MEMORANDUM

To: PUCO Staff

From: Natural Resources Defense Council

Date: April 22, 2013

Re: Energy Efficiency Reporting, Measurement and Reporting of Net Savings

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As the Public Utilities Commission of Ohio ("Commission" or "PUCO"), reviews the current rules that implement Revised Code Section 4928.66, Ohio Administrative Code Chapter 4901:1-39, we recommend the Commission:

- Move back by two to three months the date when energy savings from energy efficiency programs are reported to the Commission, to give evaluators time to complete impact evaluations in time for the verified impacts of energy efficiency programs to be reported to the Commission in annual portfolio status reports;
- Require utilities to report verified savings to the Commission in annual portfolio status reports, and measure compliance with energy savings benchmarks using the verified impacts of programs;
- Require evaluators to estimate the net savings from energy efficiency programs, excluding the impact of free riders and including the impact of participant and nonparticipant spillover, and measure compliance with energy savings benchmarks using the verified net impacts of programs.

These changes will insure that the impacts of programs reported to the Commission better reflect the actual energy saving impact of the programs, provide utilities an incentive to change programs over time as markets change, and ensure that customer money is spent on programs that actually create efficiency beyond what would have happened absent the program.

Current Rules

Suggested changes in **bold underline**

OAC 4901:1-39-05(C)

Portfolio status report. By ~~March~~ **May [or] June** fifteenth of each year, each electric utility shall file a portfolio status report addressing the performance of all approved energy efficiency and peak-demand reduction programs in its program portfolio plan over the previous calendar year which includes, at a minimum, the following information:

(1) Compliance demonstration. Each electric utility shall include a section in its portfolio status report detailing its achieved**, verified net** energy savings, achieved**, verified** demand reductions, and the expected demand reductions that its programs were reasonably designed to achieve, relative to its corresponding baselines. At a minimum, this section of the portfolio status report shall include each of the following:

(a) An update to its benchmark report.

(b) A comparison with the applicable benchmark of actual energy savings and peak-demand reductions achieved by electric utility programs.

(c) An affidavit as to whether the reported performance**, on a verified net energy savings basis for energy efficiency,** complies with the statutory benchmarks.

OAC 4901:1-39-01

([Letter]) "Gross savings" means the full savings that participants in an efficiency program realize from investing in an efficiency measure promoted by the program, without any adjustments to account for the degree to which the program influenced their investment.

([Letter]) "Net savings" means gross savings minus savings attributable to free riders (program participants who would have made the efficiency investments without the utility's program) plus savings attributable to spillover (savings resulting from influence the program may have had on efficiency investments by participants and non-participants).

Argument

Revised Code Section 4928.66 requires utilities to "implement energy efficiency [and peak demand reduction] programs that achieve" certain benchmarks. The achievements of an energy efficiency program can only be considered the energy savings that occurred because of the program's influence. Savings that would have occurred absent the program should not be considered an achievement of the program.

Beyond the legal argument, however, there are important policy considerations that support judging utility performance relative to benchmarks based on net savings.

- Relying on gross savings likely overestimates the actual savings from energy efficiency programs, especially those programs that utilities make up the bulk of utility savings: lighting programs. Recent evaluations of CFL buy-down programs – even evaluations that estimate participant and non-participant spillover in addition to free riders – have found that net savings are substantially less than 100% of gross savings.[1] Ohio's rules should encourage utilities to offer programs that have a net impact, over-and-above what is already occurring in the market. That is difficult to do when utilities are judged solely on net savings, and performance incentives and lost revenue adjustment mechanisms are based on net savings.
- Relying on gross savings provides utilities with no reason to change and improve programs to capture savings over-and-above what is already occurring in the market. Under Ohio's current evaluation framework, most utilities have begun to exit mature markets (such as standard performance T8s), but other utilities are continuing to provide

[1] Navigant Consulting, et al., "Energy Efficiency/Demand Response Plan: Plan Year 2 (6/1/2009-5/31/2010), Evaluation Report: Residential Energy Star Lighting," presented to Commonwealth Edison Company, December 21, 2010, pp. 61-72, available at: http://ilsag.org/yahoo_site_admin/assets/docs/ComEd_Res_Lighting_PY2_Evaluation_Report_2010-12-21_Final.12113928.pdf.

incentives for baseline technology.[2] Utility energy efficiency programs should encourage every contacted customer to go as far as possible toward efficiency, given customer budget constraints and the bounds of cost-effectiveness testing. Doing otherwise wastes customer contacts and customer-funded incentives. As long as Ohio's evaluation framework neither judges utilities based on net savings or requires programs to be planned for net savings, the Commission or advocates will have little ability to argue for effective programs that save energy over-and-above what the market is already doing and actually avoid or delay the need for new power plants and transmission and distribution infrastructure.

In addition, updated rules should clarify that utilities are required to report verified (rather than self-report) savings in annual portfolio status reports. To facilitate this, the date at which portfolio status reports are due should be moved back by two or three months.

The Natural Resources Defense Council appreciates the opportunity to participate in the Commission's rulemaking workshop. We look forward to working with the Commission on any issues related to the measurement of energy efficiency savings.

[2] Reed, Glenn, Direct Testimony on Behalf of the Sierra Club, Public Utilities Commission of Ohio Case No. 12-2190-EL-POR, et al., October 5, 2012, pp 15, available at: http://dis.puc.state.oh.us/TiffToPDf/A1001001A12J05B60829J00611.pdf.