
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS
FROM: BRITTANY MEHLHAFF, JOSEPH REZAC, & AMANDA REISS
RE: EL16-034 - IN THE MATTER OF THE APPLICATION OF BLACK HILLS POWER, INC. DBA BLACK HILLS ENERGY FOR APPROVAL OF A REVISION TO THE ENERGY EFFICIENCY SOLUTIONS ADJUSTMENT (EESA) RATES
DATE: November 17, 2016

1.0 OVERVIEW

On October 17, 2016, Black Hills Power, Inc. dba Black Hills Energy (BHP or Company) filed an application for Commission approval for adjustments to its currently effective Energy Efficiency Solutions Program (EESP) rates. BHP's currently effective Energy Efficiency Solutions Adjustment ("EESA") Tariff was approved on December 8, 2015 in docket EL15-044. In that docket, BHP revised its energy efficiency plan for Program Years 2015 and 2016.

Specifically, BHP seeks Commission approval to increase its residential services EESA rate to \$0.0008/kWh and its commercial and industrial EESA rate to \$0.0013/kWh. Currently the EESA rates are \$0.0004/kWh for residential customers and \$0.0009/kWh for commercial and industrial customers. BHP also filed its Energy Efficiency Plan Status Report for Plan Year (PY) 2015 and Balancing Account for PY 2015. BHP states it is not recommending any changes to the approved plan at this time.

Based on the above, the questions before the Commission are:

- 1) Shall the Commission approve the EESP status report for PY 2015?
- 2) Shall the Commission approve the balancing account for PY 2015, including the performance incentive recovery?
- 3) Shall the Commission approve the revised EESA rates of \$0.0008/kWh for residential customers and \$0.0013/kWh for commercial and industrial customers, effective December 1, 2016, and associated tariff sheets?

In this memo, Staff first discusses BHP's EESP results for PY 2015. Staff then discusses the PY 2016 budget and BHP's proposed rates for PY 2016. Finally, Staff provides a summary of Staff's recommendations for the docket.

2.0 DISCUSSION

2.1 Program Year 2015 Results

Included in this year’s EESP filing are the results of PY 2015 which ran from September 1, 2015 through August 31, 2016. The EESP including the plan for PY 2015 was revised last year in docket EL15-044. BHP has complied with the Order issued in the EL15-044 where certain measures proposed for PY 2015 and PY 2016 were approved subject to the measures becoming cost effective. All the program measures listed in the Order were removed from the program, since BHP was unable to make them cost effective¹. The removed measures include Recycle and Replace – ENERGY STAR Refrigerator, Central Air Conditioner (SEER 15), Ductless Mini Split Air Conditioner (SEER≥19), Ceiling Mount occupancy Sensors, and the dealer incentives portions for the Appliance Recycling program and Residential Efficiency HVAC program.

2.1.1 PY 2015 EESP Budget vs. Actuals

Comparing the PY 2015 budget conditionally approved in docket EL15-044 to the Company’s actual spending, BHP was over budget in PY 2015. For budget forecasting, BHP includes Cross Marketing/Training and General Administration Costs within each program where possible. Tables ES1 and ES2 in the Status Report reflected this budget forecasting process and compared these budgets to actual expenses with General Administration and Cross Marketing/Training included as separate line items. This gives the appearance of large over-spending in the General Administration and Cross Marketing/Training categories. Staff requested the Company provide the total General Administration and Cross Marketing/Training budgets compared to actual costs². Table 1 below reflects the Cross Marketing/Training and General Administration costs separated from the Residential and Commercial & Industrial costs.

Program	PY 2015		
	B	A	V ^(1,2)
Residential Lighting and Appliance	\$ 28,218	\$ 29,786	106%
Appliance Recycling	\$ 22,518	\$ 12,748	57%
Residential HVAC	\$ 50,310	\$ 21,292	42%
Whole House Efficiency	\$ 26,538	\$ 9,044	34%
Residential Audits	\$ 23,203	\$ 6,425	28%
School-Based Education	\$ 63,150	\$ 69,731	110%
Weatherization	\$ 9,209	\$ 8,161	89%
Total Residential	\$223,146	\$157,187	70%
C&I Prescriptive	\$199,537	\$295,247	148%
C&I Custom	\$227,511	\$199,611	88%
Total Nonresidential	\$427,048	\$494,858	116%
Cross Marketing and Training	\$101,430	\$107,682	106%
General Administration	\$ 53,325	\$ 66,144	124%
Total Porfolio	\$804,949	\$825,871	103%

1) Variance (V) = % of Budget

2) On Target (Green) if V is between 75% and 110%

¹ Refer to Docket EL15-044, Black Hills Power’s Response to Commission Order filed 02/23/2016.

² See BHP’s response to Staff’s Data Request 1-1.

Although BHP complied with the EL15-044 Order and removed non-cost effective measures from the EESP portfolio, it did not adjust the PY 2015 budget accordingly, as was suggested in Staff’s memorandum in docket EL15-044. Therefore, Staff requested the Company revise the PY 2015 budget accordingly. BHP complied with Staff’s request and provided the revised PY 2015 budget in its response to Staff’s Data Request 1-6.

Staff reviewed each individual program discussed in the status report. One aspect of the Residential Lighting Program concerned Staff. BHP’s approved plan in docket EL15-044 included a program for residential customers to purchase discounted LED bulbs on an Online Store. While BHP implemented this program, they also implemented another LED program on a trial basis in August 2016 where consumers could purchase discounted LED bulbs at local hardware stores and BHP was sent the bill for the sponsored price. Staff requested the Company remove any costs included in the Residential Lighting Program associated with the hardware store program since this program was not included in the Company’s approved plan. If BHP would like to include such a program in its plan it should receive prior approval from the Commission before costs are included in the plan. The majority of the hardware store program costs were not booked until September 2016 and therefore will appear in PY 2016. Staff recommends the Company exclude all remaining costs associated with the hardware store program when it files its PY 2016 status report. Staff also notes that the trial program only ran for one month and the program has not continued.

The revised budgets (with non-cost effective measures removed) compared to actual costs (excluding the costs recorded in PY 2015 for the Residential hardware store LED program) for PY 2015 are provided below in Table 2. This change results in total actual spending being 106% of the total budget for PY 2015 instead of 103%.

Table 2. EESP Budgets and Actuals (PY 2015)			
Program	PY 2015		
	B⁽¹⁾	A	V^(3,4)
Residential Lighting and Appliance ⁽²⁾	\$ 28,218	\$ 29,710	105%
Appliance Recycling	\$ 10,262	\$ 12,748	124%
Residential HVAC	\$ 41,362	\$ 21,292	51%
Whole House Efficiency	\$ 26,538	\$ 9,044	34%
Residential Audits	\$ 23,203	\$ 6,425	28%
School-Based Education	\$ 63,150	\$ 69,731	110%
Weatherization	\$ 9,209	\$ 8,161	89%
Total Residential	\$201,942	\$157,111	78%
C&I Prescriptive	\$198,543	\$295,247	149%
C&I Custom	\$227,511	\$199,611	88%
Total Nonresidential	\$426,054	\$494,858	116%
Cross Marketing and Training	\$ 98,234	\$107,682	110%
General Administration	\$ 52,501	\$ 66,144	126%
Total Portfolio	\$778,732	\$825,795	106%

- 1) Updated Budgets See DR1-6
- 2) Updated Actual to remove Hardware Store Portion
- 3) Variance (V) = % of Budget
- 4) On Target (Green) if V is between 75% and 110%

2.1.2 PY 2015 Energy Savings

BHP's status report showed that for the total EESP portfolio, 96% of the energy savings goal was achieved and both the residential and commercial and industrial sectors achieved close to the total budgeted energy savings. Table 3 provides a breakdown of energy savings goal and the actual energy savings produced during PY 2015 for each program, as filed by BHP.

Program	PY 2015		
	B	A	V ^{1, 2}
Residential Lighting and Appliance	152,004	103,730	68%
Appliance Recycling	81,400	95,939	118%
Residential HVAC	193,824	169,565	87%
Whole House Efficiency	90,540	15,725	17%
Residential Audits	79,400	127,490	161%
School-Based Education	476,397	539,920	113%
Weatherization	41,480	32,050	77%
Total Residential	1,115,045	1,084,419	97%
C&I Prescriptive	2,740,190	2,940,069	107%
C&I Custom	1,942,980	1,540,273	79%
Total Nonresidential	4,683,170	4,480,342	96%
Total Portfolio	5,798,215	5,564,761	96%

1) Variance (V) = % of Budget

2) On Target (Green) if V is greater than 75% of Budget

Per Staff's request³, the Company provided revised energy savings for the Residential Lighting Program to remove the impact of the trial LED hardware stores program. The results of this change are found below in Table 4.

Program	PY 2015		
	B	A	V ^{1, 2}
Residential Lighting and Appliance	152,004	65,802	43%
Appliance Recycling	81,400	95,939	118%
Residential HVAC	193,824	169,565	87%
Whole House Efficiency	90,540	15,725	17%
Residential Audits	79,400	127,490	161%
School-Based Education	476,397	539,920	113%
Weatherization	41,480	32,050	77%
Total Residential	1,115,045	1,046,491	94%
C&I Prescriptive	2,740,190	2,940,069	107%
C&I Custom	1,942,980	1,540,273	79%
Total Nonresidential	4,683,170	4,480,342	96%
Total Portfolio	5,798,215	5,526,833	95%

1) Variance (V) = % of Budget

2) On Target (Green) if V is greater than 75% of Budget

2.1.3 PY 2015 Cost Effectiveness

Table 5 shows the results from the benefit/cost tests completed for PY 2015 performance, as filed in the Company's status report. Only two individual program measures failed to meet a TRC greater than one. For the Residential Lighting, BHP cites higher than expected costs associated with setting up an Online

³ See BHP's response to Staff's Data Request 2-2.

Store. Since this cost will not be experienced in subsequent years, Staff feels the program should be not canceled but instead maintained to see how the TRC adjusts in the future. The Whole House Efficiency program TRC score was lower than anticipated due to the cost sharing program with MDU being delayed. Looking and the costs per home before and after implementation of the cost sharing, Staff expects the measure TRC to improve in future periods.

Program	PY 2015				
	TRC	Utility	Societal	Part	RIM
Residential Lighting and Appliance	0.77	1.17	0.96	3.93	0.26
Appliance Recycling	1.71	2.14	2.12	12.07	0.29
Residential HVAC	1.63	3.73	1.99	5.15	0.32
Whole House Efficiency	0.71	0.71	0.87	n/a	0.24
Residential Audits	6.60	6.60	8.19	n/a	0.32
School-Based Education	1.51	1.51	1.88	n/a	0.28
Weatherization	1.59	1.59	1.96	n/a	0.28
Total Residential	1.52	1.96	1.88	11.09	0.29
C&I Prescriptive	1.10	2.98	1.36	2.87	0.39
C&I Custom	1.87	3.48	2.28	4.91	0.40
Total Comercial & Industrial	1.34	3.18	1.65	3.48	0.40
Total Porfolio	1.21	2.28	1.49	4.02	0.36

It should also be noted that BHP’s TRC at the overall portfolio level obtained a TRC of 1.21 which was less than the anticipated 2.03 expected for PY 2015 and lower than last year’s TRC of 2.33. BHP notes this is primarily driven by the higher startup costs of newly implemented programs for PY 2015.

Per Staff’s request⁴, BHP revised the benefit/cost results to remove any impacts of the trial LED hardware store program. The results of this change are provided in Table 6. Since the filed benefit/cost results included the hardware store program, accounting for over half of the total bulbs sold, removing that program from the calculations had an impact on the TRC results, reducing the Residential Lighting Program TRC to 0.59. This slightly changed the Total Residential TRC to 1.51 but the Total Portfolio TRC remained the same at 1.21.

Program	PY 2015				
	TRC	Utility	Societal	Part	RIM
Residential Lighting and Appliance	0.59	0.75	0.74	3.95	0.23
Appliance Recycling	1.71	2.14	2.12	12.07	0.29
Residential HVAC	1.63	3.73	1.99	5.15	0.32
Whole House Efficiency	0.71	0.71	0.87	n/a	0.24
Residential Audits	6.60	6.60	8.19	n/a	0.32
School-Based Education	1.51	1.51	1.88	n/a	0.28
Weatherization	1.59	1.59	1.96	n/a	0.28
Total Residential	1.51	1.88	1.88	12.08	0.29
C&I Prescriptive	1.10	2.98	1.36	2.87	0.39
C&I Custom	1.87	3.48	2.28	4.91	0.40
Total Comercial & Industrial	1.34	3.18	1.65	3.48	0.40
Total Porfolio	1.21	2.27	1.49	4.02	0.36

⁴ See BHP’s response to Staff’s Data Request 2-2.

2.1.4 PY 2015 Performance Incentive

BHP recovers a performance incentive in lieu of lost margin recovery that is set at a fixed percentage (30%) of actual program expenses with a cap set at 30% of the approved budget. The performance incentive is embedded within the EESA rates and recovered from ratepayers throughout each program year. In PY 2015, BHP charged \$247,761 to the balancing account for the performance incentive for the 12-month reporting period. BHP's tracker account did not appropriately cap the performance incentive at 30% of the approved budget. 30% of the revised PY 2015 budget of \$778,732 is \$233,619. BHP revised its balancing account to cap the performance incentive at \$233,619⁵.

2.2 Program Year 2016 Budget

BHP did not request a budget change for PY 2016. However, upon review of the Commission's order and Staff's memorandum in docket EL15-044, Staff requested⁶ the Company revise its PY 2016 Budget to reflect the removal of the non-cost effective measures identified in the Company's 02/23/2016 letter to the Commission filed in docket EL15-044.

Program	PY 2016	
	Budgeted	Revised
Residential Lighting and Appliance	\$ 40,555	\$ 36,203
Appliance Recycling	\$ 30,319	\$ 12,630
Residential HVAC	\$ 84,944	\$ 62,480
Whole House Efficiency	\$ 37,078	\$ 33,016
Residential Audits	\$ 25,263	\$ 23,203
School-Based Education	\$ 66,150	\$ 63,150
Weatherization	\$ 11,576	\$ 11,051
Total Residential	\$295,885	\$ 241,733
C&I Prescriptive	\$272,322	\$217,562
C&I Custom	\$318,682	\$259,727
Total Nonresidential	\$591,004	\$ 477,289
Cross Marketing and Training		\$119,987
General Administration		\$ 64,047
Total Portfolio	\$936,791*	\$ 903,056

* Original Budgets had Cross Marketing and Training included in individual programs

2.3 Energy Efficiency Solutions Adjustment Rates

With this filing, BHP proposes to change the Energy Efficiency Solutions Adjustment Rates for both residential and nonresidential customers. Currently, the EESA rate for residential customers is \$0.0004/kWh and the EESA rate for commercial and industrial customers is \$0.0009/kWh. BHP proposes to increase both of these rates for PY 2016 to a rate of \$0.0008/kWh for residential customers

⁵ See BHP's response to Staff's Data Request 2-2.

⁶ See BHP's response to Staff's Data Request 2-1.

and \$0.0013/kWh for commercial and industrial customers. BHP recalculated the rates based on the revised balancing account and revised PY 2016 budget. The proposed residential rate changed to \$0.0007/kWh and the commercial and industrial rate remained as initially proposed at \$0.0013/kWh.

Staff agrees with the revised rates proposed. While the rates are increasing from those currently charged and no changes have been made to the plan, Staff recognizes that this was the first year for some programs and higher startup costs were experienced. Staff expects these rates to decrease in future years once the programs are up and running, if no other changes to the plan are made.

2.4 Filing Date Revisions

BHP included some costs associated with measures that were removed from the program beginning with PY 2015. Normally, such costs would not be allowed to be recovered. However, since PY 2015 began on September 1, 2015, and docket EL15-044 approving the EESP for PY 2015 was not approved until December 2015, the Company did not know these measures needed to be removed and thus accepted applications prior to the date of the Commission's Order in docket EL15-044. Therefore, Staff believes it is appropriate to allow BHP to recover these costs.

To avoid such timing issues in the future, Staff suggested changing the timing of the annual filings. Currently, BHP files its updated EESA on October 15th for rates to be effective December 1st, for program years running September 1st through August 31st. A month and a half is a tight timeline for review of the docket and the schedule allows the program year to start prior to being approved. Therefore, Staff suggested the Company file any proposed modifications to the plan by June 1st of each year, with approval expected prior to September 1st. BHP will make another filing October 1st with the status report for the prior year, balancing account, and new rates to be effective December 1st. The Company agreed to this new schedule and Staff believes it will avoid future timing issues.

3.0 STAFF RECOMMENDATION

Staff makes the following recommendations to the Commission for docket EL16-034:

- 1) The Commission approve the PY 2015 Status Report as revised per the Company's responses to Staff's data requests 1-6 and 2-2;
- 2) The Commission approve the balancing account for PY 2015, including the performance incentive recovery, as revised to the 30% of budget cap per the Company's response to Staff's data request 2-2;
- 3) The Commission approve the proposed revised EESA rates of \$0.0007/kWh for residential service and \$0.0013/kWh for commercial and industrial services, effective December 1, 2016, and the associated tariff sheets.