Office of the Secretary
Service Date
September 11, 2018

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR A DETERMINATION OF 2017 DEMAND-SIDE MANAGEMENT EXPENSES AS PRUDENTLY INCURRED	)	**CASE NO. IPC-E-18-03**
	)	**ORDER NO. 34141**

On March 15, 2018, Idaho Power Company applied to the Commission for a determination that the Company prudently incurred its demand-side management (DSM) expenses in 2017. More specifically, the Company asked the Commission to determine it prudently incurred \$44,145,316 in deferred costs for its 2017 DSM programs, which included \$37,162,002 in Idaho Energy Efficiency Tariff Rider expenses (Rider), and \$6,983,314 in demand response program initiatives. "DSM" generally refers to utility activities and programs that encourage customers (i.e., on the "demand-side" as opposed to the "generation side") to use less overall energy or use less energy during peak usage hours, thus improving their efficient use of energy.

The Commission issued a Notice of Application and Notice of Intervention Deadline, and set deadlines under Modified Procedure. Order No. 34052. The Commission granted timely petitions to intervene by the Idaho Conservation League (ICL), Industrial Customers of Idaho Power, and Idaho Irrigation Pumpers Association, Inc. Order No. 34069. Staff and ICL filed the only comments and supported the Company's requested prudency determination while critiquing other aspects of the Company's Application, and Idaho Power filed a reply.

After thoroughly reviewing the record, we issue this Order approving the Company's Application, with direction, as discussed below.

THE APPLICATION

The Company broke its Application into sections addressing: (A) DSM Program Performance; (B) DSM Expenses and Adjustments; (C) DSM Cost-Effectiveness and Evaluations; (D) Stakeholder Input; and (E) Incremental Rider-Funded Labor Expenses. Each section is summarized below.

A. Program Performance

The Company's Application described the Company's DSM programs and energy-savings measures and whether they were cost-effective in 2017. *Id.* at 7. In support of its

Application, the Company submitted prefiled testimony of Connie Aschenbrenner, Regulatory Analyst, an annual DSM Report, the results of its cost-effectiveness analysis, and the third-party program evaluation reports. *Id.*

The Company's 2017 DSM Annual Report (DSM Report) includes a detailed evaluation of its DSM programs and whether they were cost-effective in 2017. The Company states its 2017 DSM efforts included Northwest Energy Efficiency Alliance (NEEA) market transformation activities, energy efficiency programs, demand response programs, and several educational initiatives. Application at 3. The Company stated these efforts increased its annual energy savings by 12% and exceeded the savings target specified in the Company's Integrated Resource Plan. Application at 2. The Company noted its energy efficiency programs saved 191,478 megawatt hours (MWh), comprising 65,506 MWh from the residential sector, 85,425 MWh from the commercial/industrial sector, 16,888 MWh from the irrigation sector, and about 23,652 MWh from the NEEA initiatives. *Id.*

B. Expenses and Adjustments

The Company funds its Idaho programs through the Rider, base rates, and the annual Power Cost Adjustment (PCA). Application at 5. It funds its Idaho demand response incentive payments through base rates and the PCA. *Id.* With this Application, the Company asked the Commission to find that the Company prudently incurred $44,145,316 in expenses to develop and run its DSM programs in 2017. *Id.* The Company stated these expenses include $37,162,002 in Rider expenses and $6,983,314 in demand response program incentive payments. *Id.* The Company made one accounting adjustment for 2017 of $89,304 relating to labor expenses not recorded as part of the Rider expense prior to disclosure of the 2017 accounting books. *Id.* at 6. The Company made five adjustments for 2016, including a decrease of $56,571 related to the Weatherization Solutions for Eligible Customers Program and four other increases totaling $43,185. *Id.*

C. Cost-Effectiveness and Evaluations

The Company explained that it used the following benefit/cost tests to determine the cost-effectiveness of its energy efficiency programs and measures: (1) the total resource cost test (TRC); (2) the utility cost test (UCT); and (3) the participant cost test (PCT).[1] *Id.* The Company

[1] The three tests examine a program's cost-effectiveness from different perspectives. In summary, the TRC compares program administrator costs and customer costs to utility resource savings, and assesses whether the total cost of

reported that its energy efficiency portfolio was cost-effective in 2017, passing the TRC, UCT, and PCT with ratios of 2.50, 2.75, and 3.67 respectively. *Id.* Of the Company's 16 Idaho energy efficiency programs, 11 programs passed the TRC and UCT. Aschenbrenner Direct at 22. Further, all energy efficiency programs with customer costs passed the PCT, except for the Home Improvement Program that was discontinued on June 30, 2017. Application at 8. *Id.* Due to a lack of cost-effectiveness, the Fridge and Freezer Recycling Program ended on December 31, 2017. *Id.* Although they are not cost-effective, Idaho Power intends to continue to work towards greater cost-effectiveness for the Weatherization Assistance for Qualified Customers Program, Weatherization Solutions for Eligible Customers Program, and the Heating and Cooling Efficiency Program, because they offer benefits that are difficult to quantify. *Id.*

When assessing the cost-effectiveness of its demand response programs, the Company did not calculate a benefit/cost ratio. *Id.* at 9. Rather, the Company determined the cost-effectiveness of its demand response programs based on the $16.7 million demand response portfolio value specified in Commission Order No. 32923, and estimated that the programs would have cost approximately $11.1 million on a system-wide basis and are less than the value of the demand, calculated to be $19.8 million. *Id.*

The Company stated independent, third-party consultants provide impact and process evaluations to verify that program specifications are met, recommend improvements, and validate program-related energy savings. *Id.* In 2017, two combined program impact evaluations and program process evaluations were completed. *Id.* at 10.

D. Stakeholder Input

The Company relies on input from the Energy Efficiency Advisory Group (EEAG) for stakeholder input. Application at 3. The Company reported that in 2017, it held four meetings with the EEAG, during which it requested and incorporated feedback from EEAG members on new program ideas, marketing methods, and specific measure details. The Company also updated the EEAG on Rider funding and expenses, ongoing programs, and general information on DSM issues in the region.

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energy in a utility's service territory will decrease. The UCT compares program administrator costs to supply-side resource costs, and assesses whether utility bills will increase. The PCT compares the costs and benefits of the customer installing the measure, and assesses whether program participants will benefit over the measure's life.

E. Incremental Rider-Funded Labor Expenses

The Company incurred $3,296,704 in Rider-funded labor expense, which is an increase of 6.44% over 2016 labor expense. When calculating the 2017 maximum allowable labor expense, the Company applied the 2% cap to the average labor expense per full-time equivalent employee (FTE).

DISCUSSION AND FINDINGS

Section A, below, discusses the parties' comments, the Company's reply, and the Commission's findings on the amount of DSM expenses the Company prudently incurred. In Section B, we summarize the parties' recommendations and our findings on DSM-related issues that do not affect the prudency determination.

A. Prudency of DSM Expenditure

The Company asked the Commission to determine that it prudently incurred $44,145,316 in deferred costs for its 2017 DSM programs, which included $37,162,002 in Rider expenses and $6,983,314 in demand response program initiatives. Staff and ICL generally supported this request. Staff Comments at 4; ICL Comments at 1.

While Staff generally supported the Company's request, Staff disagreed with how the Company calculated its 2017 maximum allowable labor expense. Specifically, Staff stated that the Company's decision to apply the 2% cap to the average labor expense per FTE was consistent with how labor adjustments have been calculated for 2011-2016. But the calculation was inconsistent with the Commission's intent in Order No. 33908 to cap annual labor expense at 2%. Staff noted that if the Commission intended Order No. 33908 to implement a 2% annual cap on total labor expense, rather than on the average labor expense per FTE as proposed by the Company, then the above Rider expenses should be reduced by $137,449. Staff Comments at 5-6.

In reply, the Company disagreed that the Commission intended to cap total labor expense. The Company noted that applying a 2% cap to total labor dollars, as recommended by Staff, would remove the Company's ability to properly increase labor resources for additional energy efficiency program activity opportunities. The Company argued that the 2% cap should apply to wages per FTE, consistent with the Commission's approved method for evaluating past Rider labor increases. Company Reply at 2-3.

Commission Findings. Based on our review of the record, we find that the Company prudently incurred $44,145,316 in 2017 DSM-related expenses. Specifically, we find that recovery of $37,162,002 in Idaho Energy Efficiency Tariff Rider expenses (Rider), and $6,983,314 in demand response program initiatives is just and reasonable. Regarding the 2% cap on labor expenses, we find that the amounts incurred for 2017 were prudent, but we will consider the methodology for calculating the 2% cap in the next general rate case.

B. Other Issues

Staff and the ICL made several recommendations that do not impact the Company's requested prudency determinations, but suggest modifications to different elements of the Company's overall DSM programs. In summary, Staff recommended that the Company:

a. Rigorously examine the potential for expanded demand response in its 2019 IRP.
b. Reconsider the June 2017 discontinuation of the Home Improvement Program.
c. Explore small business program design options.
d. Work with the EEAG to ensure that Energy Independence Security Act program savings remain healthy beyond 2020.
e. Consider a more frequent evaluation schedule and follow the industry norm of two to three years for both impact and process evaluations for each program.
f. Consider tailoring its marketing efforts to achieve the micro-targeting proposed by the Company's evaluator.
g. Explore opportunities to engage customers in energy efficiency when they sign up for My Account.
h. Not over-emphasize the results of its empowered community surveys when designing programs for all of its customers.

In summary, ICL recommended that the Company:

a. Reconsider the discontinuation of the Home Improvement Program.
b. Include attic insulation in the multifamily housing program.
c. Work with the EEAG and other experts to devise strategies and tactics that lead to energy savings.
d. Expand cohort group partnerships with municipalities and school districts.

e. Apply the UCT, not the TRC, as the best measure of the costs and benefits of efficiency programs as a resource.

The Company replied to Staff's and ICL's comments. As stated below, we think the EEAG should consider the comments and the replies.

Commission Findings. We find that Staff and ICL's recommendations – and the Company's replies – are appropriate for the EEAG's consideration. We reiterate that the EEAG plays a valuable role in designing effective DSM measures. For this reason, we direct the Company to address these issues, and others that stakeholders may raise, at the next round of EEAG meetings. We further order that, in the 2018 DSM Report and comments, the Company, Staff, and ICL each report on how the EEAG addressed and considered each of the above-listed recommendations.

ULTIMATE FINDINGS OF FACT AND CONCLUSIONS OF LAW

The Company is an electrical corporation as defined by *Idaho Code* § 61-119, and a public utility subject to the Commission's jurisdiction pursuant to *Idaho Code* § 61-129. Based on our review of the record, we find that the Company prudently incurred $44,145,316 in 2017 DSM-related expenses consisting of $37,162,002 in Idaho Energy Efficiency Tariff Rider expenses, and $6,983,314 in Demand Response program expenses. We find it reasonable to examine, in the Company's next general rate case, the method for calculating the 2% labor expense cap. We further find it fair, just, and reasonable for the Company, Staff, and ICL to take such other actions as directed in the body of this Order.

ORDER

IT IS HEREBY ORDERED that Idaho Power's 2017 DSM expenditures are approved as prudently incurred in the amount of $44,145,316 as described above.

IT IS FURTHER ORDERED that the Company, Staff, and ICL take such actions as directed in the body of this Order.

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. 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 11th day of September 2018.

PAUL KJELLANDER, PRESIDENT

KRISTINE RAPER, COMMISSIONER

ERIC ANDERSON, COMMISSIONER

ATTEST:

Diane M. Hanian
Commission Secretary

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