Idaho Public Utilities Commission
Office of the Secretary
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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF INTERMOUNTAIN GAS COMPANY'S APPLICATION FOR DETERMINATION OF 2020 ENERGY EFFICIENCY EXPENSES AS PRUDENTLY INCURRED	)	**CASE NO. INT-G-21-03**
	)	**COMMENTS OF THE COMMISSION STAFF**

STAFF OF the Idaho Public Utilities Commission, by and through its Attorney of record, Dayn Hardie, Deputy Attorney General, submits the following comments.

BACKGROUND

On July 14, 2021, Intermountain Gas Company ("Company") applied for an order designating expenses associated with its 2020 Energy Efficiency ("EE") Program ("EE Program") as prudently incurred. The Company requested its Application be processed by Modified Procedure.

Total EE Program revenues collected from January 1, 2020, through December 31, 2020, were $5,416,740. The EE Program expenditures for the same period were $3,656,158. Of the expenditures, $2,848,550—approximately 78%—were related to energy efficiency rebates paid directly to customers. The remaining $807,608 of EE Program expenses were used for labor, program delivery, special studies, and market transformation.

On January 1, 2020, the EE Program had an under-collected deferral balance of $442,385. As of December 31, 2020, the EE Program had a $1,318,197 over-collected deferral balance.

The Company believes customers will begin taking advantage of new EE Program offerings and that increased participation will reduce the over-collected deferral balance for the EE Program. The Company did not propose to adjust the per therm amount it collects from customers to fund the EE Program.

STAFF ANALYSIS

This is the third Demand-Side Management ("DSM")/EE prudency filing made by the Company since the EE Program's inception on October 1, 2017. Staff examined the Company's Application, workpapers, 2020 Energy Efficiency Annual Report ("EE Report"), EE Report Supplement, and additional information provided by the Company. The Company requested a prudency determination on $3,656,158 of EE Program expenses for the 2020 plan year. Staff recommends the Commission approve the Company's EE Program expenses of $3,656,158 as prudently incurred.

The comments below address the Company's program financials, program offerings, avoided cost, program results, and other issues. Absence of any discussion on additional points should not be construed as Staff's support or endorsement for the Company's position without a full evaluation in the future.

Financial Review

Staff audited the Company's EE Program expenses, which included a review of the Company's EE incentives, marketing campaign, program administration, and labor expenses. Staff 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. The Tariff Rider balance, labor expenses, and calculations are described in greater detail below.

Tariff Rider

In Order No. 34454, Case No. INT-G-19-05, the Commission approved an increase in the Energy Efficiency Charge ("EEC") from $0.00367 per therm to $0.02093 per therm, effective

October 1, 2019. The increased EEC, intended to reduce the underfunded rider balance, was collected for only part of 2019 and all of 2020. The Tariff Rider balance increased by $1,760,582 in 2020, as program expenses were lower than the Tariff Rider revenue. As noted in the Application, the Company saw a 36% increase in rebates paid in 2020. With new program offerings becoming effective in April 2021, the Company expects customers will continue to take advantage of new and existing rebate opportunities which will reduce the over-collected deferral balance. Staff does not recommend a change in the EEC Tariff Rider at this time and will continue to monitor the Tariff Rider balance trends in the Company's quarterly updates provided to the Commission. Table No. 1 shows Tariff Rider activity for the calendar year 2020.

Table No. 1: Tariff Rider Reconciliation

Beginning Balance, as of January 1, 2020 (Underfunded)	$ (442,385)
Tariff Rider Revenue	$ 5,416,740
Tariff Rider Expenses	$ 3,656,158
Ending Balance, as of December 1, 2020 (Overfunded)	$ 1,318,197

Revenue

Program revenues for 2020 were $5,416,740. The higher revenue collected was in part due to the world-wide pandemic which caused customers to spend more time at home resulting in increased natural gas consumption. Another reason for higher revenue is due to the rise in natural gas prices toward the end of 2020. With revenue collection cyclical, Staff expects the revenue balance to increase more during the winter months as consumption increases and decrease throughout the summer months as gas consumption decreases. Staff will continue to monitor the Tariff Rider's revenue impact on the Tariff Rider balance. If the Tariff Rider revenues continue to outpace program expenditures, the Company should update the EEC accordingly.

Labor Expenses

The total labor expense represented 17.57% of total program expenses in 2020, which is less than the 17.75% of total program expenses over the previous 12 months.[1] 25% of certain

[1] EE Program labor expense increased to $642,387 in 2020 from $497,726 in 2019, an increase of 29.06%.

employee labor expense is being directly assigned. Direct assignment of labor expense alleviates concerns of the Company over-allocating labor expenses to the EE Program. Staff will continue to monitor labor expenses and encourages the Company to direct assign labor expenses whenever possible.

DSM Cost-Effectiveness

For 2020, the Company's EE Program portfolio was cost-effective with a benefit-to-cost ratio of 1.5 for the Utility Cost Test ("UCT") when analyzed under the Simulation Analysis. However, the Company's portfolio was not cost-effective when evaluated under the Billing Analysis with a benefit-to-cost ratio of 0.5 for the UCT.

For specific measures in the Company's portfolio, the Company's Water Heater and Tankless Water Heater measures were cost-effective under both types of analyses. But, due to minimal participation in the measures, they had an insignificant impact on total therms savings for the Company's EE Program portfolio. The Company's two most popular rebates, the Whole Home rebate and Furnace rebate, were cost-effective under the Simulation Analysis and were not cost-effective under the Billing Analysis. The two rebates account for 98% of the Company's 804,820 therm savings under the Simulation Analysis and 94% of the Company's 258,552 therm savings for the Billing Analysis.

In the Company's recent prudency case, Case No. INT-G-20-06, the Commission authorized widespread changes to the Company's DSM programs. Along with incentive and measure revisions to various programs, the Company removed the 70% AFUE fireplace measure and added a smart thermostat and high-efficiency boiler incentive. These changes took place in the Spring of 2021 when Order No. 34980 was issued. The recent changes to the program are designed to increase cost-effectiveness as well as drive new customer participation. Staff looks forward to reviewing the cost-effectiveness of DSM programs incorporating the new changes in the Company's next prudency filing.

Simulation and Billing Analysis

In its Application, the Company provided two analyses—the Simulation Analysis and the Billing Analysis—with both showing vastly different cost-effectiveness results and a large difference in total therm savings. The Company stated that "significant program revisions focused on implementing requirements that directly impact therm savings and implementing EM&V recommendations that will help the Company avoid potential under reporting or overstating of therm savings. These changes took effect April l, 2021." EE Report at 8. Staff appreciates the Company's analyses in this filing and agrees that the recent program revisions should help in overstating or understating therm savings when the Company evaluates its energy efficiency programs performance.

In the next prudency filing after the program revisions have been implemented, Staff expects the Company to comply with Order No. 34980, which directed 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." *See* Order No. 34980 at 8. While both analyses are insightful to program performance, ultimately the "most accurate evaluation method" must be chosen to make key program decisions in the future to maintain a cost-effective portfolio and measures.

Additionally, the Company showed a large difference in the UCT cost for each measure between the two cost-effectiveness analyses provided. After further discussion, this was a result of how the Company allocated its $807,608 of allocable overhead[2] between each measure. For each measure, the allocable overhead was allocated "based on the percentage of therm savings of each rebate to total therm savings of the portfolio." Response to Production Request No. 9. Because of the difference in therm savings resulting from the two types of analysis, the allocation method produced vastly different UCT costs for each rebate leading to an even greater difference in the cost-effectiveness results between the analyses. To help alleviate cost shifts in future cost-effectiveness evaluations, Staff encourages the Company to directly assign costs to individual rebates and programs whenever possible. If measures and rebates have direct administration fees, those cost should be directly assigned to that measure or rebate. This will reduce the total allocable overhead improving the accuracy of individual measure and rebate cost resulting in improved program management and more accurate cost-effectiveness calculations.

[2] Allocable overhead consists of program delivery and administration costs

Market Transformation

In 2020, the Company continued its participation in market transformation efforts with the North American Heat Pump Collaborative ("Collaborative"). The Collaborative is a coalition of 14 gas utilities and energy efficiency administrators focused on helping advance the adoption of gas heat pump technology. The Company is a charter member of the Coalition since its inception in 2019. While much of the Coalition's work is underway, Staff is encouraged by the potential impact the Coalition's work can bring in gas heat pump technology and looks forward to reviewing and monitoring the work performed by the Coalition. Staff encourages the Company to capture key deliverables and results from market transformation work performed that results in energy efficiency savings for the Company's ratepayers.

Avoided Cost

In Order No. 34536, Case No. INT-G-19-04, the Commission ordered the Company to review its avoided costs and update its avoided cost calculations. The Company created an Avoided Cost Subcommittee ("Subcommittee") within the Energy Efficiency Stakeholder Committee to address issues identified in Order No. 34536. The Subcommittee reached a consensus on the calculation of the commodity and transportation cost components of an avoided cost model. However, the Subcommittee has agreed that additional discussion of a distribution cost component is needed. In Production Response No. 6, the Company indicated they:

> (B)elieve the IRP will provide the necessary data to inform the calculation of avoided distribution costs. Intermountain plans to file the IRP in late Fall of 2021. After the IRP is filed, the Company will reconvene the Avoided Cost Subcommittee to continue the discussion on the best method for incorporating distribution costs into the calculation.

Staff will continue participating in the Subcommittee and looks forward to discussing the matter more after the Company has filed the 2021 IRP.

STAFF RECOMMENDATIONS

Staff recommends the Commission find that the Company prudently incurred DSM related expenditures of $3,658,158 in 2020.

Respectfully submitted this 1st day of December 2021.

Dayn Hardie
Deputy Attorney General

Technical Staff: Taylor Thomas
Travis Culbertson
Kevin Keyt

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 1st DAY OF DECEMBER 2021, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. INT-G-21-03, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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