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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)
IDAHO POWER COMPANY FOR A) **CASE NO. IPC-E-15-06**
DETERMINATION OF 2014 DEMAND-SIDE)
MANAGEMENT EXPENDITURES AS) **COMMENTS OF THE**
PRUDENTLY INCURRED.) **COMMISSION STAFF**
)

The Staff of the Idaho Public Utilities Commission comments as follows on Idaho Power Company's Application.

BACKGROUND

On March 13, 2015, Idaho Power Company (the Company) asked the Commission to determine that the Company prudently incurred \$33,495,385 in expenses to develop and run its demand-side management (DSM) programs in 2014. The Company says its 2014 DSM efforts included Northwest Energy Efficiency Alliance (NEEA) market transformation activities, 18 energy efficiency programs (16 in Idaho, 2 in Oregon), 3 demand response programs, and several educational initiatives. According to the Company, its DSM efforts increased its annual energy savings by 33 percent, to 138,670 megawatt hours (MWh), a savings level that exceeds the savings target in the Company's Integrated Resource Plan. These energy savings included 118,670 MWh from energy-efficiency programs and 20,000 MWh from market-transformation initiatives. The Company primarily attributes these energy savings to industrial sector DSM activities and, to a lesser extent, residential sector DSM activities. The Company says it enrolled enough participants in

its demand-response (DR) programs to provide 390 MW of load-shedding capacity, and that these programs ultimately reduced demand by 378 MW and saved customers about \$6.5 million. The Company funds its Idaho energy-efficiency programs through the Idaho Energy Efficiency Rider, base rates, and the annual Power Cost Adjustment (PCA). It funds its Idaho DR programs through base rates and the PCA.

The Company explains that its 2014 DSM expenses included \$25,554,688 in Idaho Energy Efficiency Rider expenses and \$7,940,697 in DR program incentive payments. The Company states that it calculated these expenses after adjusting amounts shown in its DSM Report to remove: (1) \$338,707 in Rider-funded labor-related expenses; (2) \$248 in Home Energy Audit program labor expenses; and (3) \$1,153 in Energy House Calls Program incentives that were charged against the Idaho Energy Efficiency Rider when they should have been charged against the Oregon Rider. The Company notes that its prudence request excludes these adjusted amounts.

The Company also notes that it helped create a new market-transformation plan for NEEA that should save 145 average MW from 2015 to 2019 and cost the Company's customers \$3 million less than they paid under NEEA's prior plan.

The Company explains that it determined whether its energy-efficiency programs and measures were cost effective by calculating benefit/cost ratios under: (1) the Total Resource Cost test (TRC); (2) the Utility Cost Test (UCT); (3) the Participant Cost Test (PCT); and (4) the Ratepayer Impact Measure test (RIM).¹ The Company concluded that its overall energy-efficiency portfolio for 2014 was cost effective from the TRC and UCT perspectives. Specifically, of the Company's 16 Idaho energy-efficiency programs, 11 programs passed the TRC and UCT, 2 programs failed the TRC but passed the UCT, and 3 programs failed both the TRC and UCT. Further, all energy-efficiency programs with customer costs passed the PCT.

In contrast to how it assessed the cost effectiveness of its energy-efficiency programs, the Company did not calculate benefit/cost ratios when assessing the cost effectiveness of its DR programs. Instead, the Company determined whether its DR programs were cost effective by

¹ The four 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 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. The RIM measures the impact to customer rates due to changes in utility revenues and operating costs caused by an energy efficiency program. Under these tests, a program or measure is deemed cost effective if it has a benefit/cost ratio above 1.0.

estimating whether the DR programs in its \$16.7 million DR portfolio (see Commission Order No. 32923) would have remained cost effective if fully dispatched. The Company says independent, third-party consultants evaluated the programs' impact and process to verify that program specifications were met, recommend improvements, and validate program-related energy savings. The Company notes that in 2014, the third-party consultants completed impact evaluations on five programs, and process evaluations on three programs.

The Company describes its Energy Efficiency Advisory Group's (EEAG's) and other stakeholders' input into the Company's development of its DSM activities. The Company notes that stakeholder input in 2014 led the Company to increase the incentives paid to participants in its commercial and industrial DSM programs, to change its commercial/industrial lighting measures, and to implement or plan to implement two new energy-efficiency programs and offerings.

In the Company's last prudence filing, Case No. IPC-E-14-04, Staff and other parties questioned the Company's declining DSM marketing efforts and expenditures. After noting that the Company had defended its actions, the Commission directed the parties to further explore these issues in the context of the Company's next Integrated Resource Plan filing. *See* Errata to Order No. 33161. In the present Application, the Company explains that it responded to the Commission's direction by organizing an Energy Efficiency Advisory Committee to discuss these issues, and by investigating the extent to which energy-efficiency programs and measures yield transmission and distribution benefits. The Company also notes that it will continue evaluating program-delivery issues, and that Staff, customers, and others will be able to use the Energy Efficiency Advisory Committee to advise the Company about formulating, implementing, and evaluating energy-efficiency and DR programs.

STAFF ANALYSIS

Staff reviewed the Company's Application, audited the Company's 2014 DSM expenditures, reviewed the Company's process for paying incentives to customers, and reviewed the Company's internal controls. Based on Staff's review, Staff supports the Company's Application and recommends that the Commission find the Company prudently incurred \$33,495,385 in 2014 DSM-related expenses consisting of \$25,554,688 in expenses that were booked to the DSM Rider account, and \$7,940,697 in DR program expenses that have been included for recovery in the 2015 PCA.

In the following sections, Staff analyzes: (A) the DSM Rider account and DR program expenditures; (B) DSM Marketing Efforts; (C) Program Delivery; (D) New Program Implementation; (E) NEEA; (F) Cost Effectiveness; and (G) the Company's response to Errata Order No. 33161.

A. DSM Rider and DR Program Expenditures

Staff calculated the Rider account's balance as of December 31, 2014 as follows:

2014 Beginning Rider Balance	\$6,685,745
2014 Funding plus Accrued Interest	<u>38,088,113</u>
Total 2014 Funds	<u>44,773,858</u>
2014 Booked Expenses and Activity	(25,556,089)
2015 Accounting Adjustment	1,153
Rider Transfer to PCA	<u>(20,000,000)</u>
2014 Ending Rider Balance per Report	<u>\$ (781,078)</u>

Staff notes that in last year's PCA case (Case No. IPC-E-14-05), the Commission approved a one-time transfer of \$20,000,000 of surplus Rider funds to customers through a credit, or reduction in the PCA. Because of the growing surplus of funds in the Rider account at that time, the account was able to absorb the one-time transfer. This transfer is reflected in the table above.

The Company's 2014 expenditures from the DSM Rider account are \$1,401 less than the 2014 expenses that were booked into the Rider account. This \$1,401 difference consists of two adjustments. First, the Company made a \$1,153 accounting adjustment in 2015 that pertains to 2014 activity in which the Company inadvertently charged the Idaho Rider for two Oregon-related incentive payments from the Energy House Calls program. The Company thus removed the \$1,153 from its prudency request in this case. Second, the Company made a \$248 adjustment that was approved in the 2013 prudency determination. This adjustment is not specifically called out in the table above because the table's 2014 Beginning Rider Balance already reflects it. The \$248 adjustment occurred because in 2013, the Company charged an Idaho-related Home Energy Audit program labor charge to the Oregon Rider instead of to the Idaho Rider. Although this labor expense occurred in 2013, it was added to the Idaho Rider account in 2014. So, in order to arrive at its actual total program expenses for 2014, the Company removed this amount from the 2014 Beginning Rider Balance and this year's prudency request.

Apart from reviewing the DSM Rider account, Staff also reviewed the incentive payments from the Company's 2014 DR programs and those programs' effectiveness. Staff notes that the Company's three demand response programs provided a peak demand reduction of 378 MW in 2014. This value represents the realized, non-coincident load reduction from all three programs. The total enrolled capacity from all three programs was 390 MW. Staff believes these programs are critical in delaying the need for more expensive peaking generation, and that the Company has prudently operated them. Staff thus recommends that the Commission find that the Company prudently paid \$7,940,697 in customer incentives from these programs.

Staff also notes that the Company's energy savings rebounded significantly in 2014; total savings increased by 33 percent from the previous year and exceeded the IRP target. The Company's DSM 2014 Annual Report clearly documents dramatic improvement to the Company's program marketing and delivery, and the addition of several new DSM programs to the Company's portfolio. This improvement demonstrates that the Company's ability to achieve energy-efficiency resource targets is largely within its control and is not determined by outside factors.

B. DSM Marketing Efforts

As reported in the DSM 2014 Annual Report, the Company significantly improved its marketing efforts last year. The Company employed new marketing methods including television, radio, Facebook, Pandora advertising campaigns, online display and search-related ads, Boise airport signage, and a significant number earned of media appearances on KTVB. If continued over the long term, these types of broad-based marketing efforts demonstrate to customers that the Company is committed to energy efficiency and supports customers' efforts to conserve energy. However, it is critical that the Company's efforts continue over the long term and not be a temporary or one-time effort.

The Home Products Program online marketing campaign is a specific marketing success story from 2014. The program's first online marketing campaign was based on specific online search behaviors and produced a click-through-rate (CTR)² of 0.39 percent, which exceeded the industry average of 0.07 to 0.10.³ Since 52 percent of "See ya later, refrigerator" participants said convenience was the most valuable part of the program, the Company adjusted its marketing to

² The click-through-rate is the percentage of website visitors who also click on a particular advertisement on that page.

³ Idaho Power DSM 2014 Annual Report, page 74.

include “messaging focusing on convenience” rather than saving energy or the incentive payment.⁴ This is a good example of the Company effectively using alternate messaging to generate demand for programs. Because research demonstrated that 74 percent of participants use Facebook and 42 percent visit social media multiple times a day, the Company launched a one-month marketing campaign on those platforms for the Rebate Advantage program. Again, the Company’s CTR of 0.16 percent exceeded the digital advertising industry average of 0.07 to 0.10 percent and demonstrated that the Company’s customers are very receptive to new advertising techniques.⁵

The Company also established a contractor portal for its Home Improvement Program so that trade allies could access and customize co-branded marketing materials with their business name and contact information. While this is significant progress, Staff believes the Company should capitalize on co-branding by creating a branded energy-efficiency campaign, similar to what Avista and Rocky Mountain Power have launched and as evaluators for several of the Company’s programs have recommended.

There is also room for Customer Representatives (CRs) to take a more active role in DSM marketing. For example, the Energy Star Homes Northwest evaluator recommends that CRs contact customers to market the program, but the Company declined to adopt this recommendation.⁶ The evaluator also recommends that CRs be “engaged in training sessions.” In response, “IPC invited CRs to sessions in 2014, and several CRs attended the sessions.”⁷ Staff believes the Company should consider requiring CRs to attend these training sessions instead of making the sessions optional. Staff believes the Company should consider establishing customer contact goals for each CR to more effectively promote certain DSM programs.

C. Program Delivery

Besides expanding and improving its marketing efforts, the Company also adapted several of its program delivery methods to make it easier for customers to participate in the programs. Changes to the Company’s three commercial and industrial programs—the largest source of energy savings—were impressive. The Company identified several barriers to participation and took action to overcome those barriers. Incentives were increased (within cost-effectiveness limits) for many

⁴ Idaho Power DSM 2014 Annual Report, page 82.

⁵ Idaho Power DSM 2014 Annual Report, page 80.

⁶ Idaho Power DSM 2014 Annual Report, page 56.

⁷ Idaho Power DSM 2014 Annual Report, page 61.

measures to help customers prioritize energy-efficiency upgrades in their capital budgets. The Company began offering a “Professional Assistance Incentive” to cover the previously uncompensated time architects and engineers spent complying with project documentation requirements, launched the Waste Water Energy Efficiency Cohort to train waste-water managers on low or no-cost energy improvements, created a “Complete Lighting Upgrade bonus incentive” for projects that retrofit all interior lighting and applicable controls, and removed the advance approval requirement for smaller, non-standard measures. The Company reports that “[t]his change was heartily received by participating trade allies and has resulted in quicker turnaround of project implementation.”⁸

Staff supports these adaptations and notes that even with the additional and increased incentives, Building Efficiency, Custom Efficiency, and Easy Upgrades had UCT ratios of 5.05, 4.72, and 4.08 respectively.⁹ These and other changes produced a 48 percent increase in energy savings for the sector and a 135 percent increase for the Custom Efficiency Program. Based on these successes, the Company should consider adopting its evaluator’s recommendation to include contractor incentives for the residential Heating & Cooling Efficiency Program.¹⁰ This program has a UCT of 3.74, so it is well positioned to absorb that impact and remain cost effective. These are the sort of best practices and ongoing adaptations that the Company will need to continue to maintain robust programs.

Also during 2014, the Company asked the EEAG for feedback on merging the three commercial and industrial programs into one customer-facing application. The Company proposed having a single application for all projects, rather than the current segmentation between prescriptive, custom, and new construction measures. Staff supports this streamlined approach because it removes the confusion and barrier to participation that customers experience when a single project includes multiple entry points, differing incentive amounts, and a variety of documentation requirements. PacifiCorp has successfully adopted a similarly streamlined approach.

Although the Company has significantly improved its program delivery, overly burdensome documentation is an ongoing issue. The Company has emphasized its focus on reducing costs (independent of cost-effectiveness constraints) at several EEAG meetings over the past two years,

⁸ Idaho Power DSM 2014 Annual Report, page 117.

⁹ Incentive payments cancel out of the TRC, so increasing those costs does not affect the cost effectiveness from that perspective.

¹⁰ Idaho Power DSM 2014 Annual Report, page 62.

and the DSM 2014 Annual Report cites new documentation requirements the Company imposes on participants.¹¹ Staff supports prudent management of expenses, but encourages the Company to correctly pair the size of the solution with the scale of the problem. Commercial and industrial EEAG members have expressed to the Company that burdensome program documentation requirements create a time consuming back-and-forth dynamic that discourages participation. Staff cautions the Company to apply sufficient rigor without unduly hindering program uptake.

D. New Program Implementation

In last year's comments, Staff and other parties pointed out the absence of new efficiency programs in the Company's portfolio. In response, the Company created the "New Ideas team," which has subsequently been re-branded "Program Planning." All DSM Portfolios should include proactive planning, so Staff supports the Company implementing this function.

The Company rolled out several new programs in 2014, including Home Energy Audits, a program that is based on the 2011-2013 Boise City Audit program and is being used as an education and marketing program. A survey that asked participants to identify all the benefits they experienced found that 71 percent cited raised awareness of energy use, 67 percent cited personal satisfaction, 58 percent cited cost-savings, 57 percent cited home improvement, 42 percent cited improved comfort, and 39 percent cited benefits to the environment.

After the audit, 51 percent of respondents said they visited the Company's website, 61 percent unplugged appliances when not in use, 42 percent signed up for myAccount, 75 percent shared their experiences with family/friends, 65 percent said they replaced additional incandescent lamps with CFLs or LEDs, 41 percent said they serviced their heating equipment, and 38 percent said they serviced their cooling equipment. These findings show that an effective marketing and education program can have a powerful effect on customer understanding and behavior.

Canyon County had by far the most participants, twice as many as the more urban Ada County.¹² Participation was strong in other rural counties as well, which shows that Idahoans are receptive to, and enthusiastic about, the many benefits of energy efficiency. The survey also revealed that the Company customers are motivated to pursue energy efficiency for many reasons—including, but not limited to, cost savings—which demonstrates that the Company should continue

¹¹ Idaho Power DSM 2014 Annual Report, page 119.

¹² Idaho Power DSM 2014 Annual Report, page 65.

expanding its marketing messages to include important intangibles, such as personal satisfaction, comfort, “doing the right thing,” and being informed as reasons for participating in its programs. Nonetheless, the biggest barrier cited was cost, so providing meaningful incentives, within cost-effectiveness bounds, remains a priority.¹³

In addition to the Home Audit program, the Company expanded its very popular and successful Shade Tree program and began a residential clothes line distribution effort. In response to discovery, the Company confirmed that it is moving forward with a residential smart thermostat program, retro-commissioning for building retrofits and processes, a multi-family program investigation, residential behavior based energy efficiency program, and a direct install program for small business customers. The Company also plans to assist with the audits and capital projects associated with efficiency projects at the Idaho State Capitol. Several additional initiatives are being monitored for future viability, including expanding Custom Efficiency to include small, non-prescriptive projects, offering an increased incentive for residential customers who bundle multiple measures into one project, and incenting window inserts.

Custom Efficiency—the Company’s largest program— is also considering expanding its successful cohort approach to include Refrigerator Operator Coaching for Energy Efficiency (ROCEE) II for the Southern Region, Compressed Air, Data Centers, and a Water Supply Energy Efficiency Cohort.

Staff supports the progress made in the last year, and is encouraged that the Company has identified and appears to be actively pursuing additional opportunities. Staff recommends that the Company explore programs that could create additional cost-effective electric savings in gas-heated homes.

E. NEEA

Staff welcomes the Company’s decision to participate in NEEA’s next five-year funding cycle. Because market-transformation programs do not rely on direct contact with individual customers, they are often more cost effective than directly administered local programs. Consequently, market transformation is a good place to expand when avoided costs are low, or to test emerging marketing when directly administered local programs are not cost effective.

¹³ Idaho Power DSM 2014 Annual Report, page 68.

Beyond extending its funding for another five-year cycle, the Company and other electric NEEA funders worked diligently and succeeded in finding a way to leverage and expand NEEA's market-transformation expertise to include natural gas, while remaining neutral on fuel switching and keeping NEEA's electric and gas market-transformation budgets and activities completely distinct.

F. Cost Effectiveness

In addition to program delivery changes, the Company also changed how it calculates DSM cost effectiveness. The changes to cost-effectiveness calculations include applying the 10 percent Northwest Power Act Credit and using a 100 percent Net-to-Gross (NTG) ratio for all programs. The Company applied minimum NTG sensitivities to all programs to show the NTG threshold necessary for the program to be cost effective. Staff supports these changes because they align the Company's calculations with evolving regional and national practices.

While these are meaningful improvements, Staff believes there is more work to be done to more reasonably value demand-side resources in its cost-effectiveness calculations. For instance, Staff believes the UCT is a better measure of cost effectiveness than the TRC because the UCT reflects the revenue requirement associated with acquiring additional resources. In addition, Staff notes that the Company has much more control over the outcome of the UCT than the TRC. In the TRC customer costs—rather than incentive payments—primarily drive the benefit/cost ratio. In the UCT, incentives are the primary cost impacting cost effectiveness. These UCT costs can be easily decreased to preserve cost effectiveness, or increased to maximize the resource acquisition, whichever applies to the utility's situation. This is important because the lack of control over customer costs, and consequently TRC cost effectiveness (and resulting prudency risk), may discourage utilities from launching or expanding DSM programs when either measure costs or energy savings are in flux. The link between factors outside the Company's control and cost recovery could naturally make it hesitant to incent new, innovative, or experimental measures. With more control over cost-effectiveness results and therefore cost recovery, utilities are more likely to pursue innovative DSM programs.

G. Errata to Order No. 33161

In its 2013 DSM prudence determination, the Commission issued an Errata to Order No. 33161 which read:

The Commission is cognizant of the recent decline in energy savings, acknowledged by the Company in its Application, and notes that Idaho Power issued a strong rebuttal of these claims, offering several reasons to explain the recent decline in its DSM expenditures and a defense of its marketing efforts. We are encouraged that the reply comments seem to demonstrate the Company's renewed interest in procuring all cost-effective DSM.

In this case, the Commission restricts its findings to the prudence of the Company's 2013 expenditures. The Commission agrees that the issues raised by Staff and other parties are significant and warrant a more in-depth review. We direct the parties to do so in the context of the Company's next Integrated Resource Plan filing.

In an effort to comply with the Commission order, the Company held two energy-efficiency workshops to discuss issues raised by Staff and the parties. Because the Integrated Resource Plan process does not address program-delivery issues, Company representatives suggested narrowing the workshop's focus to only the treatment of energy efficiency in the resource planning process, primarily because the EEAG could better address strategies related to successfully delivering programs. When EEAG meetings are structured to produce robust discussions, Staff agrees that the EEAG can effectively address program-delivery issues. Nevertheless, because the "issues raised by Staff and other parties" were largely related to concerns about program delivery, it is not clear how excluding program delivery from the Integrated Resource Plan discussion complies with the Commission's order.

At the energy-efficiency workshops, there were discussions about including deferred transmission and distribution in DSM cost-effectiveness calculations. The Company presented its plan to investigate the value of deferred transmission and distribution for DSM cost-effectiveness calculations, and committed to presenting the results of its analysis at the June 2015 IRP meeting. However, the Company did not present the results of its analysis, and it has not updated the Integrated Resource Plan Advisory Committee on the progress of its investigation. PacifiCorp has found this value to be \$54/kW-year and includes this value in its avoided-cost calculation.¹⁴ Staff

¹⁴ PacifiCorp 2015 Integrated Resource Plan. Volume 1, page 124.

supports including the value of transmission and distribution avoided costs in DSM cost-effectiveness calculations; consequently, Staff encourages the Company to finalize and present the results of its avoided transmission and distribution analysis.

STAFF RECOMMENDATIONS

For the above reasons, Staff recommends that the Commission find that the Company prudently incurred \$33,495,385 in 2014 DSM-related expenses. This amount consists of \$25,554,688 in Rider expenses and \$7,940,697 in Demand Response (DR) program expenses that have been included for recovery in the 2015 Power Cost Adjustment (PCA).

Respectfully submitted this 15th day of July 2015.



Karl T. Klein
Deputy Attorney General

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 15th DAY OF JULY 2015, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-15-06, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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