Office of the Secretary
Service Date
December 21, 2018

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF THE IDAHO DEPARTMENT OF ADMINISTRATION FOR AN EXEMPTION FROM THE IDAHO PUBLIC UTILITIES COMMISSION'S MASTER-METERING RULES FOR ELECTRIC UTILITIES AND THE IDAHO POWER MASTER-METERING STANDARDS	)	**CASE NO. IPC-E-18-08** **ORDER NO. 34219**

On April 13, 2018, the Idaho Department of Administration ("IDOA") petitioned the Commission for an exemption to the Commission's Master-Metering Rules for Electric Utilities (IDAPA 31.26.01) and Idaho Power Company's nearly identical master-metering standard in Section 4 of Rule E to Tariff No. 101 (collectively the "Master-Metering Rules"). The Master-Metering Rules require public utilities to individually meter commercial buildings where tenants control their own electric space heating, water heating, or air-conditioning appliances. IDOA seeks an exemption to the Master-Metering Rules as they might otherwise apply to Idaho Power's provision of electrical service to the State of Idaho's Chinden Office Complex (the "Campus").

On May 7, 2018, the Commission issued notice of the Petition. The Commission also set a May 21, 2018 intervention deadline, a June 21, 2018 comment deadline, and a July 5, 2018 reply deadline. Order No. 34056. The Commission later extended the comment deadline to July 5, 2018, and the reply deadline to July 19, 2018. Order No. 34077.

On July 5, 2018, the Commission Staff and Idaho Power—the only intervenor in the case—filed timely written comments about the Petition. Staff recommended the Commission grant IDOA a limited exemption. *See* Comments of the Commission Staff ("Staff Comments"). Idaho Power recommended that the Commission deny the requested exemption. *See* Comments of Idaho Power Company ("Idaho Power Comments"). No other comments were received.

Having reviewed the record, the Commission issues this Order denying IDOA's Petition for an unlimited exemption to the Master-Metering Rules, but granting IDOA a temporary 2-year exemption so IDOA can individually meter the Campus. Our decision is explained below.

MASTER-METERING RULES

The Commission first adopted Master-Metering Rules in 1980 through Order No. 15556. The Commission based its decision "on the conservation goals of [the Public Utility Regulatory Policies Act of 1978 (PURPA) and] upon goals of fostering and maintaining direct relations between electric utilities and their customers and of equitable treatment of the ultimate consumers of electricity." *Id.* at 1. The Master-Metering Rules were based on four premises:

> 1. Individually metered tenants who are responsible for paying their own electric bills use less and waste less electricity than master-metered tenants ...;
>
> 2. The ultimate consumers of electric energy are better served by a direct customer relationship with the utility than by disguising utility costs in the rent or by the landlord playing the role of the public utility ...;
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> 3. It is inequitable for electric consumers to pay more or less than the cost of electricity which they consume themselves ...; and
>
> 4. The adoption of easily understood rules capable of immediate application without lengthy or costly studies or analyses is a better means of drawing reasonable lines allowing or disallowing master metering than rules based upon complex cost-benefit analyses that ignore unquantifiable benefits of individual metering.

Id. at 2. The current version of Master-Metering Rule 103 (IDAPA 31.26.01.103), which is at issue here, states:

> No unit of commercial buildings and shopping centers shall be master-metered for electric service after July 1, 1980, if the units for their tenants contain an electric space heating, water heating, or air-conditioning (space cooling) unit that is not centrally controlled and over which the unit's tenants individually control electric usage. Tenants in otherwise master-metered buildings whose electric load or who operate appliances whose electric load exceeds the individual metering threshold found in the utility's tariffs must be individually metered.

THE CAMPUS

In 2017, the state purchased the Campus from HP Inc. to address office space needs. The Campus consists of about 200 acres, eight separately numbered buildings, a cafeteria building, multiple outbuildings, a picnic shelter, trails, sports fields, and parking areas. The Campus also houses several tenants with leases of various lengths. IDOA explained that over the long-term it expects the Campus to ultimately house multiple state agencies that currently lease premises elsewhere. *Petition* at 4. Idaho Power serves the Campus through a substation, and the electricity is then distributed to the different buildings and other structures. *Id.* at 3.

When the state bought the Campus, it also entered a Facilities Lease that requires IDOA to operate and maintain the Campus. Further, IDOA agreed to lease back to HP Inc. all of Campus Buildings 1, 3, 5, and 7, the cafeteria building, and certain connecting corridors and outbuildings serving those buildings. IDOA also agreed to assume HP Inc.'s existing leases with HP Inc.'s existing on-Campus tenants. *Id.* at 4-6. As the leases expire, state agencies will transition to the Campus. The Idaho State Tax Commission and Idaho Industrial Commission will move to Building 2 this year. *Id.* at 7. And, except for a small suite, state agencies will fully occupy Campus Buildings 2, 4, and 6 by mid-2020. *Id.* at 5.

IDOA reported that HP Inc. requires IDOA to separate HP Inc.'s utilities from the rest of the Campus to comply with Internal Revenue Service ("IRS") provisions for selling and leasing back real property. HP Inc.'s lease specifies that IDOA must sub-meter HP Inc.'s electrical use by the end of 2018. *Id.* at 8. If the exemption were approved, HP Inc. would see and pay for its electrical use through meter-reading protocols developed by facilities-management experts from IDOA and HP Inc. Additionally, IDOA provided a method for allocating Idaho Power's monthly bill among the sub-metered tenants associated with that bill.

HP Inc. has a Supervisory Control and Data Acquisition ("SCADA") system that meters and measures its electricity use. [1] For business confidentiality reasons, HP Inc. will not share the SCADA system or its information with IDOA. *Id.* at 7. HP Inc.'s lease precludes IDOA from charging HP Inc. more for electrical service than Idaho Power's actual charges for HP Inc.'s electricity use. If HP Inc.'s SCADA data does not match IDOA's invoices, and an HP Inc. audit finds the electric charges were overstated, then IDOA would have to pay the audit costs. *Id.* Idaho Power does not currently own or maintain any facilities or metering equipment at the Campus.

THE PETITION

The existing electrical distribution network is very complex, but functional. The Campus' Point of Delivery (POD) is the Idaho Power Substation on Cloverdale Road. The substation has two 12.5 kV feeders; one goes to Building 1 and the other goes to Building 8, which

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[1] The Campus SCADA server performs equipment and operations monitoring and receives/records data and operations information including current, load, voltage, temperatures, and equipment or process status. SCADA systems are used by electric utilities to collect, record, and monitor data used to manage the electric grid.

is individually metered. Buildings 1 through 7 are not individually metered. Instead, they are served through a centralized switching system in Building 1. The Campus also includes five electric chillers that provide air-conditioning to all eight buildings, which are not individually metered. This unique configuration results from the Campus and its electric system being built and expanded behind Idaho Power's POD over thirty years to meet HP's specific needs. Idaho Power has indicated it cannot serve the Campus under a facilities charge agreement unless significant investments are made to align the Campus with Idaho Power's standard equipment. Because the Campus buildings are not owner-occupied (i.e., occupied by state agencies) and (for the most part) are not individually metered, the Campus would need an exemption to the rules against master metering. The exemption may need to last through 2035 to maintain the existing leases, assuming renewals.

After an evaluation of the systems, and conversations with Idaho Power, IDOA petitioned the Commission for an exemption to the Master-Metering Rules as they relate to the Campus. *Id.* at 2-4. With its Petition, IDOA asked for an exemption so it can install the HP Inc.-required sub-meters, require HP Inc. to pay the actual costs of its electric use, and otherwise facilitate IDOA's ability to better operate and manage the Campus. *Id.* at 1-2, and 12. IDOA claimed the HP Inc. lease follows the rationale behind the Master-Metering Rules because electric charges are transparent to HP Inc. and based on protocols developed by both parties; HP Inc.'s SCADA system and audit process in the lease ensure HP Inc.'s electric costs are its actual costs; and HP Inc. controls the electric hot water systems, air systems, vacuum systems, and water systems on the leased premises. IDOA stated these provisions enable HP Inc. to control the efficiency of its electric use based on its actual use and business needs. *Id.* at 2 and 11.

THE COMMENTS

Commission Staff and Idaho Power filed comments. IDOA did not reply. Staff's and Idaho Power's comments are summarized below.

A. Commission Staff

Commission Staff recommended the Commission grant IDOA a temporary and limited waiver of the Master-Metering Rules. Staff noted the Commission has previously granted waivers to the Master-Metering Rules. Further, in this case the Campus needs a temporary waiver only until its buildings are individually metered or wholly occupied by state agencies. Staff believes a temporary and limited waiver would allow IDOA to honor its lease agreements and facilitate the transition to state occupancy.

Staff summarized the mixed tenancy at the Campus making the waiver necessary. Staff noted that state agencies and commercial tenants at the Campus, except HP Inc., operate under variations of a full-service lease where electric charges are built into a base rent payment. These leases provide tenants with a predictable rent payment over the lease term, and protect tenants from cost increases and month-to-month expense fluctuations. While the absence of a direct utility bill means the price signal is lost, Staff does not oppose this arrangement for state agencies because they are part of the same broader organization. And Staff does not oppose this arrangement for the other Campus commercial tenants because it would likely exist even if the Campus buildings were individually metered. Staff Comments at 7-9.

While a full-service lease worked for the other commercial tenants and state agencies, HP Inc. requires that its lease include direct billing for its utility usage. To account for this, IDOA initially proposed to separately sub-meter and bill HP Inc. for its electrical consumption by installing "electric meters at the service side of each transformer" and bill electrical use "through the protocols for reading the sub-meters developed by the parties." But IDOA later learned it could "duplicate the SCADA system server at the Campus, and then use that server to log electrical use" and precisely meter HP Inc.'s electric consumption. This became IDOA's preferred option, because it was less expensive and provided the most detailed usage data, though IDOA confirmed to Staff that installing either limited (8) or full (25) sub-meters to track usage were also possibilities. Staff believes the SCADA server, perhaps combined with the other sub-metering options described by IDOA, can provide a robust price signal that preserves the intent of Master-Metering Rules. Staff notes, however, the price signal is only retained if IDOA's billing method aligns with Idaho Power's billing method for customers under Schedule 19—Large Power Service. That is not the case now, but Staff believes a feasible solution exists. *Id.* at 9.

Staff noted IDOA is billing HP Inc. for an allocated share of the cost of electricity based on square footage until HP Inc.'s actual energy usage can be segregated and measured. Staff believes the current billing arrangement generates bills that are too low. To remedy this, IDOA has suggested that, in the future, IDOA would determine what percentage of kilowatt hours HP Inc. uses in relation to the total kilowatt hours measured by Idaho Power at the primary meter. IDOA would then apply this percentage to the total billed amount reflected on Idaho Power's bill for the Campus. Staff noted this simplified billing method ignores demand, peak and off-peak usage, and other components of Idaho Power's Schedule 19, and expects it would continue to result in underbilling, and potential subsidization by other Campus tenants, including state agencies. *Id.* at 9-10.

Staff thus recommended IDOA use sub-meters and/or the SCADA server to derive all the billing determinants, and then align HP Inc.'s bill with Schedule 19. Staff recommended IDOA then submit a compliance filing to the Commission to confirm that the billing input and method align with Schedule 19. Staff also recommended IDOA update its pricing schedule as pricing inputs change within the Schedule 19. With this change, Staff believes a temporary waiver is justified because the price signal underlying the Master-Metering Rules would be maintained. *Id.* at 10.

While Staff believes it might be reasonable to temporarily waive the Master-Metering Rules through 2035 as described above, Staff prefers individual metering when possible. Staff stated that, according to Idaho Power's construction studies, it actually would cost the state more to obtain a waiver through 2035 and master meter the Campus ($1,311,508 in total and $20,191 per month in facilities charges) than it would cost the state to obtain a 54-week waiver (the estimated time to align the Campus so Idaho Power can maintain and operate the system) and then individually meter the Campus buildings ($1,728,822 in total and $11,812 per month in facilities charges). *Id.* at 11-12. Staff also observed that individual metering would provide IDOA with more flexibility for future use of Campus buildings. Individual metering also could provide better price signals to tenants even if the state continues bundling electricity costs into rent; individual meters would enable IDOA to calculate each tenant's rent based on actual usage of the building the tenant occupies, rather than simply factoring in a proportional share of the aggregate usage of the Campus. *Id.* at 12.

Despite the benefits of individual metering, Staff believes it would be reasonable to grant a waiver and temporarily allow master metering through 2035 while the state transitions the Campus to full state occupancy. To discourage future parties from attempting to circumvent the Master-Metering Rules, Staff recommended the waiver be granted with these limitations:

1. The waiver will expire when the Campus is individually metered, becomes wholly occupied by state agencies, or when the existing lease extensions expire in 2035, whichever is earliest;

2. The price signal associated with direct metering should be preserved by requiring IDOA to make a compliance filing confirming the final Campus sub-metering method and demonstrating that its calculations and billing methodology for HP Inc. aligns with Schedule 19; and

3. The waiver should remain in effect only as long as the facility maintains similar use to the use that existed when the waiver was granted.

Id. at 12-13.

B. Idaho Power

Idaho Power recommended the Commission deny the proposed exemption, and instead order IDOA to install individual meters on the Campus buildings. Company Comments at 2. The Company reasoned that requiring individual meters will advance the goals behind the Commission's Master-Metering Rules. *Id.* at 10-11. The Company also provided the Commission with the results of two studies it performed regarding costs over time of owning, operating, and maintaining Campus facilities with either: 1) a Commission waiver to Master-Metering Rules, as requested; or 2) a Commission order to individually meter each building. *Id.* at 7-10. Finally, the Company reviewed intangible benefits of individually metering the Campus, including flexibility; the possibility of setting a problematic precedent; and long-term cost considerations for the customer. *Id.* at 10-15.

The Company's Version 1 study assumed the Commission granted the requested master-metering exemption. *Id.* at 7. The study determined that, with a waiver, IDOA would not be required to pay any upfront costs, and would pay approximately $20,191 in monthly facilities charges. *Id.* at 7. The Company would install new equipment, and assume ownership of certain facilities. The Company further explained that, because most of the Campus distribution system is non-standard, significant facilities upgrades would be required.

The Company's Version 2 study assumed no exemption, and that individual meter points would be installed at each building. *Id.* at 9. This study estimated the Company would install 11 primary meters separately metering each building and chiller. Under this version, IDOA would pay upfront contributions in aid of construction ("CIAC") of about $891,081, and monthly facilities charges of $11,812.

The Company acknowledged the construction cost to individually meter the buildings would be $417,314 higher than if a waiver were granted. *Id.* at 10. However, the Company also argued those costs would be mitigated by IDOA not having to implement its own sub-metering system, and facilities charges that would be $100,548 lower per year, greatly offsetting the higher upfront costs over the long-run. *Id.* at 17-18.

Additionally, the Company argued that without individual metering, it cannot accurately charge its customers for electricity. The Company questioned IDOA's proposed billing methodology, stating that "Schedule 19P includes components that would not be possible to accurately allocate under IDOA's proposed methodology." *Id.* at 12. Furthermore, the Company believes that some of the individual meters would connect to accounts that qualify for different rate schedules. *Id.* at 12. Because of those issues, the Company doubts IDOA could accurately charge HP for its usage. *Id.* at 13.

Finally, the Company noted that individually metering the Campus would allow the Company to better serve its customers through data collection, and identify behaviors that impact consumption and demand. *Id.* at 15. The Company also pointed out that individual metering would allow IDOA flexibility in long-term planning for the Campus. *Id.* at 14. Finally, the Company expressed concern that a master-metering exemption for IDOA could lead others to seek similar exemptions. *Id.* 14-15. The Company thus cautioned that any exemption for IDOA should "be based on the narrow set of facts unique to this case." *Id.* at 15.

IDOA did not reply to the Staff's or Company's comments.

DISCUSSION AND FINDINGS

A. Authority/Jurisdiction

In this case, IDOA seeks a waiver of the Master-Metering Rules under which Idaho Power Company would otherwise provide electric service to the Campus. Idaho Power Company is an electric corporation and public utility subject to the Commission's regulation under the Idaho Public Utilities Law. The Company's rates, charges, classifications, rules, and practices related to electric service are subject to the Commission's jurisdiction. *See Idaho Code* §§ 61-119, -129, -501, -502, and -503.

B. Standard of Review

The issue before the Commission is whether it is in the public interest for IDOA to receive a waiver to the Master-Metering Rules. When determining whether a course of action is in the public interest, the Commission considers relevant factors, including cost:

> In general, where the Commission is required to consider the "public interest," it must look to "the interest of the public, their needs and necessities and

> location and, in fact, all the surrounding facts and circumstances to the end that the people be adequately served."

Browning v. Wood, 99 Idaho 174, 579 P.2d 120 (1978); *see also*, Commission Order No. 28213, Case No. PAC-E-99-1. Similarly, the Commission must seek to ensure that utilities execute their statutory duty to provide "adequate, efficient, just and reasonable" service. *Idaho Code* § 61-302. Notably, the statute does not require that services be provided at the lowest possible cost. Rather, it considers broader concepts of safety, health, comfort, convenience of patrons, employees, and the public.

Finally, as discussed, the Commission must base its decision "on the conservation goals of PURPA, and upon goals of fostering and maintaining direct relations between electric utilities and their customers, and the premises those [Master-Metering Rules] are based upon." *See* Order No. 15556 and Rule 103 (IDAPA 31.26.01.103).

C. Request for Waiver

After analyzing IDOA's proposal for a waiver of unlimited duration, and Staff's alternative proposal for a 17-year waiver, we find neither proposed waiver is in the public interest or justified by the rationale by which prior waivers have been granted. *See* Order Nos. 23936, 26451, 26512, and 28889. The mix of state agencies and commercial tenants at the Campus and the less-than-serviceable electrical system are challenges that should be addressed at the outset. The public interest would not be served by allowing for what amounts to only an interim solution. We find that the requested waiver, if granted, would cause significantly higher costs for taxpayers over time, and diminished service quality.

It is not yet possible to tell if and when the Campus will be entirely occupied by state agencies. Regarding commercial tenants, the absence of a direct utility billing means that the price signal of electricity costs would be lost. The SCADA system, while advanced and sophisticated, is an inadequate substitute for an individual meter. As noted, IDOA's billing method would have to align with Idaho Power's billing method for Schedules 9 (Large General Service) and 19 (Large Power Service) to include demand, peak and off-peak usage, and other components. The record shows the SCADA system alone cannot perform such a task. While Staff noted that a feasible solution may exist, no specific remedy has been proposed or considered. Rather, by individually metering the buildings, we find that commercial tenants and state agencies at the Campus will receive a more accurate price signal regarding their usage, and be incentivized to use less and waste less electricity than a master-metered tenant.

We understand that the intent of individually metering buildings is complicated when multiple tenants, each with a full-service lease that includes utilities in the rent payment, occupy the same building. Although it may be impractical to individually meter multiple tenants in a building, it is not reasonable to compound that problem by allowing master-metering in this case. The record shows that the price signal is best preserved through individual utility metering.

We find that, by individually metering the buildings, the commercial tenants and the state agencies will be better served. The proposed waiver, on the other hand, would disguise utility costs in rent or put the state in the position of serving as a *de facto* public utility. Further, the proposed master-meter solutions could lead to inequities between tenants: The commercial tenants or the agencies may unintentionally subsidize the other for electricity usage.

The Commission has granted only five Master-Metering exemptions since the Rules were adopted in 1980. The exemptions were made under narrow circumstances. The IDOA request however is unprecedented as it does not align with any of the previously granted waivers.

Additionally, we cannot ignore the cost implications to state taxpayers (many of whom are Idaho Power customers and ratepayers). While IDOA argues that the costs of separate metering exceed the benefits, the evidence in the record—the Company's comprehensive study confirmed by Staff and not disputed by IDOA—shows that granting a waiver would ultimately cause the state to incur far more expense over time. Requiring IDOA to adhere to the Master-Metering Rules and individually meter the buildings would require IDOA to pay about $900,000 in upfront contributions in aid of construction. But the ongoing annual charges would be about $100,000 less per year than they would be if master-metering were allowed. Furthermore, the state could avoid implementing its own costly sub-metering system. Over the life of the existing commercial leases at the Campus, this could save millions of dollars. Put another way, the waiver solution is both more complicated and more expensive than individually metering the buildings at the outset.

Staff suggested it would take 54 weeks to align the Campus so Idaho Power can maintain and operate the system. Staff Comments at 12. In an abundance of caution, and to avoid placing Idaho Power and IDOA in a position that would violate the Master-Metering Rules, we find it reasonable to grant a two-year waiver. This should allow the parties sufficient time to prepare the Campus for individually metered buildings.

ORDER

IT IS HEREBY ORDERED that IDOA's Petition is denied.

IT IS FURTHER ORDERED that IDOA is granted a temporary two-year waiver of the Master-Metering Rules.

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 21st day of December 2018.

PAUL KJELLANDER, PRESIDENT

KRISTINE RAPER, COMMISSIONER

ERIC ANDERSON, COMMISSIONER

ATTEST:

Diane M. Hanian
Commission Secretary

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