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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF ROCKY MOUNTAIN POWER'S APPLICATION FOR A DETERMINATION OF 2016 AND 2017 DEMAND-SIDE MANAGEMENT EXPENSES AS PRUDENTLY INCURRED	)	**CASE NO. PAC-E-18-07** **COMMENTS OF THE COMMISSION STAFF**

STAFF OF the Idaho Public Utilities Commission, by and through its Attorney of record, Edith Pacillo, Deputy Attorney General, submits the following comments.

BACKGROUND

On August 10, 2018, Rocky Mountain Power applied for an Order establishing that it prudently incurred demand-side management (DSM) expenditures in 2016 and 2017 of $8,539,263. Application at 1. "DSM" refers to utility activities and programs that encourage customers to use less overall energy or use less energy during peak usage hours.

STAFF ANALYSIS

Rider Balance and Expenses

Staff audited the Company's DSM expenses and internal processes for paying incentives to customers. Staff determined that the Company documented expenses correctly and instituted controls designed to eliminate improper payment of program incentives. Additionally, the Company's internal review process identified and corrected mistakes prior to the filing of its

DSM reports. Based on Staff's audit, the Company's DSM rider expenses appear to be prudent with one adjustment to expenditures, discussed below. Staff recommends that the Commission order that the Company prudently incurred $4,491,122 in 2016 and $4,038,931 in 2017 DSM tariff rider expenses.

During the audit, Staff determined that the Company incorrectly applied three expenditures in 2016 to the Idaho DSM program, totaling $9,210. The three expenditures were actually incurred for the Company's Utah DSM program. On November 26, 2018, the Company notified Staff that all three expenses would be removed from its Idaho DSM program expenditures.

Staff has reviewed the Company's reconciliation of year-end expenses for 2016 and 2017 and accepts the prudently incurred expenses during those years as $4,491,122 and $4,038,931, respectively. These match the request from the Company in its Application, except for a reduction of $9,210 in 2016, mentioned above.

Table 1: Customer Efficiency Services Tariff Rider Balance – Cash Basis[1]

	2016	**2017**
BEGINNING BALANCE	**(714,687)**	**(185,732)**
TARIFF RIDER REVENUE	4,995,153	5,210,303
CARRYING CHARGES	(1,977)	8,756
DSM EXPENDITURES	(4,473,431)	(3,896,866)
EXPENDITURE ADJUSTMENTS	9,210	-
ENDING BALANCE	**(185,732)**	**1,136,461**

Table 1 shows the Company is currently over-collecting in the tariff rider. On November 9, 2018, in Case No. PAC-E-18-12, the Company filed for approval to decrease its Customer Efficiency Services Rate from 2.7 percent to 2.25 percent, effective January 1, 2019. In that Application, the Company stated that the balance of the Customer Efficiency Services Rate was over-collected by $2.1 million as of September 30, 2018 and it projects that over-collection to persist and reach $2.2 million by December 31, 2019. The appropriate tariff level will be determined through Case No. PAC-E-18-12.

[1] The expenses listed in Table 1 and used to calculate the tariff rider balance differs from the amounts in the Company's DSM Prudency Application because of the timing difference between accrual and cash accounting. The Company reports Customer Efficiency Tariff Rider expenses on an accrual basis in its annual reports.

Energy Savings

Rocky Mountain Power uses its energy efficiency tariff rider to fund programs for approximately 77,600 customers in eastern Idaho. During 2016 and 2017, the Company offered four energy efficiency programs: Low Income Weatherization/Low Income Education (Schedule 21), Home Energy Saver (Schedule 118), Home Energy Reports (no tariff), and Non-Residential Energy Efficiency, also known as ***watt***smart Business (Schedule 140). Combined, these programs produced 35,280 MWh of savings over the 2016-2017 period. Table 2 shows the annual savings, IRP targets, expenditures, and cost-effectiveness ratios for Rocky Mountain Power's Idaho DSM portfolio for 2016 and 2017.

The Company failed to achieve the IRP savings target in 2017, but only fell short by 56 MWh. Staff discussed this shortfall with the Company at its stakeholder meeting, but did not receive a clear explanation regarding the cause of or solution to the shortfall. Because the shortfall was relatively small compared to the entire portfolio, Staff believes the Company will not have difficulty correcting this problem in the future. However, Staff encourages the Company to ensure it meets its efficiency targets in all future years.

Table 2. Rocky Mountain Power's Idaho DSM Portfolio, 2016 and 2017

METRIC	2016	2017
SAVINGS	19,450 MWh	15,830 MWh
IRP TARGET (AT GENERATOR)	15,800 MWh	17,570 MWh
EXPENDITURES	$4,500,332	$4,038,931
UTILITY COST TEST (UCT)	2.22	2.19
TOTAL RESOURCE COST TEST (TRC)	1.59	1.71

Residential Programs

The Company offers a variety of energy efficiency programs for its residential customers. During 2016-2017, these programs were the Home Energy Reports program, which sends monthly energy usage reports to participants, the Home Energy Saver program, which provides energy starter kits and incentives for residential construction and appliances, the Residential Refrigerator Recycling program, which recycles customer's secondary refrigerators, and the Low Income Weatherization Program, which provides weatherization services to income qualifying customers.

Rocky Mountain Power's residential portfolio savings decreased 35 percent between 2015 and 2016. This was attributable to a significant reduction in lighting savings in the Home Energy Saver program and elimination of the Residential Refrigerator Recycling program. The 2016 residential expenditures of $974,004 were cost effective with a 1.29 UCT and 1.95 TRC. Total savings increased slightly in 2017 while the cost-effectiveness of the residential programs declined to 0.83 UCT and 1.09 TRC. The increase in savings was partially due to the success of the ***watt***smart energy efficiency starter kits provided at no charge to customers through the Home Energy Saver program. The kits, which include EnergySTAR lighting and WaterSense products, saw a significant savings increase that year when LEDs replaced CFLs.

Although energy savings increased in 2017, cost-effectiveness for the year decreased. The Company stated this decline was due in part to evaluation costs, all of which were included in the cost-effectiveness calculation for 2017.

Staff recognizes the cost-effectiveness of small programs can be particularly impacted when evaluation costs are included in the cost-effectiveness calculations in a single year. In order to ensure that evaluation costs are fully reflected in cost-effectiveness calculations but do not inordinately impact cost-effectiveness results from year-to-year, Staff recommends the Company adopt, for the cost-effectiveness calculation, one of the two following solutions: 1) average the cost of evaluations over the two or three years between evaluations or 2) spread the cost of evaluations proportionally by kWh over the Company's entire DSM portfolio. This practice aligns with Avista's method for including evaluation costs in its cost-effectiveness calculations and is similar to the Commission's approved method for including evaluation expenses in low-income program cost-effectiveness.

As Staff noted in its prudency comments in Case No. PAC-E-16-14, the Company was forced to discontinue its Residential Refrigerator Recycling program in March 2016, following the unanticipated closure of the only cost-effective third-party program implementer in December 2015. As expected, the loss of this program caused total residential savings to decline. Although the abrupt ending of this program was unfortunate, Staff believes it may have been discontinued within the next few years anyway as the second-refrigerator market has been largely transformed.

The Company works with two Community Action Partnership (CAP) agencies in its Idaho service territory to provide weatherization services to its low-income customers, Eastern Idaho Community Action Partnership and South Eastern Idaho Community Action Agency.

Despite decreased avoided cost and ever-increasing labor and materials costs, the Company reported that the program was almost cost-effective in 2016 with a ratio of 0.96[2] and cost-effective in 2017 with a ratio of 1.41. Staff notes that these cost-effectiveness results differ significantly from what other utilities report. Staff will continue to monitor this program, but believes the Company has prudently managed its low income program and recognizes that most utilities have cost-effectiveness challenges with programs serving this customer segment.

Staff believes the Company should consider the recommendation of its low income program evaluator, Opinion Dynamics, to examine market penetration in the region to assess successes and future need. Staff also believes that the Company should explore the need for and possibility of fund sharing between the two CAP agencies. This may be beneficial if one CAP does not have the capacity to complete weatherization projects and the other CAP has expended its annual weatherization budget.

Non-Residential Programs

Rocky Mountain Power's non-residential portfolio consists of commercial, industrial, and agricultural energy efficiency programs through a single program called ***watt***smart Business. The program acquires energy savings through direct installation of lighting, HVAC, and other equipment as well as improved facility management through process analysis.

Total non-residential program savings increased 88 percent from 2015 to 2016, resulting in 14,188 MWh savings in 2016. This increase was driven by the dramatic decline in LED costs that occurred during that time. Total 2016 expenditures of $2,940,398 were cost effective with a 2.69 UCT and 1.57 TRC. However, 2017 non-residential savings decreased nearly 26 percent due to commercial HVAC and lighting program changes discussed below, but still remained high compared to previous years.

In order to address the rapid shift to more efficient LED technologies, the Company adjusted lighting incentives in 2017. The ***watt***smart Business program previously incented retrofits by fixture or bulb, but this was modified to instead focus on lighting controls along with lighting retrofits. This lowered the incentive per kWh and eliminated some of the savings associated with per-bulb incentives. With these changes, the ***watt***smart Business program

[2] Commission Order No. 32788 specifies how utilities should calculate cost-effectiveness for Low Income programs.

generated 10,507 MWh savings in 2017 and remained cost effective with a 2.92 UCT and 2.02 TRC.

The Company's non-residential programs are administered by two third party companies, Nextant and Cascade, who work with trade allies, process incentives, analyze custom projects, and verify project installations. Project managers within Rocky Mountain Power provide customer outreach and education with the Company's large account customers and engineering firms that oversee more complex projects with long timelines. Following the 2014-2015 program evaluation, Rocky Mountain Power adopted Cadmus' recommendations and initiated changes to trade ally partnerships to improve program outreach and raise participant requirements. Staff recognizes the Company's dedication to program improvement and its responsiveness to evaluator recommendations.

Staff is particularly impressed with the Company's ***watt***smart Small Business Direct program. Many small business owners do not have the time to investigate and participate in standard commercial DSM programs. Small business programs work to overcome these barriers with "direct install" programs. Direct install programs typically hire contractors to reach out to individual small business owners, offer free audits, and provide installations of streamlined and discounted energy efficiency projects in order to make participation as easy and cost-effective as possible for the business owner.

Despite working in a rural service territory, the Company achieved savings of over 1,485 MWh through 158 projects by directly serving the cities of Ammon, Idaho Falls, Iona, Montpelier, Preston, and Rexburg. The Company reported that demand for its small business program in rural markets exceeded expectations, which allowed them to spend more time in each location than originally anticipated. Staff believes this success is a testament to the Company's program implementation and acknowledges the Company for this achievement.

Marketing

The Company's broad-based ***watt***smart marketing campaign continued to innovate in 2016 and 2017 with new marketing methods and customer outreach strategies. In 2017, the Company created several new marketing products, including TV and radio commercials as well as digital and print ads. The Company continued to expand its online outreach through Google, Facebook, and Twitter along with banner ads on local sites. Online communications were improved by adding a typography overlay in order to engage customers when videos are muted.

Additional ads used geo-targeting to reach small business customers to encourage lighting upgrades. Staff appreciates the Company's ongoing attention to marketing improvements aimed at reaching different populations on a variety platforms to create demand for its energy efficiency programs.

Cost-Effectiveness

In the 2019 Integrated Resource Plan (IRP) Conservation Potential Study, Rocky Mountain Power adopted Staff's recommendation to use the utility cost test (UCT) in its resource planning process. In addition to using the UCT as the threshold test for post-implementation cost-effectiveness tests, Staff believes this approach better reflects the value of energy efficiency as a resource for customers and appreciates the Company's decision to move in that direction in its IRP.

Idaho Stakeholder Meetings

In past years, the Company met with Commission Staff twice a year to provide DSM program updates. But recently, the Company has only scheduled one meeting per year, and that meeting lasts less than half a day. This very limited amount of time does not provide adequate time for a full discussion and updates on program accomplishments and challenges. Staff recommends the Company resume meeting with Idaho stakeholders at least twice annually to allow Staff, and other stakeholders who may wish to attend, sufficient time to discuss its DSM programs.

RECOMMENDATION

Staff recommends that the Commission rule that the Company prudently incurred $4,491,122 in 2016 and $4,038,931 in 2017 DSM tariff rider expenses.

Respectfully submitted this 4th day of December 2018.

Edith Pacillo
Deputy Attorney General

Technical Staff: Brad Iverson-Long
Cassie Koerner

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 4th DAY OF DECEMBER 2018, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. PAC-E-18-07, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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