Office of the Secretary
Service Date
October 16, 2017

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR A DETERMINATION OF 2016 DEMAND-SIDE MANAGEMENT EXPENDITURES AS PRUDENTLY INCURRED	**CASE NO. IPC-E-17-03** **ORDER NO. 33908**

On March 15, 2017, Idaho Power Company applied to the Commission for a determination that the Company prudently incurred its demand-side management (DSM) expenses in 2016 and incremental DSM labor expenses from 2011-2016. More specifically, the Company asked to recover about $40 million in deferred costs for its 2016 DSM programs, and about $1.86 million in deferred costs for incremental DSM labor expenses from 2011-2016. 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. 33737. The Commission granted timely petitions to intervene by the Industrial Customers of Idaho Power (ICIP), Community Action Partnership Association of Idaho (CAPAI), and Idaho Irrigation Pumpers Association, Inc. (IIPA). Order Nos. 33752 and 33754. Staff, ICIP, and CAPAI timely filed comments, and Idaho Power timely filed reply comments. Also, Idaho Conservation League filed public comments. The Commission received no other public comments, nor comments from IIPA. CAPAI timely petitioned for intervenor funding, which no party opposed.

The Commission now grants the Company's request in part, denies in part, and grants CAPAI's request for intervenor funding, as more fully described below.

BACKGROUND

The Commission has "consistently stated that cost-effective DSM programs are in the public interest and has admonished electric utilities operating in the State of Idaho to develop and implement DSM programs in order to promote energy efficiency." Application at 2 (quoting Order No. 32113 at 8). To further the Commission's stated objectives, the Company asserted it "implements and manages a wide range of opportunities for its customers to participate in DSM activities, to be informed about energy use, and to use electricity wisely." *Id.*

The Company uses 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). Application at 3. The four tests examine cost-effectiveness from different perspectives. 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 bills or 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.

The Company started its modern DSM programs in 2002. 2016 DSM Annual Report at 1. Per Order No. 29419, the Company files a DSM report each year. To recover costs from its programs, the Company must request and obtain the Commission's finding that such costs were reasonably and prudently incurred. *See* Order No. 29103.

THE APPLICATION

The Company's 2016 DSM Annual Report includes a detailed evaluation of its DSM programs and whether they were cost-effective in 2016. Idaho Power stated that in 2016, DSM efforts increased the Company's annual energy savings by 4% and exceeded the savings target specified in the Company's Integrated Resource Plan. Application at 3-4. The Company stated its DSM efforts saved 170,792 megawatt hours (MWh), including 24,616 MWh of energy efficiency market transformation savings through the Northwest Energy Efficiency Alliance (NEEA). *Id.* The Company offered its customers 22 energy efficiency programs, three demand response programs, and several educational initiatives. Aschenbrenner Direct at 4.

The Company's 2016 energy savings consisted of 42,269 MWh from the residential sector, 88,161 MWh from the commercial/industrial sector, and 15,747 MWh from the irrigation sector, in addition to savings through NEEA initiatives. Application at 3-4. According to the Company, it enrolled enough participants in its demand response programs to provide 392 megawatts ("MW") of load shedding capacity, and the programs reduced demand by 378 MW. *Id.* at 4.

The Company funds its Idaho energy efficiency programs through the Idaho Energy Efficiency Rider, base rates, and the annual Power Cost Adjustment (PCA). *Id.* at 1, 4-5. With its Application, the Company asked the Commission to find that the Company prudently incurred $40,242,182 in expenses. *Id.* at 1. The Company stated these expenses included $31,321,862 in Idaho Energy Efficiency Rider expenses, and $7,059,420 in Demand Response Program incentive payments for 2016, calculated after several adjustments to amounts set forth in the DSM Report. *Id.* at 5-6. The Company also requested a prudency determination for $1,860,901 of incremental DSM labor expenses incurred from 2011 through 2016 that have yet to be deemed prudent, but which the Company believes "were prudently incurred and necessary to acquire the total energy savings and demand response capacity achieved" from 2011 to 2016. *Id.* at 5-6, 10.

The Company reported that in 2016, its overall energy efficiency portfolio was cost-effective from TRC, UCT, and PCT perspectives with ratios of 2.56, 3.58, and 2.93, respectively. *Id.* at 7. Of the Company's 15 Idaho energy efficiency programs for residential customers, 11 were cost-effective from the UCT or TRC perspectives. *Id.* at 8; Aschenbrenner Direct at 4. Three of those programs – the Home Improvement program, Fridge and Freezer Recycling program, and weatherization programs for income-qualified customers – were not cost-effective from either the TRC or UCT perspectives, or both; these programs are being discontinued or evaluated for discontinuation. Application at 7-8.

Idaho Power's three demand response programs are: A/C Cool Credit (for residential customers); FlexPeak Management (for commercial / industrial customers); and Irrigation Peak Rewards (for irrigation customers). Aschenbrenner Direct at 4. These programs curtail load when the system capacity is constrained. When assessing the cost-effectiveness of its demand response programs, the Company used a pre-determined annual value of $16.7 million, established by Commission Order No. 32923, rather than calculating a benefit/cost ratio. Application at 8. The Company estimated that the three demand response programs, if fully dispatched, would have cost a total of about $12.9 million on a system-wide basis – well under the $16.7 million value. *Id.* at 8-9.

The Company reported that independent, third-party consultants were used to provide impact and process evaluations to verify that program specifications were met, to recommend improvements, and to validate program-related energy savings. *Id.* at 9. Idaho Power noted that it received input from various stakeholders, including the Energy Efficiency Advisory Group (EEAG), in developing the Company's DSM activities. *Id.* at 9-10.

DISCUSSION AND FINDINGS

Commission Staff, ICIP, CAPAI, and ICL filed timely comments to which Idaho Power replied. These comments and reply are summarized below, followed by Commission findings where pertinent.

A. Staff

Following an extensive audit, Staff recommended that the Commission find the Company prudently incurred $40,225,286 in 2016 DSM related expenses. Staff Comments at 4. This amount consists of $31,304,965 in Tariff Rider expenses (with two adjustments to the Company's requested amount), $7,059,420 in Demand Response incentives (as the Company requested), and $1,860,901 in incremental labor expenses for 2011-2016 already included in the Rider balance (also as the Company requested). *Id.* Staff calculated the DSM Rider account balance as of December 31, 2016, as follows:

Table 1: Tariff Rider Reconciliation

2016 Beginning Rider Balance (Overfunded)	**$6,554,074**
2016 Funding plus Accrued Interest	39,437,692
Company Identified Accounting Adjustments	30,283
Total 2016 Funds	$46,022,049
2016 Reported Expenses	(31,321,862)
Transfer to PCA (per Commission Order No. 33526)	(3,970,036)
Vehicle Charge Error	16,705
Chambers of Commerce and Rotary Club Fees	192
Balance as of December 31, 2016 (Overfunded)	**$10,747,048**

Id.

1. Proposed Adjustments to Tariff Rider Expenses

Staff recommended two adjustments to the Tariff Rider expenses that the Company asked to be deemed prudent: a $16,705 vehicle charge error in its Equipment Utilization Report, and $192 in Company credit card charges for dues to Rotary Club and Boise Metro Chamber of Commerce. *Id.* at 5. Idaho Power agreed with Staff's proposed $16,705 adjustment to account for the Company's error in its Equipment Utilization Report. Reply at 13. However, the Company disagreed with Staff's proposal to remove expenses associated with the Rotary Club and Boise Metro Chamber of Commerce. *Id.* at 14. The Company contended that only $88 of Staff's recommended $192 adjustment represented membership dues, while $48 was for business meals and $57 was related to employee training. *Id.* The Company asserted that the $88 should not be removed from the rider because the Company's presence in the organizations provide "value to Idaho Power's energy efficiency efforts via building relationships, contacts, and promotion of its programs to potential participants." *Id.* at 14-15.

Commission Findings: We find the Company prudently incurred $31,304,965 in Tariff Rider expenses. In so finding, we reduce the Company's requested amount by $16,705 (with which the Company agreed) to adjust for the vehicle charge error. We also reduce the requested amount by $192 in credit card charges booked as Rotary Club and Boise Metro Chamber of Commerce expenses per Staff's audit. Staff Comments at 5. The Commission appreciates the Company's desire to participate in organizations such as the Rotary Club and Boise Metro Chamber of Commerce, but we find these expenses should not be recovered from customers. The clarification provided by the Company does not demonstrate adequate customer benefit. Even the claimed meals and training costs paid to these organizations do not demonstrate any direct benefit to customers. Therefore, we decline to include the $192 in the Company's Energy Efficiency Tariff Rider.

2. Incremental Labor Increases

As to the Company's proposed incremental labor increases, Staff believed Idaho Power overstated national wage data and "actual general wage adjustments awarded to non-union employees of Avista Utilities and PacifiCorp." *Id.* at 6-7. Staff also questioned the completeness of "projected wage increases for local companies such as Boise, Inc., Intermountain Gas Company, Micron, Qwest, Simplot, State of Idaho, and URS." *Id.* at 7. Staff recognized that "some level of wage increase is both appropriate and necessary." *Id.* at 8. Thus, Staff recommended that the Company's wage increases be deemed prudent, but on condition "that the Commission order a cap on rider-funded labor expense at the 2016 levels." *Id.* Absent such condition, Staff recommended the Commission "defer ruling on the reasonableness of the labor increases until the next general rate case" when Staff would perform a position by position benchmark analysis to quantify its proposed adjustment. *Id.*

Idaho Power disagreed with Staff's assessments that the Company's wage data were "incorrect and 'routinely overstated.'" Reply at 2. The Company described Staff's assessments as mischaracterizations, noting that Staff compared "actual wage adjustments made by peer utilities in the first quarter of each year against estimated wage adjustments provided by peer utilities to Idaho Power many months prior," then incorrectly concluded the differences were overstatements of data points. *Id.* at 3 (emphasis original). The Company countered that "the information [it] presented was an estimate and the best available data at the time the Board made its wage adjustment decision." *Id.*

As to Staff's request that the Commission either defer ruling on the reasonableness of the labor increases until the next general rate case or limit rider-funded labor expense at the 2016 levels, Idaho Power stated "it would be premature and unnecessary for the Commission to issue a determination on the prudence of expenses not yet incurred." *Id.* at 2.

Commission Findings: We recognize there is an almost inevitable discrepancy between the Company's estimated wage adjustment and actual wage adjustments made months later. While it is reasonable to expect wages to increase annually, we find that total wages can be more thoroughly examined and are more appropriately addressed in the context of a general rate case rather than in the DSM filings. Accordingly, we find it reasonable and appropriate to deem the Company's incremental DSM labor expenses of $1,860,901 from 2011 through 2016 as prudent. We also find it reasonable to establish a process where general rate cases establish base wage levels and wage increases in the DSM cases that are capped beyond 2016. Rather than establishing the cap on the rider-funded labor expense at 2016 levels, we find it reasonable to include actual wage increases up to a 2% cap in the DSM rider. This process does not require pre-determination as to prudence and no longer requires labor to be examined in DSM cases. The base and cap will be reset in general rate cases.

3. The Company's Energy Efficiency Portfolio and Marketing

Staff highlighted achievements such as the Company's energy savings kits distributed as part of its educational distributions residential program, the cohort training effort in its commercial and industrial program, and the multi-family energy savings program, all of which were cost-effective. Staff Comments at 10-11. Also, Staff remarked that, in general, "the Company's marketing efforts have dramatically improved in recent years," including use of digital and social media marketing. *Id.* at 14-15.

Staff also commented on areas of concern, such as Idaho Power's decision to discontinue its Home Improvement program, despite that the program scored as cost-effective on the UCT test. *Id.* In addition, Staff expressed concern that the Company's study about the value of transmission and distribution that can be deferred through energy efficiency "used only a seven year stream of deferred investments rather than the 20 year stream used in all other avoided cost calculations." *Id.* at 14.

Commission Findings. We continue to encourage the Company to take advantage of all cost-effective programs. We are concerned that a cost-effective program was discontinued. To this end we encourage the Company to thoroughly discuss its programs and evaluate their cost-effectiveness with EEAG, and to limit misunderstandings. Further, we find it appropriate for the parties to address with EEAG whether the Company should use a seven or 20-year deferred investments stream and report back to the Commission if the 20-year analysis is not acceptable.

4. Inventory of Unused Switches

Staff was concerned that the Company's inventory of 2,675 Advanced Metering Infrastructure (AMI) switches, left from its conversion program for irrigation peak rewards customers is too high. *Id.* at 9-10. Staff recommended that the Company develop a plan with the EEAG to reduce the inventory of switches to a reasonable level. *Id.* Staff noted that the switches – paid for with customer funds through the Tariff Rider – are not currently providing any benefit, and thus recommended that their value be removed from the Tariff Rider balance until the switches are placed in service and thus made used and useful. *Id.*

Idaho Power disagreed with Staff "that the existing switches are not providing value to current customers." Reply at 6. The Company noted that the Commission already deemed the expenditures prudent in Case No. IPC-E-13-08, and the Company has not purchased any additional switches since that time. *Id.* The Company stated it solicits participation from past participants and customers who move into a new home, and that it has installed about 875 switches in the new homes of former participants over the last two years. *Id.* at 6-7. Accordingly, the Company stated it "needs an inventory on hand to ensure it can replace existing switches that may fail." *Id.* at 7. The Company believes its switch inventory is at a reasonable level, and there is no need for Idaho Power to work with EEAG to develop a plan to reduce it. *Id.*

Commission Findings: We find it reasonable and appropriate for the Company to maintain some level of inventory of switches, deploying them as appropriate. We decline to order the Company to reduce its current inventory. The inventory of switches are paid for and no additional rider funds are being used for new switches.

B. CAPAI and Idaho Conservation League

CAPAI's comments were limited to discussing Idaho Power's low-income weatherization assistance program – Weatherization Assistance for Qualified Customers

(WAQC), which performed poorly under cost-effectiveness tests. CAPAI Comments at 2-3. CAPAI stated it would like to develop a strategy with Idaho Power to improve WAQC's cost-effectiveness, and to work toward "providing whole house weatherization and cost sharing with federal funding sources." *Id.* at 4. CAPAI supported the Company's request to recover expenses from the WAQC program. *Id.* at 5.

Although not an intervening party, the Idaho Conservation League (ICL) filed public comments. ICL recommended that the Commission "continue to determine prudence based primarily on the [UCT] results for each program." ICL Comments at 3. ICL also suggested that the Commission direct the Company "to work with EEAG to redesign the Home Improvement Program by considering changes to incentive structures and program marketing," and to refine the refrigerator recycling program. *Id.* at 4. Further, ICL recommended that the Company work with EEAG and CAPAI to redesign the weatherization program. *Id.* In sum, ICL recommended that the Commission find Idaho Power's 2016 DSM programs were prudent.

The Company appreciated the comments by CAPAI and ICL, and indicated it will continue to work with these groups and with the EEAG to discuss program redesign that may lead to improved cost-effectiveness. Reply at 9-10.

C. ICIP

ICIP stated it is unable to recommend approval or rejection of Idaho Power's request for a prudency determination because the information for assessing the cost-effectiveness of the Company's demand-side and energy efficiency measures has not changed since the Company's settlement agreement four years ago. ICIP Comments at 3-4. ICIP thus asserted the inputs are stale, and the validity of any financial assumptions based on those inputs should be questioned for purposes of a prudency review. *Id.*

Idaho Power disagreed with ICIP's conclusion that the Commission "does not have sufficient information available to make a prudence determination." Reply at 12. The Company noted that the EEAG has been supportive of the Company's methods for determining cost-effectiveness of its DSM programs. *Id.* The Company also disagreed with ICIP's contention that "none of the inputs to the annual valuation of demand response have been updated since the initial valuation was calculated four years ago." *Id.* (quoting ICIP Comments at 4). Idaho Power countered that it has updated a number of inputs, consistent with its policy of "using the best available information at the time of budgeting and program planning." *Id.* at 12-13. The Company thus opposed ICIP's recommendation that the Commission "initiate a process to update the inputs and measures used to measure cost-effectiveness of the Company's DSM programs." *Id.* at 13.

Commission Findings: We encourage the Company to maintain its dialogue with all parties and the EEAG regarding its DSM program and cost-effectiveness tests.

DISCUSSION AND ULTIMATE FINDINGS

Idaho Power is an electrical corporation, and the Commission has jurisdiction over it and the issues in this case under Title 61 of the Idaho Code and the Commission Rules of Procedure, IDAPA 31.01.01.000, *et seq. Idaho Code* §§ 61-119, -129, -501, -503. Based on our review of the record, we find that the Company prudently incurred $40,225,286 in 2016 DSM-related expenses consisting of $31,304,965 in expenses booked to the DSM Rider Account, and $7,059,420 in Demand Response program expenses that have been included for recovery in the 2017 PCA, and $1,860,901 in incremental labor expenses. We note that, except for a $192 adjustment to the 2016 DSM-related expenses, these amounts were undisputed. We find it fair, just, and reasonable for the Company to take such other actions as referenced in the body of this Order.

CAPAI'S PETITION FOR INTERVENOR FUNDING

Intervenor funding is available under *Idaho Code* § 61-617A and Commission Rules 161 through 165. Section 61-617a(1) declares it is "the policy of [Idaho] to encourage participation at all stages of all proceedings before this commission so that all affected customers receive full and fair representation in those proceedings." *Idaho Code* § 61-617A(2). The statute authorizes the Commission to order any regulated utility with intrastate annual revenues exceeding $3.5 million "to pay all or a portion of the costs of one or more parties . . . in any proceeding before the Commission." *Id.*; IDAPA 31.01.01.161 (intervenors may apply for funding in any case involving a regulated utility with gross intrastate revenues exceeding $3.5 million). Intervenor funding costs include legal fees, witness fees, transportation and other expenses, so long as the total funding for all intervening parties does not exceed $40,000 in any proceeding. *Idaho Code* § 61-617A(2).

The Commission must consider the following factors when deciding whether to award intervenor funding:

> (1) That the participation of the intervenor has materially contributed to the Commission's decision;

(2) That the costs of intervention are reasonable in amount and would be a significant financial hardship for the intervenor;

(3) The recommendation made by the intervenor differs materially from the testimony and exhibits of the Commission Staff; and

(4) The testimony and participation of the intervenor addressed issues of concern to the general body of customers.

Id. An intervenor's petition must contain: an itemized list of expenses broken down into categories; a statement explaining why the costs constitute a significant financial hardship; and a statement showing the class of customer on whose behalf the intervenor participated. IDAPA 31.01.01.162.

CAPAI filed the only Petition for Intervenor Funding, and requested $995.00 for attorney and expert fees. CAPAI submitted, and it is undisputed, that Idaho Power is a regulated public utility with gross intrastate annual revenues exceeding $3.5 million. Petition at 2. CAPAI stated, "To the extent that CAPAI represents a specific customer class of Idaho Power, it is the residential class." *Id.* at 6. CAPAI asserted it is a nonprofit organization fighting causes and conditions of poverty throughout Idaho with little discretionary funds. *Id.* at 4. Its sole funding source is the Low Income Home Energy Assistance Program (LIHEAP) program, which has a very limited budget. *Id.*

CAPAI expressed that its requested funds are reasonable and that without such funds, its costs would present a significant financial hardship. *See id.* Also, CAPAI noted that it was the only party to address the Company's low-income programs in significant detail. *Id.* at 5. Although CAPAI suggested that it had proposed a finding "that there no longer is a moratorium on future increases in Avista's low income programs depending upon circumstances at the time," this appears to be in error – perhaps from a filing in an Avista case. *Id.* CAPAI has requested no similar finding in this case; its only recommendation was that the Commission allow recovery of Idaho Power's expenditures related to the WAQC program. CAPAI Comments at 5.

Commission decision. We have jurisdiction to consider CAPAI's timely request, and find that CAPAI provided an itemized list of its expenses and that it its costs would present a significant financial hardship without intervenor funding. We further find that CAPAI's comments differed materially from Staff's in that it focused on the Company's low-income programs. In addition, we find CAPAI's presentation of such issues to be in the public interest, and thus a material contribution to our decision. Accordingly, we approve CAPAI's request for $995.00 in intervenor funding, chargeable to Idaho Power's residential customers.

O R D E R

IT IS HEREBY ORDERED that Idaho Power's 2016 DSM expenditures are approved as prudently incurred in the amount of $40,225,286, as described above.

IT IS FURTHER ORDERED that CAPAI's Petition for Intervenor Funding is granted as requested in the amount of $995.00. This amount will be chargeable to the Company's residential customers.

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.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 16th day of October 2017.

Paul Kjellander

PAUL KJELLANDER, PRESIDENT

Kristine Raper

KRISTINE RAPER, COMMISSIONER

Eric Anderson

ERIC ANDERSON, COMMISSIONER

ATTEST:

Diane M. Hanian

Diane M. Hanian
Commission Secretary

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