**Evaluation Treatment of Business Closures**

**Approaches Proposed, Comparison Exhibit, and Next Steps**

**February 19, 2021**

**Business Closure Questions Discussed by SAG in 2020:**

1. What is the correct policy treatment in evaluation of business closures on a regular basis?
2. Should that same policy treatment be applied to the current COVID-19 driven economy, or, similar to the conversation around estimation of savings during COVID-19, should a separate treatment be considered?

**Five Business Closures Approaches for SAG Review – Circulated in Nov. 2020:**

**Approach 1: Treat the Business Closure as a Persistence Issue**

This approach has previously been proposed by Guidehouse. The savings for the measure or project would be is verified as installed and the lifetime savings are calculated using effective useful life (EUL) in the TRM. This would require that EULs in the TRM capture all persistence effects, including effects on EUL due to business closures.

**Approach 2: Verify Savings for the Time the Equipment was in Service**

In this approach, the evaluators would verify savings prorated for only the period of time the business remained open and savings would decrease to zero after that point.

* This is not consistent with how the TRM considers first-year savings.
* If a project was installed on December 31st, the TRM says it generates a full year of savings (less proration for in-service and persistence effects captured in other measure parameters).
* Also notably, no further checkpoints exist beyond the initial verification activity; if a business closes two years after project completion, savings will still be assigned for the entire EUL of the measure.

**Approach 3: Assign Zero Savings to All Closed Businesses**

The evaluators could assign zero savings to any business found to be closed. This approach would not count at least some savings known to have occurred.

**Approach 4: Estimate Lifetime Savings Based on Re-Opening Probability**

The evaluators could estimate the probability that a business will reopen (either under the same owner or under a different owner but with the same equipment) and the expected timeframe for re-opening and calculate lifetime savings using that information. This approach would require a substantial degree of evaluation judgement to forecast re-opening probability.

**Approach 5: Use a Default Assumption for Closed Businesses**

When the evaluators encounter a business that is closed, there should be recognition of the potential for either 1) the business reopening; 2) another business moving into the space and reusing the efficient equipment, or 3) the efficient equipment being sold on the secondary market and used by another business in the service territory.

The combined likelihood of the scenarios above should be a default percentage assumption the evaluators use whenever a business is found to be closed. If approach 5 is selected, the evaluators should propose this default assumption.

**Comparison Exhibit: Comments Received from Interested Parties in Dec. 2020**

| **Evaluation Treatment of Business Closures** | | |
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| **SAG Participant** | **Approach Preferred  (#1 through #5)** | **Response to Questions *Question 1:* What is the correct policy treatment in evaluation of business closures on a regular basis? *Question 2:* Should that same policy treatment be applied to the current COVID-19 driven economy, or, similar to the conversation around estimation of savings during COVID-19, should a separate treatment be considered?** |
| Ameren Illinois | Approach 1 | In regards to potential business closures amidst the global pandemic, Ameren Illinois believes that the best and least punitive evaluation approach would be to treat business closures as a persistence issue, or 'Approach 1' as it was presented during the SAG discussion. However, Ameren Illinois and its independent evaluator have not previously encountered a significant number of situations where a business was found closed upon project evaluation. Ameren Illinois has provided input on the basis that further review of the circumstances and evaluation approach be considered through the SAG process should business closures be found to represent a statistically significant amount as a percentage of total number of projects.  At this time, Ameren Illinois supports Approach 1 for the following reasons:  1. Ameren Illinois incentivizes customers to upgrade their facilities and residences to use more energy-efficient electric and gas equipment. In the majority of projects within the Business Program, the energy savings resulting from this effort are credited to the operation of the building itself, rather than to the specific usage by the current occupant.  2. Assumptions around usage levels and effective useful lives of the implemented measures are accounted for in the IL-TRM, which is reviewed and revised on a yearly basis as needed. Studies that focus on measure lives and savings persistence are designed to account for variables such as early retirement or replacing measures upon failure.  3. Ameren Illinois does not support approaches 2 or 4 given each would require significant effort and funds invested in operation verification costs and probability estimates. This additional investment would compete for program funding, taking away from the overarching goal of helping our customers save energy. Additionally, approaches 2 and 4 would require substantial evaluation judgement, subject to the independent evaluator’s discretion. |
| ComEd | Approach 1 | ComEd prefers Approach 1, Treat the Business Closure as a Persistence Issue, for two reasons. First, the approach is consistent with how the TRM considers first-year savings. Second, EULs are sometimes adjusted based on expectations about frequency of removal, remodeling, or demolition, analogous to what would happen if a business closed. In such cases, imposing an additional savings penalty because of the closure (e.g., Approaches 2 and 3) would unfairly reduce project savings.  Approaches 2, 3, and 4 are not appropriate, in our opinion. Approach 2, in which the evaluators would verify savings prorated for only the period of time the business remained open, is not consistent with how the TRM considers first-year savings. Approach 3, in which evaluators would assign zero savings to any business found to be closed, is also inconsistent with the TRM and would not count at least some savings known to have occurred. Approach 4, in which evaluators would estimate the probability that a business will reopen and the expected timeframe, would apparently be done on a case-by-case basis, requiring additional evaluation resources (time/budget) and a substantial degree of evaluation judgement to forecast re-opening probability.  In the event there is no consensus around Approach 1, ComEd would be interested in learning more about Approach 5, Use a Default Assumption for Closed Businesses. Like Approach 4, developing the default would require additional evaluation resources; however, once defined, the default would be applied to any case where a business has closed. This would give us a degree of certainty that Approach 4 does not. Questions about how the default will be identified, when it will become effective, etc. remain to be answered.  The same policy treatment should be applied to the COVID-19 economy. |
| ICC Staff | Approach 3 | Staff supports approach 3 for this year and all future years. Given the business is closed and the measures cannot be verified to be in place and operating, there are no savings to be verified and counted toward a utility’s savings goal. It is misleading to the public to claim savings for such projects when there is none. It is recognized that utilities have no control over whether a business closes down, but nowhere in the statute does it say that all implementation risk should be eliminated for the utilities. This approach is the simplest to implement of all the approaches. Finally, this approach is aligned with the Commission-approved approach for savings verification specified in the IL-TRM Policy Document. The results from savings verification is what is counted toward a utility’s savings goal.  That document states as follows: *Savings Verification: An evaluation process that independently verifies program savings achieved through prescriptive measures. This process verifies that the TRM was applied correctly and consistently by the program being investigated, that the measure level inputs to the algorithm were correct, and that the quantity of measures claimed through the program are correct and in place and operating. The results of savings verification may be expressed as a program savings realization rate (verified ex post savings / ex ante savings). Savings verification may also result in recommendations for further evaluation research and/or field (metering) studies to increase the accuracy of the TRM savings estimate going forward.* |
| Natural Resources Defense Council | Approach 5 | NRDC prefers Approach #5, but could support approaches #1 or #4. NRDC opposes #2 and #3. |
| Nicor Gas | Approach 1 | Nicor Gas recommends use of Approach Number 1. Nicor Gas also proposes a minor edit to Approach Number 1 to clarify impact of business closures on EUL (see redline edits to summary of approaches circulated for review).  Nicor Gas recommends no change in the approach in 2020 or 2021 due to COVID-19. |

**SAG Facilitator Summary of Next Steps:**

1. SAG did not reach consensus in 2020 on the policy treatment for evaluation of business closures. Preference was indicated for Approach #1 or Approach #3:
   1. ***Approach #1: Treat the Business Closure as a Persistence Issue.*** The savings for the measure or project would be is verified as installed and the lifetime savings are calculated using effective useful life (EUL) in the TRM. This would require that EULs in the TRM capture all persistence effects, including effects on EUL due to business closures.
   2. ***Approach #3:*** ***Assign Zero Savings to All Closed Businesses.*** The evaluators could assign zero savings to any business found to be closed. This approach would not count at least some savings known to have occurred.
2. Due to lack of consensus on the correct policy treatment of business closures, if the utilities’ independent evaluators identify any business closures while evaluating 2020 energy efficiency programs in 2021, the evaluators will:
   1. Notify the utility, stakeholders that submitted comments to SAG (NRDC and ICC Staff), and the SAG Facilitator;
   2. Document both Approach #1 and Approach #3 in the draft evaluation report for the program where the business closure was identified; and
   3. Document the disputed issue within the evaluation report, as described in Policy Manual Version 2.0: *In the event that stakeholders, including Commission Staff or the Program Administrator, and the Evaluator are not able to reach a resolution during the Draft EM&V Report review process concerning a disputed issue that is acceptable to the Program Administrator and non-financially interested parties, then the Program Administrator will direct the Evaluator to document the issue in dispute within the EM&V Report along with the Evaluator’s position, the stakeholder’s position, and to the extent practical and quantifiable, any associated alternative savings estimates resulting from the differences in positions.* See Policy Manual Version 2.0, Section 7.5, subsection v, page 33.