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## BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| **IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR A DETERMINATION OF 2015 DEMAND-SIDE MANAGEMENT EXPENDITURES AS PRUDENTLY INCURRED.** | ) | **CASE NO. IPC-E-16-03**<br><br>**COMMENTS OF THE COMMISSION STAFF** |

**COMES NOW** the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Brandon Karpen, Deputy Attorney General, and in response to the Notice of Application, Notice of Intervention Deadline and Notice of Modified Procedure issued in Order No. 33505 on April 19, 2016, in Case No. IPC-E-16-03, submits the following comments.

**BACKGROUND**

On March 15, 2016, Idaho Power Company applied to the Commission for an Order establishing that in 2015, it prudently incurred $35,196,964 in demand-side management (DSM) expenses, including $28,495,701 in Idaho Energy Efficiency Rider (DSM Tariff Rider, Rider) expenses, and $6,701,263 in demand response program expenses. Generally, a utility incurs DSM expenses by developing and operating programs that are designed to reduce or shift customers' energy consumption and improve their efficient use of energy. The Commission will allow the utility to recover its DSM expenses through rates if the Commission finds that the expenses were prudently incurred. If the Commission finds any of the DSM expenses were not prudently incurred, it will not allow the utility to recover those expenses. The disallowed expenses will be borne by the utility's shareholders and not by customers.

The Company claims that in 2015, DSM efforts increased the Company's annual energy savings by 18% and exceeded the savings target specified in the Company's Integrated Resource Plan. The Company says its DSM efforts saved 162,533 megawatt hours (MWh), including 140,633 MWh from energy efficiency programs and 21,900 MWh from market transformation initiatives through the Northwest Energy Efficiency Alliance (NEEA). The Company offered its customers 19 energy efficiency programs, three demand response programs, and several educational initiatives.

The Company primarily attributes energy savings to commercial/industrial sector DSM activities (102,074 MWh) and, to a lesser extent, residential sector DSM activities (24,532 MWh), and irrigation sector DSM activities (14,027 MWh). The Company reports it enrolled enough participants in its demand response programs to provide 385 MW of load shedding capacity, and that the programs ultimately reduced demand by 367 MW and saved customers about $1.6 million.

The Company funds its Idaho energy efficiency programs through the Idaho Energy Efficiency Rider, base rates, and the annual Power Cost Adjustment Mechanism (PCA). It funds its Idaho demand response programs through base rates and the PCA. The Company states it incurred $35,196,964 in expenses to develop and run its DSM programs in 2015. The Company says these expenses include $28,495,701 in Idaho Energy Efficiency Rider expenses and $6,701,263 in demand response program incentive payments. In addition to these amounts, the Company incurred program costs of $1,315,032 for the Weatherization Assistance for Qualified Customers (WAQC) funded through base rates. The Company is not requesting a prudency determination on the WAQC funds in this case. The Company states it calculated expenses after several adjustments to amounts set forth in the DSM Report, including an exclusion of $441,856 in Rider-funded labor-related expenses.

The Company's Application also describes the Company's evaluation of its DSM programs and whether they were cost-effective in 2015. The DSM Report discusses the cost-effectiveness of the Company's DSM programs and energy savings measures. The Company says 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); (3) the participant cost test (PCT); and (4) the ratepayer impact measure test (RIM).[1] The Company reports that in 2015 its overall energy efficiency portfolio was cost-effective from a TRC and UCT perspective with ratios of 2.32 and 3.57. Of the Company's Idaho energy efficiency programs, 12 programs pass the TRC and UCT, one program fails the TRC but passes the UCT. Two programs fail both the TRC and UCT. All energy efficiency programs with customer costs pass the PCT. When assessing the cost-effectiveness of its demand response programs, the Company does not calculate a benefit/cost ratio. Rather, the Company uses a pre-determined annual value of $16.7 million, as established by Commission Order No. 32923. The Company estimates that the programs would have remained cost-effective if fully dispatched.

The Company reports that independent, third-party consultants provided impact and process evaluations to verify program specifications, recommend improvements, and validate program-related energy savings. In 2015, impact evaluations were completed on six programs and process evaluations were completed on three programs.

Finally, the Company's Application describes the input that various stakeholders, including the Company's Energy Efficiency Advisory Group, had in developing the Company's DSM activities. The Company notes that stakeholder input in 2015 led the Company to increase the scope and reach of its marketing efforts for its DSM programs.

**STAFF REVIEW**

Staff has reviewed the Company's Application and accompanying testimony and exhibits of Connie Aschenbrenner, along with the 2015 DSM Annual Report and additional information provided by the Company. Based on its review, Staff is generally supportive of the Company's DSM expenses and programs. In the comments below, Staff addresses the Company's DSM Rider account and expenditures, demand response programs, low-income programs, and program management issues. Staff notes that the absence of any discussion on other issues presented in the 2015 DSM Annual Report should not be construed as Staff support for those issues.

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[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 supply-side resource savings, and assesses whether the total cost of energy and capacity in a utility's service territory will decrease. The UCT compares program administrator costs to supply-side resource savings, and assesses whether the utility's cost of energy and capacity in its service territory 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 rates due to changes in utility revenues and operating costs caused by an energy efficiency program. Under the first three tests, a program or measure is deemed cost-effective if it has a benefit/cost ratio above 1.0.

**Financial Review**

Staff performed an audit of the Company's DSM expenses and internal processes for paying incentives to customers. With the exception of low income programs, as discussed in greater detail below, Staff found that expenses were well documented and controls were in place designed to eliminate improper payment of incentives. Based upon Staff's audit, Staff believes the Company's DSM rider expenses to be prudent without any adjustments, and recommends that the Commission rule that the Company prudently incurred $35,196,964 in 2015 DSM related expenses. This amount consists of $28,495,701 in Rider expenses and $6,701,263 in Demand Response (DR) program expenses that have been included for recovery in the 2016 Power Cost Adjustment (PCA).

Staff calculated the DSM Rider account balance as of December 31, 2015, as follows:

| | |
|---|---|
| 2015 Beginning Rider Balance | $ (781,078) |
| 2015 Funding plus Accrued Interest | 39,800,889 |
| Total 2015 Funds | 39,019,811 |
| 2015 Expenses | (28,495,701) |
| Transfer to PCA (Commission Order No. 33306) | (3,970,036) |
| 2015 Ending Rider Balance | $ 6,554,074 |

The $3,970,036 transfer to the PCA maintains revenue neutrality associated with the June 2014 update to the normalized level of net power supply expenses (NPSE) included in base rates and approved by Order No. 33000. The Commission approved this annual transfer in the Company's 2015 and 2016 PCA cases. *See* Order Nos. 33306 and 33526. In 2013, Idaho Power proposed, and the Commission approved, an increase of approximately $100 million to the net power supply expenses base level effective June 1, 2014. Order No. 33000. The Commission ordered the Company to "implement the change to base level NPSE so it has no net impact to the overall revenue collected through customer rates and is revenue neutral for all classes of Idaho customers. *Id.* Because the DSM Tariff Rider is calculated as a percentage of base rates (4 percent), the inclusion of approximately $100 million dollars in base rates would generate an additional $4 million in revenue through the DSM Tariff Rider. To maintain revenue neutrality, the Commission has approved these annual transfers from the DSM Tariff Rider account to be refunded through the PCA until the next general rate case.

In the 2015 DSM Prudency Review, the Commission encouraged the Company, Staff, and other stakeholders to monitor the Rider balance and apprise them of any positive or negative trends. Likewise, Staff has closely monitored the DSM Rider revenue and expenses and between 2013 and 2015, the Company has collected, on average, approximately $13.5 million dollars more each year than it spends through the Rider. The trend has continued in 2016, where Rider revenues exceeded expenses by nearly $4 million through May. The following table illustrates annual Tariff Rider revenues and expenses for 2013 – May 2016.

| Calendar Year | Rider Revenue | Rider Expenses |
|---|---|---|
| 2013 | $ 37,005,370 | $ 20,160,075 |
| 2014 | $ 38,088,113 | $ 25,556,088 |
| 2015 | $ 39,800,888 | $ 28,494,548 |
| 2016 (through May) | $ 14,451,227 | $ 10,521,282 |

While Staff has expressed concerns to the Company related to the mismatch of Rider funding and expenses in every Energy Efficiency Advisory Group meeting, the Company has repeatedly stated, and confirmed again that it has no near-term plans to adjust the Rider percentage. *See* Response to Production Request No. 6.

Absent the Company aggressively and expeditiously pursuing additional cost-effective DSM resources, Staff believes the rider percentage should be reduced. Staff recommends that the Commission direct the Company to work with Staff and other interested parties to establish an appropriate Rider rate that aligns the Rider revenues with forecasted expenses through 2017 while also refunding any surplus balance. The parties should address the disposition of surplus Rider funds, additional programs that may be in the Company's pipeline, and adjustments to screening practices that could increase program offerings. Because the Rider continues to collect more revenue than needed to cover DSM program expenses, and the EEAG has been ineffective in addressing the Rider surplus issue, Staff recommends the issue be addressed as part of this case. Specifically, Staff believes the Commission should direct the Company and interested parties to collaborate and submit to the Commission within 90 days a mutually agreeable solution to the Rider surplus issue. Staff notes that an Energy Efficiency Advisory Group meeting is scheduled for August 30, 2016. While Staff believes the EEAG is effective in addressing a variety of other DSM issues, time constraints do not allow the in-depth discussion necessary to resolve the issues associated with disposition of rider surplus revenues. Staff believes that EEAG members may choose to participate in the collaborative process and progress in resolving the issue can be reported at EEAG meetings.

**Demand Response**

In addition to the audit of the DSM Rider account, Staff also reviewed the incentive payments from the Company's 2015 demand response programs and those programs' effectiveness. Total available capacity of the Company's three demand response programs was 385 MW, providing actual non-coincident load reduction of 367 MW. Staff believes the programs are critical in delaying the need for more expensive peaking generation, and that despite some shortcomings in the self-administration of the FlexPeak program, the Company adequately operates them. Staff thus recommends that the Commission find that the Company has prudently paid $6,701,263 in customer incentives from these programs.

Absent demand response, the Company estimates its peak load would have been approximately 3,433 MW, which would have exceeded the previous all-time system peak of 3,407 MW. However, with the use of demand response programs, the actual peak load during 2015 was 3,320 MW.

In November 2013, the Commission approved an agreement settling an inquiry into the Company's demand response programs. *See* Order No. 32923. The settlement, among other things, stated that Idaho Power would not actively market its demand response programs to new customers. At the time, the need for demand response was minimal and every attempt was made to keep costs low. However, Staff now believes that considering the increase in peak loads, the rapid attrition in the A/C Cool Credit program, and the number of A/C switches stockpiled in the Company's inventory, marketing of this program to new customers is now appropriate.

In June 2016, participation in the A/C Cool Credit program declined to 28,891 participants, a decrease of 22 percent from a June 2012 peak of 36,906 participants. Additionally, the Company currently has 4,529 switches in stock for use in the A/C Cool Credit program, valued at approximately $680,000. Staff recognizes that the A/C Cool Credit program does not provide the same magnitude of capacity relief as the other programs (36 MW compared to 305 MW for Irrigation Peak Rewards). However, because the guiding concepts of the Demand Response workshops and the Demand Response Settlement Agreement were to use existing demand response resources when possible, have demand response offerings to all three customer classes, and to take long-term outlooks, Staff believes programs should not see attrition rates of the magnitude of this residential program. Staff thus recommends that the Company increase marketing of the A/C Cool Credit program in order to reduce the stock pile of inventory of the A/C switches to a replacement level only, and to minimize any further attrition in the program. Additionally, Staff recommends that the Company reevaluate the need for marketing its other demand response programs during the Company's Integrated Resource Planning (IRP) Advisory Committee meetings leading up to the development and filing of its 2017 IRP.

**Low Income Programs**

Idaho Power currently has two low-income programs: Weatherization Assistance for Qualified Customers (WAQC) and Weatherization Solutions for Eligible Customers (Weatherization Solutions). WAQC is an income-based[2] program that provides participants in electrically-heated homes with measures aimed at increasing energy efficiency and safety. Many participants' monthly electric bills are also reduced, which subsequently lowers arrearages. The Weatherization Solutions program is designed to mirror the WAQC program, providing assistance to low-income customers who don't qualify[3] for WAQC with weatherization services. Weatherization Solutions is funded through the Company's DSM tariff rider, while WAQC program costs are included in base rates.

The Company provides funds to five regional Community Action Partnership (CAP) agencies operating in Idaho Power's service territory. The CAP agencies determine if participants are qualified to take part in the programs as well as install measures in participants' homes. WAQC funds are used in conjunction with federal funding provided by the U.S. Department of Energy's Weatherization Assistance Program (WAP) and the U.S Department of Health and Human Services' Low Income Home Energy Assistance Program. During the 2015 program year, Idaho Power provided the regional CAP agencies with $1,315,032 in funding for the completion of 243 units.

Unlike WAQC, Weatherization Solutions contracts with entities located throughout Idaho Power's service territory to provide weatherization services to qualifying participants. In some

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[2] In order to be income-qualified for WAQC, the participant must be at or below 200% of the federal poverty level.

[3] In order to be income-qualified for Weatherization Solutions, participants must be between 175% and 250% of the federal poverty level. Participants who qualify for both programs can only receive assistance through one or the other.

instances, Idaho Power contracts with for-profit affiliates of the regional CAP agencies. In 2015, $1,243,269 was used to complete 171 units under the weatherization solutions program.

Upon review of information provided by the Company, Staff is concerned that the Company may not be receiving adequate documentation from CAP agencies. In some instances, sufficiently detailed information about what measures were installed, the cost of each measure and associated labor costs were not properly identified. It was also unclear to Staff how costs are allocated to the Company, making it difficult to determine if utility funds are being used appropriately. Staff is also concerned that without complete information pertaining to installed measures, the Company cannot adequately estimate energy savings.

Staff will continue its review and work with the Company to develop a better understanding of how the weatherization programs are currently administered. Staff recognizes that only Weatherization Solutions is funded through the DSM tariff rider, but maintains that it would be reasonable to continue its analysis of both the WAQC and Weatherization Solution programs outside of this prudency determination case.

**Program Management**

The Company continues its recent trend of investigating and deploying new programs and implementing a more robust marketing strategy. As a result, it exceeded its IRP targets and continues to make progress towards pursuing all cost-effective DSM. For example, the Company continued its successful shade tree program, finalized plans to give away free drying racks to reduce clothes dryer use, and added a Water Supply Operator Certification to its very successful Custom Efficiency Strategic Energy Management training cohorts. The Company also maintained, and in some cases expanded, its revitalized marketing efforts which now include web, social media, television commercials and public radio in addition to the longstanding use of bill stuffers. The Company also streamlined the deployment of demand response at its dispatch center, which increases value of the Company's investment in that resource. The Company also began providing a voting member to the Regional Technical Forum for the first time ever. This is a significant contribution to the region and gives the specific needs of Idaho Power's customers more visibility and attention in regional conversations.

Additionally, the Company launched a multi-family direct install project in order to target the difficult-to-reach apartment dwellers market. Measures for this project are free for the participant. Idaho Power funds the measures through the DSM Tariff Rider and works with the building owner and facility manager on installation. One multi-family project is currently underway, and the Company has indicated the pilot may be expanded into a full-fledged program if the initial project goes well. Staff supports this program and expects the Company will capitalize on the pilot to build and maintain an on-going multi-family program.

Despite continued progress, more work remains to be done. Staff is concerned that the Company has been slow to move forward on two cost-effectiveness and program-related initiatives, as well as opportunities for development into new areas that could help the Company maintain pace with ever-advancing industry standards. For example in late 2014, the Company committed to studying the value of deferred transmission and distribution investments, but few progress updates have been shared and no preliminary or final results have been provided. The 2015 DSM report states that findings will not be available until mid or late 2016, which is almost two years after the initial announcement. Staff notes that other utilities have included the value energy efficiency has on delayed transmission and distribution investment in their avoided costs and have for quite some time. Staff requests that the Company provide a progress update with preliminary results of the study to the EEAG at the August 30, 2016 meeting.

In a step towards reducing confusion and lowering barriers to participation for its Commercial and Industrial (C&I) programs, in early 2015, the Company announced that it would combine its three C&I programs into a single, customer-facing program. The combined program would be more intuitive and reduce confusion for customers who have the interest and available capital to participate, but may not be clear about how to proceed. Other utilities, including other Idaho utilities, have successfully moved to this consolidated program model. But after the initial announcement, progress for Idaho Power was slow. The Company recently implemented the new program delivery system after receiving approval from the Oregon PUC. Waiting for Oregon approval was reasonable in order to ensure the changes were comparatively made on a system basis, but it took a year and a half to combine three programs. Rocky Mountain Power made a similar shift in less than 6 months.

Opportunities for cost-effective energy efficiency also exist in areas where the Company has taken little or no action. For example, Idaho Power has had significant success with its large C&I customer behavioral efforts, including its industry-specific training cohorts and strategic energy management work. However, the Company has done little outside of broad education efforts to advance residential behavioral efficiency. The 2015 DSM Annual Report (page 142) reads, "[t]he Residential energy efficiency initiative will continue to work with the [Program

Planning Group] to explore behavioral programs that may include enhancements to kit programs, increased promotion of myAccount, home energy reports, or a pilot program to test other behavioral messages." Staff is encouraged by this announcement, but remains wary of continued delays that push the Company further behind its peers in this area. Staff notes that Avista and Rocky Mountain Power launched cost-effective residential behavior programs years ago, and peer utilities in neighboring states already have residential behavior programs in place. Such programs can include home energy reports, and cost and usage notifications to help customers plan for bills. Regular cost and usage notifications by email and text reminds customers to be mindful of their usage over the month. Such programs generally increase customer satisfaction by providing useful information and preventing billing surprises.[4] Many cell phone companies have adopted a similar system for alerting customers about data usage.

Another significant, but stalled area of opportunity is small and medium business efficiency. Small business customers often lack the capital, time, and personnel to undertake energy efficiency. Idaho Power investigated a direct install program to overcome these barriers, but has decided not to move forward with a specific program. The Company maintains that it is too difficult to explain the criteria it uses to determine if potential participants qualify. Because small business customers are one of only two customer classes that pay into the Fixed Cost Adjustment Mechanism, the Company should aggressively pursue options to include small businesses in the Company's DSM offerings. Staff believes that communication challenges can be effectively overcome and should not be a barrier to introducing new programs.

To make its program offerings more effective, Staff encourages Idaho Power to investigate practices used by other utilities. One possibility is using data analytics to identify energy efficiency opportunities. This approach could reduce the need for expensive and labor intensive on-site visits. Another option is exploring financing mechanisms to overcome the up-front capital costs that many customers face as a barrier to cost-effective energy efficiency investments. The Company could build relationships with local lenders to provide a seamless path for small business and residential customers to invest in efficiency. The Office of Energy Resources offers a low-interest loan program, but it's not clear that Idaho Power has fully

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[4]For example NV Energy offers its customers "Weekly Cost to Date Alerts," providing them with usage and cost data over the month to help plan for billing. *See* NV Energy Customer MyAccount webpage, https://www.nvengergy.com/myaccount/ ("The MyAccount Alert Center").

integrated that option in its marketing materials or trade ally training. Some utilities offer on-bill financing, meaning the efficiency investment is added to the customer's bill and it is repaid on a monthly basis. The finance charge is assigned to the meter, so if the house sells or the tenant changes, the new occupant (who is receiving the benefit of the measure) pays the charge.

**STAFF RECOMMENDATIONS**

Based upon Staff's audit and analysis, Staff recommends the Commission:

1. Find that the Company prudently incurred $35,196,964 in 2015 DSM related expenses. This amount consists of $28,495,701 in Rider expenses and $6,701,263 in Demand Response program expenses that have been included for recovery in the 2016 PCA.

2. Direct Idaho Power, Staff, and interested parties to collaborate to form recommendations to set the Energy Efficiency Tariff Rider rate to a level that appropriately aligns revenue and expenses and submit to the Commission within 90 days a mutually agreeable solution to the Rider surplus issue.

3. Direct Idaho Power to increase its marketing efforts for the A/C Cool Credit program to utilize the inventory of A/C switches and stop the attrition in that program. Additionally, the Company should be prepared to evaluate the need to market the remaining programs and present its findings to the Integrated Resource Planning Advisory Committee for recommendations in preparation of the 2017 IRP.

Respectfully submitted this 14th day of July 2016.

Brandon Karpen
Deputy Attorney General

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# CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 14TH DAY OF JULY 2016, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF** IN CASE NO. IPC-E-16-03, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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