Office of the Secretary
Service Date
January 21, 2020

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF INTERMOUNTAIN GAS COMPANY'S APPLICATION FOR DETERMINATION OF 2017-2018 ENERGY EFFICIENCY EXPENSES AS PRUDENTLY INCURRED	)))))	**CASE NO. INT-G-19-04** **ORDER NO. 34536**

On August 9, 2019, Intermountain Gas Company ("Company") applied to the Commission for an order designating its 2017-2018 residential Energy Efficiency Program ("EE Program") expenses as prudently incurred. The Company requested that its Application be processed under Modified Procedure.

On September 17, 2019 the Commission issued a Notice of Application and Notice of Modified Procedure setting public comment and Company reply deadlines. Order No. 34440. Commission Staff filed comments and supported the Company's Application. One set of public comments was received. The Company did not reply to either set of comments.

Having reviewed the record, we approve the Company's Application as discussed below.

BACKGROUND

In Case No. INT-G-17-03, the Commission authorized the Company to implement: 1) Rate Schedule EE—Residential Energy Efficiency Rebate Program, outlining the offerings of the EE Program; and 2) Rate Schedule EEC—Energy Efficiency Charge ("EE Charge"), establishing a per therm charge to fund the EE Program. *See* Order No. 33888; Application at 4. The EE Program is funded by customers via the EE Charge. Application at 5. Both Schedules became effective October 1, 2017. *Id.* at 4. The initial period for both Schedules ran from October 1, 2017 through December 31, 2018 ("Initial Period"). *Id.*

2017-2018 EE PROGRAM EXPENSES

The Company asked the Commission to find the Company prudently incurred $1,496,198 in EE Program expenses during the Initial Period. *Id* at 5, 8. Of these expenses, $1,227,650, or 82%, was spent on rebates paid directly to customers. *Id.* at 5. The remaining $268,548 was incurred for labor, EE Program delivery, and a Conservation Potential Assessment ("CPA"). *Id.* at 6. The $0.00367 per therm EE Charge established in Order No. 33888 generated $1,185,328 for the EE Program during the Initial Period. *Id.* at 5. For the Initial Period, expenditures exceeded revenues collected through the EE Charge by $310,870. *Id.* at 6. In Case No. INT-G-19-05, the

Company separately asked the Commission to adjust the EE Charge going forward effective October 1, 2019, and for permission to recover the deferred expenses from October 1, 2017 through June 30, 2019 for its EE Program.[1]

COMMENTS

I. Commission Staff

Staff examined the Company's Application, work papers, 2018 Energy Efficiency Report, exhibits, Conservation Potential Assessment ("CPA"), and production responses. Staff Comments at 2. Based on its review of these documents, Staff recommended the Commission approve the Company's EE Program expenses of $1,496,198 as prudently incurred. *Id.* Staff also noted, however, that the Company should reevaluate several of the initial assumptions about EE Program savings and incentive levels as soon as possible. *Id.* Staff also made recommendations that addressed the Company's EE Program financials; EE Program offerings; avoided costs; Evaluation, Measurement, and Verification ("EM&V"); CPA; and other issues. *Id.*

A. Financial Review

Staff reviewed transactions across the Company's EE Program. *Id.* at 3. Staff verified the Company had sufficiently documented the expenses and had internal controls to prevent improper incentive payments and to properly record EE Program expenses. *Id.* Staff also verified that labor expenses were prudently incurred and similar to those incurred for energy efficiency programs offered by other Idaho utilities. *Id.*

B. DSM Program Assessment

1. Whole Home Program—Staff had several concerns with the Whole Home Program. *Id.* at 4-7. Staff was concerned that the Company's deemed savings estimate of 204 therms did not accurately reflect natural gas savings achieved by the incentive. *Id.* at 5. Staff also noted that the Company's work papers did not support the Company's 204 therm savings value. *Id.* at 7. Staff believed the Whole Home Program's actual therm savings could be determined by comparing actual billed consumption for a sample of homes receiving a Whole Home Program rebate to actual billed consumption for a sample of similar new homes that did not receive a rebate. *Id.* Staff also opined that the Company needed to update its energy savings values and incentive levels as soon as possible, and that a third-party EM&V study should be completed. *Id.* Staff recommended that,

[1] In Order No. 34454 the Commission approved the Company's Application to revise the EE Charge rate to $0.02093 per therm from the initial charge of $0.00367 approved in Order No. 33888. This amount was allowed to permit the Company to recover the deferred balance of its EE Program, including that from the Initial Period. Order No. 34454 at 4.

until a third-party EM&V study could be completed, the Company should compare bill consumption and update its actual therm savings and incentive levels. *Id.*

Staff also recommended that a third-party evaluator reevaluate the Home Energy Rating System ("HERS") threshold of 75 or less. Staff's concern was that 1,035 nonparticipating homes had an average HERS score of 64 versus an average score of 61 for participating Whole Home Program homes. *Id.* at 5. Staff noted that 94.7% of nonparticipating homes that received a HERS score[2] would have qualified for the Company's Whole Home Program. *Id.* Staff believed a HERS score of 75 was a reasonable starting point, but that the score should be reevaluated now that the Company has acquired adequate data. 6-7.

2. Space heating, fireplace inserts, and water heating measures—Staff reviewed the space heating, fireplace, and water heating incentives and installations and believed that all energy savings and incentive levels should be reevaluated and updated as soon as possible, with one exception. *Id.* 8-9. Staff supported the Company's stated desire to discontinue the 80% Annual Fuel Utilization Energy condensing fireplace incentive.[3] *Id.* at 8.

C. Avoided Cost

Staff raised several concerns with the Company's avoided cost calculations. *Id.* at 9. Staff stated the Company's avoided cost calculations should have excluded base rate embedded distribution costs because costs that are already incurred and embedded in rates cannot be avoided. *Id.*

Staff also believed the Company's avoided commodity cost forecast was unreasonably high and exceeded the costs the Company could avoid. *Id.* at 10. Staff excluded embedded distribution costs and recalculated the Utility Cost Test ratios for each of the six incentives offered by the Company that were utilized by customers. *Id.* Staff's updated calculations suggested that the Whole Home and High Efficiency Natural Gas Furnace incentives were no longer cost-effective. *Id.* at 9-10. Staff believed it was likely that a review of the Company's avoided costs would identify and quantify capacity contributions for some of the Company's EE Program measures. *Id.* Staff recommended the Company and its Energy Advisory Group review its avoided cost calculations. *Id.* at 12.

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[2] Not every new home constructed during the initial period received a HERS evaluation. Because this evaluation is voluntary, Staff suggests the results from HERS score comparison is not dispositive of ineffectiveness of the incentive.
[3] Because zero customers elected to use this incentive, the Company and Staff both agree it should be discontinued.

D. EM&V

The Company's EE Program has been underway for over two years, and Staff noted several concerns about the savings associated with the Company's Whole Home Program and other EE Program incentives. *Id.* Staff offered that the Company should conduct an EM&V study to verify the savings achieved by each incentive as a baseline for its EE Program updates. *Id.* Staff recommended that the Company develop a plan to complete an EM&V study within two months of a Commission's final order in this case. *Id.* Staff recommended the plan outline when requests for proposals must be submitted, how and when a contractor would be selected, and how the Company would use the findings to evaluate and update its EE Program. *Id.*

E. Marketing and Outreach

Staff believed that the Company demonstrated innovative and cost-conscious marketing strategies, although Staff did not believe that all information was clearly related to the Company's EE Program. *Id.* at 13. Staff saw an opportunity for the Company to refocus its EE Program marketing on available incentives. *Id.* Staff believed the Company could improve its marketing as it developed its understanding of the target population and tailored its message to specific customer segments. *Id.*

II. Public Comments

The Commission received one public comment. The comment urged the Commission to deny the Company's Application until a third-party evaluation has been completed detailing whether the EE Program is cost-effective based on the National Action Plan for Energy Efficiency standards. The commenter hoped the evaluation would at least show the Company planned and managed its EE Program with a reasonable expectation that the EE Program would be cost-effective.

COMMISSION DISCUSSION AND FINDINGS

The Company is a gas corporation under *Idaho Code* § 61-117, and a public utility under *Idaho Code* §61-129. The Commission has jurisdiction over the issues in this case under Title 61 of the Idaho Code, including *Idaho Code* §§ 61-301, 501, 502, and 503. The Commission has reviewed the record. Based on that review, the Commission finds the Company prudently incurred $1,496,198 in EE Program expenses from October 1, 2017 through December 31, 2018.

While we approve the Company's EE Program expenses as prudently incurred, it is with several required conditions attached. We acknowledge that the Company has made a good-faith effort with its initial incentive offerings, and laud the Company's effort to create a functional EE Program. But the Company must still strive to better align the incentives offered with energy efficiency outcomes sought by the Company and this Commission. We find it reasonable to direct the Company to commission a third-party EM&V study for all EE Program incentives. We agree with Staff's suggestion that the Company should, within two months of this Order, develop a plan for having an EM&V study completed. The study will serve as a foundational steppingstone for determining which EE Program incentives are economical or uneconomical, and which modifications should be made. We also find it appropriate for the Company and its Energy Advisory Group to review the Company's avoided cost calculations concurrently with the EM&V study.

Regarding the Company's EE Program, we see room for the improvement of all incentives offered as best practices are developed. The Company should update all incentive levels as soon as possible and should also continuously reevaluate and update those incentives.

An area of specific concern is the Whole Home Program. First, the Company's 204 therm deemed savings value should be reevaluated as soon as possible. The deemed savings value should be based on a comparison of actual billing data from similar new homes constructed which received the rebate and ones that did not receive the rebate. We feel the Company now has adequate data to accurately update this value. With an updated deemed savings value, the Company should have sufficient information to update this incentive before the EM&V study is completed. Second, we are unsure if the HERS threshold of 75 is still a reasonable threshold for the Whole Home Program. After the EM&V study is completed, we encourage the Company to consider modifying the HERS threshold of 75 for the Whole Home Program.

We also agree with the Company and Staff's recommendation that the Company discontinue the 80% Annual Fuel Utilization Energy ("AFUE") condensing fireplace incentive.

Overall, we believe the Company is headed in the right direction with its EE Program, and we look forward to seeing the EE Program evolve. Conducting the EM&V study, updating the avoided cost, and reevaluating all continuing incentives should provide a baseline for the future of the Company's EE Program. We encourage the Company to collaborate with Commission Staff and appropriate advisory groups to tailor its EE Program incentives to attract customers and developers and offer cost-effective energy efficiency measures for the Company.

ORDER

IT IS HEREBY ORDERED that the Company's Application is granted. The Company prudently incurred $1,496,198 in EE Program expenses from October 1, 2017 through December 31, 2018.

IT IS FURTHER ORDERED that within two months of this Order, the Company shall develop a plan to have an EM&V study completed for its EE Program. The EM&V study will be used to assess and modify the incentives offered through the EE Program.

IT IS FURTHER ORDERED that the Company shall review avoided costs and update its avoided cost calculations based on the review, as noted above.

IT IS FURTHER ORDERED that the Company immediately and continuously monitor, evaluate, and update its EE Program incentives with the best available data.

IT IS FURTHER ORDERED that the Company may discontinue the 80% AFUE fireplace insert incentive.

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 with regard to 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.

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DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 21st day of January 2020.

PAUL KJELLANDER, PRESIDENT

KRISTINE RAPER, COMMISSIONER

ERIC ANDERSON, COMMISSIONER

ATTEST:

Diane M. Hanian
Commission Secretary

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