

IL EE SAG – IPA TRC Subcommittee DRIPE Comparison Exhibit

Issue #	Issue Description	Position Statement	Rationale	Position Statement	Rationale
1	<p>Is DRIPE Permitted or Allowable by Statute?</p> <p>8-103(a) (electric EE) and 8-104(b) (gas EE) states that: the “total resource cost test” includes “benefits that accrue to the system and the participant” and “other quantifiable societal benefits”</p>	No	DRIPE is neither a benefit to the system nor a quantifiable societal benefit.	Yes	DRIPE is a system benefit and is also a quantifiable social benefit.
2	<p>Statutory Question #1:</p> <p>Is DRIPE "a benefit that accrues to the system and the participant?" 8/103(a) and 8-104(b)</p>	No	<p>1) <u>DRIPE Harms the Electric System by Impeding Market Competition and Artificially Manipulating the Market:</u> DRIPE impedes market competition and leads to uneconomic results.</p> <ul style="list-style-type: none"> • Under the DRIPE proposal, resources that are truly not cost-competitive would be injected into the market (on the basis of artificial benefits), and they would replace cost-competitive resources, creating a higher-cost overall portfolio of resources for society. • Customers would be forced to pay an above-market premium for resources in the hopes that the premium will be outweighed by the very uncertain overall effects of this market price manipulation attempt. On net, this could unnecessarily increase customers' costs. • The market response would make any price suppression effect temporary and, due to pre-existing customer hedging (through fixed-price RES supply or IPA purchases). Any desired lower costs for customers would be mitigated. • The resultant proven risks of further market manipulation to the detriment of the competitive resources that serve Illinois' consumers could increase the cost of capital for supply resources, encourage additional supply resource retirements, and/or discourage future investments in competitive supply resources, leading to increased costs for customers in the long-run. (“Markets require appropriate price signals to alert investors when increased entry is needed. By allowing net buyers to artificially depress prices, these necessary price signals may never be seen. While a strategy of investing in uneconomic entry...may seem to be good for customers in the short-run, it can inhibit new entry, and thereby raise price and harm reliability, in the long-run.” 122 FERC ¶ 61,211) • It would constitute market price manipulation, distorting market price signals for existing/new needed resources. • It would be a step toward undermining the "effectively competitive electricity market that operates efficiently" that the Restructuring Act requires the ICC to "act to promote." • In contrast, rejection of the DRIPE proposal would reassure parties that they will be able to compete in Illinois without the threat that their long-term investments will be devalued by regulatory market manipulation. This will better encourage innovation and competition across all resources on the basis of lowest cost, to the benefit of customers. It also will avoid forcing customers to pay above-market premiums for supply. <p>2) <u>DRIPE Harms the System Because It Will Lead to a Higher Cost Resources Being Selected Over Lower Cost Resources:</u> DRIPE’s adoption will have a very uncertain effect, one which could be a net increase in rates to customers if selecting higher cost resources causes older plants to shut down. Fewer generation suppliers would</p>	Yes	<p>1) <u>DRIPE will “Benefit to the System” as it Quantifies Prices Reductions In Generation that Benefits all Customers by Reducing Demand for Generation Through EE.</u></p> <ul style="list-style-type: none"> • NRDC looked at the relationship between price and quantity by month, for an extended period of time, and found that for every 1% decrease in energy use, energy prices decreased by 2%, a benefit that accrues to all customers that should be counted. NRDC’s study demonstrates that the DRIPE effect would reduce avoided costs by 20 – 40% for measures with a 15-year measure life. NRDC’s study assumes that the DRIPE benefit (the benefit from reduced demand from EE) would influence generators for 12 years, and should be included as a benefit for 12 years, although the benefit would become smaller over the 12 years as the market adjusted to the reduced demand.

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			<p>increase costs in short run.</p> <p>3) <u>DRIPE Adoption Will Send Signal to Wall Street that the ICC is Willing to Meddle in Free Markets, which Could Increase Cost of Capital and Otherwise Discourage Generation Investment in IL and Nearby States:</u> If the Commission adopts DRIPE, the Commission will be signaling to Wall Street that it is willing to give preferential treatment to more expensive resources and is willing to create an uneconomic market structure for electric generation. Wall Street will view IL as a more risky investment if the most economic resources are selected, and will increase utility cost of capital, a negative for both the system and customers.</p> <p>4) <u>DRIPE is a “Pecuniary Externality,” So Assigning a Monetary Benefit to DRIPE Leads to Resource Misallocation:</u> Acceptance of the DRIPE proposal would create a “pecuniary externality,” as opposed to a “real” or “technological” externality. Pecuniary externalities are pervasive in markets. Unlike real externalities, pecuniary externalities do not benefit society and provide no justification for government intervention on economic efficiency grounds. All else equal, incenting economic agents to internalize pecuniary externalities in a competitive market would result in economically inefficient outcomes.</p>		
3	Is DRIPE a quantifiable societal benefit?	DRIPE is not quantifiable.	<p>DRIPE is not quantifiable:</p> <p>1) <u>Duration of DRIPE Not Established:</u> NRDC did not provide any evidence that the DRIPE effect lasts for 12 years. It is unlikely that a reduction in demand (through EE) would impact generator decisions for 12 years. In fact, the DRIPE effect could increase costs in the short term if generators respond to reduced demand (from EE) and shut down, which would drive up price for consumers, not reduce it. The study’s assumption of the duration of any assumed price suppression is dubious, unsupported and has a significant impact on its results.</p> <p>2) <u>DRIPE Analysis Suffered from “Identification Problem”:</u> NRDC’s forecast analysis suffers from the “identification” problem such that the results are not indicative of a specific relationship between reduced demand from EE and reduced costs for generation. NRDC did not establish a “Price – Quantity” effect such that 1% reduction in demand (through EE) would lead to a 2% reduction in price. NRDC made a scatter plot of Price-Quantity relationships, and drew a “best fit” line through it, then asserted this line represented price-quantity relationships, which could be done for any scatter plot even if no such relationship exists. The analysis suffers from the “identification” problem, such that the Price-Quantity in NRDC’s study could have represented points from the changing demand curve as well as the changing supply curve.</p> <p>3) <u>NRDC’s DRIPE Study Confuses Correlation with Cause.</u> There is feedback between prices and load that would cause the benefits to be overstated. The study’s linear regression models are only measuring a correlation between locational marginal prices and load. The models lack the sophistication to determine the direction of causality between LMPs and Load.</p> <p>4) <u>NRDC’s DRIPE Study Did Not Fully Account for Customer Hedging of Supply Costs:</u> NRDC admits that there is significant uncertainty about its assumption regarding the extent of customer hedging (which would eliminate any cost reductions for customers even if costs go down), as it stated that the lack of relevant available data “is a significant limitation in any analysis of the extent to which Illinois customers’ energy supply is hedged.”</p>	Yes.	<p>DRIPE is quantifiable:</p> <p>1) <u>NRDC Study Documented a 2% Reduction in Price for Every 1% Reduction in Demand:</u> NRDC looked at the relationship between price and quantity by month, for an extended period of time, and found that for every 1% decrease in energy use, energy prices decreased by 2%, a benefit that accrues to all customers that should be counted. NRDC’s study demonstrates that the DRIPE effect would reduce avoided costs by 20 – 40% for a measure with a 15-year measure life.</p> <p>2) <u>NRDC Study Results Consistent With Findings of DRIPE Effect in Other Jurisdictions:</u> Results of DRIPE study* are consistent with the results of 3 other studies of price effects in New England and PJM, as well as IPA study on the effects of wind generation on prices in IL. DRIPE study specifically addressed and accounted for the potential for “feedback” by using estimates of price elasticity for ComEd’s service territory to demonstrate that though prices do lead to slightly higher demand, the feedback would likely offset no more than 2% of the DRIPE effect in the short term and no more than 3% in the long term.</p>

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4	Is DRIPE just a transfer payment that traditionally is not included in the TRC?	Yes.	<p>DRIPE is a transfer payment and thus should not be included in the TRC as a benefit:</p> <p>1) The effect that NRDC is trying to characterize and claim as DRIPE does not represent a change in costs. It merely shifts costs from consumers to producers. Societal benefits are those that inure to society as a whole, and do not include effects that only reflect a transfer of wealth.</p>	No, it is not a transfer payment.	<p>DRIPE is not a transfer payment under the TRC, and thus the benefits from DRIPE should be included in the TRC:</p> <p>1) Although DRIPE is a transfer of wealth (from consumers to producers) and does not represent an increase in costs, it should not be considered a “transfer payment” under the TRC. The TRC “system” that the Commission should care about protecting is ratepayers and utilities, not producers.</p>
5	Is DRIPE a "best practice"?	No	<p>1) <u>DRIPE Is Not Adopted in the Majority of Restructured States (Where Customers See Changes In Market Prices.</u> Only 5 out of 14 restructured states like Illinois (with competitive wholesale markets and retail choice) have adopted proposals like the DRIPE proposal.</p>	Yes	<p>1) <u>DRIPE is widely recognized and used in other jurisdictions</u> (6 out of 13 with competitive wholesale markets).</p>
6	What would the effect of DRIPE be on IL TRC?	Unreasonable effect	<p>1) <u>DRIPE Will Lead to a Dramatic Adjustment to TRC Screening in IL:</u> Including DRIPE would result in a dramatic adjustment to current TRC screening and could artificially result in highly uneconomic programs being adopted, replacing cost-competitive resources. Resource Insight (on behalf of NRDC) estimates that acceptance of the DRIPE proposal would allow for approval of resources with costs that are 20%-60% higher (expressed as a percent of avoided energy costs) than the current threshold. These above-market premiums would be paid by customers.</p>	Reasonable effect	<p>1) <u>DRIPE Would Increase Estimated Benefits from EE by About 25%:</u> Adjustment to TRC including DRIPE would not be dramatic. DRIPE would increase estimated benefits of EE by an average of 20-25%. The impact on efficiency measures with a 10 year life would be the equivalent to about a 35% increase in avoided electric energy costs.</p>