Recommendations on Market Transformation Savings Policy Issues

IL SAG Market Transformation Working Group

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resource innovations

MEEA
MIDWEST ENERGY EFFICIENCY ALLIANCE

Background

- Attachment C of the IL TRM, "MT Savings Framework", was adopted in 2019
- Public Comment raised some policy issues that need SAG MT discussion
  - How will MT savings be incorporated into
    - portfolio cost-effectiveness (C/E)?
    - gas & electric utility goals?
    - electric utility financial incentives?
  - If adjustments to the Natural Market Baseline (NMB) are needed during implementation, will the adjustment be applied to savings estimates
    - Retrospectively?
    - Prospectively?
  - How will savings and costs be dealt with across filing periods?

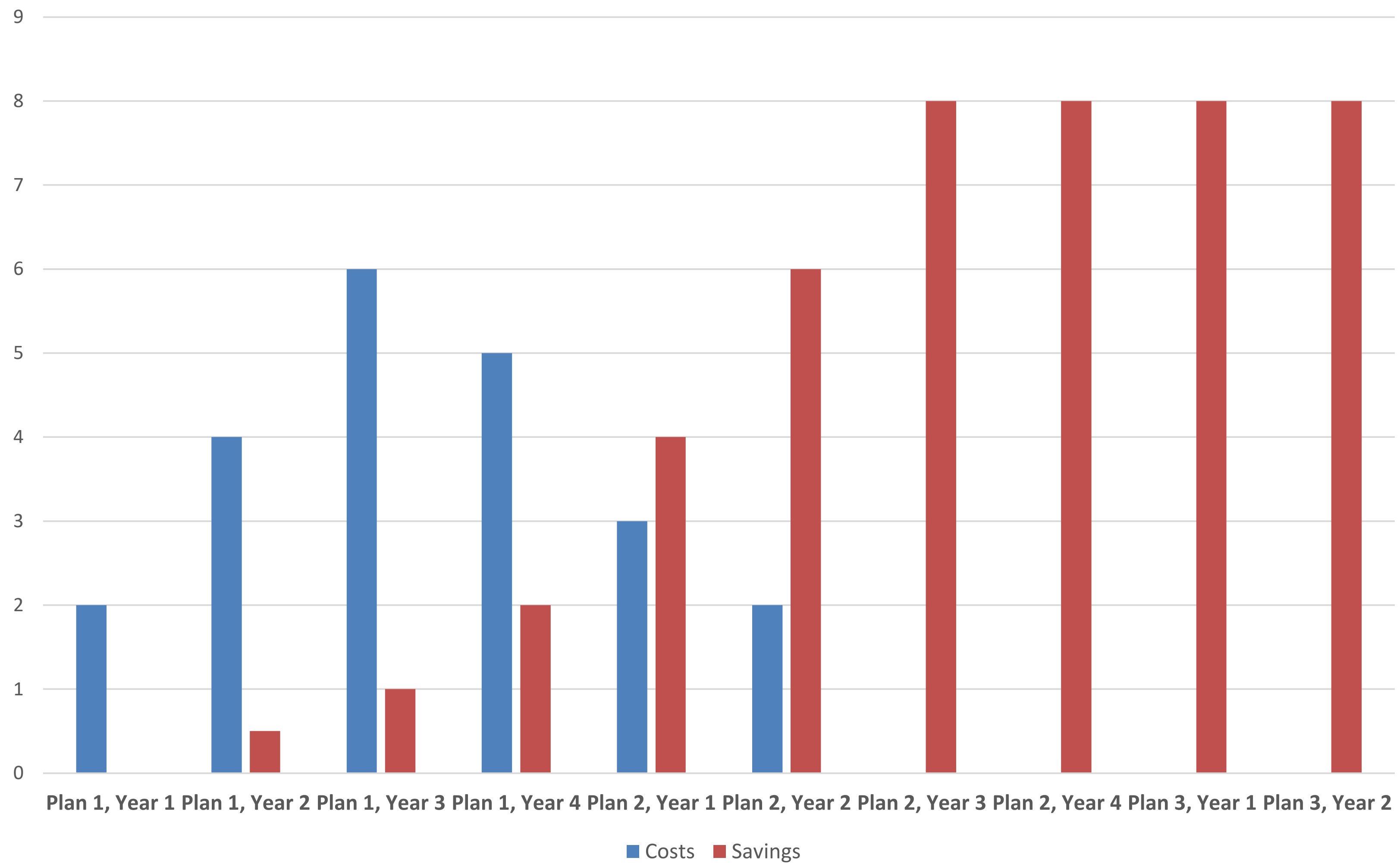
Nature of MT; Size in the IL EE Portfolio

- MT initiatives have different characteristics than Resource Acquisition (RA), so there are challenges to account for MT programs into a regulatory system set four-year portfolio cycles and annual energy savings targets
  - MT has longer horizon with lasting savings (10-20 years)
  - MT costs typically are large and up front and MT savings can be substantial but achieved farther out
- Initially, MT in the IL EE Portfolio will likely be quite small in the next 5-6 years
  - Real issues, but force/size of their impact will be small at the beginning
  - Gives opportunity to "adaptively manage" or "learn as you go"
- Recommendations try to find simple path for this start-up phase

Q1. How will MT savings be incorporated into Portfolio C/E?

- Background
  - Initiative MT Business Plan (BP) will estimate C/E of the initiative over its expected duration, which is likely over multiple planning cycles.
  - Costs occur up front and savings occur later, so hard to parse them fairly into each planning cycle
  - Consider: what will encourage MT investments, but not create too large a risk to any one party?
- Whether or not portfolio cost-effectiveness is a determinative factor in a utility's decision to pursue a given MT initiative, recognition of a single year's or single 4-year cycle's MT initiative investment and attributable/verified savings will likely impact willingness to pursue an initiative and when within a cycle.

Sample Hypothetical MT Initiatives Expenses and Savings



Q1. How will MT savings be incorporated into Portfolio C/E?

Option 1: Continue current practice by treating MT just like traditional RA programs

- Since costs are front-loaded, makes the portfolio less C/E in near-term cycles
  - If portfolio C/E is on the margin, other programs will need to make up the difference
  - Utilities bear the full risk before success has a chance to play out
- Consider placing early costs in R&D/ET/BED to avoid having to demonstrate savings
  - Once savings start, move costs and benefits to regular portfolio
  - Limits to R&D/ET/BED investments could limit space for MT spending

Q1. How will MT savings be incorporated into Portfolio C/E?

Option 2: Move early costs to count later, when savings are larger

- Requires keeping track of an "adder" that:
  - Reflects total of costs deferred
  - Adds to 3-4 years of annual costs in the future
- Removes disincentive to do MT in early years
- Will require detailed "bookkeeping" to ensure all costs and benefits are eventually included
- Open question if Option 2 is allowable under current regulatory framework

Q1. How will MT savings be incorporated into Portfolio C/E?

- Option 3: Exclude MT from TRC calculation
  - Similar to how Income Qualified measures are currently treated under statute
  - Could have unintended consequences on other less cost-effective measure prioritization, such as low-income measures
  - This option likely requires legislative action

Q1. How will MT savings be incorporated into Portfolio C/E?

- Option 4: Delay TRC application to MT until second planning cycle
  - Grace period allows utilities to safely take risks to get initiatives off the ground that will produce long-lasting benefits to Illinois customers
  - Open question if Option 4 is allowable under current regulatory framework

Q1. How will MT savings be incorporated into Portfolio C/E?

- Option 5: Apply estimated TRC and savings annually across MT initiative's time horizon
  - Might require periodic evaluation
  - Could require a post-initiative costs and energy savings calculation with potential savings true up
    - With some agreed-upon guardrail limits - similar to a decoupling mechanism true up procedure - applied to the utility's CPAS (rather than a specific planning cycle).

Q1. How will MT savings be incorporated into Portfolio C/E? RECAP

- Option 1: Continue current method, which categorizes MT as a portfolio cost
  - Depending on initiative, magnitude of investment and impact of estimated TRC score, consider placing in utility's R&D in early years and subject to limits
- Option 2: Move early costs to later, when savings are larger
- Option 3: Exclude MT from TRC calculation
- Option 4: Delay TRC application to MT until second planning cycle
- Option 5: Apply estimated TRC and savings annually across MT initiative's time horizon

Q2. How will MT savings be incorporated into utility EE goals?

- Savings are expected to be a small proportion of overall EE portfolio in next 5-6 years
- Recommendation:
  - *Incorporate any MT savings into goal achievement using existing RA method*

Q3. How with MT Savings be Incorporated into Electric Utility Financial Incentives?

- Savings are expected to be a small proportion of overall EE portfolio in next 5-6 years
- Recommendation:
  - *Fold MT savings into the calculations currently used for traditional RA incentives.*

Q4. Will any adjustments to Natural Market Baseline (NMB) be applied retrospectively or prospectively to savings?

- Initial NMB uses best available data and gets review by evaluators and MT SAG.
- If/when new data because available (and is significant), NMB (and therefore savings) can change.
- Recommendation:
  - *Adjustments are applied prospectively.*
    - Best data used at the time
    - Review is significant
    - Follows pattern of NTG changes (applied prospectively)
    - Keeps risk to utility and process minimized

Q5. *How will savings and costs be dealt with across filing periods?*

During the last SAG MT Savings working group meeting, there was a request to draft and circulate proposed resolution on whether savings from market transformation initiatives in one EE Plan cycle may be counted in a future EE Plan cycle.

- The SAG Facilitator circulated proposed policy resolution for review on December 13, 2019: *Savings from market transformation measure(s) counted in one Energy Efficiency Plan cycle that last beyond the end of that approved cycle may be counted by Program Administrators in a future Energy Efficiency Plan cycle.*
- The SAG Facilitator received one suggested edit, indicated in red: *Savings from market transformation initiatives with approved savings protocols counted in one Energy Efficiency Plan cycle that last beyond the end of that approved cycle may be counted by Program Administrators in a future Energy Efficiency Plan cycle.*

Question for discussion: Do any Working Group participants have additional suggestions on the proposed resolution?

Questions

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