IPA 2016 PROCUREMENT PLAN

NRDC DRAFT COMMENTS

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Dear Mr. Star:

Thank you for the opportunity to comment on the Illinois Power Agency's (IPA) Draft 2016 Procurement Plan (Draft Plan). All of our comments pertain to the Incremental Energy Efficiency programs.

NRDC is pleased to see the continued growth and development of Incremental Energy Efficiency programs and renewables procurement that drives Illinois greenhouse gas emissions reductions as well as reduction in energy bills and development the clean energy sector of Illinois's economy. The comments below are based upon the information presented in the Draft Plan. However, at the outset, we note that the lack of access to critical information has made it difficult to conduct a rigorous analysis of the Draft Plan, and that this same lack of access to information frustrates to some degree the IPA's own ability to carry out its responsibilities. One example is that ComEd's proprietary modeling of administrative adder costs effectively rendered the IPA unable to perform critical sensitivity analyses that would have identified the appropriateness of those costs. Such information is essential to developing a procurement plan that maximizes the benefits of of cost-effective energy resources. With this caveat, NRDC offers the following comments on the draft, and looks forward to continued dialogue with the IPA in the development of its future Procurement Plans.

TRC Screening of Duplicative Programs

The IPA has recommended that utilities should screen for duplicative incremental energy efficiency programs only after performing the total resource cost (TRC) test. ComEd has previously assessed its programs under this process while Ameren screened for duplicative programs before running TRC analyses. NRDC agrees with the IPA's suggestion for utilities to perform TRC screening prior to all other forms of screening for all programs that meet the baseline requirements of the RFP. This allows the IPA to have a more comprehensive understanding of energy efficiency programs proposed to utilities and improves the IPA's ability to select its portfolio in the event that the IPA disagrees with the utility on whether or not a program is duplicative. In short, NRDC supports the IPA's position on applying the TRC on all programs initially eligible for consideration.

Inclusion of NEBs in TRC Analysis

NRDC would again like to clarify the rationale for the consideration of NEBs in TRC analysis for future TRM proceedings. The IPA states on page 85 that "[s]ome parties argue that some less obvious benefits of energy efficiency programs may be accounted for in the TRC even if not directly related to the supply of energy." While this statement is technically true, it misses the point. Because the TRC, unlike the utility cost test (UCT) takes includes all costs including customer costs, symmetry requires that the application of the TRC must also take into consideration all of the identifiable customer benefits. Since its initiation in Illinois, the TRC test has accounted for costs that are "not directly related to the supply of energy": specifically, the inclusion of participants' contributions to measure costs. The reason that customer are willing to make these expenditures are to achieve the benefits of the measures, which include lower energy bills, but also include a range of other benefits such as health, safety, comfort, and financial stability. If the TRC test incorporates these costs that lie beyond the utility system, then a balanced TRC test should strive to include all non-utility system benefits. Accounting for NEBs will allow the IPA to develop a more complete view of program costs and benefits as defined by the IPA Act, and consequently will allow for more economically efficient allocation of investment in programs that provide net system benefits.

The IPA is also seeking feedback on what should be done with NEBs adders. NRDC generally concurs with the IPA's summary of the TRC workshop discussions of NEBs. In particular, NRDC concurs that there was a general inclination to address NEBs through the next TRM update process. However, that process will not be complete until March of 2016. That will enable the application of NEBs values to the IPA's 2017 Procurement Plan, but not for 2016. While it may be best to address NEBs through the TRM process, it seems inappropriate to assume that they are zero while that process is underway. It would be more appropriate to include the default 10% electric adder and 7.5% gas adder used by Ameren in previous years as a placeholder for this year. The failure to use a placeholder to account for NEBs in the absence of the updated TRM, as Ameren has done in the past, will result in the rejection of at least two programs that would otherwise be included in the portfolio.

Inclusion of Administrative Adder in TRC Analysis

Ameren

The IPA states that it recalculated Ameren's TRC test using an 11.5 percent administrative adder instead of Ameren's proposed 13.58 percent adder. NRDC supports the IPA's reanalysis of Ameren's administrative adder. The IPA correctly finds that Ameren's inclusion of the cost of its potential study in its administrative adder represents a fixed cost that would have been incurred regardless of IPA program approval. Because administrative adders should only reflect the marginal costs associated with the implementation of individual programs, NRDC agrees with the IPA that the costs borne by Ameren's potential study are not relevant to the calculation of its administrative adder. Ensuring that TRC analysis only includes marginal (not fixed) administrative costs is essential to organizing the portfolio of energy efficiency and demand response programs that maximize net societal benefit. If unassociated fixed administrative costs are included, then programs will be underprovided relative to economically efficient levels. Although IPA's sensitivity analysis concluded that an 11.5 percent administrative adder would not have changed the status of three Ameren programs that were just below a TRC of 1.0 (absent any changes to the NEBs adder), it is imperative that future TRC analyses only consider marginal administrative costs. This is illustrated in the hypothetical example shown below in which an allocation of fixed costs would eliminate a program positive net benefits, leading to lower overall portfolio net benefits.

Scenario 1: Fixed Admin Not Allocated to Programs

	Costs	Benefits	Net Benefits	Program Accepted, Included in Totals?
Program 1	$1,000,000	$1,500,000	$500,000	YES
Program 2	$1,000,000	$1,500,000	$500,000	YES
Program 3	$1,000,000	$1,500,000	$500,000	YES
Program 4	$1,000,000	$1,500,000	$500,000	YES
Program 5	$1,000,000	$1,050,000	$50,000	YES
Initially Unallocated Admin	$500,000	$0	-$500,000	
Total for All Programs	$5,500,000	$7,050,000	$1,550,000	
Total for Accepted Programs	$5,500,000	$7,050,000	$1,550,000	
Remaining Unallocated Admin	$0	$0	$0	
Portfolio Total	$5,500,000	$7,050,000	**$1,550,000**	

Scenario 2: Fixed Admin Allocated to Programs

	Costs	Benefits	Net Benefits	Program Accepted, Included in Totals?
Program 1	$1,100,000	$1,500,000	$400,000	YES
Program 2	$1,100,000	$1,500,000	$400,000	YES
Program 3	$1,100,000	$1,500,000	$400,000	YES
Program 4	$1,100,000	$1,500,000	$400,000	YES
Program 5	$1,100,000	$1,050,000	-$50,000	NO
Initially Unallocated Admin	$0	$0	$0	
Total for All Programs	$5,500,000	$7,050,000	$1,550,000	
Total for Accepted Programs	$4,400,000	$6,000,000	$1,600,000	
Remaining Unallocated Admin	$100,000	$0	-$100,000	
Portfolio Total	$4,500,000	$6,000,000	**$1,500,000**	

Conclusions:

1 Allocating fixed admin costs to determing which programs pass and which fail and are therefore excluded from the portfolio results in an economically sub-optimal portfolio.

2 Because you don't know the amount of "accepted" program spending across which to spread fixed admin costs until after you screen them with the fixed admin costs allocated, you end up in a situation in which you need to have an iterative process of allocating the fixed overhead. Specifically, the 100k of fixed overhead remaining after a program fails in scenario 2 should be re-allocated under this proposed approach. For simplicity, the presentation here does not do that. Under a different mix of programs, that re-allocation could render an additional program to not be cost-effective, requiring yet another re-allocation.

Further, NRDC is concerned that the IPA may not have identified all fixed costs in Ameren's administrative adder. In particular, Ameren's 3 percent adder for education and awareness activities is the same 3 percent as Ameren's 8-103 marketing budget. In reality, IPA programs are "turnkey" programs with their own marketing budgets, and because IPA programs comprise only a subset of all Ameren 8-103 programs, it is highly unlikely that incremental IPA program marketing costs amount to 3 percent.

Additionally, it is unclear why Ameren used a 3.5 percent adder for EM&V costs instead of the 3 percent EM&V adder it used in its 8-103 portfolio. NRDC believes that this 3 percent figure was agreed upon in past TRC workshops for IPA programs and seeks clarification regarding this issue.

Finally, NRDC has no basis for judging whether Ameren's revised estimate of the costs of overseeing the IPA programs of 5 percent is appropriate as we have not seen the contract with the entity that Ameren has hired to perform that oversight. The IPA should examine that estimate. Such examination should reflect the reality that the cost of the oversight contractor will be spread across all 2016 programs, including those approved in previous years.

In light of these findings, NRDC encourages the IPA to continue to review Ameren's administrative cost adder. Based on available information, our recommendation is that an administrative adder of 7 to 8 percent adder, with 3 percent devoted to EM&V and 4 percent allocated to program implementation would be justified.

ComEd

After not accounting for administrative costs in previous years, ComEd submitted an administrative adder of 11.5 percent in its TRC tests. This figure is comprised of an 8.5 percent adder for ComEd's administrative costs and an additional 3 percent adder "to reflect costs required by ComEd's independent evaluator." NRDC finds ComEd's administrative cost portion (8.5 percent) of its adder to be particularly high, especially if it only reflects the marginal (and not fixed) costs associated with program implementation. Although ComEd uses "proprietary analytical models" to conduct its TRC analyses, NRDC believes that the IPA should have the ability to run sensitivity analyses similar to those it performed with Ameren's BENCOST tool to determine the appropriateness of the type and magnitude of costs associated with ComEd's administrative adder. Greater transparency and clarity in ComEd's administrative cost analysis will enhance the IPA's ability to organize a portfolio of programs that maximizes net benefits defined in Illinois' TRC test.

Ameren's Proposed Use of an Additional Screen

In Ameren's program submission, it decided not to include two programs that passed the TRC test with the rationale that these two programs did not pass a "cost of supply" test. The IPA finds that the cost of supply requirement fundamentally differs from the TRC test and therefore does not have any bearing on the viability of submitted programs. NRDC agrees with IPA's position: because cost of supply does not consider benefits part of TRC analysis, it is not a meaningful metric to evaluate program cost-effectiveness. Furthermore, the test effectively ignores the cost of transmission and distribution costs, which should be inherent in determining the cost of supplying electricity. Overall, all relevant program costs and benefits should be reviewed in assessments of program cost-effectiveness.

Respectfully Submitted,

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