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**Guidehouse**

# EVALUATION TREATMENT OF BUSINESS CLOSURES

Small Group SAG Meeting



November 13, 2020



# Agenda

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- Background on issue + recap of June small group SAG discussion
  - Key questions to consider
- Overview of possible approaches and potential issues
- Discussion, Q&A and Next Steps

# Background

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- In some cases, evaluators discover through impact evaluation verification activities that businesses may have closed during the course of a program year or evaluation cycle
- Open question has existed since at least 2015 as to how evaluations should treat these cases
  - To date, SAG has not reached consensus on this issue
- During the June SAG discussion around COVID impacts on CPAS, this topic came up again
  - Evaluators and stakeholders suspected that it might be more likely that these situations might arise during the COVID-19 pandemic as a result of the related economic downturn

# Open Questions

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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?



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# Possible Approaches

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

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- This approach has previously been proposed by Guidehouse
  - The savings for the measure or project would be 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 business closures

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

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- 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

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- 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

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- The evaluators could estimate the probability that a business will re-open (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

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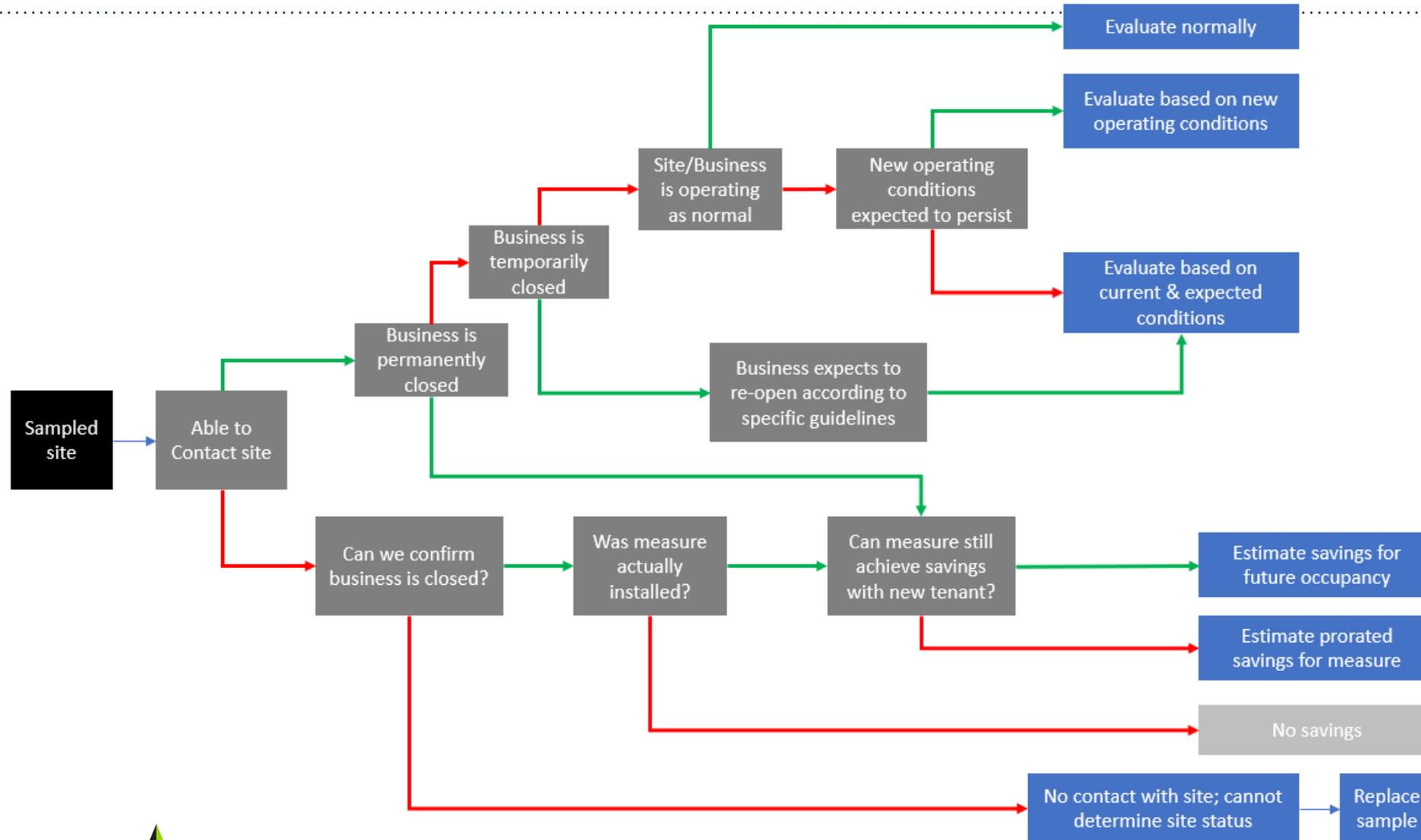
# When is a Business Closed?

# Classifying a Business as Closed

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- If the evaluators need to discern between permanent and temporary business closures, protocols will have to be developed to ensure objectivity and consistency between evaluations
- Key questions:
  - Does the business have zero operating hours at the time of verification (mid-year, end of year)?
  - Does the business plan on not reopening until profitable conditions are present?
  - Can the business closure be verified in a local newspaper article?
  - Does the business have any formal plan for opening in the future?
  - If the project involves a multi-tenant commercial space and the tenant has moved out, are the savings still eligible?
  - What if the customer cannot be reached to confirm closure?
  - Does the business plan on not reopening until a vaccine is available? (COVID-specific)

# Decision Tree





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