Office of the Secretary
Service Date
August 13, 2021

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA'S APPLICATIONS FOR A PRUDENCY DETERMINATION FOR ITS 2018-2019 ELECTRIC AND GAS ENERGY EFFICIENCY EXPENDITURES	)	**CASE NOS. AVU-E-20-13 AVU-G-20-08** **ORDER NO. 35129**

On November 25, 2020, Avista Corporation dba Avista Utilities ("Company") filed two Applications, each requesting the Commission issue an order finding that the Company's electric or gas energy efficiency expenditures from January 1, 2018 through December 31, 2019 were prudently incurred (referred to collectively as the "Applications"). The Applications summarize the Company's energy efficiency activities and their cost-effectiveness. The Applications include the Company's 2018 and 2019 Annual Conservation Reports ("ACR") and the 2019 Idaho Research and Development Report. The Applications also include the 2018-2019 impact evaluation reports for the Company's electric and gas energy efficiency programs. The Company requests that the Applications be processed by Modified Procedure.

On December 30, 2020, the Commission issued a Notice of Applications and Notice of Intervention Deadline. Order No. 34879. In Order No. 34879, the Commission approved Staff's recommendation to process the Applications as a single case. No one petitioned to intervene. A Notice of Parties was issued on January 22, 2021.

On February 8, 2021, the Commission issued a Notice of Modified Procedure establishing deadlines for public comments and the Company to reply. Order No. 34916. Staff filed comments to which the Company replied. No other comments were received.

Having reviewed the record, the Commission now issues its final Order with its prudency determinations and other directives.

THE APPLICATION

The Company requests a prudency determination for $15,309,862 incurred in 2018/2019 for its electric energy efficiency programs portfolio ("Electric Programs"). $10,021,973 was paid directly to customers.

The Company's Electric Programs had an underfunded balance of $9,574,630 on December 31, 2017.[1] On December 31, 2019 the underfunded balance had been reduced to $4,375,287.

The Company measures the cost effectiveness of its Electric Programs using the Utility Cost Test ("UCT"), Total Resource Cost ("TRC"), Participant Cost Test ("PCT"), and Ratepayer Impact Test. The 2018 UCT and TRC ratios for the Company's Electric Programs were 2.66 and 2.07, respectively. The 2019 UCT and TRC ratios for the Company's Electric Programs were 2.39 and 1.95, respectively.

The Company exceeded its energy efficiency targets set in its Integrated Resource Plan ("IRP") for both 2018 and 2019. In 2018, the Company achieved 29,805 megawatt-hours ("MWhs") of electric savings—160 percent of the IRP target. In 2019, the Company achieved 25,231 MWh of electric savings—144 percent of the IRP target.

The 2018/2019 third-party process and impact evaluations concluded the Company's Idaho Electric Programs cost-effectively saved 55,036 MWhs.[2] The purpose of the evaluations is to accurately summarize the energy savings attributable to the Company's Electric Programs (impact) and to identify any improvements needed to increase effectiveness and efficiency (process).

The Company requests a prudency determination for $2,896,986 incurred in 2018/2019 for its natural gas energy efficiency programs portfolio ("Gas Programs"). $2,263,689 was paid directly to customers.

The Gas Programs had an overfunded balance of $180,889 on December 31, 2017. As of December 31, 2019 the overfunded balance had been reduced to $78,073.

The Company reports its Gas Programs achieved a 2.12 UCT ratio in 2018 and 1.50 UCT ratio in 2019—both years exceeding the Company's target of a UCT greater than 1.0.

In 2018, the Company saved 247,756 therms of gas—101 percent of the IRP target. In 2019, the Company saved 216,962 therms of gas—68 percent of the IRP target.

In 2018/2019 the Company's Gas Programs achieved 464,718 therms of savings.

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[1] The underfunding was addressed by Order No. 33897 in Case No. AVU-E-17-06, which authorized increasing schedule 91 rates effective October 1, 2017.

[2] This is exclusive of the 8,817 MWhs of Northwest Energy Efficiency Alliance savings.

STAFF COMMENTS

Staff filed comments recommending the Commission approve $15,220,138 in electric and $2,828,124 in natural gas expenditures as prudently incurred from January 1, 2018 through December 31, 2019.

Adjustments

Staff offered several adjustments in its recommendations for prudently incurred Demand Side Management ("DSM") expenses. Staff recommended removing all expenses paid to Nexant in 2018 for the Company's evaluation since those expenses were incurred for the 2016/2017 Evaluation, Management, and Verification ("EM&V") reports. Staff noted this was agreed to in the Stipulation between Staff and the Company and adopted by the Commission in the Company's last DSM prudency case.[3] Staff recommended disallowing Nexant expenses of $155,122 for 2016/2017 EM&V work.

Staff also recommended the following adjustments (1) $6,650 Idaho electric incentive payment incorrectly assigned to the Idaho natural gas tariff, which Staff has re-assigned to the electric tariff; (2) $1,885 of electric expenses; and (3) $1,576 of natural gas expenses that should have been assigned to the Company's Washington customers. Combined with the Nexant adjustment, these adjustments would decrease the Company's prudency request by $89,725 for the electric rider and $68,860 for the natural gas rider.

Energy Efficiency Portfolio

In 2018 the Company's electric energy portfolio achieved 160 percent of its IRP goals and in 2019 it achieved 144 percent of its goals. Though the Company exceeded its IRP goals for energy efficiency in 2018 and 2019, both years represented a decrease from its 2017 savings. Much of the reduced savings in 2018 and 2019 was attributable to non-residential interior prescriptive lighting. In 2018 the Company's natural gas portfolio achieved 82 percent of its IRP goals and in 2019 it achieved 68 percent of its IRP goals.

Because of the Energy Independence and Security Act, market saturation of residential LED lighting, and the end of Bonneville Power Administration's Simple Steps, Smart Savings program,[4] Staff is concerned the 2022 DSM filing will show a significant decrease in the residential

[3] Case Nos. AVU-E-18-12 and AVU-G-18-08.

[4] Simple Steps, Smart Saving's program accounted for about 50 percent of the savings in the residential portfolio in 2018-2019.

energy portfolio. Staff encouraged the Company to work with its Energy Efficiency stakeholders to develop a plan to replace energy savings no longer claimed due to the elimination of the Simple Steps, Smart Savings program.

Staff discussed the inconsistency of the Company's energy efficiency rebate and incentive values. Staff noted several occasions where the rebate or incentive amount changed during the year. Staff learned that the Company tries to match rebates for its programs in Idaho and Washington. However, with Washington being evaluated from the TRC perspective and Idaho by the UCT perspective, Staff notes this can be difficult and causes varying rebate amounts between jurisdictions. Staff believed the Company should evaluate its rebates and incentives from the UCT perspective for its Idaho customers before making changes to the rebate and incentive values. Staff believed the Company should consult with its Energy Efficiency stakeholders to formalize a process for evaluating and altering rebate and incentive levels and to document and formalize a process for setting and adjusting rebates and incentives.

Low-income weatherization

In 2018 and 2019, the low-income natural gas programs were cost ineffective from both the TRC and UCT perspective. In 2018, the Company achieved 66 percent of its savings goal and 22 percent of its participation goal for the low-income natural gas programs. In 2019, the trend continued with the Company achieving 15 percent of its savings goals. Staff encouraged the Company to work with Lewiston Community Action Partnership to address decreased participation and increased throughput.

Northwest Energy Efficiency Alliance ("NEEA")[5]

Staff reported the Company spent a combined $1,296,544—seven percent of the Idaho rider funds—on regional market transformation through NEEA in 2018 and 2019. NEEA reported a combined savings of 8,819 MWhs savings in 2018/2019.[6] Staff believed that NEEA claimed savings in Idaho for code changes in Oregon and Washington. Staff is concerned that NEEA claims savings it is not directly responsible for. Staff added that to support the continued funding of NEEA, an independent EM&V should be conducted to clarify the savings NEEA claimed plus the

[5] Through market transformation in the Pacific Northwest, NEEA's purpose is to improve gas and electricity efficiency usage by endorsing and advancing energy-efficient practices, services, and products. NEEA claims savings in two areas: 1) efficiency measures; and 2) codes and standards.
[6] 85 percent of the NEEA reported savings (7,480 MWh) originated from codes and standards and the remaining originated from efficiency measures.

allocation and cost effectiveness of those savings to its member utilities based on the utilities' DSM avoided cost.

Compliance with Order No. 34647

In Case Nos. AVU-E-18-12 and AVU-G-18-08, the Commission adopted the Stipulation requiring the Company to take additional steps to improve its Energy Efficiency Program. *See* Order No. 34647. Since Order No. 34647, the Company has complied with the terms of the Stipulation, which included re-submitting its 2018 ACR, holding a Business Process Improvement workshop focusing on its annual reports and EM&V, and performing an internal audit of its energy efficiency processes.

Staff found errors in Cadmus' output files detailing the Company's savings, administration cost, incentive cost, benefits, and total costs for the UCT, TRC, and PCT.[7] In these files for the 2018 low-income natural gas portfolio and the 2019 non-residential electric portfolio, Staff discovered discrepancies between the "total cost" and the cost reported for the UCT test.

Staff discussed issues with previous DSM prudency cases and noted it discovered similar issues in this case. In this case, the output files provided to Staff for the Company's cost effectiveness calculations contained hard-coded numbers without the source of the avoided-cost calculations. Staff believed these errors should have been caught during the quality control process and would have not occurred had the Company conducted its cost effectiveness test internally. Staff opined the Company should internally conduct and calculate its cost-effectiveness tests.

Research and Development Funding

Staff recommended the Company be allowed to recover this year's expenses for the DSM Research and Development ("R&D") program; however, Staff also recommended that future funding for this program either be discontinued or suspended until the program can be redesigned to focus on R&D that provides benefits for Idaho customers. Staff's review of all projects funded since the program's 2013 inception, uncovered no instance in which the Company implemented the results of a DSM-funded R&D project for the benefit of its ratepayers. Further, Staff saw no evidence that the Company has a process for efficiently implementing the results of R&D funded by the DSM rider.

[7] Cadmus prepared the 2018/2109 report.

COMPANY REPLY COMMENTS

Nexant Expenses

The Company disagreed with Staff's recommendation to "remove all expenses paid to [Nexant] for the Company's third-party evaluations in 2018 related to its 2016/2017 biennial EMV reports." The Company noted the additional disallowance of $155,123 plus the $374,934 agreed to in the Stipulation in Case Nos. AVU-E-18-12 and AVU-G-18-08 would result in an overall disallowance of $530,057—exceeding the total 2016/2017 Nexant engagement costs allocated to Idaho. According to the Company, some of the expenses paid to Nexant in 2016/2017 were trailing charges booked in 2016 but related to the 2014/2015 EM&V and, it is not uncommon for EM&V expenses to "trail the actual review period as the evaluator requires the year to be completed before it is evaluated."

The Company argued that Staff should have reviewed any costs from the 2014/2015 EM&V period included in the 2016/2017 period and likewise any costs from the 2016/2017 period that were included in the 2018/2019 period. The Company provided a table, including trailing costs, showing that it incurred $177,982 in EM&V costs for 2014/2015 and $352,072 for 2016/2017 which were assigned to Idaho. *See* Company Reply Comments at 2. The Company argues the $374,974 agreed to in the Settlement in Case Nos. AVU-E-18-12 and AVU-G-18-08 already exceeded its Idaho jurisdictional costs for the 2016/2017 EM&V expenses actually incurred. The Company believed it addressed Staff's concerns with the cost of the Nexant EM&V study and disagreed that additional adjustments are necessary as recommended by Staff.

Rebates and Incentives

The Company stated it understood Staff's concern with the fluctuating incentive values in its Energy Efficiency program and stated it strives to avoid unnecessary incentive adjustments. The Company tries to maximize the value of incentives and to remain cost-effective per the UCT—generally adjusting rebates downward only when its recommendations from Impact Evaluations indicate doing so, or to align with revisions to the Regional Technical Forum.

The Company is willing to work with Staff and stakeholders to formalize a process for evaluating and changing incentives. The Company will work with Staff to determine how impact evaluation information should be used and when incentive levels should be locked in.

NEEA

The Company stated the NEEA program savings benefit the Northwest region, rather than one state or region. The Company acknowledges Staff's concern with the NEEA program and will include an evaluation of the program as part of its overall EM&V process.

Annual Conservation Report

The Company acknowledged the errors in the ACR referenced in Staff's comments. The Company claimed the errors originated from its third-party impact evaluation workpapers and were missed in the Company's review. The Company offered that the errors had minimal impacts on the overall program outcomes. The Company noted that the 2018 UCT had no change when adjusted and the 2019 UCT had a change of .01 for electric and .13 for natural gas. *See* Company Reply Comments at 4.

The Company committed to continue to improve its review process and overall reporting elements. The Company requested adequate time to develop a method, a formalized process, and a technology plan—which will help inform a timely and accurate cost-effectiveness analysis. The Company noted it is contracted with Cadmus for the 2020/2021 program years. Additionally, the Company mentioned that Cadmus and ADM have recently completed cost-effectiveness work for the Idaho programs causing the Company concern that if any in-house cost effectiveness analysis is performed the costs already incurred by the third-party evaluators would not be considered used or useful by Staff. To address this concern, the Company requested that for the 2020/2021 period, the Company perform a combined two-year cost-effectiveness analysis to be submitted with the 2021 ACR.

Research and Development

The Company acknowledged Staff's concerns with its Idaho R&D projects and agreed to discontinue the R&D program until such time that the program can be redesigned to focus on projects that provide the "near-term, practical benefits for Idaho ratepayers." The Company requested that it be allowed to continue with any R&D work already in progress, especially for projects already contracted.

COMMISSION DECISION AND FINDINGS

The Company is an electrical and gas corporation, and the Commission has jurisdiction over it and the issues in this case under Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000, *et seq*.

Based on our review of the record, including Staff's comments and the Company's reply, the Commission finds that in 2018/2019 the Company prudently incurred expenses of $15,314,627 for its Electric Programs and $2,888,758 for its Natural Gas Programs.

The Commission recognizes Staff's suggested adjustments, including its recommendation to disallow $155,122 of Nexant expenses incurred for the previous EM&V. We are allowing the Company to recover the Nexant expenses of $155,122. We understand that Nexant did not provide an accurate or useful EM&V report in the prior cases, but we are satisfied with the terms of the Stipulation between Staff and the Company in Case Nos. AVU-E-18-12 and AVU-G-18-08 that ensures Idaho customers were not responsible for the expenses associated with the Nexant 2016/2017 EM&V report. Additionally, we are satisfied with the Company's explanation of trailing costs associated with various Nexant reports and the accounting treatment those costs receive. We agree the uncontested adjustments recommended by Staff are appropriate and have adjusted the amounts of Electric and Natural Gas DSM expenses allowed for recovery to reflect these adjustments.

The Commission understands Staff's concerns about the Company's DSM R&D program. We agree that the intent of the program is to produce "near-term, practical benefits for Idaho ratepayers," which the Company's program has not done. Despite this, we find R&D is critical to continuing to provide reliable electric and natural gas services to customers in Idaho. We remain optimistic that the Company's R&D program can deliver the intended results. Instead of discontinuing the R&D program, we direct the Company to propose an updated R&D program that includes metrics and targets that can be met and monitored. We realize that R&D alone does not guarantee short- or long-term benefits, but we would like to see the Company prioritize results that can generate benefits for Idaho customers. The Company may continue the R&D it has already committed to funding, but before any additional R&D is funded—for which the Company will seek to recover as a prudently incurred expense from Idaho customers—we direct the Company to file a proposed updated R&D program that includes measurable targets and metrics.

The Commission is concerned with the Company's tendency to change some rebate and incentive values frequently. This creates uncertainty for customers who may be interested in the programs, but hesitant to participate due to fluctuations in the rebate and incentive values. An objective standard for changing rebate and incentive levels may encourage participation. We direct the Company, Staff, and interested parties to work together to develop a process to evaluate and change rebate and incentive values. The parties working to address this issue should rely on objective criteria as a baseline for changing the rebate and incentive values and should continue to focus on being cost-effective from a UCT perspective.

The Commission understands the Company's concerns about conducting its own cost-effectiveness work in-house while it is still contracted with Cadmus for the 2020/2021 reporting period. The Company may perform a combined two-year cost-effectiveness analysis to be submitted with its ACR. We find this will allow the Company adequate time to implement a cost-effectiveness method into its planning and analytics work.

The Commission notes Staff's concern with NEEA expenses and directs the Company to conduct an independent EM&V to clarify the NEEA claimed savings. We agree it is concerning for NEEA to claim savings from electrical codes in jurisdictions outside of Idaho. We direct the Company to verify the accuracy of these claimed savings through an independent EM&V. If the savings from interjurisdictional codes and standards cannot be verified, then the method for claiming NEEA savings should be adjusted to remove non-Idaho electrical code savings. If NEEA is no longer cost-effective after an independent EM&V is conducted, the Company should re-examine its continued participation.

ORDER

IT IS HEREBY ORDERED that the Company's 2018/2019 DSM expenditures are approved as prudently incurred in the amounts of $15,314,627 for its Electric Programs and $2,888,758 for its Natural Gas Programs—as described above.

IT IS FURTHER ORDERED that the Company may continue with its R&D programs that it has already committed to fund but before committing to future R&D programs the Company shall propose and seek approval of an updated R&D program that includes metrics and measurable targets.

IT IS FURTHER ORDERED that the Company shall meet with Staff and any interested parties to develop an objective framework for adjusting incentive and rebate levels.

IT IS FURTHER ORDERED that the Company shall conduct a separate EM&V for NEEA to be included in the next DSM filing.

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 August 2021.

PAUL KJELLANDER, PRESIDENT

KRISTINE RAPER, COMMISSIONER

ERIC ANDERSON, COMMISSIONER

ATTEST:

Jan Noriyuki
Commission Secretary

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