ITEM NO. CA5

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 21, 2023

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** ______**March 22, 2023**______

DATE: March 13, 2023

TO: Public Utility Commission

FROM: Peter Kernan

THROUGH: Bryan Conway, JP Batmale, and Sarah Hall **SIGNED**

SUBJECT: IDAHO POWER COMPANY:
(Docket No. UM 1710(6))
Request for cost-effectiveness exceptions for specific demand-side management electric measures.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve exceptions to cost-effectiveness requirements for specific energy efficiency measures in Schedule 89 as requested by Idaho Power Company (Company).

DISCUSSION:

Issue

Whether to approve exceptions to cost-effectiveness requirements for specific measures in Schedule 89.

Applicable Law

Under ORS 757.205, every public utility must file tariffs for services provided for retail customers. The Commission may approve tariff changes if they are deemed to be fair, just, and reasonable. ORS 757.210. Tariff revisions may be made by filing revised sheets with the information required under the Commission's administrative rules, including OAR 860-022-0025. OAR 860-022-0025(2) specifically requires that each energy utility changing existing tariffs or schedules must include in its filing a statement plainly indicating the increase, decrease, or other change made with the filing, the number of customers affected by the proposed change, and the resulting change in annual revenue; and the reasons or grounds relied upon in support of the proposed change.

Filings that propose any change in rates, tolls, charges, rules, or regulations must be filed with the Commission at least 30 days before the effective date of the change. ORS 757.220; OAR 860-022-0015. Tariff filings to be effective on less than 30 days following notice of the change may be authorized with a waiver of less than statutory notice pursuant to ORS 757.220 and OAR 860-022-0020.

Under OAR 860-027-0310(2), the Commission encourages energy utilities to acquire cost-effective conservation resources. “Cost-effective” is defined in OAR 860-030-0010. The Commissioner determines cost-effectiveness through a Total Resource Cost (TRC) test, which is a ratio of energy benefits to total program costs. If benefits exceed costs, resulting in a TRC greater than one, then the measure is considered cost-effective.

With Order No. 94-590 issued in Docket No. UM 551, the Commission provides for the inclusion of non-cost-effective measures in utility Demand-Side Management (DSM) programs if those measures meet specific conditions. The available conditions to qualify for an exception are as follows:

A. The measure produces significant non-quantifiable non-energy benefits. In this case, the incentive payment should be set no greater than the cost-effectiveness limit less the perceived value of bill savings, e.g., two years of bill savings;
B. Inclusion of the measure will increase market acceptance and is expected to lead to reduced cost of the measure;
C. The measure is included for consistency with other DSM programs in the region;
D. Inclusion of the measure helps to increase participation in a cost-effective program;
E. The package of measures cannot be changed frequently, and the measure will be cost-effective during the period the program is offered;
F. The measure or package of measures is included in a pilot or research project intended to be offered to a limited number of customers;
G. The measure is required by law or is consistent with Commission policy and/or direction.

Under Order 21-079 issued in Docket No. UM 1710(4), the Commission approved exceptions to cost-effectiveness requirements for specific energy efficiency measures in Schedule 89 as requested by the Company, effective until March 31, 2023.

Analysis

Idaho Power requests exceptions to energy efficiency measure cost-effectiveness for ten measures in the Rebate Advantage Program. The Company requested and the Commission approved cost-effectiveness exceptions for these measures in Order No. 21-079. That approval expires March 31, 2023. As context, without a cost-effectiveness exception, measures that are below a Utility Cost Test (UCT) of 1.0 and a Total Resource Cost Test (TRC) of 1.0 fail cost-effectiveness criteria.

The Rebate Advantage Program provides rebates for new, efficient manufactured homes that meet energy efficiency specifications. The Company provides incentives based on three criteria: the efficiency standard, the location's heating zone (HZ), and the location's cooling zone (CZ). Idaho Power allows participants to use one of two independent product standards to meet the Company's criteria for manufactured home incentives. Each standard has a set of measures and incentives associated with the manufactured home's energy efficiency and location in Idaho Power's territory. These standards are the following:

- ENERGY STAR® standard
- Northwest Energy-Efficient Manufactured Home™, NEEM+ standard

Since Order 21-079, the Regional Technical Forum (RTF) has not made incremental cost or savings changes to manufactured home measures,[1] which indicates that updated avoided costs from the Company's 2021 IRP caused the reduction in cost-effectiveness. Idaho Power uses two sources of information in calculating cost-effectiveness for the Rebate Advantage Program: (1) incremental costs and energy savings values provided by the RTF, and (2) the Company's own avoided costs per the 2021 IRP.[2] Today, five of the ten measures seeking exceptions pass the UCT, but none of the ten measures pass the TRC. The most likely combination to be found in the Company's Oregon territory (HZ 2; CZ 3) would have a score of 0.96 UCT and 0.50 TRC for ENERGY STAR and 1.06 UCT and 0.39 TRC for NEEM+.

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[1] The active measure workbook in 2021 was, ResMHNewHomesandHVAC_v4_1.xlsm. An updated workbook was adopted in 2022, ResMHNewHomesandHAC_v5_0.xlsm. The RTF made changes to reflect the 2021 Power Plan, but no changes were made to measure incremental costs or savings. Both workbooks can be found here: https://rtf.nwcouncil.org/measure/new-manufactured-homes/.

[2] Idaho Power noted the change to 2021 IRP avoided costs in this filing dated January 31, 2023, under docket no. UM 1710. Page 2. https://edocs.puc.state.or.us/efdocs/HAQ/um1710haq16514.pdf.

Thus, the Company is seeking exceptions for the following measures.

- ENERGY STAR Homes in HZ 1; CZ 3
- ENERGY STAR Homes in HZ 2; CZ 1
- ENERGY STAR Homes in HZ 2; CZ 2
- ENERGY STAR Homes in HZ 2; CZ 3
- ENERGY STAR Homes in HZ 3; CZ 1
- NEEM+ homes in HZ 1; CZ 3
- NEEM+ homes in HZ 2; CZ 1
- NEEM+ homes in HZ 2; CZ 2
- NEEM+ homes in HZ 2; CZ 3
- NEEM+ homes in HZ 3; CZ 1

Rationale for Exception Qualification
The Company seeks exceptions under conditions A and C for inclusion of non-cost-effective measures, stating that the measures produce significant, non-quantifiable non-energy benefits, and that inclusion will sustain consistency with other programs in the region. The Company has identified opportunities to streamline costs and improve cost-effectiveness.

Staff agrees that the measures qualify under condition A and bring considerable non-energy benefits beyond those currently quantified in the cost-effectiveness formulas. Manufactured housing that is more energy efficient provides an improved thermal envelope that offers comfort and resilience benefits from the ability to use less heating or cooling in maintaining a consistent interior temperature. This feature may make efficient manufactured homes valuable participants in flexible load programs in which pre-heating or pre-cooling can reduce strain on the grid, while minimizing impacts to occupant comfort.

Staff also agrees with condition C, that it is beneficial to provide offerings that are consistent with other programs in the region, such as Energy Trust of Oregon's manufactured home offerings. Staff encourages Idaho Power to consider in future whether it would be appropriate to provide higher incentives for more efficient NEEM+ homes, which is what Energy Trust provides. This may present an opportunity to improve cost-effectiveness in the future compared to a flat incentive for both tiers.

Relevant Market Activity
In addition to conditions A and C, Staff cites that condition B also applies. Condition B qualifies exceptions where the inclusion of the measure will increase market acceptance and is expected to lead to reduced cost of the measure. Staff highlights that several relevant and impactful activities occurred in the years since the Company filed the previous exception request. In 2022, the U.S. Department of Energy (DOE) published

an energy conservation standard for manufactured homes.[3] The result is a more stringent energy efficiency standard for compliance by all new manufactured homes built after May 31, 2023. It should be expected that incremental costs and savings will change as a result of the standard, though those values have not yet been updated by the RTF.

In response to both the Federal standard and the Inflation Reduction Act (IRA) of 2022, the Environmental Protection Agency updated its manufactured home ENERGY STAR specification[4] and DOE published specifications for its Zero Energy Ready Homes (ZERH) program.[5] These developments are important because the IRA updated and extended the Section 45L Tax Credit for Energy Efficient New Homes.[6] New manufactured homes that meet ENERGY STAR requirements are eligible for a $2,500 tax credit and new manufactured homes that meet the ZERH criteria are eligible for a $5,000 tax credit.

Idaho Power included a scenario in its request that documents the impact to cost-effectiveness based on the Section 45L tax credit. The TRC increases from 0.42 to 1.04 for the Rebate Advantage Program with the inclusion of the $2,500 tax credit, which applies to both ENERGY STAR and NEEM+ manufactured homes. While the NEEM+ standard is more efficient than ENERGY STAR, it is unclear whether homes that meet the NEEM+ standard will also meet the ZERH requirements. Due to uncertainty about the higher incentive level, Idaho Power did not consider the $5,000 incentive for ZERH in any cost-effectiveness calculations.

While some level of uncertainty remains, the combined regulatory and market activities discussed in this section provide reasonable expectations that cost-effectiveness could improve due to the Federal standard. Staff regard these changes to be additional rationale for granting an exception and allowing continued program operation.

Stakeholder Feedback
Idaho Power updates stakeholders via the Energy Efficiency Advisory Group (EEAG), which convenes quarterly. The Rebate Advantage Program was discussed briefly at the November 2022 EEAG meeting. At that meeting it was noted that the Program is still

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[3] 10 CFR 460. Docket No. EERE-2009-BT-BC-0021. https://www.federalregister.gov/documents/2022/05/31/2022-10926/energy-conservation-program-energy-conservation-standards-for-manufactured-housing.
[4] ENERGY STAR National Version 3 effective May 31, 2023. https://www.energystar.gov/sites/default/files/asset/document/ENERGY%20STAR%20Manufactured%20Homes%20National%20Program%20Requirements%20Version%203.pdf.
[5] DOE ZERH Version 1. https://www.energy.gov/sites/default/files/2022-12/DOE%20ZERH%20MH%20V1%20National%20Program%20Requirements.pdf.
[6] Internal Revenue Service criteria, lines 3 and 4. https://www.irs.gov/pub/irs-pdf/i8908.pdf.

cost-effective from the UCT perspective but was labeled "borderline" and noted for possible further discussion. This was because the UCT score has been falling due to declining benefits. Staff is not aware of any stakeholder feedback or opposition to this exception request.

Recommendation
Due to the recent changes in the market and the importance of more efficient manufactured housing, Staff recommends that the Company be provided time to improve cost-effectiveness on Rebate Advantage Program measures. Staff recommends that the Company discuss options with the Company's Energy Efficiency Advisory Group (EEAG) to improve cost-effectiveness of these measures and seek to understand the impact of relevant market activity in the past two years.

Specifically, Staff encourages the company to consider the following in future:

- A tiered incentive structure to improve cost-effectiveness and provide commensurate incentive based on improved efficiency of NEEM+ beyond ENERGY STAR. The Company mentioned this approach in their 2021 Demand-Side Management Annual Report[7], but did not provide an update in this filing.
- The impact of the DOE energy conservation standard and IRA incentives.
- Changes to measure identifiers, such as the number of heating and cooling zones, that could simplify measure offerings and improve cost-effectiveness.

Staff recommends measure exceptions through March 31, 2025, to give the Company time to test new strategies to improve cost-effectiveness in collaboration with EEAG.

Conclusion

Overall, Staff supports exceptions for these measures. Staff believes it is important to support energy efficient manufactured home options and realizes that Energy Trust is also challenged to maintain cost-effective options using current avoided costs. While the TRCs are quite low for some measures, there is also limited participation. In 2022, the Company provided incentives for 97 homes, with only six in Oregon. Based on Staff's analysis of existing reporting by the Company, Staff recommends measure exceptions for the Rebate Advantage measures through March 31, 2025.

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[7] 2021 Demand-Side Management Annual Report. Page 79.
https://edocs.puc.state.or.us/efdocs/HAH/um1710hah154949.pdf.

PROPOSED COMMISSION MOTION:

Adopt Staff's recommendation to approve measure exceptions as outlined in this memo.

UM 1710