Office of the Secretary
Service Date
March 30, 2021

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF INTERMOUNTAIN GAS COMPANY'S APPLICATION FOR DETERMINATION OF 2019 ENERGY EFFICIENCY EXPENSES AS PRUDENTLY INCURRED	)))))	**CASE NO. INT-G-20-06** **ORDER NO. 34980**

On September 1, 2020, Intermountain Gas Company ("Company") applied to the Commission to find the Company had prudently incurred $2,803,346 in Energy Efficiency Program ("EE Program") expenses in 2019. The Commission then issued a Notice of Application and set a deadline for interested persons to intervene as parties to the case. *See* Order No. 34801. The Idaho Conservation League was the sole intervenor. *See* Order No. 34804.

On December 7, 2020, the Company filed a Supplement to Application. The Supplement proposed changes to the EE Program and Residential Energy Efficiency Rebate Program tariff based on the Company's recently completed Evaluation, Measurement, and Verification ("EM&V") study. The Company requested these changes take effect March 1, 2021. In this Order, we refer to the Company's Application and Supplement together as the "Amended Application."

On February 2, 2021, the Commission issued a Notice of Amended Application and set deadlines for interested persons to comment on the Amended Application. The Commission also suspended the Company's proposed effective date for its tariff changes until April 1, 2021. *See* Order No. 34908. Commission Staff then filed comments, and the Company filed reply comments. The Commission also received two customer comments: one from the City of Boise ("Boise City") and one from an individual customer.

Now, having reviewed the record, the Commission approves the Company's Amended Application as described 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 through collection from customers via an EE Charge of $0.02093 per therm.

THE AMENDED APPLICATION

As noted above, the Company's Amended Application includes the Company's (1) September 1, 2020 Application and (2) December 7, 2020 Supplement. These are discussed in turn, below.

In the Company's September 1, 2020 Application, the Company asked the Commission to find the Company prudently incurred $2,803,346 in EE Program expenses during 2019. Of these expenses, $2,054,550, or 73%, was spent on rebates paid directly to customers. The remaining $748,796 was incurred for labor, program delivery, a Conservation Potential Assessment ("CPA"), and market transformation.

The Company estimated the EE Program saved 389,313 to 466,651 therms. The Company noted "these energy savings exceeded the second-year therm savings target of 140,116 therms estimated in the Company's Integrated Resource Plan…in Case No. INT-G-17-04." Application at 5. The Company asserted the EE Charge revenue for 2019 was $2,671,829 and that the Company would not seek to adjust the EE Charge in 2020.

When the Company calculated the EE Program energy savings to be submitted in the September 1, 2020 Application, the Company used its CPA to estimate the energy savings in its service territory that could potentially be acquired. The Company noted, however, that its EM&V study—which evaluates the cost effectiveness of a utility's EE Program offerings—was ongoing and had not yet been completed.

The results of the Company's EM&V study subsequently became available. ADM Associations, Inc. ("ADM"), the third-party consultant that conducted the EM&V study, presented the study's results at a September 16, 2020 Energy Efficiency Stakeholder Committee ("EESC") meeting. At the meeting, the Company "proposed EE Program changes to address the EM&V study recommendations." Supplement at 4. Staff then noted it would help to have the EM&V study included as part of this case. Agreeing with Staff, the Company filed its Supplement.

In the December 7, 2020 Supplement, the Company noted its EM&V study evaluated the cost effectiveness of the Company's EE Program offerings using ex-post therm savings. Based on this information, and after three EESC meetings in late 2020, the Company proposed significant changes to its EE Program.

The Company proposed to retire the 70% Fireplace rebate, noting that the rebate "has had very low participation over the life of the program…" and the therm savings only merit a minimal rebate. *Id.* at 10. The Company also proposed to add a smart thermostat rebate, a residential boiler rebate, and a second tier to its existing Tankless Water Heater rebate. Last, the Company proposed to change the requirements for the Storage Water Heater and Combination System rebates, increase the Tier I Tankless Water Heater rebate, and create two tiers for the Whole Home Program.

The Company asserted the "resulting EE Program is cost-effective and each individual rebate is cost-effective with a [Utility Cost Test ("UCT")] of 1.0 or greater." Supplement at 12.

STAFF COMMENTS

Staff evaluated the Company's financials, the demand-side management ("DSM") cost-effectiveness test results, the EM&V study, the energy savings of each offering of the EE Program, the Company's calculation of its avoided cost, and the Company's marketing and outreach. Staff recommended the Commission approve the $2,803,346 in EE Program expenses as prudently incurred. Staff also recommended the Commission approve the Company's proposed changes to its EE Program as described in the Company's proposed tariff and approve the retirement of the 70% Fireplace rebate. *See* Supplement, Exhibit 9. However, Staff recommended the Commission direct the Company to improve the EE Program in several ways. Staff's review of, and recommended improvements to, the EE Program are summarized below.

1. *Financial review*

Staff's audit of the Company's EE Program "verified that expenses were well documented and that internal controls appeared to be in place to prevent improper payment of incentives and to properly record EE Program expenses." Staff Comments at 3. Staff observed that the tariff rider balance currently is underfunded. Staff noted that the Commission approved an increase to the Company's EE Charge in Case No. INT-G-19-05 to help reduce the tariff rider's underfunded balance, but that the underfunded balance still increased by $131,516 in 2019. *See* Order No. 34454. The Company did not request a change to the EE Charge in this proceeding, and Staff supported "maintaining the current [EE Charge] for residential customers at this time and will monitor the fund balance trends in the Company's quarterly updates." *Id.*

Staff observed that the Company's EE Program labor expenses significantly increased during 2019 because more employees charged their time to the tariff rider in 2019 and the Company added a Conservation Policy Manager position. Staff believes the increased labor expenses were necessary and that labor expenses in future years would be more proportional to EE Program growth.

2. *Evaluation of DSM cost-effectiveness test results*

Staff noted that the "Company uses the [UCT] as the primary test for determining the cost effectiveness of each measure and for the entire EE Program." *Id.* at 4. Staff noted that the EE Program is cost effective with a cumulative UCT score of 1.3.

3. *The EM&V study*

Staff observed that the EM&V study was designed and conducted consistent with the recommendations of the Staff and the EESC. While Staff found the EM&V study results helpful, Staff disagreed with ADM (the third-party consultant that conducted the EM&V study) using simulation-based analysis instead of billing analysis for the highly incentivized Whole Home Program. Staff believes, "ADM's simulation-based analysis inflated the energy savings estimates compared to the billing analysis." Staff Comments at 6.

4. *Proposed changes to the Company's EE Program*

The current Whole Home Program provides a $1,200 incentive per qualifying home. In its Supplement, the Company proposed to modify the Whole Home Program by creating two tiers. A Tier I qualifying home would receive $900, and a Tier II qualifying home would receive $700. The incentive amounts were calculated using the simulation-based savings estimates determined in the EM&V study. Staff argued that using ADM's simulation-based savings analysis of the Whole Home Program to estimate the savings of the program violates the Commission's final order in the Company's prior prudency case, Case No. INT-G-19-04. In Order No. 34536, the Commission wrote, "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."

Using the simulation analysis, ADM determined that Whole Home Program homes saved 204 therms per home annually. But ADM also compared Whole Home Program homes to control group homes based on billing data—a method Staff believes is more consistent with the Commission's directive in Order No. 34536. Using the billing data comparison approach, ADM found that Whole Home Program homes saved only an average of 57.5 therms annually when compared with control group homes. Based on the annual energy savings calculated by comparing billing data, Staff calculated a $206 incentive (as compared to the proposed $900 and $700 incentives).

Regarding the Furnace program, Staff found that billing analysis evaluations resulted in therm savings as low as 29.4 therms per year, compared to the 112 annual therm savings used to calculate the Company's current rebate. The Furnace program offers a $350 rebate. Staff recommended the "Company should continue to monitor the cost effectiveness of the Furnace Rebate Program and modify its incentive levels following the next EM&V." Staff Comments at 10.

Staff agreed with the Company's proposal to cut the Whole Home Program's Energy Star component. Likewise, Staff supported the Company's recommendation to retire the 70% Fireplace rebate, noting the program's low participation rate and minimal therm savings.

Staff supported the Company's proposed modifications to its two water heater programs. The Company proposed to adjust the efficiency standards for qualifying water heaters to align with Department of Energy standards and set up a two-tier rebate program for qualifying tankless water heaters. Staff also supported the Company's proposal to add smart thermostats to its rebate list. The Company proposed to offer a $100 rebate for the installation of a Wi-Fi enabled, Energy Star certified smart thermostat.

5. *Avoided cost*

Staff noted that in the Company's last prudency case, the Commission directed the Company to review avoided costs and update its avoided cost calculations. *See* Order No. 34536. In response, the "Company created an Avoided Cost subcommittee within the EESC," and the "subcommittee reached consensus on calculation of the commodity and transportation cost components of an avoided cost model…." Staff Comments at 14. However, Staff observed the subcommittee has not yet determined the distribution cost component.

6. *Marketing and outreach*

Staff reviewed the Company's marketing, education, and outreach efforts. Staff noted that "the Company added energy efficiency into the services provided by its Energy Service Representatives." *Id.* Staff believes this approach "is both efficient and an effective use of personnel." *Id.*

CUSTOMER COMMENTS

1. *Boise City's comments*

Boise City supported the Company's Amended Application, particularly the Company's proposed modifications to its EE Program. Boise City argued the "Whole Home rebate program can support higher incentives and maintain cost-effectiveness…", and encouraged "the Commission to direct [the Company] to adopt the higher incentive levels for both tiers of the Whole Home rebate program ($1,000 for Tier I and $800 for Tier II)…." Boise City Comments at 1-2. The City also proposed that the "EESC evaluate the feasibility of implementing a residential retrofit program beyond the current appliance incentives offerings based on the Whole Home [Program] in future program years." *Id.* at 2.

2. *Individual customer comment*

The Commission received one comment from a private customer. The customer argued that the Company's cost-effectiveness estimates likely overstate the EE Program's savings because the calculations did not include net-to-gross savings adjustments and were "biased by selection of gross savings measurement methods that show dubiously large savings, all of which result in [ratios] that simply are not credible." Customer Comment at 2. The customer argued, "Allowing these methods will be a disservice to [the Company]'s customers and will set poor precedents for Idaho's other utilities." *Id.*

COMPANY REPLY COMMENTS

The Company's reply comments focused on Staff's analysis of the Company's proposed changes to the EE program, avoided cost, and marketing and outreach efforts. Regarding calculation of an avoided cost, the Company asserted that "it has made good progress in improving the avoided cost methodology." Company Reply at 2. The Company anticipated that its (in-process) Integrated Resource Plan will help determine distribution costs—the component the Avoid Cost subcommittee has not yet been able to determine.

The Company interpreted Staff's remaining recommendations "as allowing the inclusion of industry best practices in determining the analysis methods to be used to support setting incentive levels and implementing adjustments." *Id.* at 3. The Company agreed with Staff that billing data can be "a useful metric in establishing incentive levels and implementing program and measure adjustments," but noted that billing data "may not always be the best method for evaluating the therm savings or cost effectiveness of a particular rebate and is not always industry best practice." *Id.*

COMMISSION FINDINGS AND DECISION

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 $2,803,346 in EE Program expenses in 2019.

We approve the Company's proposed modifications to its EE Program as reflected in Supplement Exhibit 9.[1] The Company's EE Program is young, and we anticipate it will continue to be improved as the Company—in concert with the EESC—acquires and analyzes more data on the therm savings and cost effectiveness of the EE Program's various offerings. We commend the Company's administration of its EE Program. The record shows the EE Program is well run, with special efforts taken to avoid improper payment of rebates and to properly record expenses.

The Company has room to improve the cost effectiveness of its EE Program incentives. In our final order in the Company's last prudency case, we directed the Company to reevaluate the 204-therm deemed savings value for the Whole Home Program as soon as possible and directed that the "deemed savings value should be based on a comparison of actual billing data for similar new homes constructed which receive the rebate and ones that did not receive the rebate." Order No. 34536 at 5. While the Company's EM&V study did evaluate the Whole Home Program using billing data, the Company also conducted a simulation-based analysis of the program. The Company then used the results of the simulation-based analysis instead of the billing data analysis to calculate the therm savings of Whole Home Program participants. We believe the Company's decision was a good-faith attempt to follow Order No. 34536. However, we expect, in future prudency filings, to see billing data as one important tool used to evaluate the deemed savings value for EE Program offerings.

We expect that as the Company gains more data about the effect of its various EE Program offerings, it will create increasingly accurate deemed savings values for each offering and adjust the incentives accordingly. A DSM program is only cost effective if the incentive offered is calculated using accurate deemed savings amounts. In its reply comments, the Company argued

[1] The Company will still need to file conforming tariffs for approval to update the effective date to April 1, 2021.

that billing data "may not always be the best method for evaluating the therm savings or cost effectiveness of a particular rebate and is not always industry best practice." We expect the Company to use the *most accurate* evaluation method and clearly show why it is the most accurate evaluation method—regardless of "industry best practice." Whatever evaluation method the Company chooses, it should provide a detailed and convincing defense of the method—particularly if the Company chooses not to use a billing data analysis.

The Company has made substantial progress on updating its avoided cost methodology. We direct to Company to continue to work with the EESC to update its avoided cost method and, when complete, present the results to the Commission as part of its next EE Program prudency case.

ORDER

IT IS HEREBY ORDERED that the Company's Amended Application is granted. The Company prudently incurred $2,803,346 in EE Program expenses in 2019.

IT IS FURTHER ORDERED that the Company's proposed modifications to its EE Program, reflected in Exhibit 9 of the Supplement, are approved. The proposed modifications to the Company's EE Program will take effect April 1, 2021. The Company is directed to promptly file conforming tariffs with the Commission for approval.

IT IS FURTHER ORDERED that the Company shall continue to 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.

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DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 30th day of March 2021.

PAUL KJELLANDER, PRESIDENT

KRISTINE RAPER, COMMISSIONER

ERIC ANDERSON, COMMISSIONER

ATTEST:

Jan Noriyuki
Commission Secretary

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