Office of the Secretary
Service Date
September 26, 2024

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR A DETERMINATION OF 2023 DEMAND-SIDE MANAGEMENT EXPENSES AS PRUDENTLY INCURRED	)	**CASE NO. IPC-E-24-11** **ORDER NO. 36331**

On March 15, 2024, Idaho Power Company ("Company") requested that the Commission determine that $38,778,379 of Demand-Side Management ("DSM") expenses were prudently incurred in 2023. The Company requested its Application be processed by Modified Procedure.

On April 17, 2024, the Commission issued a Notice of Application and Notice of Intervention Deadline. Order No. 36145. The NW Energy Coalition ("NWEC"), South Central Community Action Partnership ("SCCAP"), Idaho Conservation League ("ICL"), and City of Boise ("City") intervened. Order No. 36718.

On June 18, 2024, the Commission issued a notice of Modified Procedure, setting public comment and Company reply deadlines. Order No. 36232. Staff, NWEC, SCCAP, ICL, and the City filed comments, advocating that the Commission determine the DSM expenses were prudently incurred and recommending certain specific changes to the Company's DSM programs described in detail below. The Company replied to these comments, focusing on the specific changes recommended by the other parties.

We now issue this Order approving the Application as discussed fully herein.

THE APPLICATION

The Company requests a prudency determination on 2023 DSM expenditures of $38,778,379, including $30,323,272 in Idaho Energy Efficiency Rider ("EE Rider") funds and $8,455,107 in demand response ("DR") program incentives. The Company reports 139,683 megawatt hours ("MWh") in savings from its energy efficiency ("EE") programs, including savings through Northwest Energy Efficiency Alliance ("NEEA").

The Company achieved a total demand reduction of 240 Megawatts ("MW") from its DR programs out of an available capacity of 316 MW. The Company reports energy savings of 24,394

MWh from the residential sector, 86,813 MWh from the commercial and industrial sector, and 4,563 MWh from the irrigation sector.

The Company reported that its DSM portfolio was cost-effective—despite six of its 15 EE programs not being cost-effective. The Company attached its 2023 DSM Annual Report to its Application where it reports its EE portfolio achieved a Utility Cost Test ("UCT") ratio of 2.06.

THE COMMENTS

A. Staff Comments

Staff believed the Company's DSM programs are generally well-managed and recommended the Commission issue an order approving $38,778,379 in 2023 DSM expenses as prudently incurred. However, Staff recommended that the Company explore alternatives or conduct follow-up evaluations in a few specific programs as described below.

1. Financial Review

Staff audited the Company's EE Rider expenses and DR expenses, which included a sample of more than 90 transactions across the Company's DSM programs. Staff recommended the Commission find the Company prudently incurred $38,778,379 in DSM-related expenses for 2023, consisting of $30,323,272 in EE Rider expenses and $8,455,107 in DR incentives.

Staff noted that the Company identified the following three prior year-end adjustments to the 2022 Rider: (1) a $6,998 expense for the Commercial and Industrial ("C&I") EE program erroneously charged to O&M; (2) a $1,289 adjustment for Residential Energy Efficiency Education Initiative activities erroneously booked to Operations & Maintenance ("O&M"); and (3) a $89,680 adjustment for refunded administrative fees. To avoid over or understating the 2023 prudence request, these amounts needed to be added to or subtracted from the EE Rider expenses. The Company also identified the following two current year-end adjustments to the EE Rider for 2023: (1) a $1,771 reduction for O&M that was erroneously charged to the Irrigation Load Control Program; and (2) a $194 addition for Residential New Construction program expenses erroneously charged to the Oregon Rider.

Staff also acknowledged that the Company complied with Order Nos. 33908 and 34874, which cap wage increases charged to the EE Rider at 2 percent of the prior year's average wage per full time equivalent. The Company seeks to collect $3,449,976 in 2023 DSM labor expenses from the EE Rider. According to Staff, this amount is 2 percent more than last year's labor costs, but $175,313 less than its actual labor costs to comply with the Commission's orders. However, as the Commission has previously approved the Company's request to shift these labor costs from the EE Rider to base rates, 2023 is the last year that the EE Rider will fund DSM labor costs.

2. Changes from Other Cases

Staff described various changes to the Company's DSM programs from the Company's 2023 general rate case and 2023 Integrated Resource Plan ("IRP") that will impact the 2024 program year. First, the Company intends to transition from evaluating its DSM programs with avoided cost averages taken from its most recently acknowledged IRP to those contained in it most recently filed IRP. Staff believed this will result in the Company's DSM programs more closely reflecting the Company's system and planning process. Additionally, the 2023 IRP contained changes to seasons and hours of highest risk, leading to changes in the DSM program savings load shapes. However, Staff continues to meet with the Company to address concerns surrounding the exclusion of battery and DR resources when establishing high risk hours.

As part of the Company's 2023 general rate case, two changes were made to the EE Rider. Specifically, $1,324,853 associated with income-qualified weatherization and low-income education funding shifted from base rates to the EE Rider and about $3.5 million of labor costs went from the EE Rider into base rates. *See* Order No. 36042.

3. Commercial & Irrigation Custom Projects

According to Staff, the Company's C&I Custom Projects ("CP") program continues to be the EE portfolio's biggest energy savings program. During 2023, the CP generated 60,667 MWh of annual savings—about 53 percent of the Company's EE portfolio. In generating these savings, the CP also paid out 60 percent of all incentives and generated 43 percent of overall portfolio costs, making it the most expensive EE program. After auditing a selection of the largest CP projects, Staff believed the reported savings are well supported.

4. Other EE programs

After closing the Multifamily Energy Savings program in 2022 due to a lack of cost-effectiveness, the Company launched a revised version of the program in November 2023. According to the Company's discovery responses, the revised program offers rebates like those provided by the Company's C&I DSM programs, rather than the previous direct install program that provided customers no-cost upgrades.

To reduce energy consumption for summer cooling, the Shade Tree project provided residential customers with free trees and educational materials. However, updated mortality rates and heating impact assumptions revealed the program was not cost-effective. Accordingly, the Company discontinued the program after distributing the trees it purchased for 2024.

Staff noted that the Home Energy Reports ("HERs") program generated 17,659,087 kWh of savings in 2023 by providing quarterly reports to customers comparing their energy usage to similar homes along with suggestions for reducing their energy usage. According to Staff, this is more than double the savings of all other residential programs combined. However, Staff had concerns about the availability of the program. Although the Company expanded the HERs program to an additional group of approximately 25,000 customers in 2024, the customers selected for the randomized control group used to statistically validate the saving generated were excluded from the program. Staff acknowledged that randomized control group protocols are standard practice for programs like HERs; however, customers randomly selected to a control group cannot benefit from the program despite contributing to the recovery of the program through the EE Rider.

The Company's discovery responses revealed that it explored using a deemed savings for the HERs program instead of randomized control groups. However, the Company indicated it lacks a proven deemed savings that could be used to estimate savings. Similarly, it would be difficult to evaluate actual savings as there may not be enough non-participating customers to serve as a control group. Staff recommended that the Company continue exploring non-exclusionary methods of evaluating the savings generated by the HERs program.

Staff noted the Company has two low-income weatherization programs: the Weatherization Assistance for Qualified Customers ("WAQC") which is funded through base rates, and the Weatherization Solutions for Eligible Customers, which is funded with EE Rider funds. Neither program was cost-effective in 2023. Staff further indicated that the Company is aware that the Idaho Department of Health and Welfare is proposing changes that may affect the WAQC and the Company will review the impact of these changes as more information becomes available.

To address a large balance of unspent WAQC funds from prior years, the Company received authorization to use these carryover funds on re-weatherization projects. *See* Order No. 35583. During 2023, the Company completed 30 such projects, with a total cost of $358,306. Including this additional expenditure of funds, the WAQC program spent a total of $1,224,051—slightly exceeding the annual allocation of $1,212,534. Staff found this increased funding use encouraging and will continue monitoring the balance of the WAQC program.

Staff's comments also highlighted the decreased cost-effectiveness of the Heating and Cooling Efficiency ("H&CE") program, which provides incentives for the installation of energy-efficient heating and cooling components. According to Staff, the Company indicated this reduction stems from decreased saving assumptions from the Regional Technical Forum ("RTF"), but expects new IRP avoided costs in 2024 will make the program cost effective.

Smart Thermostats accounted for the majority of the H&CE rebates distributed. However, Staff expressed concern that, despite evidence that contractor-installed Smart Thermostats save more than self-installed Smart Thermostats, the Company used the same estimated savings value for both installation types. Although the Company has considered eliminating the incentive for self-installed thermostats, it instead elected to reduce the incentive offered for both installation methods. Staff believed that using the same values for both installation methods may overstate the savings generated. Accordingly, Staff recommended that the Company's next evaluation of the H&CE program include an evaluation of the savings of self-installed and contractor-installed Smart Thermostats.

Staff also observed that, in January 2024, the Residential New Construction Program had its first third-party evaluation ("Evaluation") since graduating from a pilot program in 2021. The methodology and simulated savings basis of the Evaluation concerned Staff. Specifically, Staff believed that the Evaluation lacked utility because it effectively compared the model output savings of the REM/Rate model to itself. Staff was further concerned the Evaluation failed to validate program savings estimates for new construction with the degree of rigor recommended by the RTF's *Standard Savings Estimation Protocol: New Homes*.

Consequently, Staff recommended that the Company conduct a follow-up impact evaluation of the Residential New Construction Program using billing data to quantify the energy saving impacts to the Company's system and include the results with the next possible prudence filing. To ensure that the Company has sufficient accurate data to conduct such an evaluation, Staff further recommended that the impact evaluation consider data from both when the new construction is complete and from when occupation begins and include data from the 2023 program year and, if needed, data from prior program years.

Staff noted that the Company discontinued two programs aimed at businesses. In March 2023, the Company closed its Small Business Direct Install program, which offered no-cost lighting upgrades to hard-to-reach small businesses. The closure resulted from expected cost-effectiveness challenges and completion of the strategic offering of the program to the Company's entire service territory.

Similarly, Staff noted that the Company's contract to provide Commercial Energy-Saving Kits ("ESK") ended in June 2023. Under the ESK program, the Company offered kits containing several energy-saving pieces of equipment including LED lamps, faucet aerators, and an exit sign retrofit kit, mailed to commercial customers by a third-party. Due to the removal of LED light bulb savings and reductions in savings for the other measures, the program was expected to lose cost-effectiveness during 2023.

5. Demand Response

Staff also noted that the Company's three DR programs (A/C Cool Credit ("ACCC") program, Flex Peak program, and Irrigation Peak Rewards program) achieved 240 MW of non-coincident DR from its 316 MW of nameplate capacity and believed that the three programs were well-managed, effective, and prudent. With the removal of the marketing cost cap in Case No. IPC-E-21-32, the Company spent $139,798 on marketing for its DR programs, $55,274 more than 2022. With the increased marketing, the Flex Peak Program and Irrigation Peak Rewards program enjoyed increased participation and demand reduction. However, the ACCC suffered a slight decrease in participation. Staff intends to continue reviewing the expenses and effects of the Company's DR marketing in future prudence filings.

6. N.E.E.A.

As required by Order No. 35270 and in cooperation with Avista Utilities, the Company evaluated NEEA cost-effectiveness. While the evaluation concluded that the NEEA was cost-effective, the Commission has indicated that the Company should demonstrate how NEEA is an effective use of the Company's Idaho ratepayer funds if it desires to continue participating in NEEA. *See* Order No. 36076.

B. The City's Comments

Overall, the City supported the Company's Application and recommended Commission approval. The City encouraged the Company to continue improving the cost-effectiveness of its income-qualified EE programs and to ensure they are designed to leverage the forthcoming federally funded Home Efficiency and Home Electrification and Appliance Rebate programs. Accordingly, the City recommended that the Commission direct the Company to continue offering income-qualified weatherization programs while working to improve their cost-effectiveness.

C. The ICL's Comments

The ICL also recommended approval of the Application and advocated for continuance of the Company's income-qualified weatherization programs. To support this, the ICL noted that the income-qualified programs ensure EE programs are accessible to lower income customers while simultaneously providing societal benefits that are difficult to fully quantify. Accordingly, the ICL recommended that the Commission direct the Company to continue funding these programs while working with its partners and Community Action Partnership agencies to improve the programs' cost-effectiveness and resolve funding backlogs.

D. The NWEC & SCCAP

The NWEC and SCCAP recommended approval of the Company's Application and encouraged the Company to continue funding its income-qualified programs, citing the ostensible benefits they provide that traditional cost-effectiveness tests do not capture (*e.g.*, reduced arrearages, job support, and reduced work absences). Additionally, the NWEC and SCCAP noted that certain EE measures that cost more generate greater savings. Accordingly, NWEC and SCCAP suggested that the Company increase its annual average per project cap in the WAQC program to $10,000 and re-evaluate that cap every three years.

E. Company Reply Comments

The Company largely supported the other parties' recommendations. In particular, the Company committed to exploring the actual savings of contractor-installed and self-installed Smart Thermostats in its next evaluation of the H&CE program. Additionally, although the Company did not oppose exploring different methods of evaluating the savings generated by its Residential New Construction Program, it believed a Commission directive to complete additional analysis was unnecessary at this juncture. Instead, the Company indicated that it intends to work informally with Staff to present and solicit feedback on a recommendation related to an additional evaluation to the November 2024 meeting of the Energy Efficiency Advisory Group. Accordingly, the Company recommended approval of its Application and that the Commission consider exempting its income-qualified weatherization programs from the traditional utility cost-effectiveness analysis.

COMMISSION FINDINGS AND DECISION

The Commission has jurisdiction over this matter under *Idaho Code* §§ 61-501, -502 and -503. The Commission is empowered to investigate rates, charges, rules, regulations, practices, and contracts of public utilities and to determine whether they are just, reasonable, preferential, discriminatory, or in violation of any provision of law, and to fix the same by order. *Idaho Code* §§ 61-502 and 61-503. Having reviewed the record, the Commission finds that the Company's 2023 DSM expenditures were prudently incurred and directs the Company to take additional actions as described below.

The Commission remains appreciative of the Company's continued efforts to offer cost-effective DSM programs to Idaho customers. The record indicates that programs are offered to a variety of customers, including residential, low-income, and businesses. However, it is important for all customers to have access to DSM programs. Consequently, we find it reasonable to direct the Company to continue exploring alternatives to the randomized control group protocol used to statistically validate the saving generated by the HERs program that would allow all customers to participate in the program.

Accurate savings estimates are paramount when evaluating the cost-effectiveness of the Company's DSM programs. Thus, we find it reasonable to direct the Company to separately evaluate the savings of self-installed and contractor-installed Smart Thermostats when it next evaluates the H&CE program. In the same vein, we find it reasonable to direct the Company to conduct a follow-up impact evaluation of the Residential New Construction Program. This evaluation must rely on billing data instead of the simulated savings basis used in the prior evaluation performed on the program and must be included with the next DSM prudence filing.

We next address the Company's two income-qualified weatherization programs. These programs have long struggled to meet traditional cost-effectiveness tests. We recognize that these programs can provide certain health and safety benefits to customers that traditional cost-effectiveness tests do not capture. Additionally, these programs can be especially important for some low-income customers who may otherwise find it difficult to weatherize their homes. However, we do not find that the presence of traditionally unquantifiable benefits is a sufficient reason alone to direct the Company to continue funding its income-qualified weatherization programs or to exclude them from the traditional utility cost-effectiveness analysis. We continue to believe DSM programs are in the public interest when they are cost-effective, a position this Commission has consistently stood by. It is possible that the economic cost of the Company's income-qualified weatherization programs could grow to the point that it would be unreasonable to continue requiring non-participant customers to fund them. We believe that excluding these programs from traditional cost-effectiveness tests would only serve to increase this risk by removing an important incentive for the Company to continue working toward making them cost-effective. Accordingly, although we do not direct the Company to discontinue its income-qualified weatherization programs at this time, we will not direct the Company to continue funding them or exclude them from the traditional cost-effectiveness analysis either. As we have always said, we expect the Company to strive to make all its EE programs cost-effective.

Similarly, we decline to raise the $6,000 cap for weatherization projects. We recognize that the costs of goods and services have increased since institution of the cap. However, it is unclear precisely how much additional savings, if any, raising this cap would realize for the low-income weatherization program. Nor is it clear that raising the cap is necessary to avoid the accumulation of unspent funds, especially as the Company already has authorization to use certain carryover funds on re-weatherization projects.

ORDER

IT IS HEREBY ORDERED that the Company's application is approved, as discussed above. The Company prudently incurred DSM expenses of $38,778,379 during 2023.

IT IS FURTHER ORDERED that the Company shall continue exploring alternatives to validate the savings generated by the HERs program that would allow all customers to participate in the program.

IT IS FURTHER ORDERED that the Company shall evaluate the savings of self-installed and contractor-installed Smart Thermostats during the next evaluation of the H&CE program.

IT IS FURTHER ORDERED that the Company shall conduct a follow-up impact evaluation of the Residential New Construction Program using billing data. This follow-up evaluation shall be included with the next prudency filing.

IT IS FURTHER ORDERED that the Company is directed to work with Staff and other stakeholders to consider and develop alternative cost-effectiveness calculations that reflect actual DR program performance.

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 about 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 26th day of September 2024.

ERIC ANDERSON, PRESIDENT

JOHN R. HAMMOND JR., COMMISSIONER

EDWARD LODGE, COMMISSIONER

ATTEST:

Monica Barrios-Sanchez
Commission Secretary

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