BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR A DETERMINATION OF 2020 DEMAND-SIDE MANAGEMENT EXPENSES AS PRUDENTLY INCURRED	)	**CASE NO. IPC-E-21-04** **ORDER NO. 35270**

On March 15, 2021, Idaho Power Company ("Company") applied to the Commission for an order finding that the Company's demand-side management ("DSM") expenses for 2020 were prudently incurred. The Company requested the Commission find the Company prudently incurred $47,010,777 in deferred costs for its 2020 DSM program—consisting of $40,477,043 in Idaho Energy Efficiency Rider ("EE Rider") expenses, and $6,533,734 in demand response ("DR") program incentives. The Application summarized the Company's 2020 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, 2021, the Commission issued a Notice of Application and Notice of Intervention Deadline. Order No. 34986. City of Boise City ("Boise City"), the Industrial Customers of Idaho Power, and the Idaho Conservation League petitioned to intervene, and the Commission granted their petitions. Order Nos. 35026, 35043, and 35044.

On June 8, 2021, the Commission issued a Notice of Modified Procedure establishing public comment and Company reply deadlines. Order No. 35069. Staff and Boise City filed comments. The Company filed a reply. No other comments were received.

Having reviewed the record in this case, 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 reports it spent $40,477,043 of Idaho EE Rider funds and $6,533,734 on DR program incentives funded through base rates and tracked annually through the Power Cost Adjustment mechanism. Application at 1.

The Company reports it saved 180,818 megawatt-hours ("MWh") from its energy efficiency programs and an additional 15,991 MWh from energy-efficient market transformation savings through Northwest Energy Efficiency Alliance ("NEEA") savings. *Id.* at 2-3.

The Company reports it achieved a total demand reduction of 336 megawatts ("MW") from its DR programs out of an available capacity of 366 MW. *Id.* at 3.

The Company reports energy savings of 37,302 MWh from the residential sector, 130,633 MWh from the commercial and industrial sector, and 12,884 MWh from the irrigation sector. Application at 4-5.

The Company's DSM 2020 Annual Report was included as Attachment 1 to the Application. Supplement 1 to the DSM 2020 Annual Report shows the results of the cost-effectiveness tests for each program and Supplement 2 contains program evaluations and customer surveys and reports. The DSM 2020 Annual Report also describes the Company's DSM strategies for 2021.

The Company reports its energy efficiency portfolio achieved a Utility Cost Test ("UCT") ratio of 2.71. DSM 2020 Annual Report at 1.

THE COMMENTS

1. **Staff Comments**

Staff believed the Company's 2020 DSM programs were well-managed and recommended the Commission issue an order approving $47,008,618 in 2020 DSM expenses as prudently incurred. Staff recommended one adjustment to allocate an expense that should have been partially allocated to the Company's Oregon customers. The adjustment would decrease the

Company's prudency request by $2,159. Staff's comments focused on (1) financial review; (2) energy efficiency; (3) NEEA; and (4) demand response.

a. Financial Review

Staff believed the Company's DSM expenses were well-documented, and the proper controls were in place and adjusted as needed to regulate payment of incentives and other costs. Staff recommended that the Commission find that the Company prudently incurred of $40,474,884 in EE Rider expenses and $6,533,734 in DR incentives. Staff discussed the adjustments made by the Company prior to the filing and the Oregon allocation adjustment mentioned above. The Company also included the disallowed 2019 DSM labor expenses of $51,165 which were included as a negative entry to reflect the Company's 2020 total EE rider expenses. *See* Case No. IPC-E-20-15; Order No. 34874 (on Reconsideration). Combined, the adjustments represented a $64,973 increase in net expenses.

Staff discussed the history of the Company's DSM labor expense 2% cap. Staff noted the Company complied with Order No. 34874 issued last year directing the Company to "apply the 2% cap for DSM labor expense increases to the actual average wage per FTE based on the prior year's average wage per FTE." Staff Comments at 4 quoting Order No. 34874 at 6. Staff noted the Company's EE Rider request is $105,369 less than its claimed actual labor expense because of the cap, however, according to Staff "if the 2% cap were applied to approved labor expense rather than actual labor expense, the approved 2020 EE Rider labor expense would be $51,270 less." Staff Comments at 4. Staff continued to express its concern that applying the 2% cap to the previous year's actual wages instead of the Commission approved wages, could allow the Company to continue to significantly increase its labor expense each year.

b. Energy Efficiency

In early 2020, the Company suspended in-home and on-location work, moved from in-person to virtual Energy Efficiency Advisory Group ("EEAG") meetings, postponed public events, and modified several of its energy efficiency programs to administer them safely. As of April 29, 2021, the Company had five programs that remained suspended to in-home work: (1) Easy Savings: Low-Income Energy Efficiency Education; (2) Energy House Calls; (3) Home Energy Audit Program; (4) Multifamily Energy Savings Program; and (5) Weatherization Solutions for Eligible Customers.

Staff stated that in 2020, 26 of the Company's 281 individual measures were cost-ineffective from the UCT perspective. Every measure in the Energy House Calls and Multifamily

Energy Savings program was cost-ineffective, accounting for 18 measures failing the UCT. The Company states the cost-ineffective measures resulted from programs incurring administration costs after in-home activity was suspended early in 2020 because of COVID-19. Four measures from the Simple Steps, Smart Savings program ("Program") administered by the Bonneville Power Administration ("BPA") were also cost-ineffective from the UCT perspective.

Staff noted the lighting industry has shown significant strides in market adoption and saturation for energy efficiency measures over the last several years. According to Staff, residential lighting programs have presented cost-effectiveness issues in recent years due to lower deemed savings. The Program, Energy-Saving Kits, and Welcome Kits have all been impacted by changes in lighting savings. Many of the lighting programs offered by the Company are just—or no longer—cost-effective. Staff believed constant adjustments, new adoptions, and removal of the various measures offered are necessary. Staff applauded the Company for making necessary changes to programs offered.

The BPA decided to sunset the Program on September 30, 2020. The Program is promoted in two areas by the Company: (1) Energy Efficient Lighting program; and (2) the appliance promotion program. In response to the BPA sunsetting the Program, Staff mentioned the Company is exploring alternative options for administering a lighting buydown program and a program for providing incentives for ENERGY STAR appliances. In 2020, the Program accounted for 38% of the Company's residential energy efficiency savings.

Staff stated that Custom Projects program, primarily for Commercial and Industrial customers, reported an increase of 33% in 2020 savings compared to 2019 savings. The 94,007 MWh savings accounted for 48% of the Company's energy efficiency portfolio savings, while the measure's $18.1 million in expenses accounted for 38% of the Company's DSM expenses. Since 2018, the Custom Projects measures savings have increased 100%, contributing the most savings of any program to the Company's overall savings.

In 2020, the Company's low-income programs remained cost-ineffective. The Weatherization Solutions for Eligible Customers reported a UCT ratio of 0.13 and Total Resource Cost ("TRC") ratio of 0.23.

The Weatherization Assistance for Qualified Customers ("WAQC"), funded through base rates—not the EE Rider—reported a UCT ratio of 0.2 and TRC ratio of 0.33. Staff noted the WAQC program did not use all the allocated funds in 2020 and there will be a total of $1,861,402 of available funds for the program in 2021. The Company acknowledged the challenge of achieving cost-effective low-income weatherization programs and plans to address this with stakeholders.

According to Staff, in June of 2020, the Company transitioned the Home Energy Reports ("HER") pilot into a full program. The transition resulted in an additional 106,491 treatment customers for the HER program—a 409% increase from the piloted group in 2019. Similarly, the Company's cost for the HER program increased 349% during the transition to a full program. In 2020, the Company's HER program savings increased 23% from 2019 to 10,428 MWh. The incremental increase in savings resulted in the HER program not being cost-effective with a 0.64 UCT ratio in 2020. The Company stated this was in part due to the expansion of the HER program.

In December of 2020, the Company delivered its last Energy-Savings Kit and will no longer be administering the program due to the future of lighting savings. Similarly, according to Staff, the Company's Welcome Kits program experienced issues from a change in lighting savings. In 2021, due to new Regional Technical Forum ("RTF") deemed savings for lightbulbs, the kits will no longer be cost-effective as a standalone item. However, instead of ending the program like the Energy-Saving Kits, the Company will continue to offer the Welcome Kits as a promotional item but will no longer conduct a cost-effectiveness test on the program. The Company plans to claim the savings associated with the Welcome Kits in 2021 under the Educational Distributions program. The Company estimated that the program will cost $610,605 and projected 22.86 kWh of energy savings per kit.

Staff agreed the Welcome Kits are a useful "education and marketing" program and permit the Company to market and promote energy efficiency to the new customers. However, Staff expressed concern with the future of Welcome Kits because performance will no longer be evaluated by a cost-effectiveness test, the Company's plan to continue claiming the savings, and the lack of clarity regarding how the savings impact on future load growth will impact the Company's Integrated Resource Plan ("IRP"). The Company committed to discussing the Welcome Kits in future EEAG meetings.

c. NEEA

Staff stated that the Company spent $2,649,749—7% of Idaho EE rider funds—on regional market transformation through NEEA. Staff explained that NEEA claims savings for its efforts in two areas: (1) efficiency measures; and (2) codes and standards. The Company's claimed NEEA savings in 2020 were 2.01 aMW or 17,614 MWh—16,734 MWh of the savings originated from the Company's Idaho service territory. About 75% of the Company's Idaho clamed NEEA reported savings—12,577 MWh or 1.44 aMW—originated from codes and standards.

Staff noted that NEEA's 2020 annual Savings Report reported savings from codes and standards across the northwest, including savings attributed to states not in the Company's service territory and that are duplicative to Idaho codes and standards. Staff expressed its concern with NEEA's method for allocating savings and noted the difficulty in identifying the savings in the NEEA Market Evaluations provided by the Company in the 2020 DSM Annual Report. Staff was concerned that NEEA claimed savings it was not directly responsible for producing, stating "if savings from codes and standards are removed, NEEA would not be cost-effective." *Id.* at 10. Staff believed that to support the continued funding of NEEA, an independent Evaluation, Measurement, and Verification ("EM&V") should be conducted to (1) clarify the savings NEEA claims; (2) the allocation of those savings to its member utilities: and (3) the cost-effectiveness of those savings to the member utilities based on the utilities' DSM avoided cost.

d. Demand Response

Staff believed the Company's DR programs were well managed and effective. The three DR programs (Irrigation Peak Rewards program, A/C Cool Credit program, and Flex Peak program) incurred $6,533,734 in incentive payments funded through base rates while achieving 336 MW of maximum demand reduction in 2020.

Staff noted that most demand reduction came from the Company's Irrigation Peak Rewards program which performed to expectations, achieving a maximum demand reduction of 292 MW, an increase of 14 MW from 2019. The A/C Cool Credit program and Flex Peak program were impacted in various ways by COVID-19. Due to more customers being at home because of COVID-19, the Company tried to minimize the impact of the A/C Cool Credit program, this included reducing its cycling percentage from 55% to 50%. The A/C Cool Credit program achieved 19 MW of maximum reduction (compared to 24 MW in 2019). The Flex Peak program achieved 24 MW of demand reduction in 2020 (compared to 36 MW in 2019) with an average realization of 65% across three demand response events. According to the Company, many businesses increased their loads in 2020 for many reasons after COVID-19 stay-home orders were relaxed, including to recoup lost revenues and increasing fresh air flow into buildings, resulting in greater cooling demands.

Staff stated the Company has made progress and continues to work with Staff to address the concerns about the Effective Load Carrying Capacity ("ELCC") outlined in Staff

Comments in Case No. IPC-E-20-15. Staff noted the Company's calculation to determine cost-effectiveness for 2020 used the Value of Demand ("VOD") calculation that was set in the settlement agreement in Case No. IPC-E-13-14. However, the Company provided an updated ELCC calculation that impacted the VOD—which is used as a benchmark to determine the cost-effectiveness of DR programs. According to Staff, the Company's change to its ELCC calculation is an improvement over the previous ELCC calculations because it is based on current data and the actual availability of DR programs. The updated ELCC calculation looks at the top 100 hours of actual system peak load over a five-year period (2016-2020) to determine DR program availability at system peak and resulted in an ELCC of 85% instead of the 93%. The updated ELCC resulted in a VOD of $18 million compared to a $19.6 million VOD using the ELCC set in Case No. IPC-E-13-14. Staff believed the updated ELCC calculation is an improvement from the previous ELCC.

2. Boise City Comments

Boise City commended the Company for its 2020 DSM energy efficiency savings, noting that it was the 2nd highest annual savings since the Company established its EE Rider. Boise City's comments addressed the negative ending balance of the EE Rider and supported appropriate cost recovery. Boise City also supported any adjustments necessary to fund the EE Rider that would allow the Company to pursue all cost-effective energy efficiency savings, including by increasing the EE Rider collection percentage.

Boise City recommended the Commission direct the Company, along with the EEAG, to seek increased participation and ensure the programs that were suspended because of COVID-19 are available to residential customers who would have otherwise participated. Boise City noted the Company's success in administering cost-effective energy efficiency programs during COVID-19 but proposed that the Company has an opportunity to achieve increased savings by working through the backlog of demand for the previously suspended programs.

Boise City also recommended the Company evaluate additional residential energy efficiency measures which might help the Company better align the DSM offerings with the opportunities in the 2020 Energy Efficiency Potential Study ("Potential Study"). Boise City stated that incorporating the results of the Potential Study into the residential DSM program offerings would ensure future DSM spending is aligned with the Company's IRP. Boise City cited the Company's limited programs aimed at incentivizing residential insulation despite there being 1,358 MWh of energy saving potential. According to Boise City, "[i]nsulation installation, behavioral programs, or other measures would encourage a whole-home approach to energy conservation that empowers customers to take a more active role generating energy savings while maintaining comfort." Boise City Comments at 3.

3. Company Reply

The Company replied, noting the undisputed recommendations that the Company be allowed to recover its prudently incurred 2020 DSM expenses, as modified by the adjustment to exclude an expense that should have been allocated to Oregon. The Company appreciated Boise City's support of potential adjustments to the EE Rider collection percentage but noted its reservations the timing of such adjustment and suggested it had no near-term plan to seek approval of a modification. The Company committed to funding all cost-effective energy efficiency programs regardless of the EE Rider balance.

The Company stated it believed customers benefited from its participation in NEEA but expressed that it had mentioned similar concerns to Staff's concerns in a past case, including its concerns about savings attributed to codes and standards, the allocation method of savings to customers, and cost effectiveness impacts from declining avoided cost in the current NEEA cycle. The Company stated it could terminate funding to NEEA during the current cycle (2020-2024) if concerns about cost effectiveness materialize. The Company supported Staff's recommendation that an EM&V be conducted. The Company indicated it would coordinate with Avista where possible to conduct and co-fund the EM&V. If the Company concludes NEEA is no longer cost-effective, it will notify the Commission.

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 $47,008,618 in deferred costs for its DSM programs—including $40,474,884 in Idaho EE Rider expenses and $6,533,734 in DR program incentives.

The Commission appreciates the Company and its EEAG's efforts to identify, select, and offer DSM programs that offer value to Idaho customers and increase the DSM savings available to the Company. DSM benefits depend on constantly evaluating opportunities and identifying ways to improve available programs. We encourage the Company and EEAG to continue working together to identify and offer the most cost-effective programs to the Company's Idaho customers, including programs identified in the Potential Study.

Until the Company's next general rate case, when the Commission can consider the method for calculating total DSM labor expenses, we direct the Company to continue calculating "its annual DSM labor expense using a 2% cap applied to the actual average wage per full time employee ("FTE") based on the prior year's average wage per FTE." *See* Order No. 34874 at 5. We find that the Company calculated its 2020 DSM labor expenses correctly according to the directive in Order No 34874.

The Commission notes Staff's concern with NEEA claimed energy savings and directs the Company to conduct an independent EM&V to clarify the NEEA claimed savings. We agree it is concerning for NEEA to claim savings from electrical codes in jurisdictions outside of Idaho. We direct the Company to verify the accuracy of these claimed savings through an independent EM&V. If the savings from interjurisdictional codes and standards cannot be verified, then the method for claiming NEEA savings should be adjusted to remove non-Idaho electrical code savings. If NEEA is no longer cost-effective after an independent EM&V is conducted, the Company should reexamine its continued participation. To the extent possible, the Company may work with other Idaho regulated electric utilities that are conducting a similar EM&V to examine NEEA claimed savings.

ORDER

IT IS HEREBY ORDERED that the Company's total 2020 DSM expenditures of $47,008,618, consisting of $40,474,884 in Idaho Energy Efficiency Tariff Rider expenses and $6,533,734 in DR program incentives, are approved.

IT IS FURTHER ORDERED that the Company shall conduct an independent EM&V for NEEA claimed savings to be included in the next DSM filing.

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.

DONE by order of the Idaho Public Utilities Commission at Boise, Idaho this 27th day of December 2021.

PAUL KJELLANDER, PRESIDENT

KRISTINE RAPER, COMMISSIONER

ERIC ANDERSON, COMMISSIONER

ATTEST:

Jan Noriyuki
Commission Secretary

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