BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR A DETERMINATION OF 2021 DEMAND-SIDE MANAGEMENT EXPENSES AS PRUDENTLY INCURRED	))))))	**CASE NO. IPC-E-22-08** **ORDER NO. 35579**

On March 15, 2022, Idaho Power Company ("Company") applied to the Commission for an order finding the Company prudently incurred $35,055,318 in Demand Side Management ("DSM") expenses. Application at 1. The Application summarized the Company's 2021 DSM program performance, expenses, adjustments, cost effectiveness, evaluations of the program, and input from stakeholders.

On April 6, 2022, the Commission issued a Notice of Application and Notice of Intervention Deadline. *See* Order No. 35365. City of Boise City ("Boise City") was granted intervention. *See* Order No. 35385.

On May 13, 2021, the Commission issued a Notice of Modified Procedure establishing public comment and Company reply comment deadlines. *See* Order No. 35404. The Commission ("Staff") and Boise City filed comments. The Company filed a reply. No other comments were received.

Having reviewed the record, the Commission now issues this final Order finding the Company prudently incurred $35,054,668 in DSM expenses for 2021.

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. Order No. 35270 at 1. 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. Order No. 29103.

THE APPLICATION

The Company reported it spent $27,922,340 of Idaho Energy Efficiency Rider ("EE Rider")[1] funds and $7,132,978 on DR program incentives funded through base rates, for a total of $35,055,318, and tracked annually through the Power Cost Adjustment ("PCA") mechanism. Application at 1 and 6-7.

The Company reported it saved 143,971 megawatt-hours ("MWhs") from its EE programs including estimated savings from the Northwest Energy Efficiency Alliance ("NEEA") savings. *Id.* at 2-3. The Company reported energy savings of 21,217 MWhs from the residential sector, 95,184 MWhs from the commercial and industrial sector, and 9,700 MWh from the irrigation sector. *Id*. at 4. The Company stated it achieved a total demand reduction of 313 megawatts ("MWs") from its DR programs out of an available capacity of 384 MWs. *Id.* at 3.

As directed in Order No. 34469, the Company utilized the Utility Cost Test ("UCT") as the primary test for evaluating energy efficiency cost-effectiveness. The Company reported its EE portfolio achieved a UCT ratio of 2.18. DSM 2020 Annual Report at 1.

The Company also filed its DSM 2021 Annual Report concurrently with its application which it asserts satisfies the DSM reporting obligation set by the Commission Order No. 29419 in Case No. IPC-E-03-19. The Company represents the DSM 2021 Annual Report consists of the main document (with appendices) and two supplements. The main report provides information on DSM program descriptions, program performance, expenditures, and marketing efforts. Supplement 1 shows the results of the cost-effectiveness tests that Idaho Power has calculated for each program and includes a table that reports expenses by funding source and cost category. Supplement 2 to the DSM 2021 Annual Report contains copies of Idaho Power's 2021 program evaluations, customer surveys and reports, evaluations conducted by the Company's third-party

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[1] The Company represented funding for the Idaho DSM programs in 2021 came from several sources:

> The Idaho Rider funds are collected directly from customers on their monthly bills at 3.10 percent of their base rate revenues. Additionally, the Idaho demand response program incentives are included in base rates and tracked annually through the PCA. Energy efficiency and demand response-related expenses not funded through the Rider are included in Idaho Power's ongoing operations and maintenance ('O&M') costs.

Application at 6.

contractors, Idaho Power's evaluation plans, general energy efficiency research, and demand response research. Finally, the DSM 2021 Annual Report contains a description of the Company's DSM strategies for 2022.

THE COMMENTS

1. Staff Comments

Staff believed the Company's 2021 DSM programs were well-managed and recommended the Commission approve $35,054,668 in 2021 DSM expenses as prudently incurred. Staff's comments focused on (1) financial review; (2) EE programs; (3) NEEA; and (4) DR.

A. Financial Review

Staff audited the Company's EE Rider expenses and DR expenses, which included a sample of more than 60 transactions across the Company's programs. Staff noted the Company identified a $650 sales tax expense booked in error which Staff removed from the Company's prudency request. As a result, Staff recommended the Commission find the Company prudently incurred $35,054,668 instead of the $35,055,318 requested. Staff Comments at 2. Accounting for the recommended adjustment, Staff recommended the Commission approve $27,921,690 in EE Rider expenses and $7,132,978 in DR incentives as prudently incurred. *Id*.

Staff noted the Company's compliance with Order No. 34874's directive to apply a "2% cap for DSM labor expense increases to the actual average wage per [full time equivalent ("FTE")] based on the prior year's average wage per FTE." *Id.* at 4. However, Staff remained concerned with the Company's significant increases in labor expense that continue to occur year-over-year. Staff intended to "review the Company's annual EE Rider wage increases and develop possible frameworks to discuss in the Company's next general rate case." *Id*. at 4. Doing this, Staff hoped, would "ensure that DSM labor expenses do not dramatically increase in years between rate cases." *Id*.

B. Energy Efficiency

Staff stated that the Company's "EE portfolio reported 126,102 MWhs of energy savings and 17,870 MWhs of market transformation savings" from NEEA and that it remained cost-effective. *Id.*

Staff noted that the Company's Commercial & Irrigation ("C&I") Custom Projects program continued to be the EE portfolio's biggest energy savings program.

Staff also noted that the COVID-19 pandemic made 2021 a difficult year for energy efficiency programs. Staff stated the Company continued its suspension of the following programs:

"(1) Easy Savings: Low-income Energy Efficiency Education; (2) Energy House Calls; (3) Home Energy Audit . . . ; (4) Multifamily Energy Savings . . . ; and (5) Weatherization Solutions for Eligible Customers." *Id.* at 5.

Staff observed that 24 of the Company's 272 energy efficiency measures were cost-ineffective. *Id*. Staff stated that eight cost-ineffective measures belonged to the Energy House Calls program which, after consultation with the Energy Efficiency Advisory Group ("EEAG"), the Company decided to end. *Id.*

Staff noted that five measures in the Company's Heating and Cooling Efficiency ("HC&E") program were cost ineffective even though the entire HC&E program was cost-effective. *Id.* Staff stated it was looking forward to the Company considering recommendations and implementing changes to the HC&E program in the 2022 DSM filing. *Id.* at 5-6.

Staff noted that three cost-ineffective measures were in the Cohorts of the C&I Custom Projects program. Staff stated that "Cohorts are behavioral based measures that engage customers in a group setting to capture economies of scale and allow customer interaction on energy saving opportunities." *Id.* at 6.The remaining eight cost-ineffective measures—from a UCT perspective—Staff noted, were the C&I New Construction and Retrofits program and the Irrigation Efficiency Rewards programs.

Staff recognized that "multiple measures across the EE portfolio could become cost-effective if administrative costs were not included" and thus encouraged the Company to consider reducing the administrative costs of some of its energy measures to make them cost-effective. *Id.* at 6.

Staff examined additional EE programs offered by the Company. The Educational Distributions program delivers educational and energy savings materials directly to customers through the Nightlights as Giveaways, Student Energy Efficiency Kit, and Welcome Kit measures. *Id.* at 7. Staff stated the Welcome Kits would be cost-ineffective if not for the Company's cost allocation method under the Residential Energy Efficiency Education Initiative. While Staff agreed with the Company that the Welcome Kits were a useful education and marketing measure, because it would not be cost-effective as a stand-alone program, Staff encouraged "the Company to reduce cost for the kits where possible and focus the intent of the program on marketing and education." *Id.* at 8.

Staff explained that the Company suspended the Multifamily Energy Savings program until November 2021 due to changes relating to LED lightbulbs and showerhead and faucet aerator measures. *Id.* at 8. Therefore, there were no claimed energy savings for 2021. Staff appreciated the Company's plan to deal with the challenges this program faces and noted that it will continue monitoring its development.

The Residential New Construction program provides an incentive for builders to construct energy-efficient homes. Staff noted that, even though participation was lower this year from last year, it reported a UCT benefit to cost ratio of 1.64.

Staff noted the Company had two low-income weatherization programs: the Weatherization Assistance for Qualified Customers which is funded through base rates, and the Weatherization Solutions for Eligible Customers, which is funded through EE Rider funds. Staff stated that both programs remained cost-ineffective in 2021. Staff described the Company's plan to use a job cost calculator by the end of 2022 to increase the cost-effectiveness of the program.

Staff explained the unspent funds in the weatherization programs and the Company's proposal to deplete these funds by paying 100% of the costs of HVAC replacement for qualifying homes.[2] *Id.* at 9.

C. NEEA

Staff stated there continued to be evidence of claimed savings by NEEA for out of state code change in the 2021 report. Staff stated that, due to concerns with NEEA claiming savings for out-of-state code changes, the Commission ordered the Company, in 2021, "to conduct an independent Evaluation, Measurement and Verification ("EM&V") report of NEEA claimed savings in the next DSM filing." *Id.* at 10 (citing Commission Order No. 35270 at 9). Staff noted the Company had, along with Avista Corporation, commenced development of a request for proposal for the EM&V. Staff stated the EM&V was expected to be completed at the end of this year.

D. Demand Response

Staff reviewed the Company's three DR programs—Irrigation Peak Rewards, A/C Cool Credit, and Flex Peak—and believed they were well managed, effective, and satisfied the requirements as stipulated under the 2013 agreement in Order No. 32923. Staff noted the DR program achieved a total of 313 MWs of maximum demand reduction in 2021. Of the three DR programs, Staff noted the most demand reduction came from the Irrigation Peak Rewards program.

[2] This proposal is the subject of Case No. IPC-E-22-15 which is currently pending before the Commission.

Staff recognized that the Company's proposed changes to the DR programs in Case No. IPC-E-21-32 did not affect the 2021 filing but could affect next year's prudency filing.

2. Boise City Comments

Overall, Boise City supported the Company's Application, recommended Commission approval and continued to support Company "efforts to implement cost-effective DSM." Boise City Comments at 5. However, Boise City recommended that the Company and the Commission consider ways to deal with the negative EE Rider balance and that the Company collaborate with the EEAG to increase participation in various energy efficiency programs and measures in the residential sector and to "ensure the benefits of energy efficiency reach residential customers." *Id*. at 2. Boise City also supported Company efforts to create a new retail lighting buy-down program and a cost-effective new residential construction incentive. *Id*. at 3. Boise City supported the Company's Home Energy Reports and recommended the Company expand it. *Id.* at 4. Boise City also appreciated the Company working with EEAG in developing energy efficiency educational distribution kits. *Id.* Boise City also recommended that the Company "pursue the development of a multi-family new construction incentive to further transform the new construction market[,]" develop an online market place conducive to increasing access to energy-efficient products for low and moderate income households, and evaluate the DR opportunities of electric vehicles. *Id.* at 4-5.

3. Company Reply

The Company cited Staff's conclusion that the Company's "programs are generally well managed" and Staff's recommendation that the Commission approve $35,054,668 in DSM-related expenditures. Company Reply Comments at 1. The Company stated it would continue to work with the EEAG to identify "cost-effective energy efficiency and DR program improvements and offerings." *Id.* at 2. The Company noted Staff's comments regarding "cost assignment between educational and marketing efforts, and direct energy efficiency measures," and, particularly, Staff's encouragement to the Company to reduce costs to the Welcome Kits where possible. *Id.* The Company stated it would "continue to consult with EEAG to identify ways to reduce costs for the Welcome Kits, as well as to explore ways to improve the measure to focus on marketing and education." *Id.* at 2-3.

The Company appreciated Boise City's "support for appropriate cost recovery of the current under-collected Rider balance and support for a[n] [EE] Rider percentage increase over the current 3.10 percent approved in Order No. 34871," but noted that "the under-collected Rider balance has improved as DSM related expenses declined in 2021." *Id.* at 3. However, the Company stated it would continue to monitor the balance and pursue cost-effective energy efficiency 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 $35,054,668 in deferred costs for its DSM programs—including $27,921,690 in Idaho EE Rider expenses and $7,132,978 in DR program incentives.

The Commission appreciates the Company and the 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 the EEAG to continue working together to identify and offer the most cost-effective programs to the Company's Idaho customers. We do not believe that an EE Rider increase, as Boise City recommends, is warranted. We note that the amount the EE Rider balance was underfunded at the beginning of 2021 decreased by over $5 million by the end of 2021. As DSM related expenses continue to decline, we expect that the amount the EE Rider balance is underfunded will improve.

We find that the Company calculated its 2021 DSM labor expenses correctly, in accordance with our directive in Order No. 34874. Until the Company's next general rate case, when the Commission can consider the method for calculating total DSM labor expenses, we reiterate our directive to the Company to continue calculating "its annual DSM labor expense using a 2% cap applied to the actual average wage per . . . FTE . . . based on the prior year's average wage per FTE." Order No. 34874 at 5. We acknowledge Staff's intention to review the Company's annual EE Rider wage increases and develop possible frameworks to discuss in the Company's next general rate case. This will ensure that DSM labor expenses do not dramatically increase in years between rate cases.

Last year we directed the Company to conduct an independent EM&V report "to clarify the NEEA claimed savings." Order No. 35270 at 9. We look forward to reviewing the EM&V report in the Company's 2022 DSM filing. This report should help resolve the issue of the Company claiming savings by NEEA for out of state code changes.

ORDER

IT IS HEREBY ORDERED that the Company's total 2021 DSM expenditures of $35,054,668 consisting of $27,921,690 in Idaho EE Rider expenses and $7,132,978 in DR Program incentives, are approved.

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 2nd day of November 2022.

ERIC ANDERSON, PRESIDENT

JOHN CHATBURN, COMMISSIONER

JOHN R. HAMMOND, JR. COMMISSIONER

ATTEST:

Jan Noriyuki
Commission Secretary

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