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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF INTERMOUNTAIN GAS COMPANY FOR A DETERMINATION OF 2021 ENERGY EFFICIENCY EXPENSES AS PRUDENTLY INCURRED	**CASE NO. INT-G-22-03** **COMMENTS OF THE COMMISSION STAFF**

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

BACKGROUND

On July 12, 2022, Intermountain Gas Company ("Company"), a subsidiary of MDU Resources Group, Inc., filed an Application for an order designating $4,028,174 of 2021 Energy Efficiency Program ("EE Program") expenditures as prudently incurred. The Company submitted its 2021 Energy Efficiency Annual Report with the Application.

On August 1, 2022, the Commission issued a Notice of Application and Notice of Intervention Deadline setting a 21-day intervention deadline. Order No. 35480. The city of Boise City was the only party to intervene. Order No. 35516.

STAFF ANALYSIS

This is the fourth Demand-Side Management ("DSM") Energy Efficiency prudency filing made by the Company since the EE Program's inception on October 1, 2017. Staff examined the Company's Application, 2021 Energy Efficiency Annual Report ("Annual Report"), Annual Report Supplements, workpapers, and additional information provided by the Company. Staff recommends the Commission approve the Company's EE Program expenses of $4,028,174 as prudently incurred.

The comments below address the Company's program financials, cost-effectiveness, program offerings, evaluations, studies, and avoided costs. 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 Program incentives, marketing campaign, program administration, and labor expenses. Staff verified that expenses were well documented and 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 Balance

EE Program revenue in 2021 was $5,628,730, with $5,393,824 funded from residential customers for the Residential EE Program, and $234,906 funded from commercial customers for the Commercial EE Program. In 2021, customer participation in the Residential EE Program increased 22% over the previous year with 5,553 rebates paid to customers. 2021 DSM Annual Report at 1. In 2021, the Residential Program began with an overfunded balance of $1,318,197. Despite incurring the highest annual total rebate payout in Residential Program history for 2021 ($3,287,716), the Residential EE Program growth did not keep pace with the revenues generated from the Energy Efficiency Charge Residential Program ("EEC-RS"). The EEC-RS ended the year with an over-collected balance of $2,834,164. *Id* at 6. The Company claims slow uptake of new Commercial Program offerings and global supply chain issues contributed to less participation than expected. *Id.* With revenue collection cyclical, Staff expects the EEC-RS balance to increase more during the winter months as consumption increases and decrease throughout the summer months as gas consumption decreases.

The following table shows the combined tariff rider balance for both residential and commercial EE Program as of December 31, 2021:

Table No. 1: Tariff Rider Reconciliation

Beginning Balance, as of January 1, 2021 - Overfunded	$ 1,318,197
Tariff Rider Revenue	$ 5,628,730
Tariff Rider Expenses	$(4,028,174)
Ending Balance, as of December 31, 2021 - Overfunded	$ 2,918,753

As of June 30, 2022, the EEC-RS was over-collected by $4,893,882. The Company states two primary reasons for the overfunded balance. First, therm sales were higher than the Company had forecasted. Second, the entire 2019 under-collected balance of $1,097,907 was used to determine the EEC-RS rate as if it was a recurring yearly expense, rather than amortizing the balance over time. INT-G-22-05, Application at 5. In response to the large over-funded balance, the Commission approved a one-time transfer of the $4,850,000 of the EEC-RS deferral balance to residential customers through the Company's Purchased Gas Adjustment ("PGA") filing. Order No. 35539 at 3. The Commission also approved a decrease in the EEC-RS tariff rate from $0.02093 per therm to $0.01564 per therm in Order No. 35552, effective October 1, 2022. Staff will continue to monitor the fund balance trends in the Company's quarterly updates to ensure the EEC-RS balance does not become substantially over funded again.

Labor Expenses

The Company's EE Program total labor expenses represented 15.9% of total program expenses in 2021, which is less than the 17.6% of total program expenses over the previous 12 months, and less than the 17.8% from the 12 to 24 months prior. However, other utilities in Idaho with EE programs have a significantly smaller percentage of labor costs in their EE Programs with labor cost of 6% and 11% of program costs. The Company's total wages increased 3.38% from 2020, which is in line with other Idaho utilities with EE programs. Staff recommends the

Company reduce labor costs wherever possible, which will help increase the cost-effectiveness of the Company's EE Programs.

The Company explains that "after assigning direct expenses to the appropriate programs, the remaining pool of administrative expenses was allocated between the two programs, 80% to the Residential Program and 20% to the Commercial Program." 2021 DSM Annual Report at 4. This allocation percentage was approved by the Commission in Case No. INT-G-20-04, Order No. 34941. However, in that case Staff noted that "this allocation method [is] a starting point but expects to review cost allocations and cost drivers in a future prudency case." INT-G-20-04, Staff Comments at 5. Staff currently does not object to the allocation of administrative expenses; however, this will be the third time that Staff has requested that the Company directly assign administrative costs instead of allocating through the 80/20 split. INT-G-20-04, Staff Comments at 5 ("Staff encourages the Company to directly assign all costs incurred to the proper EE program, whenever feasible, so that costs are properly allocated to customer classes... [Additionally,] for costs that cannot be directly assigned, Staff recommends that costs be allocated based on factors that are driving the costs to be incurred."); INT-G-21-03, Staff Comments at 5 ("Staff encourages the Company to directly assign costs to individual rebates and programs whenever possible.") Unfortunately, Staff has not seen an improvement on directly assigning costs in 2021. Of the $726,622 total administrative expenses, only $44,602 were directly assigned. The remaining $682,020 was allocated using the 80/20 assumption.

The Company should assign costs directly to the programs whenever possible. Direct assignment of labor expense alleviates concerns of the Company over-allocating labor expenses to the EE Program. Additionally, it will help verify whether 80/20 is the correct split for Residential and Commercial Programs. Staff recommends that when the Company does not directly assign costs, an explanation should be given as to why the costs were not assignable. Staff also recommends the Company describe the progress made improving the amount of directly assigned costs in its next DSM prudency filing.

DSM Cost-Effectiveness

For 2021, the Company reported the Residential Program as cost-effective with a benefit-to-cost ratio of 1.5 using the Utility Cost Test ("UCT"). The Company reports that only two measures were not cost-effective in 2021: the Combi Radiant Heat System measure and Water

Heater measure. Both measures received significant updates in April 2021.[1] The Combi Radiant Heat System, with a UCT of 0.7, was restructured into the Boiler and Combination Boiler measures, which are cost-effective with UCT ratios of 1.4 and 1.2, respectively. The 0.67 EF Water Heater measure was cost-effective with a UCT of 1.2 but had low participation. The Company rebranded the measure into the Water Heater measure with an increased incentive. As a result, the measures cost-effectiveness decreased to a UCT of 0.9 but participation increased. The Company expects that continued increases in participation and market developments will increase the programs cost-effectiveness.

In 2021, the Company received authority to implement a Commercial Energy Efficiency Program which launched on April 1, 2021.[2] To date the program has received 16 rebates, saving 8,603 therms, and has a UCT of 0.4. The Company states the program is currently in an awareness building stage and expects participation to increase as commercial customers learn of the program and its offerings. Staff looks forward to reviewing the growth of the program in future prudency filings.

Verification of Avoided Therms

In the Company's previous two prudency reviews, Case Nos. INT-G-20-06 and INT-G-21-03, the accuracy of estimated therm savings for the Furnace incentive and the Whole Home incentive had been an ongoing Staff concern. These two measures account for 94% of the claimed therm savings for the entire 2021 Residential EE Program. Therefore, any potential errors in the estimated savings of these measures will have a significant impact on the cost-effectiveness of the Company's Residential EE Program portfolio.

In 2020, Case No. INT-G-20-06, a third-party contractor performed a detailed Evaluation, Measurement, and Verification ("EM&V") study of the actual therm savings for the Furnace and Whole Home rebates for the 2018-2019 program years[3]. The study included a statistically rigorous regression analysis of customer bills ("billing analysis"), which concluded the actual therm savings were much less than the initial Conservation Potential Assessment ("CPA")

[1]In Case No. INT-G-20-06, the company proposed widespread changes to DSM programs. These changes took place in the April 2021 when Order No. 34980 was issued.
[2]In Case No. INT-G-20-04, the Company applied to implement a commercial energy efficiency program. The Commission approved the program in Order No 34941.
[3] *See* Case No. INT-G-21-03, Amended Application.

estimates. The Company acknowledged the different results but opted to use an even higher savings value proposed by a calibrated simulation ("simulation analysis") for its Whole Home measure[4]. The simulation analysis's estimated savings of 274 therms exceeds both the billing analysis estimate (58 therms) and CPA estimate (185 therms). The Company also opted to not use any of the EM&V analysis results for the Furnace program and continued using the CPA estimate (86 therms).

In response, the Commission stated:

> We expect the Company to use the *most accurate* evaluation method and clearly show why it is the most accurate 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.

Order No. 34980 at 8.

In Case No. INT-G-21-03, the Company used both the billing analysis and the simulation analysis therm estimates from the EM&V to present two sets of cost-effectiveness results. The lower billing analysis estimate showed the entire Residential EE Program was not cost-effective, while the higher simulation analysis therm estimates showed that the EE Program was cost effective. The Commission ordered the Company to "choose the most accurate evaluation method as directed by Order No. 34980. Once the Company chooses the evaluation method it will use, it should provide 'a detailed and convincing defense of the method'." Order No. 35313 at 5.

For the current filing, Staff does not believe the Company provided a detailed and convincing defense of the simulation analysis for two reasons. First, the Company performed its own internal analysis of the Furnace measure and used the result of 81 therms as support of the higher 87 therm CPA estimate. Staff believes this internal analysis was flawed and the calculated therm savings should have been lower than 81 therms as discussed below. Second, Staff asked the Company to, "provide detailed support and reasoning for choosing [its] evaluation method." First Production Request of Staff, Production Request No. 2 at 2. The Company's response lacked any data, analysis, or support for the simulation analysis, articulated the usefulness of having a 'deemed' savings, and commented on billing analysis.

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[4] Secondary analysis presented in 2020 EM&V Appendix B.

The Company's response comments on billing analysis, stated, "when a randomized control trial is employed in conjunction with evaluating billing data, this analysis can achieve more precise results with less bias." Response to First Staff Production Request, Response to Request No. 2 at 3. Staff agrees with the Company's assertion. Based on the Company's response, Staff recommends that the billing analysis be used to evaluate program performance until the Company justifies other empirical analysis as part of its annual DSM prudency filing. Staff also recommends the Company conduct impact evaluations for the Whole Home and Furnace measures to be included in the 2023 prudency filing. The Whole Home measure should be evaluated with data from April 1, 2021, through the end of 2022. The Furnace measure should be evaluated with data from the 2021 and 2022 program years. Both impact evaluations should be conducted by an independent third-party and should include a billing analysis. Finally, Staff encourages the Company to explore other acceptable and vetted bases for deemed savings such as the Regional Technical Forum.

Furnace Program Avoided Therms

As discussed above, the Company conducted an internal EM&V analysis on its Furnace measure in its Annual Report. Staff appreciates the Company's effort to verify savings for its programs. However, by only including customers whose replaced furnaces were 80% efficient or less, the Company excluded a significant portion the rebates from its data set including rebates for furnaces above the programs minimum 95% efficiency. The resulting bias skewed the result to overestimate the amount of program savings. Staff believes that if a rebate is issued to a customer, that customer is part of the program and should be included in evaluations, regardless of the efficiency of the furnace being replaced.

Of the 2,704 rebates issued, only 1423 of the furnaces replaced had an efficiency rating of 80% or less. This includes 23 non-gas furnace replacements and 933 new construction rebates. These were the only rebates included in the Company's internal evaluation. Another 520 of the furnaces replaced had efficiencies higher than 80%, including 92 furnaces that had efficiencies higher than 95% furnace. The remaining 761 rebates had blank fields for previous efficiency and were not included. Response to Second Staff Production Request, Response to Request No. 20 at 6-8. By not including the 520 replaced gas furnaces and the 23 non-gas furnaces in its savings calculation, the Company overestimated the amount of program therm savings. Staff recommends that the Company use savings data from all customers receiving rebates to ensure accurate estimates of therm savings attributed to the program. Staff also recommends that the Company tighten its rebate measure eligibility requirements.

EM&V Schedule

In response to program changes approved by Order No. 34980, the Company has proposed an EM&V schedule for residential and commercial measures. Annual Report, Supplement 1 at 23. The Company proposes to conduct impact and process evaluations on all Residential Programs, process evaluations on all Commercial Programs, and an impact evaluation on the commercial Energy Savings Kit Pilot measure using program year 2022 and 2023 data.[5] EM&V studies are crucial for determining the actual performance of a program; however, these studies are expensive and often require significant populations of data to make meaningful Recommendations for the program. Staff believes that the Boiler, Combination Boiler and Water Heater measures do not have enough participation or associated savings to justify the cost of an impact evaluation. In 2021, these programs combined issued 25 rebates and accounted for 1,892 annual therm savings, or less than 0.005% of all rebates and therm savings for 2021. Staff recommends the Company monitor the participation of its programs and conduct EM&V impact evaluations when there is a sufficient amount of participation to justify an evaluation. Staff recommends the Company carefully consider the cost and benefits of an evaluation whenever considering an EM&V study. Staff cautions the Company in assigning EM&V expenses via the 80/20 split. If an EM&V is conducted for the Company's Residential Programs, the EM&V expense should be directly assigned to that program.

CPA RFP Status

In the fall of 2022, the Company posted a Request for Proposal ("RFP") to conduct a CPA to update the existing program assumptions, evaluate potential new programs, and inform the 20-year conservation potential in the Company's service territory. The Company directly contacted 16 vendors as well as posted the request on the Association of Energy Service Professionals ("AESP") community page. The Company stated that only one vendor submitted an intent to bid

[5] Additional context provided in Case No. INT-G-22-05, Application at 6.

but later withdrew claiming resource constraints. Response to Third Staff Production Request, Response to Request No. 26 at 8. To secure a vendor for the CPA the Company contacted three other vendors, one of which requested a deadline extension until October 14, 2022. Staff looks forward to reviewing the Company's CPA expenses in later prudence filings.

Marketing Programs and Effectiveness

In reviewing the Company's marketing materials and initiatives, it is unclear to Staff how the marketing materials and initiatives are directly related to and impact the Company's individual energy efficiency measures, incentives, and programs. It is not clear how builder and contractor marketing materials and initiatives are directly related to the Company's energy efficiency programs. The Company should structure its energy efficiency marketing to focus on available programs and incentives and continue its efforts in developing its website analytics capabilities. Staff encourages the Company to actively manage key deliverables and results from marketing initiatives and programs that result in energy efficiency savings for the Company's ratepayers.

Avoided Costs

Distribution Component of Avoided Cost

In Order No. 34536, the Commission ordered the Company to review its avoided cost calculations and update them based on the outcome of the review. In response, the Company created an Avoided Cost subcommittee within its Energy Efficiency Stakeholder Committee ("EESC"), and the subcommittee reached a consensus on the calculation of the commodity and transportation cost components of an avoided cost model. However, the subcommittee has not yet determined the distribution cost component of its avoided cost model.

In Order No. 34980, the Commission again ordered the Company to review its avoided costs and update its avoided cost calculations based on the review. On March 9, 2022, the Company reconvened its EESC Avoided Cost subcommittee following the filing of its 2021 Integrated Resource Plan ("IRP"), to finalize a method to account for avoided distribution costs.

The Company held meetings with its EESC Avoided Cost subcommittee to review and discuss a proposed method of calculating the distribution cost component of its avoided cost calculation. The Company asked subcommittee members to review and provide feedback on its proposal. Staff was the only party that provided substantive feedback. After providing feedback, Staff and the Company conducted working meetings to reach a resolution but were unsuccessful. The Company decided to suspend its efforts to define a method to calculate a distribution component for its avoided cost. The EESC Avoided Cost subcommittee will table its efforts regarding a distribution cost component until the Company chooses to resume its work. Staff supports the Company's decision to suspend its efforts and will participate as needed when the subcommittee resumes its efforts to address distribution costs. Staff believes that until proven otherwise, the distribution component value is zero. The distribution component calculation once determined must be presented to the Commission for approval and included in the IRP DSM avoided cost calculation.

Avoided Cost Updates

The Company proposed several updates to the avoided cost calculation update schedule. Response to First Staff Production Request, Response to Request No. 14 at 26-27. Currently, the transportation component of the Company's costs is updated annually to reflect the latest PGA filing while the commodity costs are updated as part of the biennial IRP filing. The Company proposed to: (1) align updates to the transportation component of avoided costs with the Company's IRP filing schedule and to reflect costs outlined in the most recent PGA; (2) update all avoided cost calculations as exhibits to IRP filings; (3) no longer file avoided costs as exhibits to annual DSM prudence filings; (4) base program planning on the avoided costs of the most recent IRP; and (5) base cost-effectiveness testing on the avoided costs in place at the time of program planning. The avoided cost used in this filing was established in the Company's 2021 IRP, Case No. INT-G-21-06. Establishing DSM avoided costs within an IRP is an accepted method and used by other utilities in Idaho. Staff supports this method and recommends that the Company update its DSM avoided cost calculation in the next and subsequent IRP filings.

STAFF RECOMMENDATIONS

Based on its analysis, Staff recommends the Commission issue an order:

1. Approving the Company's 2021 EE Program Expenses of $4,028,174 as prudently incurred;

2. Directing the Company to directly assign EE Program costs when possible and to provide explanations as to why costs are not assignable in their next DSM prudency filing.
3. Directing the Company to use the billing analysis to evaluate program performance for the Furnace and Whole Home measures until such time as the Company justifies other empirical analysis as part of their annual DSM prudency filing;
4. Directing the Company to submit an RFP for a third-party contract to conduct an impact evaluation with billing analysis for the Whole Home and Furnace measures using April 1, 2021 through 2022 program year data to be included in the 2023 prudency filing;
5. Approving the Company's proposal to update the transportation component of avoided cost as an exhibit to IRP filings;
6. Approving the Company's proposal to no longer file avoided cost calculations as exhibits to the annual DSM prudency filings;
7. Approving the Company's proposal to update all avoided costs as exhibits to IRP filings; and
8. Approving the Company's proposal to base program planning off the most recent IRP filing and to base cost-effectiveness testing off the avoided costs in place at the time of program planning.

Respectfully submitted this 10th day of November 2022.

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Deputy Attorney General

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 10TH DAY OF NOVEMBER 2022, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. INT-G-22-03, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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