

# Recommendations on Market Transformation Savings Policy Resolutions

## IL SAG Market Transformation Working Group

May 19, 2020



# Background

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- 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
  - How will savings and costs be dealt with across filing periods?
  - How long will utilities get to count an initiative’s attributable energy savings

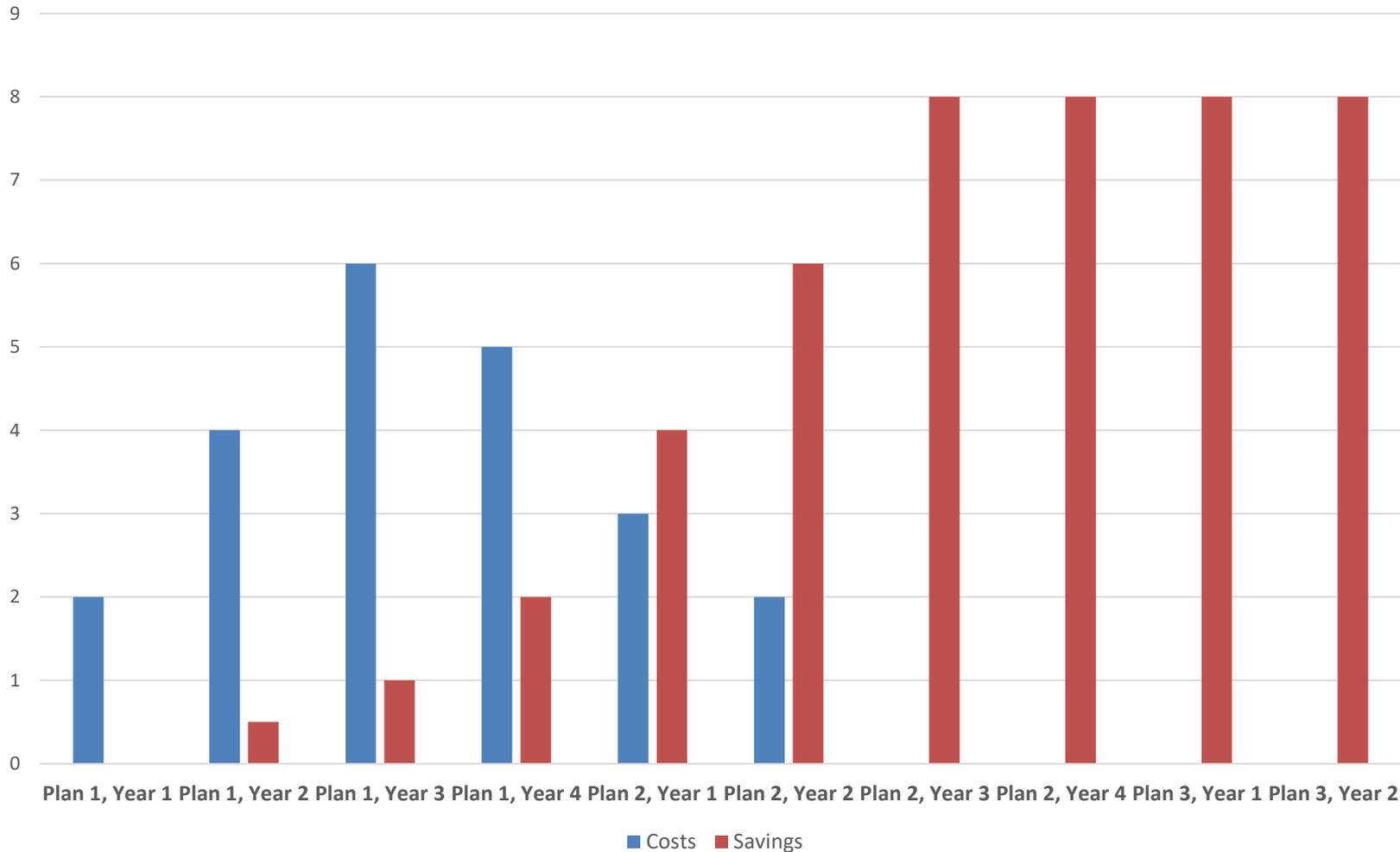
# Nature of MT; Size in the IL EE Portfolio

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- 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

# Sample Hypothetical MT Initiatives

## Expenses and Savings



# MT Impact on Portfolio Cost-effectiveness

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- 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?

**How will energy savings derived from/attributed to market transformation (MT) initiatives be incorporated into utility energy efficiency portfolio cost-effectiveness calculations?**

# Proposed Resolution:

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*In its development of a cost-effective portfolio of energy efficiency measures, a utility will apply Illinois's Total Resource Cost (TRC) Test to market transformation initiative costs and energy savings the same way it is applied to traditional resource acquisition or other current forms of energy efficiency programming.*

*Traditionally, the utilities only count measures performed within the relevant 4-year energy efficiency cycle during which they occurred.*

*An MT initiative could continue across multiple four-year cycles, but a single four-year portfolio cycle's cost-effectiveness will reflect the MT activities that occurred within the corresponding four-year cycle.*

*In the case of MT initiatives, utilities will report two portfolio TRC analyses to the ICC: 1) the total EE portfolio with MT initiatives included and 2) the total EE portfolio without MT initiatives both for the full four-year period.*

# Natural Market Baseline Adjustments

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- Background
  - Initial NMB uses best available data and gets review by evaluators and MT SAG.
  - If/when new data becomes available (and is significant), NMB (and therefore savings) can change.
  - Retrospective, Prospective or Hybrid approach

# Natural Market Baseline Adjustment

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Assuming an adjustment of an MT initiative's natural market baseline (NMB) is necessitated by new information, will such adjustments be applied retrospectively to past savings estimates or prospectively to future estimates?

## Proposed Resolution:

2. *A market transformation initiative's natural market baseline (NMB) assumptions are locked in unless or until information arises that necessitates adjustments be made to the NMB*
  - a. *When new information requires adjustments to be made, any and all adjustments will be applied prospectively*

# How will MT initiative derived energy savings and costs be dealt with across 4-year EE planning cycle periods?

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## Proposed Resolution:

- 3. MT initiative-derived energy savings are not bound to the four-year cycle in which the initiative originated. Accordingly, any energy savings that result from an MT initiative with approved savings protocols will be attributed to the utility during whichever four-year energy efficiency plan cycle in which they occur.*

# **Proposed Resolution on Tracking MT Initiatives:**

4. *On an annual basis, each utility will calculate, track and report estimates of each MT initiative's performance to-date as well as future anticipated costs and savings.*

# Proposed Resolution on Initiative-specific Issues:

5. *Based on the SAG MT Savings Working Group discussion on February 13, 2020, the following policy issues will be resolved for each initiative as it is developed:*
  - a. *How market transformation-derived savings are incorporated into gas and electric utility EE savings goals.*
  - b. *How market transformation-derived savings will be incorporated into electric utility financial incentives.*
  - c. *How long a period of time utilities can take credit for new savings that continue to accrue after active utility engagement has been reduced or ended. This is independent from the lifetime of the measure(s).*

# Questions

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