Net-to-Gross:

Prospective Versus Retrospective

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Background:

Illinois is continuing to work through how to apply a net-to-gross framework. At the request of Annette, we pulled together a brief set of thoughts on the differences between use of a retrospective and prospective net-to-gross (NTG) through the lens of two overarching concepts: Program Planning & Management and Assessment of Program Performance. We note that the issue of retrospective or prospective application of net-to-gross numbers is a policy issue, and Opinion Dynamics takes no stance on what is best for the state of Illinois.

We believe, though, that there is a shared interest held by all parties involved within energy efficiency in Illinois, which is to spend ratepayer dollars most effectively. The question at hand is whether retrospective or prospective application of net-to-gross helps to meet this shared goal.

A discussion of the current NTG framework is on the agenda at our next SAG meeting on August 6, 2013. This email is intended to help provide talking points for that discussion, in the hopes of gaining a consensus on this issue moving forward.

"Pros and Cons" Table:

Concept	Retrospective	Prospective
Program Planning & Management	**Utilities must closely consider the ramifications of potential NTG variation when developing annual program plans for the portfolio.** Program development takes into account many variables. It is not an exact science. Net savings is one area that must be estimated when developing program savings expectations for an upcoming year. When planning for a portfolio, choices are made about where to place time and resources and it is likely that more time is spent on NTG sensitivity analysis than would otherwise occur to mitigate the NTG risk.	**Portfolio planning is more straightforward**. A set NTG ratio enables decisions on a gross savings goal, understanding what the net savings will be. Portfolio planners can then optimize the programs to reach the most savings for rate-payer investments. **Portfolio management during the year is enhanced**. When managing to a portfolio level goal, knowing that one factor is eliminated from the uncertainty of goal attainment (i.e., knowing the NTG) allows for shifting of funds within programs when difficulties arise.
Assessment of performance and goal attainment	**Net savings estimates reflect the current program year.** A retrospective	**Annual assessments can focus on implementation effectiveness**.

	NTG provides an estimate of savings of a specific program year. Applying the evaluated NTG ratio to the evaluated gross savings for the same year means that the result will capture changes in market forces and any other exogenous influences.	When the NTG is accepted in advance, understanding the performance of a program can focus on how well a program is marketed, satisfaction of customers with the program, and innovation of program managers in reaching new or underserved customers. **Past program manager choices will affect savings within future programs.** Under the current evaluation cycle, there is a shift of at least two program years before the evaluated NTG is applied. This lag could be reduced through various strategies. However, eventually the evaluated NTG will affect the net savings within a portfolio.