NRDC Comments on Efficiency Sections (Chapter 9)

of the IPA's 2017 Draft Electricity Procurement Plan

Introduction

NRDC has reviewed the energy efficiency chapter of the IPA's draft 2017 Procurement Plan. In general, we think that the IPA has done an excellent job in its draft plan of addressing a variety of often complex issues associated with efficiency procurement as required under 16-111.5B. Most of our comments are provided in response to the IPA's requests for feedback on specific issues, though we address a couple of additional issues as well. Our specific comments are provided below.

Bidding Process and Rules (Sections 9.4.1, 9.4.2, and 9.5.1)

The IPA notes in Section 9.4.1 that the number of bids received by Ameren declined in 2016 relative to 2015, despite the fact that 2016 bidders were eligible for three-year contracts whereas 2015 bidders were eligible only for one-year contracts. The IPA hypothesizes that two factors may have contributed to the decline: (1) limited marketing of the RFP (i.e. only including it on the AESP website); and (2) a new requirement that bidders have surety bonds to protect ratepayers against program performance risk. NRDC shares the IPA's concern that both of these factors could be adversely affecting the number of bids, reducing the amount of cost-effective efficiency that is ultimately being acquired in the process. By definition, that would mean that more expensive electricity supply is being acquired by and/or for customers.

However, NRDC's concern extends beyond those two issues to include two others:

- The Ameren RFP was completely open-ended, calling for any program that is cost-effective and not duplicative. While that theoretically opens the door to a wide range of proposals, we believe it also may inadvertently result in less competition in certain program areas, perhaps because prospective vendors think the utility is looking for something different, because they believe that there are already "favorites" identified for those programs areas and/or for other reasons. There are at least three program areas that past experience in Illinois, experience in other jurisdictions and the utilities' potential studies suggest are highly likely to be well-suited to 16-111.5B proposals: (1) residential lighting programs; (2) residential behavior programs; and (3) small business direct install programs. Experience in numerous jurisdictions suggests that if Ameren's RFP specifically called for proposals in those areas,[1] as well as a 4th "any other program idea" category that it would get multiple bids in each area. NRDC provided feedback

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[1] Com Ed addresses this issue by developing and submitting to IPA its own (or its own vendors') residential lighting, residential behavior and small business direct install programs (as well as two others).

to Ameren suggesting that it structure its RFP this way, but the Company decided against doing so because it felt its open-ended RFP already invited such competition. Without testing a new approach, it is impossible to definitively determine whether NRDC is correct or Ameren is correct. If there was a downside to testing NRDC's suggestion, one could debate whether the uncertainty of an upside was adequate to address the downside. However, we see no disadvantage to our proposal, so there is only potential upside. Thus, we'd encourage IPA to consider this proposal in its revised plan.

- Both utilities' RFPs make clear that payment is 100% pay-for-performance. NRDC believes that this requirement, especially when coupled with Ameren's surety bond requirement, is likely to be having two adverse effects: (1) it reduces the number of bids by increasing risk that some vendors face to the point where their prospective upside of winning a bid is outweighed by the downside risk of losing money;[2] and (2) it increases the costs of the programs that are bid (as bidders add risk premiums to their price), thereby increasing costs to ratepayers (the programs can still be cost-effective, just less cost-effective than they otherwise might have been). As the IPA noted in Section 9.3, one of the consensus statements of the SAG's IPA procurement workshops was that vendor contracts should be structured:

  > *"…in a manner which best balances the competing objectives of making the procurement process attractive to as many bidders as possible, protecting ratepayers and providing confidence that the savings which are proposed/bid will actually be delivered."* [Section 2(iii)(b)]

  In NRDC's view, the 100% pay-for-performance requirement violates that balance by placing no emphasis on making the bidding attractive to prospective vendors. Moreover, though it completely protects ratepayers from one form of risk – i.e. ensuring that they do not pay for savings that were not produced – it may simultaneously hurt ratepayers more by reducing the amount of cost-effective efficiency savings that vendors choose to bid and increasing the cost of those that they do bid. Of course, the Ameren requirement for bidders to acquire surety bonds just exacerbates this problem. Thus, NRDC suggests that the utilities adherence to a strict 100% pay-for-performance requirement should also be revisited. At a minimum, it may be worth considering offering only a partial hold-back (e.g. 25%) to vendors that have a track record of delivering on their past savings estimates.

Ameren's and Com Ed's TRC Cost-Effectiveness Analyses (Section 9.5.3 and 9.6.3)

NRDC has several potential concerns and suggestions regarding the IPA's conclusions on Ameren's TRC cost-effectiveness analysis:

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[2] Or alternatively by increasing the cost of a program to the point where the vendor judges that it won't be cost-effective.

- <u>Ameren's EM&V cost portion of its administrative cost adder</u>: The IPA notes that Ameren's administrative cost adder of 11.89% includes a 3.97% adder for EM&V. That value seems too high. In fact, it violates the SAG IPA workshop consensus statement that:

  > *"Expenditures on evaluation should be capped for the Section 16-111.5B Programs as they are for 8-103 Programs…(with) evaluation costs limited to three percent (3%) of the combined 16-111.5B Programs' budget."* [Section 1(v)(b)]

  It is worth noting that Com Ed only includes 3% for EM&V in its administrative cost adder.

- <u>Marginal line loss rates for energy and capacity</u>: it is NRDC's understanding that Ameren has agreed that marginal line loss rates should be used convert energy and capacity savings at the customers' meters to savings at the generator (to then multiply by generator level avoided costs). However, NRDC does not know what specific line loss rates that Ameren used in its final program screening. As noted on numerous occasions in the past, marginal line loss rates for energy should be on the order of 1.5 times average annual line loss rates (e.g. if average annual losses are 7%, average marginal losses will be about 10.5%) and marginal line loss rates for capacity are typically between 2.5 and 3 times the average annual loss rate (i.e. if average annual losses are 7%, marginal losses at the time of system peak are on the order of 20%). These rules of thumb are consistent with Com Ed's assumptions. Are Ameren's assumptions consistent with these rules of thumb? If not, is there any supporting documentation for why they should be different? If not, they should be changed with TRC cost-effectiveness analyses adjusted accordingly.
- <u>Ameren's other avoided cost assumptions</u>: Because Ameren's cost-effectiveness tool and related assumptions are not public, it is not possible for NRDC to reach its own determination of the reasonableness of the avoided cost assumptions used in its final program cost-effectiveness screening. The IPA stated in Section 9.5.3 that it reviewed the Ameren cost-effectiveness inputs for "accuracy and reasonableness". However, it isn't clear whether that specifically included avoided cost inputs. Did it? If so, the IPA may want to make that clear in its revised plan. If not, the reasonableness of those assumptions should also be reviewed.
- <u>Price suppression effects and non-energy benefits</u>: As the IPA knows, the SAG has wrestled with whether and how to include such potential benefits in TRC cost-effectiveness screening since NRDC raised them as issues two years ago in the IPA proceeding. Those issues are still not resolved. NRDC is not asking that they be resolved in the upcoming proceeding regarding the IPA's 2017 Procurement Plan. However, we do think it is worth noting in its plan that these are potential categories of additional TRC benefits that have not been included in either utility's cost-effectiveness analyses. In that sense, their assessments of TRC cost-effectiveness may be conservative.

Ameren's Calculation of the Cost of Supply (section 9.5.3)

NRDC concurs with the IPA's continued reservations regarding Ameren's methodology for calculating the "cost of supply". In particular, we find it completely illogical for Ameren to include avoided energy and avoided capacity, but not avoided T&D costs in its calculation. Without the T&D system, it is impossible to "supply" electricity to consumers. Thus, it should be impossible to compute a cost of supply without including T&D costs. Put another way, if efficiency investments not only preclude the need to spend money on energy and capacity but also on T&D upgrades, then the value of those deferred or eliminated T&D investments must be included in any comparison with the cost of supply. Ameren has avoided T&D cost assumptions. It should use them in this analysis.

It is also worth noting that price suppression effects and any reduction in credit and collection costs (which often result from efficiency programs, particularly those targeted to low income consumers) should also theoretically be included in any cost of supply comparison. Again, NRDC is not suggesting that specific values be assigned to those benefits for this purpose in this proceeding. We make the point only to suggest that the IPA should note their omission as conservatism in its final plan.

Ameren's Proposal to Exclude Programs that Save Gas (Section 9.5.4)

NRDC concurs with both the IPA's concerns regarding Ameren's RFP's statement that programs which acquire gas savings (other than "incidentally") cannot bid and with the IPA's decision to reject the Company's subsequent recommendation that two programs that produce gas savings not be included in the IPA's plan.

<u>The Policy Question (Section 9.5.4.1)</u>

With regard to the general policy question, NRDC believes that Ameren has inappropriately used a very blunt and ineffective instrument – i.e. a ban on all programs that produce non-incidental gas savings – to address a potentially legitimate concern about electric ratepayers subsidizing gas ratepayers. We believe that the solution to this concern is a two-step test. First, as required by statute, the primary screen has to be whether a program is cost-effective under the TRC test, which the statute makes clear must include an assessment of the value of gas benefits. Second, if the Commission believes it is both allowed by law and in the best interest of ratepayers to preclude cross-subsidization, it should simply require a second test to adopt a program that passes the TRC only if it also passes the electric utility cost test (UCT) – that is, only if the value of the electric utility benefits fails to exceed the electric ratepayers' costs would a concern about cross-subsidization between electric and gas ratepayers be triggered.

<u>Demand Control Ventilation Program (Section 9.5.4.2)</u>

The IPA notes that this program passes an "electric only TRC" test with a benefit-cost ratio of 1.34 to 1. As a result, it suggests that the programs' savings should be procured. NRDC suggests that the "electric only TRC" is not the correct secondary test; rather, the UCT is.[3] In this case, as in the vast majority of cases, we would expect the UCT benefit-cost ratio to be even better than the "electric only TRC" ratio. Assuming that is the case, we concur with the IPA's proposal to keep it in its plan.

<u>Behavior Program (Section 9.5.4.3)</u>

While we believe the IPA's reference to an "electric only TRC" is problematic and should be replaced with a reference to the UCT, this is more of semantic issue than a practical one in the case of the Behavior program. This is because the "electric only TRC" test will be identical to the UCT for this program because there are no consumer contributions to measure costs in behavior programs. Because the Behavior program passes the "electric only TRC" (and the UCT) when the core program is combined with an expansion to all electric homes, NRDC concurs with the IPA that the Behavior program should be included in its Plan

Ameren's Characterization of Duplicative Programs (Section 9.5.5)

In its discussion of an alternative approach of adopting the more comprehensive Small Business Whole Building program, the IPA notes that there would be an advantage to including refrigeration measures that are not included in the other bids. The IPA then suggests that concern could be mitigated by the fact that Ameren might include refrigeration measures in its 8-103 program portfolio. However, a quick review of Ameren's 8-103 plan filing suggests that the Small Business Direct Install program which it includes in its portfolio does not address refrigeration.

The IPA also defers to Ameren regarding its past experience with the bidder of the Whole Building program not having delivered the level of savings it forecast in previous IPA programs that it had accepted. However, it is not clear whether that experience is relevant here. Was the past experience with a comparable program? Was there any information provided that would suggest that experience with the proposed program going forward would be better?

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[3] An "electric only TRC" compares *all* costs – including the portion of measure costs that are born by consumers – to just electric benefits. We do not understand why such a test makes sense for the purpose of assessing whether cross-subsidization of electric customers by gas customers is a concern. Specifically, we do not understand why the customers' portions of the measure costs have any relevance to such an assessment. Instead, the UCT compares only what electric ratepayers would spend to the benefits they would receive. Thus, it would be the better test for this purpose.

Ameren's Reservations and Requested Determinations (Section 9.5.8)

NRDC strongly concurs with the IPA's concern regarding Ameren's request to potentially render some proposed 16-111.5B programs "duplicative" as a result of the Company's decision to propose similar programs in its 8-103 plan filing. Accepting such a condition would be enormously unfair to all vendors who responded in good faith to an open-ended RFP. It would also likely reduce the number of bidders of cost-effective programs in the future (and/or add additional risk premiums to future bid prices), thereby harming ratepayers. The IPA should elaborate on this point in its final plan to underscore the potential adverse consequences of Ameren's proposal, particularly in light of the concerns the IPA also expressed about the effectiveness of the current bidding process.

Com Ed's Proposal for Dealing with Performance Risk (Section 9.6.5)

NRDC strongly concurs with the IPA's conclusion that Com Ed's new two-part test for dealing with vendors that pose very high risk of performance problems is a reasonable way to balance a desire to address the limited additional risk of under-performance (recognizing that most of the risk is already addressed through the 100% pay for performance fee structure) with a desire to encourage unorthodox approaches to capturing cost-effective savings.

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