Office of the Secretary
Service Date
January 29, 2024

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR A DETERMINATION OF 2022 DEMAND-SIDE MANAGEMENT EXPENSES AS PRUDENTLY INCURRED	))))))	**CASE NO. IPC-E-23-10** **ORDER NO. 36076**

On March 15, 2023, Idaho Power Company ("Idaho Power" or "Company") requested that the Idaho Public Utilities Commission ("Commission") determine $31,585,110 in Idaho Energy Efficiency Rider ("EE Rider") funds and $8,311,328 in demand response ("DR") program incentives—for a total of $39,896,437—were prudently incurred in 2022 ("Application"). Several supplemental materials were filed with the Application.[1]

On April 14, 2023, the Commission issued a Notice of Application and set an intervention deadline allowing interested parties to intervene. Order No. 35742. The city of Boise City intervened. Order No. 35782. The Commission then issued a Notice of Modified Procedure. Order No. 38594. Commission Staff ("Staff") filed comments to which the Company replied. No other comments were received.

Having reviewed the record, the Commission now issues this final Order finding the Company prudently incurred $39,886,970 in Demand-side Management ("DSM") expenses for 2022.

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." Order No. 32113 at 8. To further the Commission's stated objectives, the Company asserted it "endeavors to provide customers with programs and knowledge through its DSM programs to help them use electricity wisely." Application at 2.

[1] A Supplemental Application and the direct testimony of Theresa Drake was filed on June 30, 2023. Additional supporting materials were also filed on July 14, 2023.

The Commission will allow a 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 a utility did not prudently incur DSM expenses, then the Commission will not allow the utility 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 explained that it spent $31,585,110 on EE Rider funds and $8,311,328 on DR program incentives funded through base rates and tracked annually through the Power Cost Adjustment mechanism.

The Company stated that it saved 169,889 Megawatt hours ("MWh") from its energy efficiency programs including 24,448 MWh savings through the Northwest Energy Efficiency Alliance ("NEEA").

The Company reported that it "utilized all or portions of its three [DR] programs: A/C Cool Credit, Flex Peak Program, and Irrigation Peak Rewards." Application at 3. The Company also explained that it saved 200 MWh of the available 312 MWh using these three DR programs in 2022.

The Company reported energy savings of "28,525 MWh from the residential sector, 109,960 MWh from the commercial/industrial sector, and 6,955 MWh from the irrigation sector." *Id.* at 6. In 2022, the total savings increased by 26,988 MWh compared to 2021 savings.

The Company's Application also included the DSM 2022 Annual Report. Supplement 1 to the DSM 2022 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 Company represented that its 2022 DSM EE Rider spending increased 13% compared to 2021 "due to the increase in large projects participating in the Commercial & Industrial [("C&I")] Program Custom Projects, New Construction, and Retrofits options with total expenses in those three options amounting to $16,301,141 or $1,925,959 more compared to 2021." *Id*. at 8.

The Company represented that it evaluated the cost-effectiveness of its DSM under the three benefit/cost methods: Utility Cost Test ("UCT"), Total Resource Cost ("TRC"), and a Participant Cost Test ("PCT").

The Company reported its energy efficiency portfolio achieved a UCT ratio of 2.02, a TRC ratio of 1.43, and a PCT ratio of 2.01.

The Company requested adjustments for prior years that were charged to the Oregon Rider, including (1) $1,044 in the C&I program in 2021, (2) $1,365 in the Residential New Construction program in 2021, and (3) $7,260 in the Small Business Direct Install—a duplicate transaction reversed in 2022.

The Company requested current year adjustments of (1) $6,998 in Commercial and Industrial Overheads that should have been charged to operations and maintenance; (2) $1,289 in the Residential Energy Efficiency Education that should have been charged to the EE Rider; and (3) a reduction of $89,680 in program administrative fees that were refunded in 2023.

The Company requested $3,381,085 for 2022 DSM labor expenses, which it stated are within the authorized labor cost cap.

STAFF COMMENTS

1. Financial Review

Staff audited the Company's EE Rider and DR expenses, which included reviewing more than one hundred and ninety (190) transactions from the Company's programs. There were two airport ads for the Company—relating to its use of clean energy—that Staff did not believe were reasonably correlated to lowering the Company's customers bills. Staff recommended that the $9,467 that the Company spent on these ads be removed from the Company's prudence request. Similarly, in preparation for this case, both Staff and the Company identified certain costs that needed to be reallocated or otherwise adjusted as found in Table No. 1 below:

Table No. 1 Tariff Rider Reconciliation

2022 Idaho Power Beginning Rider Balance (Underfunded)	$	(6,937,705)
2022 Tariff Revenue	$	34,879,985
Interest on Tariff Rider Balance	$	(36,049)
Total Funds Available	$	27,906,231
2022 Reported Expenses	$	(31,673,550)
Prior Year-End Accounting Adjustments		
2021 Commercial & Industrial Adjustment	$	(1,044)
2021 Residential New Construction Adjustment	$	1,356
2021 Small Business Direct Install Adjustment	$	(7,260)
Current Year-End Accounting Adjustments		
2022 Commercial & Industrial Overhead Adjustment	$	6,998
2022 Residential Energy Efficiency Education Adjustment	$	(1,289)
2022 Residential Energy Efficiency Overhead Adjustment	$	89,680
2022 Airport Ad Removal	$	9,467
2022 Total Prudent Expenses	$	(31,575,643)
2020 Ending Balance (Underfunded)	$	(3,669,411)

With these adjustments incorporated, Staff recommended the Commission find the Company prudently incurred $39,886,970 in DSM-related expenses for 2022, consisting of $31,575,643 in EE Rider expenses and $8,311,328 in DR incentives. Staff stated that the Company's labor expenses, which has been a point of concern for the Commission previously, do not go beyond the limits of previous Commission orders. Staff stated that the Company's EE Rider expenses increased by $3,662,700 (or approximately 13%) when compared to the prudence case from last year. This was largely due to C&I programs—which lost two hundred and ninety-three (293) participants but saw a large increase in the scale of participating projects.

2. DSM Portfolio

Staff stated that the Company's DSM portfolio was cost-effective and had a UCT ratio of 2.2. The C&I programs provided savings with the NEEA and Residential sectors also providing notable savings. Staff noted that eight (8) of the Company's seventeen (17) DSM programs were not cost-effective but reiterated that the Company's DSM programs were well managed and cost-effective overall.

3. Energy Efficiency Programs

The Educational Distributions ("ED") program delivers educational and energy savings materials directly to customers through the Student Energy Efficiency Kit, and Welcome Kit measures. Staff noted that the cost of the ED program has risen from $433,963 to $1,061,898. Staff noted that the Company's costs were particularly high this year due to the use of a new vendor, related timing issues, and the materials provided in the welcome kits. Staff noted that the Company expected the cost of this program for the 2022-2023 school year to be closer to its customary costs. While providing some savings, Staff does not believe that the ED program is cost-effective. This being said, Staff believed that the Welcome Kits provide valuable education to new customers. However, Staff also believed that the Welcome Kits are increasing a marketing expense. Staff suggested that the Company continue its efforts in allocating the costs of these programs to the Residential Energy Efficiency Education Initiative ("REEEI") and seek ways to "reduce the costs of the kits." Staff Comments at 6.

Staff discussed the Market Transformation Pilot Program that the Company initiated in partnership with Avista Corporation d/b/a Avista Utilities ("Avista"). Staff stated that the program seeks to find energy efficient technologies outside of NEEA's offerings. Staff noted that the pilot program focused on ductless heat pumps, which NEEA had previously declared transformed despite barriers remaining in Idaho. The program was marketed to twenty-two thousand seven hundred and twenty-six (22,726) individuals in two separate phases and ultimately identified three hundred (300) installs for both the Company and Avista. Staff noted that the Company expected the pilot program to be completed by the end of 2023. "Staff will review the results of the pilot and the lessons it can provide for Idaho-specific market transformation efforts." *Id*. at 7

Staff stated that the Company's Home Energy Reports ("HER") program is more than twice as effective as the rest of the residential programs combined with a contributed savings of 20,643,379 kWh. However, Staff argued that the Company should use the measure life perspective instead of a life-cycle perspective; this would place the program's UCT at 0.71 instead of 1.17. Staff stated that the Company assumed that the savings continue after the program participation ceases and reports are no longer provided to customers. Staff suggested that the Company review the assumed continuation of energy savings and submit its findings to the Energy Efficiency Advisory Group ("EEAG"). Staff stated that the Company's Energy House Call program never recovered from the pandemic and ended on December 31, 2022.

The Company's Heating and Cooling Efficiency Program ("HCEP") gives residential builders incentive to install more efficient systems. Staff stated that the program has been decreasing in efficiency and had a UCT of 0.98. Staff recommended continued monitoring of this program. The Company's Multifamily Energy Savings Program resumed in November of 2021 but never recovered from the pandemic. The EEAG supported the Company shutting it down in December of 2022.

Staff noted the Company has two low-income weatherization programs: the Weatherization Assistance for Qualified Customers, and the Weatherization Solutions for Eligible Customers. The former is funded through base rates while the latter is funded through EE Rider funds. Staff states that both programs remained cost ineffective. Staff agreed with the Company regarding the difficulty of weatherization for low-income individuals desire to improve the programs. Staff also noted that, due to the pandemic, there was a buildup of funding. Staff noted its intent to review the impact of these programs in the Company's 2023 annual report.

Staff noted that the Commercial Energy Saving Kit Program (which offered a variety of energy efficient commercial items) was no longer cost-effective. The Company offered this kit until the contract with its vendor expired in June of 2023.

Staff audited the Company's C&I Custom Projects and stated that it contributed to more savings than any other program in the energy efficiency portfolio. Staff noted its savings of 56,157 MWh were well-supported, and that Staff will continue to closely monitor the program due in part to the large costs and savings involved.

4. Demand Response

Staff noted that DR programs paid out $9,852,529 in incentives but "achieved 200 MW of maximum demand reduction from its 312 MW of nameplate capacity." *Id*. at 10. Staff stated that the programs were efficient and well managed and then discussed some of the design changes implemented in Order No. 35336. Specifically, Staff noted that an extended DR window, proposed by the Company in Case No. IPC-E-21-32, had the ability to reduce the load requirements. Also, due to satisfactory participation, the Commission previously placed a cap on marketing costs for DR programs. This was removed in Order No. 35336 due to earlier projected deficits. From 2021-2022 the Flex Program then saw an increase in participation but a decrease in actual load reduction. Staff stated that "[t]he Company is taking additional action on its Flex Peak program with changes proposed in Case No. IPC-E-23-24." *Id*. at 11. Staff will continue to monitor these any applicable changes. Finally, Staff stated that the Company had explained that it now uses more customized data that is more tailored to its summer peak. Previously the Company used the Northwest Power and Conservation Council DR potential assessment that was proportionally adjusted to the specifications of the Company.

5. NEEA

The Company spent $2,650,440 of its Idaho EE Rider funds on NEEA participation in 2022. The Company has participated in NEEA since its inception in 1997 and accounts for 9.2% of NEEA's funding—NEEA has five-year funding cycles with the current cycle expected to expire at the end of 2024. Staff quoted NEEA's stated purpose related to creating "an alliance of utilities and energy efficiency organizations that pools resources and shares risks to transform the market for energy efficiency to the benefit of consumers in the Northwest." *Id*. at 12.

Staff raised concerns about NEEA's claimed savings in Case No. IPC-E-21-04. In Order 35720, the Commission ordered the Company and other Idaho utilities to evaluate "(1) the calculation methodologies used by NEEA; (2) the method of allocating those savings; and (3) the cost-effectiveness of those savings based on the utilities' DSM avoided costs." *Id*. at 13. As part of this evaluation, the Company was to arrange for an independent evaluation of NEEA's cost-effectiveness due to Staff's concerns that certain alleged NEEA savings were unwarranted. In coordination with Avista, the Company hired ADM Associates ("Evaluator") to conduct a review of NEEA's cost-effectiveness. The Evaluator interviewed the relevant staff members from NEEA, the Company, and Avista to understand the appropriate methodologies and impacts of NEEA's efforts. The Evaluator "provided findings, observations, and recommendations; reviewed NEEA assumptions and savings calculations; reviewed methodologies and energy impacts attributable to Idaho Power and Avista; verified calculations with a 90/10 confidence where applicable; and proposed alternative-more accurate-methods where applicable." *Id.*; *See* Exhibit 4 at 14.

The Evaluator believed that NEEA participation, taken as a whole, was cost-effective. Based on the Evaluator's assessment of specific programs, Staff determined that the Measures program was not cost-effective every year and had a maximum UCT of 0.28 while the Standards and Codes programs (which both aim at influencing government bodies) had average UCTs of 23.62 and 40.83, respectively. However, the Evaluator did have concerns that the savings from NEEA's Codes program were overestimated; this is a crucial finding because NEEA's Codes program accounts for up to 66% of the savings attributed to NEEA. The Evaluator stated that "NEEA does not conduct influence evaluations for state level code updates." *Id.* at 14. Without independent influence evaluations to compare against, the Evaluator's work incorporated NEEA's claim (that 100% of the savings for state-level updates were attributable to NEEA's Codes program) into the Evaluators assessment. Understanding the errors inherent in this assumption, the Evaluator provided the caveat that NEEA's savings claim that that all state-level updates were due to NEEA's influence was likely overstated.

The Evaluator worked with NEEA in the creation of the Evaluator's report and findings. These findings are listed starting on page 17 of Exhibit 4, which was filed into the record on July 14, 2023. Some of Staff's concerns were addressed in this report (and the associated implementation of certain changes by NEEA). NEEA indicated that certain others could be implemented but with additional labor costs. Of note, Staff remained concerned about NEEA's response to the ninth recommendation in the report ("Recommendation No. 9") concerning the framework used to conduct influence evaluations. For instance, during the last approximately 25 years NEEA has claimed one-third of code savings by using a code life cycle of 10 years instead of 30. To address concerns related to Recommendation No. 9, NEEA stated that it can implement evaluations for certain code updates. However, Staff noted that these implementations would first need to be discussed by NEEA's Cost Effectiveness Advisory Committee ("CEAC") and Staff is concerned that this review and subsequent changes, or lack of changes, may have a material impact on the real savings from NEEA's Codes program, which is supposed to account for most of NEEA-related savings. Staff was also concerned about the actual independence of influence evaluations from third parties due to those evaluations still relying on "NEEA's Standards Development Logic Model." Therefore, Staff believed that NEEA's standards for assessing its own influence are not fully independent and could be speculative or inaccurate.

Staff was also concerned that NEEA's focus is not centered on participants like the Company (e.g. participants who are east of the Cascades and from states without Renewable Portfolio Standards ("RPS")). Staff noted that the needs of the Northwestern states had more commonalities at the inception of NEEA than the region does now. Since that time, Washington and Oregon have increased their focuses on electrification and decarbonization in accordance with their respective RPSs—which may not align with the Company's current vision or mandates on energy efficiency. As an example, Staff pointed to NEEA's actions related to ductless heat pumps. In 2020, Avista and the Company initiated activities aimed at transforming the market to be more compatible with Idaho specific heat pumps—as the Idaho heat pump market was distinct from the greater Northwest. However, NEEA was exiting the heat pump market at this time after declaring it transformed despite persistent barriers in the Idaho market. The Evaluator also noted that the Company and Avista do not share NEEA's perception that NEEA's CEAC meetings are a useful way to provide meaningful feedback on NEEA's cost-effectiveness. Staff believed that NEEA participation should be reevaluated if it does not benefit Idaho customers.

Staff noted that the Company expects to pay approximately $20,290,440 on NEEA participation over the entirety of the 2025-2029 NNE funding cycle—a yearly increase of approximately 1.4 million dollars compared to the current funding cycle. The Company noted that CEAC was to hold a meeting on November 30, 2023, that could provide information relevant to the Company's decision to continue to participate in NEEA. Staff believed that the Company would begin to negotiate with NEEA in December of 2023 and hoped to have proposed potential contracts for the next funding cycle in February of 2024. However, Staff noted that the Company remained uncertain about future NEEA participation. For the reasons stated above, Staff also remained concerned about the cost-effectiveness of the Company's NEEA participation and stated that Idaho utilities were at a crossroad with NEEA where they could continue, limit, or cease

NEEA funding. If the latter options are chosen Idaho utilities could instead invest the funds now going to NEEA into Idaho specific programs like Brio.

STAFF RECOMMENDATION

Staff recommended that the Commission find that the Company prudently incurred DSM related expenditures of $39,886,970, and that the Commission provide the Company with input on the matter of NEEA participation.

COMPANY REPLY COMMENTS

The Company did not object to Staff's assessment that costs related to the Boise Airport ad should be removed from the Company's prudency request. The Company likewise agreed with Staff's suggestion to allocate future Welcome Kit expenses to the REEEI and committed to assess ways to reduce the cost of the kits. The Company also stated that it would make changes to the HCEP by utilizing the new avoided costs from the 2023 Integrated Resource Plan. The Company also agreed to use the measure life to evaluate the cost-effectiveness of HER programs. The Company offered an explanation for the HER program's reduced cost-effectiveness when evaluated on an annual basis. The Company stated that the HER program is anticipated to be cost effective based on a one-year measure life perspective in the future.

The Company shared Staff's concerns about NEEA participation. The Company is likewise concerned that NEEA may not be able to satisfactorily address Staff's concerns about Recommendation No. 9. The Company noted that it would seek Commission approval before signing a contract with NEEA for participation in the 2025-2029 business cycle. The Company stated that "[t]o provide adequate time for the Commission to review, and ultimately decide on Idaho Power's involvement in the next funding cycle, Idaho Power believes having resolution on this matter in advance of August 2024 is necessary." Reply Comments at 5. Accordingly, the Company "anticipates filing that request by September 1, 2024, to allow for a Commission order by the end of 2024." *Id*. at 6. The Company noted that contract negotiations with NEEA could begin in January of 2024. While the Company will engage in these negotiations in good faith—with the assumption that the issues discussed above will be resolved in a satisfactory manner. The Company noted that it is yet unclear how much NEEA benefits Idaho customers and the Company will carefully consider whether entering into a contract, allowing for the Company's participation in NEEA's 2025-2029 business cycle, is a prudent use of its customer's funds.

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. The Commission has reviewed the Application, various supplemental materials, and the comments in this case. Based on our review of the record, the Commission finds that the Company prudently incurred $39,886,970 in deferred costs for its DSM programs—including $31,575,643 in Idaho EE Rider expenses and $8,311,328 in DR program incentives.

The Commission finds that the Company complied with Order No. 35270 in partnering with Avista to secure an Evaluator to assess the cost-effectiveness of NEEA's programs. The Evaluation Measurement & Verification ("EM&V") report was able to provide some clarity on how NEEA quantifies its participation and savings; however, the Commission is concerned that NEEA's claimed savings for Standards and Codes is overstated. NEEA's claims that 100% of NEEA's Code program savings are the result of NEEA's influence remain highly questionable and likely overstates the cost-effectiveness of NEEA participation.

Staff has asserted that NEEA's focus may be more tailored to other NEEA participants (such as states with RPS). This issue is particularly concerning to the Commission. The Commission understands that, in any group or partnership framework, NEEA's proposals and influence won't have the Company's customers as its sole consideration. However, the Commission's concern is whether or not the Company's participation in NEEA is an effective use of Idaho rate payers' funds to the point that such participation benefits the Company's customers through increased opportunities for energy savings. Accordingly, every reasonable effort should be taken to clarify and quantify the value of NEEA participation accurately. If the Company seeks to continue participation in NEEA through the next funding cycle, it should address the issues discussed above when the Company comes before the Commission to renew its NEEA contract. Specifically, the Company should be able to provide resolution to the issues presented in the EM&V report and described by Staff. Such a filing should also demonstrate how NEEA is an effective use of the Company's Idaho rate payer's funds.

ORDER

IT IS HEREBY ORDERED that the Company's total 2022 DSM expenditures of $39,886,970 consisting of 31,575,643 in Idaho EE Rider expenses and $8,311,328 in DR Program incentives, are approved as prudently incurred DSM expenses.

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 29th day of January 2024.

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ERIC ANDERSON, PRESIDENT

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JOHN R. HAMMOND JR., COMMISSIONER

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EDWARD LODGE, COMMISSIONER

ATTEST:

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Monica Barrios-Sanchez
Commission Secretary

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