff recommends that the Company work with Staff to address these concerns.

<u>*Concern VOD is Overstated*</u>

Staff believes the VOD benchmark amount under the current methodology may overstate both the avoided cost of capacity and the avoided cost of energy. The fixed value assumptions used in the VOD equation above, fail to both properly account for the avoided cost of capacity by using outdated assumptions about the value of an SCCT based on current operation of SCCTs in the Company's system and overstates the avoided cost of energy compared to actual program performance.

First, Staff believes the Effective Load Carrying Capacity ("ELCC") used in the VOD formula is over-stated. The ELCC equates the capacity contribution of DR programs to 93 percent of the capacity value of a 170 MW Single Cycle Combustion Turbine for meeting peak load. The ELCC fails to recognize the system contribution of a SCCT beyond the DR annual program constraint of 60 hours, in the two-month period from June 15 to August 15. By comparison, in 2019 the Company's 164 MW Bennet Mountain SCCT plant operated nearly 2,300 hours, or 38 times more than the DR program allows. This difference in utilization is not reflected in the avoided cost of capacity for the VOD prudency benchmark.

Second, the method for calculating the avoided cost of energy in the VOD uses fixed value assumptions that do not match actual operation. This includes fixed values for providing 390 MW of demand reduction throughout the full 60-hours of the program season. Because these values were fixed in the 2013 Agreement, Staff believes these values need to be changed and regularly updated to reflect how the Company actually operates the programs within its system. The DR program in 2019 and the years since 2014, show much less reduction in the amount of energy based on the 390 MW and for far fewer program hours. Until the Company requires the full utilization of these programs when the system becomes capacity deficient, the calculation for the avoided cost of energy should reflect the limited use of the programs.

Concern with Meeting Coincident Peak when Capacity Deficient

Staff is concerned with DR's ability to provide the stated 390 MW of peak-system demand reduction on a consistent basis once the Company is required to fully dispatch the program when the Company becomes capacity deficient.

The Company identifies DR as a peaking resource with the stated capacity of 390 MW and equates the program to a dispatchable generating resource within the constraints of the DR program in the IRP. However, because the Company currently has sufficient capacity of supply-side resources, the Company can dispatch its DR programs in a limited manner: dispatching the different programs on different days, and only dispatching participants three times per year per as directed by Commission order. Staff believes this limited operation will not coincide with how the Company will need to operate the programs for coincident peak events once the system becomes capacity deficient.

Adding to this concern, in the 2019 DSM Annual Report, the Company questions whether participant tolerance for increased cycling during DR events would allow for increased DR capacity.

Flex Peak Reporting Requirement

The Company requested to eliminate the requirement that it file a Flex Peak Program report 80 days after then end of the program's season. The Commission mandated this report in Order No. 33292, Case No. IPC-E-15-03. The Company also reports on Flex Peak and other Demand Response programs in its DSM Annual Report, typically filed with the Commission in March, along with its DSM prudency application.

Staff does not oppose the Company's request to eliminate the Company's end-of-season Flex Peak Program reporting requirement.

STAFF RECOMMENDATIONS

Staff recommends the Commission find that the Company prudently incurred DSM-related expenditures of $45,028,314, including $38,032,079 in Idaho Energy Efficiency Rider expenses and $6,996,236 in Demand Response program incentives. This accounts for the $51,165 adjustment due to the Company exceeding the Commission authorized 2% cap for related labor expenses. Staff will work with the Company to address its concerns with the DR program.

Respectfully submitted this 27th day of August 2020.

Dayn Hardie
Deputy Attorney General

Technical Staff: Brad Iverson-Long
Rick Keller
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 27th DAY OF AUGUST 2020, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-20-15, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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