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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR MODIFICATIONS TO THE COMPANY'S COMMERCIAL & INDUSTRIAL DEMAND RESPONSE PROGRAM, SCHEDULE 82	)	**CASE NO. IPC-E-23-24** **COMMENTS OF THE COMMISSION STAFF**

COMMISSION STAFF ("STAFF") OF the Idaho Public Utilities Commission, by and through its Attorney of record, Adam Triplett, Deputy Attorney General, submits the following comments.

BACKGROUND

On October 2, 2023, Idaho Power Company ("Company"), applied for approval of proposed modifications to Schedule 82—Flex Peak Program ("Schedule 82" or "Flex Peak"). The Company proposes revising Schedule 82 to (1) modify certain payment structures; (2) add a waiver provision covering participating customers whose Load Control Device fails; (3) revise the definition of the "Day of" Load Adjustment; (4) establish an option to extend the four-hour notification limit for certain customers; and (5) add definitions for certain terms along with other minor updates related to the other proposed changes. The Company requested that the Application be processed via Modified Procedure with a Commission order by April 15, 2024.

On October 20, 2023, the Commission issued a Notice of Application and Notice of Intervention Deadline, setting an intervention deadline of November 10, 2023. Order No. 35962. No parties petitioned to intervene.

STAFF ANALYSIS

In general, Staff believes the Company's proposals are reasonable and well supported. The sections below, detail Staff's analysis and recommendations on the proposed incentive structure, advance notification option, actual performance in cost-effectiveness, and other considerations.

Modified Incentive Payment Structure

The primary request of the Application is to change the structure for the fixed payment component of the Flex Peak program incentive. Currently, the program calculates the fixed capacity payment portion of its incentive using a $3.25/kW incentive for nominated load each week and an incentive adjustment penalty of $2.00 per kW for each hour the nomination is not met during a called event. This penalty is intended to encourage participants to provide reliable load reduction during events. In its Application, the Company describes that under the current structure, the incentive adjustment penalty can overly reduce or completely offset the entirety of a participating customers fixed incentive, even when load reduction is realized within the season. Application at 6.

The Company proposes to replace the fixed capacity incentive rate and incentive adjustment penalty with a tiered fixed capacity payment rate based on seasonal performance as shown in Table No. 1. The proposed structure uses the average performance of the participant during called events to determine the fixed capacity payment rate. Average season performance is calculated using a ratio of average actual demand reduction during events to the average nomination for the season. Once the incentive rate is determined, the fixed capacity payment is calculated using average actual kW reduction multiplied by the fixed capacity payment rate and number of weeks in the program season.

Table 1 – Proposed performance tiers and corresponding fixed incentive rate

Average Season Performance Percentage	*Fixed Capacity Payment Rate per kW*
75% - 120%	$3.25
50% - 74.99%	$2.44
25% - 49.99%	$1.63
Greater than 0% - 24.99%	$0.81

The Company states that the proposed structure objectives are to increase flexibility, incentivize customers to perform throughout the entire Demand Response ("DR") season, more accurately compensate customers, and increase customer understanding of compensation structures. Staff's analysis considered these objectives within the context of the proposal's impacts to program participation, performance, and costs. Based on this analysis, Staff supports the Company's proposal.

Participation

In its responses to Production Request Nos. 1, 11, and 16, the Company provided nomination, performance, and incentive data on Flex Peak participants for the 2022 year. Staff's analysis of the Flex Peak participant data discovered that 43 out of 90 participants did not receive incentives in the 2022 program year. Applying the proposed structure to the 2022 program year shows a total of $34,725 in incremental incentive payments associated with these participants. This amount represents realized load reduction that was unrewarded under the current program structure. It is important for the incentive structure to reward realized reductions in order to avoid overly discouraging a large portion of the participant base. Staff believes that the proposal will more accurately compensate participants for realized load reduction, encourage current participants to remain enrolled, and entice new participants.

Demand Reduction Performance

In its Application, the Company describes a situation where participants that were unable to meet load reduction nominations early in a season were unlikely to participate in future DR events in that season as the customer will be unable to offset the penalty. Application at 8.

While the Company's proposal is less punitive than the current structure, Staff believes reducing the overly punitive design of the current structure may encourage participation throughout the DR season. Additionally, Staff believes the calculation of the proposed fixed capacity payments more directly connects incentive payments to actual load reductions and will provide a clearer signal to participants.

Additionally, the Application details an alternative structure proposed by a member of the Company's Energy Efficiency Advisory Group ("EEAG"). The alternative structure proposes to calculate the tiered fixed capacity payment rate based on a per event basis. The Company states that this methodology is not materially different at high performance levels but is less punitive at lower performance levels. While both proposals are less punitive than the current structure, it is still important to retain some amount of punitive effect, particularly at lower performance levels. Staff believes that the Company's original proposal adequately balances compensating participants for realized load reduction while sending a clear signal to encourage performance.

Financial Impact

Under the proposed payment structure, Staff expects the change to result in higher payouts for all participants in this program. The actual fixed capacity incentive payout for the 2022 program year was $430,321. Using the tiered structure proposal with the same 2022 load performance numbers, the payout would increase by $167,466 to $597,788. *See* Response to Production Request No. 1. The Flex Peak Program is funded through the Power Cost Adjustment ("PCA").[1] The PCA during the 2023-2024 year is $408.2 million.[2] Staff believes that this program change would not cause a noticeable increase to the PCA.

In its Application, the Company states that "the proposed changes will not impact the cost-effectiveness of the Flex Peak Program. None of the changes will allow customers to earn more than the estimated maximum $44 per kW per year threshold because the maximum incentive amounts are not changing ($3.25 per kW Fixed Capacity Payment Rate)." Application at 11. Because the proposal does not change the maximum possible incentive payout, the Program is anticipated to remain cost-effective.

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[1] In Order No. 32426, the 2011 General Rate Case, the Commissioners approved letting the DR incentives be paid through the PCA.

[2] *See* Case No. IPC-E-23-12 Application at 12.

Performance Waiver

The second proposal of the Application proposes to include a performance waiver. In response to Production Request No. 4, the Company clarifies that the proposed waiver has no functional difference from the existing incentive adjustment waiver. This waiver was established in Order No. 35677 as a means to hold customers unaffected in the event of the Company's load control device failing. Staff does not object to the proposed language update.

Based on the potential for increased participation, increased participant retention, increased load reduction realization, and the expected change to program costs as indicated by its analysis, Staff believes that the Company's proposed incentive structure is reasonable. Staff recommends that the Commission approve the Company's proposal to modify the incentive payment structure. Staff recommends that the Company continue to monitor the actual demand reduction of its Flex Peak program, report on the effects of this change in its next Demand Side Management ("DSM") annual report, and adjust the program as needed.

Advance Notification Option

The Company's fourth proposal is to implement an advance notification option for customers that participate with 3 megawatts ("MW") or more of nominated load reduction. The Company reports that 24 of the current participants exceed the proposed 3 MW threshold. *See* response to Production Request No. 5. For customers to participate with the advanced notification option, the Company states it will evaluate prospective participants on a case-by-case basis. The Company's evaluations will consider load shape and size, historical participation, customer operating practices, aggregation opportunities, and discussions with the customer. Because of this evaluation, the Company does not believe that there are additional risks in obtaining reliable load reduction. *See* Response to Production Request No. 8 and 10. This proposal is limited to the notification window and will otherwise be subject to the rest of Schedule 82. While not opposed to the proposal, Staff is concerned that the advance notification option represents an increased risk of optouts despite the screening described by the Company.

The Company states that additional notice will allow certain large load customers to nominate large portions of their load. Application at 11. While the nomination may be larger, the increased notification time increases the opportunity for participating customers to prioritize competing business decisions. Staff believes that the risk of participant optout is inherent to the nature of the DR program. While the Company's evaluations are an important check to reduce some risk, they cannot control the decision-making process of the participant. In contrast to the advance notification option, Staff expects that the Company's automatic dispatch option may be more reliable as there is less opportunity for competing concerns to intervene.

Staff recommends that the Commission approve the Company's proposed advance notification option as a pilot program. With a pilot program, the Company will be able to (1) monitor the participation, nominations, and performance of the advanced notification participants; (2) collect data on how nominations are made and updated; and (3) explore alternative incentive structures that reflect the reliability of the nomination with respect to the notification duration (i.e., automatic dispatch, normal notification, advanced notification). Staff proposes a pilot duration of no more than 5 years. This timing will allow the pilot program to span at least two Integrated Resource Plan cycles, account for the ramp time for the new offering, and time to accumulate data. The Company should report on the metrics discussed above on this pilot program as part of its annual DSM reports. Using this cycle, the Company, Staff, and Stakeholders can continually monitor the progress of the program and make adjustments as needed. If the Company wishes to continue the offering beyond a pilot program prior to or after five years, the Company should demonstrate active participation, reliable load reduction, relevant supporting data, and an evaluation of alternative incentive structures based on notification time.

Actual Performance in Cost-Effectiveness Evaluation

Staff is concerned that by using nameplate capacity in the benefit calculation rather than a value that reflects the programs actual realization rates, the Company may be over-valuing the benefit of its DR programs in its cost-effectiveness calculation. In Case No. IPC-E-21-32, the Company revised its cost-effectiveness methodology for all three of its DR programs. As a result, the Company now utilizes Effective Load Carrying Capability ("ELCC") as an overall basis for determining avoided cost and subsequently cost-effectiveness for all three of its DR programs. As a basis in Case No. IPC-E-21-32, the Company used total nameplate capacity for calculating the ELCC, which infers that when a DR event is called, 100 percent of the program's nominated load reduction would dispatch into the event. [3]

[3] *See* Case No. IPC-E-21-32 Application at 7.

Staff analysis of data provided in response to Production Request No. 16 indicates that historical participant performance during a Flex Peak called event over the past 5-year period ranges between 55 percent and 68 percent. *See* Table No. 2 below. By using nameplate capacity rather than realized load reduction, the Company may be overvaluing it's DR program. Staff believes that the changes proposed in this filing will increase the realization rate and reduces some concern; however, the Program is unlikely to achieve a 100% realization rate. Therefore, Staff recommends the Company work with Staff and other stakeholders to consider alternative cost-effectiveness calculations that reflect actual program performance.

Table 2:Flex Peak Program Performance

YEAR	SEASON EVENTS AVERAGE LOAD NOMINATION (kW)	SEASON EVENTS AVERAGE LOAD REDUCTION (kW)	SEASON AVERAGE LOAD REDUCTION VERSUS NOMINATION	SEASON NUMBER OF CALLED EVENTS	SEASON LENGTH (WEEKS)
2019	32,449	22,055	68%	3	9
2020	32,746	17,947	55%	3	9
2021	26,439	14,768	56%	5	9
2022	25,901	14,318	55%	7	14
2023	35,088	20,784	59%	3	14

Additionally, Staff was not able to correlate the Season Events Average Load Reductions to the amount of load reduction included in the Company's 2022 Annual DSM reports for the program. Staff recommends that the Company include a detailed description of how actual load reductions data is used to inform the load reduction values presented in the Company's DSM annual reports.

Other Considerations

"Day-of" Load Adjustment

Staff recommends the Commission approve the Company's proposal to amend the definition of the Day-of Load Adjustment in Schedule 82 to include considerations for planned or unplanned outages during a day when a Load Control Event is called. Although the Company indicates situations of planned or unplanned outages during Load Control Events are infrequent, the definition states the Company may make this adjustment. In discussion with the Company, it stated the intent of the change is to use an alternate data point agreeable to the customer to be used in place of the data point within the outage. As discussed, this could be an hour preceding or prior to an outage event that may more accurately reflect actual operational demand. Staff believes the tariff should add language to be clearer for when the Company may make the adjustment in these situations.

Change to Timing of Weekly Nominations

Staff recommends the Company submit a compliance filing to correct the inadvertent change to Sheet No. 82-5 related to the required participant timing for notification of any weekly change to program nominations. Staff identified a change in the tariff allowing participants the ability to change their nomination within a program week. Staff requested more information related to this change through discovery. In response to the request, the Company stated that it was an inadvertent mistake, and that it is not proposing a change to the timing of weekly nominations as part of this filing, but if in the future the Company believes this change is appropriate, it will make such a proposal in a later filing and will set forth the rationale behind it. *See* Company Response to Production Request No. 15.

STAFF RECOMMENDATIONS

1. Staff recommends that the Commission approve the Company's proposal to modify the incentive payment structure.
2. Staff recommends that the Commission approve the Company's proposal to add a performance waiver for participants with the automatic dispatch option.
3. Staff supports the Company's proposal to adjust the definition of the "day-of" load adjustment, however, Staff recommends that the Company include additional language in the tariff clarifying how the Company might modify the day-of adjustment in those situations.
4. Staff recommends that the Commission approve the Company's proposal to implement an advance notification option for participants capable of large nominations as a pilot program detailed above.

5. Staff recommends that the Company continue to monitor the actual demand reduction of its Flex Peak program and work with Staff and stakeholders to evaluate the cost-effectiveness of its DR programs using actual participant performance rather than nameplate capacity.
6. Staff recommends that the Company submit a compliance filing including language on Staff's recommended pilot program, if accepted by the Commission, additional language on the "day of" load adjustment, corrected language on participant nominations, and other changes as needed to reflect the contents of the Commission's order.

Respectfully submitted this 25th day of January 2024.

Adam Triplett

Adam Triplett
Deputy Attorney General

Technical Staff: Jason Talford (Lead)
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 25th DAY OF JANUARY 2024, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF TO IDAHO POWER COMPANY,** IN CASE NO. IPC-E-23-24, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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