BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF ROCKY MOUNTAIN POWER'S APPLICATION REQUESTING A PRUDENCY DETERMINATION ON DEMAND-SIDE MANAGEMENT EXPENDITURES	)	**CASE NO. PAC-E-22-12** **ORDER NO. 35814**

On August 17, 2022, Rocky Mountain Power, a division of PacifiCorp ("Company") asked the Commission to find it prudently spent $10,039,507 on demand-side management ("DSM") in 2020 and 2021.

On September 14, 2022, the Commission issued a Notice of Application and Notice of Intervention Deadline. Order No. 35530. No one intervened.

On November 4, 2022, the Commission issued a Notice of Modified Procedure establishing public comment and Company reply deadlines. Order No. 35584. On January 9, 2023, the Commission issued a Notice of Amended Comment Deadlines to allow the parties additional time to appropriately respond to production requests and review discovery-related documents. Staff filed comments to which the Company replied. No other comments were received.

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

THE APPLICATION

The Company requests a prudency determination on 2020 DSM expenditures of $5,454,714 and 2021 DSM expenditures of $4,584,793.

The Company reports its DSM programs saved 25,789 megawatt-hours ("MWh") in 2020 and 18,692 MWh in 2021.

The Company reported energy savings associated with its residential programs for 2020 and 2021—7,394,004 kilowatt-hours ("kWh") of savings in 2020 and 5,621,465 kWh in 2021. In 2020 the Company's residential portfolio was not cost-effective, but it achieved cost-effectiveness in 2021.

The Company also reported energy savings associated with its non-residential programs for 2020 and 2021—16,992 MWh in 2020, a 12 percent increase compared to 2019—and 11,863 MWh in 2021, a 43 percent decrease compared to 2020. For both years, the Company's non-residential portfolio was cost-effective.

The Company's DSM program accrual basis accumulated balance was $1,066,780 overfunded on January 1, 2020. On December 31, 2021 the Company's DSM program accrual basis accumulated balance was $465,984 overfunded.

The Commission approved Schedule No. 191, Customer Efficiency Services Rate Adjustment in 2006 to allow the Company to recover prudently incurred costs associated with Schedule No. 21 – Low Income Weatherization/Low Income Education ("LIW/LIE"), Schedule No. 118 – Home Energy Saver ("Wattsmart Homes"), Schedule No. 140 – Non-Residential Energy Efficiency ("Wattsmart Business"), and Home Energy Reports ("HER").

THE COMMENTS

Staff Comments

Staff recommended the Commission approve the Company's request to find it prudently incurred $10,039,507 of DSM expenses in 2020 and 2021. Staff's comments address "the Company's Energy Efficiency ("EE") portfolio, residential programs, non-residential programs, demand response ("DR") programs, avoided cost basis for program evaluations, and annual reports." Staff Comments at 2. Staff also discusses the energy savings claimed by the Company in each year, noting that both years' portfolios, when accounting for both residential and non-residential programs, were cost-effective by the Utility Cost Test ("UCT") measure.

Staff reports the reduction in the overfunded tariff rider balance comes on the heels of Order No. 35546 in Case No. PAC-E-22-10 where the Commission approved an increase for the Schedule 191 rate—from 2.25 percent to 2.5 percent. This increase was in part to fund a new DSM pilot program—Wattsmart Battery Demand Response Program. The new Schedule 191 rate combined with the new pilot program are intended to reduce the overfunded balance to $0.00 by year-end 2024.

Residential Programs

The residential programs as a whole were not cost-effective in 2020, and despite a reduction in claimed savings, was cost-effective in 2021, according to the UCT. Similar to other utilities, the decreased savings in 2021 were not unanticipated due to the sunsetting of the high-efficiency lighting measures.

Staff registered its concerns with the Company's electronics category—part of the Wattsmart Homes program—which had effectively no participation or savings in 2021 when compared to 2018 - 2020. Its UCT was 0.39 in 2020 and 0.08 in 2021.[1] Staff notes that it expects the Company to manage the program—in addition to all programs—for cost-effectiveness but expresses its concern with the category and expects the Company to sunset cost-ineffective measures.

Generally, Staff had concerns that the Company was overstating savings from the Wattsmart Homes program. Staff noted that although there is a delay between the Company's reported savings and the third-party evaluations, it expects claimed savings to align closely with evaluated savings. In 2020 evaluated savings were only 58 percent of claimed savings.[2] Staff added that if claimed savings and evaluated savings continue to have alignment issues, it will impair Staff's ability to support a prudency recommendation, especially for "marginally cost-effective programs." *Id*. at 6. Staff recommended the "Company provide detailed descriptions of evaluation recommendations and other efforts the Company has implemented to address realization rates for each program in its next prudence filing." *Id*.

Staff registered its concern with the HER program's sudden increase in UCT ratio despite only a marginal increase in savings year-over-year. In 2020 the Company reported about 4 million kWh of savings and about 4.25 million kWh in 2021. Despite the nominal increase in savings, the claimed UCT ratio jumped from 2.72 in 2020 to 10.40 in 2021.

Staff next discussed the Company's LIW program and its perceived reporting deficiencies by the Company. Using the PacifiCorp Total Resource Cost ("PTRC") test ratio, the Company reported the LIW program had a PTRC ratio of 0.74 in 2020 and 4.31 in 2021. Staff had concerns with the sudden increase in claimed cost-effectiveness despite decreased energy savings year-over-year. Staff reported it investigated and discovered the Company changed its method for calculating non-energy impacts ("NEI") associated with the LIW program in 2021. Staff discovered the Company included NEI benefits associated with the LIW program in 2021 and then discounted them over the life of LIW measure, essentially turning $41,364 into over $500,000 of benefits. Staff believed the Company overvalued the program's benefits by doing this. Staff also discovered an error of $111,430 included in the Company's 2021 cost-effectiveness workpapers. Adding this

[1] Only two rebates were issued for the Company's residential electronics measure in 2021 after issuing 9,318 rebates in 2020.
[2] Results were not in for 2021.

in addition to the $41,364 discounted over the program's life creates a double counting of benefits. Staff requested updated workpapers to correct the NEI error.

Staff removed the discounted NEI benefits ($500,000) and the erroneously included $111,430 to recalculate a PTRC of 0.72 in 2021. Despite the errors, Staff acknowledged the PTRC ratio suggested the Company's LIW program is performing well compared to peer utilities. Due to the errors, Staff recommended the Company provide thorough reviews of all future third-party deliverables.

Staff recommended the Company audit the CAP Agencies[3] administering energy conservation information and materials to low-income customers. Staff recommended the audit apply to energy savings kit inventories and expenses for years 2020 - 2022, with results included in the Company's next annual report and any necessary adjustments included in the Company's next prudency filing.[4] Staff noted several reporting errors with energy savings kits between 2019 and 2021 that "suggest the lack of proper data tracking and reporting quality control within the CAP agencies and lack of oversight by the Company." *Id.* at 9. Specifically, Staff had concerns with reporting errors/quality and data tracking in kit inventories and expenditures by the CAP Agencies caused by data tracking issues. Staff hopes the audit will also provide an opportunity to establish better data tracking, reporting, and quality control processes" with the Agencies administering the LIW/LIE programs. *Id.*

Non-Residential Programs

Staff recommended the Company "continue its efforts to provide necessary detailed data for full evaluation of [irrigation load control ("ILC")] program's performance and system benefits." *Id.* at 11. Staff noted the ILC program is treated as a system resource but is not part of Schedule 191. The ILC program is measured on a pass/fail basis and passed in both 2020 and 2021.

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[3] Eastern Idaho Community Action Partnership ("EICAP") and Southeastern Idaho Community Action Agency ("SEICAA") (collectively the "Agencies") administer funds for the LIW program to eligible participants.

[4] "The Company's audits should account for the total amount of LIW education disbursements for [2020, 2021, and 2022] and include invoices for purchased Kits, invoices for Kits delivered, any additional expenses incurred delivering Kits, yearly beginning and ending counts of Kits on hand, any Kits accidently damaged, a count of any unaccounted Kits, the value of unaccounted Kits, any other trackable expenses, and a total of any unaccountable expenses." *Id.* at 9.

Staff also provided updates on the new battery demand response program and the proposed Commercial and Industrial demand response program, noting that it will review the former in the Company's next prudency filing and the latter was proposed.[5]

Integrated Resource Plan ("IRP") Avoided Cost Basis

Staff expressed concern with the Company's chosen avoided cost data set for this prudency filing. Staff noted the sudden drastic increase in several DSM programs' UCT ratio despite only minimal changes in reported savings or decreases in savings. Staff had concerns that using avoided cost data from the 2021 IRP opposed to the 2019 IRP—which the Company would historically use—has increased UCT values for several programs artificially. Staff felt this was inconsistent with the Company's former practice. Staff provided examples of the Company's historic practices used to calculate cost-effectiveness using the IRP avoided cost data in place when the program planning occurred to measure program performance versus using the most recent IRP's avoided cost data like the Company did in this case. Staff opined that this practice provided an inappropriate baseline for cost-effectiveness analysis for 2021 programs since the planning occurred when the 2019 IRP avoided cost data was in place. Staff believes this practice may have led the Company to overstating the benefits of its programs.

Staff provided a comparison of the cost-effectiveness results using both 2019 and 2021 avoided cost data. Using the 2021 data consistently inflated the UTC for the DSM portfolio as a whole, the residential and non-residential portfolios independently, and several individual programs. Using 2019 data, as Staff suggested is more appropriate, would decrease the benefits of the EE Portfolio by about $2 million and the residential portfolio would no longer be cost effective in either year. Staff "recommends the Company use IRP avoided cost data in place at the time of program planning consistent with historical practices…" when calculating the cost effectiveness for its programs to include in annual reports. *Id*. at 14.

Annual Report

Staff referenced the new format of the Company's annual reports and expressed its appreciation of the concise reports, but noted that the reports must still contain enough context and detail to support a prudency recommendation from Staff.

[5] On March 31, 2023, the Commission issued Order No. 35772 in Case No. PAC-E-22-13, approving the Company's Commercial and Industrial Demand Response program, effective April 1, 2023.

The Company's Reply

The Company replied to Staff's individual recommendations:

1. Directing the Company to provide detailed descriptions of evaluation recommendations and other efforts the Company has implemented to address realization rates for each program in its next prudency filing.

Company response: The Company committed to continuing to meet with Staff and/or providing the information with its prudency filing.

2. Directing the Company to provide a thorough review of all future third-party deliverables.

Company response: The Company requested clarification regarding Staff's expectations. The Company noted it has many third-party contractors throughout its DSM program and understands that inadvertent errors can and do happen. The Company committed to "thoroughly and ongoingly review third-party deliverables to mitigate future possible errors…." Company Reply Comments at 2.

3. Directing the Company to conduct audits of both LIW Agencies' Energy Saving Kit inventories and expenses for years 2020 - 2022 program years and provide the results of the audit in the Company's next prudency filing.

Company response: "The Company recommends that in lieu of spending customer funds on additional audits, efforts be directed towards working with the Agencies to establish proper and improved data tracking, reporting, and quality control processes going forward." *Id*. at 3. The Company hypothesized that if it conducted audits of the Agencies as suggested by Staff the results would continue to be the same because the Agencies will not be able to provide detailed enough accounting documentation to satisfy the Company or Staff. The Company noted that the way the tariff is set up, its hands are tied in that it must contract with the Agencies to administer the funding for LIW, and that replacing the current structure and using a third-party vendor would give the Company more control and leverage over distribution. Doing this however, the Company opined would sacrifice the benefits of coordinated efforts that come from using the Agencies that distribute state and federal funding along with the Company's LIW funds.

4. Directing the Company to establish data tracking, reporting, and quality control processes with both CAP agencies and provide a detailed summary of the changes made in the Company's next prudency filing.

Company response: *See* response to 3.

5. Directing the Company to continue its efforts to provide the necessary detailed data for full evaluation of the ILC program's performance and system benefit.

Company response: The Company stated it will continue to work to obtain the data Staff requested for the ILC program.

6. Directing the Company to use avoided costs in place at the time of program planning for the purpose of calculating the cost-effectiveness of historical programs.

Company response: "The Company agrees to use avoided costs in place at the time of program planning for the purposes of calculating cost effectiveness of its historical programs for annual reports…." *Id*. at 4.

In response to Staff's general recommendations regarding the Company's annual reporting, the Company agreed to work with Staff to improve its annual reports "in a manner consistent with their purpose…." *Id*. at 4.

COMMISSION DECISION AND FINDINGS

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 2020 and 2021 DSM expenditures were prudently incurred.

The Commission appreciates the Company's efforts to continue offering cost-effective DSM programs to customers in Idaho. The record suggests that programs are offered to ranges of customers, from low income to businesses. We think it is important that all customer classes have access to DSM programs, ensuring the DSM programs can have maximum impact across the system. To make sure the programs are providing their intended value, it is critical that accurate realization rates are known and communicated. We direct the Company to provide descriptions of the evaluation recommendations and the efforts it has made to increase realization rates for all DSM programs in its next prudency filing.

We are concerned with the errors reported in the deliverables from the Company's third-party auditors and contractors. We are of the opinion that the Company's third-party contracts are the Company's responsibility to manage, and the Company should be managing the work product coming from its third-party contracts. The reports and other deliverables from these contractors are important to determining the actual value of the Company's DSM programs and whether the Company is incurring expenses prudently. We expect the Company to make sure correct information is being filed before filing or responding to production requests. The Company must verify the accuracy of the reports it ultimately provides to develop the record in its DSM prudency determination cases and all other matters before this Commission.

We are concerned with Staff's portrayal of errors in kit inventory and expenditures tracking in the LIW/LIE programs. We expect the Company to manage its partner Agencies as prudently as we expect it to manage the programs it administers in-house. The Company has a duty to all customers who fund the DSM programs through the EE Rider to monitor and track the funds that are expended to support these programs. The Company shall conduct an in-house audit of the expense and inventories for the LIE program. The results of this audit shall be provided with its next prudency filing. We direct the Company to develop better tracking mechanisms and explanations for the improvements we anticipate will occur after the Company audits the low-income programs. We think the Company working more closely with the Agencies administering the funds and materials will be more effective in combating the errant tracking and reporting described in Staff's comments. If this does not improve in the next prudency filing, we may direct the Company to conduct a third-party audit or disallow certain expenses which cannot be adequately accounted for.

We direct the Company to continue to provide detailed information to Staff's request for the ILC program as it becomes available or explain why it cannot be provided. To the extent Staff needs information the Company does not currently track, the Company and Staff should work together to determine steps the Company can take to gather and provide the data.

Finally, we direct the Company to use the avoided cost data in place when the program planning occurs for the purposes of calculating the cost-effectiveness of its DSM programs. We find this provides the most objective measure for program performance and prevents selecting favorable avoided costs to prop-up programs that need additional scrutiny due to underperformance.

ORDER

IT IS HEREBY ORDERED that the Company's Application is granted as discussed above. The Company prudently incurred DSM expenses of $5,454,714 in 2020 and $4,584,793 in 2021.

IT IS FURTHER ORDERED that the Company is directed to audit the Agencies administration of the low-income programs and discuss the findings in its next prudency filing. The Company shall also work to improve data tracking and reporting procedures for these programs and all its programs.

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 13th day of May 2023.

ERIC ANDERSON, PRESIDENT

JOHN R. HAMMOND JR., COMMISSIONER

EDWARD LODGE, COMMISSIONER

ATTEST:

Jan Noriyuki
Commission Secretary

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