NW Energy Coalition
for a clean and affordable energy future

September 15, 2014

Oregon Public Utility Commission
3930 Fairview Industrial Dr. SE
PO Box 1088
Salem, OR 97308

Re: Comments on Draft Staff Memo in UM 1622

Dear Commissioners,

The NW Energy Coalition (Coalition) offers the following comments on the staff's draft public meeting memo (PMM or "staff memo") in UM 1622. In our first round of comments in this docket, the Coalition discussed two primary issues: 1) the use of the total resource cost test (TRC) fails to account for all of the benefits associated with measures and 2) the need for a risk valuation factor in cost effectiveness evaluation for gas energy efficiency programs and measures. The comments herein provide further reflection and recommendations on these two issues, commentary on the linkages between this docket and Senate Bill 844 (SB 844), and a recommendation regarding evaluation of program cost effectiveness for Energy Trust of Oregon's (ETO) existing homes program.

Use of resource cost tests and UM 551 exceptions
Our previous testimony argued that the TRC, combined with the UM551 exceptions criteria, was working fairly well and should be supported with some improvements. We are concerned that the decision making approach presented in staff's memo does not adequately address non-energy benefits (NEBs) either in TRC calculations nor in the exception criteria. The next two sections present an alternative approach for addressing current challenges in evaluating exceptions based on NEBs to that outlined in the staff memo.

<u>Commission should focus on value to the utility system</u>
The primary concern of the public utility commission should be a focus on the value of energy efficiency measures and programs to the utility system. The order in this docket should make it clear that the utility cost test is the test that measures value to the utility system. It should also be clarified that measures and programs should be required to pass the utility cost test (UCT) in order to ensure that the utility is acquiring a least cost resource.

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Improving the Current Process: TRC and UM551 Exceptions

We have a long history in Oregon, and throughout the region, of utilizing the total resource cost test. However, as our knowledge about energy efficiency has grown, so has our awareness that consumers value benefits from measures beyond energy savings alone. In our previous testimony we stated:

> *In order for the TRC to be most accurate, it needs to properly account for both the incremental cost of energy efficiency measures as well as all the participant and non-participant benefits. These non-energy benefits, also referred to as 'Other Program Impacts' (OPIs), can be difficult to quantify.*

There appears to be agreement among most parties to this docket, including staff, that current TRC calculations are failing to accurately account for all of the benefits attributable to particular measures. In UM 551, the Commission recognized the potential problems with the omission of non-energy benefits in TRC calculations and established an exception for "significant non-quantifiable non-energy benefits." Presently, we are grappling with questions regarding when a measure is eligible for this exception.

Staff has proposed one approach to this question. The staff memo acknowledges the presence of NEBs for several of the measures in question in this docket, but only approves exceptions for some of the measures, and not others. This raises the questions of who decides what is "significant" and on what basis is this decision made? In staff's memo, they appear to establish an arbitrary and unsubstantiated threshold for the value of these unquantified NEBs. In fact, staff states in their memo that they "will not attempt to put a number or weight on the importance of NEBs..." (Pg.9) However, staff goes on to state that they recognize the existence of several NEBs in the case for single and multi-family wall, floor, and duct insulation, but they do not judge them as "weighty enough" to justify an exception. (Pg. 10) Staff made a similar judgment for multifamily windows and solar water heating. If staff is not calculating NEBs, then on what basis do they dismiss benefits such as comfort, noise reduction, cross fuel benefits as being "significant"?

Furthermore, in their discussion of single family residential ceiling, wall, floor and duct insulation, staff recognizes the following non-energy benefits: "comfort, noise attenuation, benefits to health as a consequence of reduced drafts and reduced mold problems, increased property values, and an overall belief or feeling that the house is a 'quality home'." (Pg. 8) Staff fails to mention, or consider, non-quantified environmental benefits. The environmental benefits, particularly greenhouse gas emission reduction values, of not burning natural gas are significant. Many customers clearly view these environmental benefits as valuable, and are willing to pay for them, as evidenced in Oregon by their willingness to invest in NWN's *Smart Energy* program. Additionally, as we discuss in a separate section below, with the passage of Senate Bill 844, the Commission should more carefully consider how greenhouse gas emission reduction values are addressed in natural gas programs. We are concerned that staff's approach in the draft PMM fails to recognize the significance of the non-quantified environmental benefits of energy efficiency measures that reduce the use of natural gas.

The Coalition continues to believe that there is value in comprehensively calculating non-energy benefits when applying the TRC. However, many other parties, including staff, expressed reluctance to this approach during the workshops in this proceeding. The Coalition concedes that it might be easier and less costly at this time to delay implementation of the full calculation of benefits until more work is done nationally that can be utilized in Oregon. There are an increasing amount of studies calculating the value of non-energy benefits for energy efficiency measures in both gas and electric programs and it may be beneficial to revisit this approach in a few years.

Until then, we need to make sure the existing process for exceptions under UM551 is working for those measures with non-quantifiable NEBs. In the absence of accurately quantifying the non-energy benefits attributable to measures, the Coalition is uncomfortable with the direction the staff takes in their memo to address NEB exceptions. In the PMM, staff is attempting to find a middle ground by trying to quantify the impact of NEBs without actually doing any quantification; this approach is unsatisfactory.

The Coalition recommends an alternative approach to approving an exception for non-energy benefits under UM 551. First, the Commission should require the measure to pass the utility cost test, ensuring that it benefits the utility system. Once a benefit to the utility system is demonstrated, a measure should qualify for an exception based on the demonstrated existence of NEBs. If a measure passes the utility cost test, it is justifiable to recognize the presence of NEBs and allow an exception on this basis without calculating the values because the Commission is still ensuring least cost resource value to the utility system. Further, this approach allows the individual home or business owner to place their own values on non-energy benefits, while still ensuring that the utility system is getting the energy value of the measure.

The Commission should further simplify this system by establishing categories of measures that are known to have significant non-quantifiable NEBs to streamline the exceptions process. An example of this might be a category for existing home weatherization. There is a growing body of research establishing the NEBs associated with existing home weatherization making it a natural fit for a categorical exclusion under UM 551. There may be other categories now, or in the future, that would also fit well under this concept.

Connection to SB844

The Citizen's Utility Board raised an intriguing issue during one of the UM1622 workshops. They pointed out that energy efficiency measures that pass the UCT, and are therefore in the interest of ratepayers because they provide value to the system, could be eligible projects under SB 844 due to their greenhouse gas reduction value. Under this scenario, ratepayers would actually pay more for these measures because under SB 844 the utility is entitled to earn a return on projects. It doesn't make sense to reject measures under the regular energy efficiency programs and then allow them under another program that requires ratepayers to pay more to acquire them. While we agree with staff that this issue is slightly premature because the rulemaking for SB 844 is not yet final, we find CUBs argument compelling and urge the Commission to consider this point. It may be necessary, as CUB has suggested, to create an additional exception under UM 551 for projects that would be eligible under SB844. Alternatively, the Commission could order that the presence of GHG reductions is a "significant" non-energy benefit that qualifies a measure for the existing NEB exception under UM551. Giving more weight to the UCT in cost effectiveness decisions could also solve this dilemma.

Existing Homes Program Cost Effectiveness
The Coalition recommends that the Commission maintain the current practice of evaluating the existing homes program BCR on a combined fuel basis. The Energy Trust runs this program as a comprehensive program because there are economies of scale in combining gas and electric measures in one program for existing homes. Indeed, many of the homes in ETO territory have both gas and electric service and, often times, measures have cross-fuel savings benefits. Other times, homeowners will install different measures in the same project that address gas and electric usage. Gas and electric energy efficiency measures for existing homes are combined together to make one program because this benefits ratepayers through economies of scale. ETO should not be required to "dismantle" costs associated with this program for evaluative purposes.

Inclusion of hedge or risk mitigation value in estimating avoided cost forecasts
We agree with staff's recommendation in the PMM to establish a risk mitigation adder for natural gas utilities. Risk hedging remains an important component of the benefits of energy efficiency. While the Power Council and some electric utilities have included the benefits of risk mitigation in their determinations of cost-effectiveness, natural gas utilities in Oregon have not.[1] Our initial comments in this docket outline in more detail the need to value risk mitigation. We urge the Commission to include a requirement in the order for this docket that gas utilities establish a risk mitigation value for their next IRPs.

Summary of Recommendations
The ETO should continue to calculate both the TRC and the UCT BCRs for all programs and measures. The Commission should increase the reliance on the UCT to determine which measures benefit the utility system and should therefore be used in program implementation. All measures that pass the UCT, but not the TRC, that have identified unquantified NEBs, qualify for an exception under UM551. To streamline the exceptions process, establish categorical exclusions (e.g. a category for existing home weatherization measures) where all relevant measures are automatically granted an exception to the TRC provided they pass the UCT. The Commission should continue to require evaluation of the existing homes program as a complete program for cost effectiveness evaluation purposes. The Commission should require natural gas utilities to establish risk mitigation values for avoided cost calculations. Finally, the Commission may want to revisit the quantification of non-energy benefits in TRC calculations at some point in the future as more information becomes available.

Thank you for the opportunity to provide comments in UM1622.

Sincerely,

/s/ Wendy Gerlitz
Wendy Gerlitz
Senior Policy Associate

CC. UM 1622 Service List

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[1] See Northwest Power and Conservation Council, 5th Northwest Conservation and Power Plan, Appendix P (http://www.nwcouncil.org/media/4401598/AppendixP.pdf)