# WASHINGTON STATEWIDE ADVISORY GROUP (SWAG)

**Report on 2018 Washington State Investor Owned Utility Energy Efficiency Joint Advisory Group Activities and Outcomes**

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# SWAG Glossary of Terms

Decoupling Threshold – EIA Penalty Threshold plus 5 percent of the EIA Target.

EIA Penalty Threshold – (may be the same as “EIA Target”) as approved by the Commission, which may rely on standard practice to set IOU conservation targets.

EIA Target – All cost-effective conservation potential as required by RCW 19.285. Includes the CPA Pro-Rata Share plus other programs/measures with confident savings that were omitted from CPA.

Excess Savings – Savings beyond Decoupling Threshold not claimed for incentive which can be used to meet targets in future biennia

SWAG – State Wide Advisory Group. Washington stakeholders, assembled to discuss common electric and natural gas conservation issues and objectives.

# Executive Summary

On November 1, 2017 Puget Sound Energy, Avista Corporation, and Pacific Power and Light filed their 2018-2019 Biennial Conservation Plans (BCPs) with the Washington Utilities and Transportation Commission (UTC, or Commission) for approval. Comments were subsequently filed December 1st by Commission Staff which made recommendations pertaining to all three Washington State electric investor owned utilities (IOUs). Staff recommended that three specific issues be discussed and/or resolved in a statewide stakeholder forum. Those issues are:[1]

1) Discuss the issues pertaining to the inclusion of Northwest Energy Efficiency Alliance (NEEA) savings in the IOUs' biennial savings,
2) Work through the Resource Value Framework (RVF) outlined in the National Standards Practice Manual (NSPM) collaboratively with stakeholders, and
3) A proposed discussion halfway through the biennium to discuss a properly-designed positive incentive to encourage achievement exceeding the biennial conservation target with a joint advisory group.

On January 10, 2018, UTC Commissioners conducted an open meeting, approving the IOU BCPs. In the Order 01, Docket UE-171087 Discussion, the Commission required the IOUs to form a joint advisory group to discuss:

> "([…]) whether to include the various subsets of NEEA savings, whether the EIA requires that NEEA savings be included in target calculations, ([…]) and the degree of control the Companies have over NEEA's execution of its programs."[2]

## Formation of the SWAG

Per the commission's requirement, a Statewide Advisory Group (SWAG) was assembled with contributing members including Washington State electric and natural gas IOUs and their respective advisory groups to discuss the Commission-ordered NEEA issue. The SWAG also discussed two other topics of interest noted in Commission Staff's December 1, 2018 memo (point 2 and 3 above) over the course of several months in 2018.

[1] Synopsized, and not directly quoted from Commission Staff's comments on 2018-2019 Biennial Conservation Plans.

[2] ¶ 26, page 7, "DISCUSSION", Order 01, Docket UE-171087.

A SWAG charter was developed to focus the group's efforts on the issues identified by Staff:

1. Development of a recommendation for the treatment of NEEA savings as in or out of the Energy Independence Act (EIA) target:

   > "By way of guidance for the parties, those discussions should address whether to include the various subsets of NEEA savings, whether the EIA requires that NEEA savings be included in target calculations, consistency with target setting requirements for consumer-owned utilities, and the degree of control the Companies have over NEEA's execution of its programs. We expect those conversations to occur in calendar year 2018.
   >
   > We reserve judgment related to the issue of whether NEEA savings should be included in conservation targets in subsequent biennia pending the joint advisory group's submission of its findings and recommendations."

2. Discussion regarding a possible Conservation Performance Incentive Mechanism. As stated in Commission Staff's comments:

   > "([…]) the Company suggests conducting a workshop in a statewide collaborative setting. This may be a useful exercise and Staff proposes a joint advisory group meeting halfway through the biennium to discuss this, as well as any other common issues."[3]

3. Identify areas of improvement to UTC cost-effectiveness methodology by investigating a Resource Value Framework (RVF), as stated in Staff's Comments:

   > "Staff strongly agrees that the NSPM should be followed in a collaborative process to identify areas of improvement to UTC cost-effectiveness methodology. Staff suggests that any such comprehensive process commence after the conclusion of the Commission's current integrated resource plan (IRP) rulemaking in Docket U-161024."[4]

# SWAG Results

## SWAG Summary Statement – NEEA Savings

The treatment of NEEA savings is the only one of three discussion topics considered in the 2018-2019 BCP open meeting for which the Commission explicitly required a discussion by the SWAG, as well as a deliverable. Following several SWAG meetings discussing NEEA savings, the SWAG agreed that the EIA

[3] Commission Staff Comments Regarding Electric Utility Conservation Plans; Dockets: UE-171087, UE-171091, UE- 171092 [P.10]

[4] Ibid. [P.10].

Target includes NEEA savings, but also gives the Commission discretion to determine the elements that should be included in the EIA Penalty Threshold.[5]

Further, there was general agreement that the UTC's standard practice should exclude NEEA savings from the EIA Penalty Threshold. However, UTC Staff dissented from this position.

It should be mentioned that none of the recommendations from the SWAG preclude the Commission from making any of its own decisions.

# Appendices

Summaries of ancillary discussions, participant comments, meeting summaries, presentation details, and the SWAG charter are presented in this Report's Appendices.

## Appendix A: Performance Incentive Framework Discussions

Following Staff's BCP Comments for the electric IOUs, the SWAG engaged in discussions regarding potential frameworks that could be used for utilities to propose an incentive in upcoming BCPs. The framework provides conditions and limitations for incentive proposals, but leaves specific incentive planning proposal decisions to the respective conservation advisory groups. Since this topic was not specifically ordered by the Commission, a summary of SWAG meeting discussions is presented in this Report as Appendix A.

## Appendix B: Three Utility Performance Incentive Model Alternatives

As Extracted from the December 7, 2018 SWAG meeting, there are overviews of three incentive framework alternatives.

## Appendix C: Resource Value Framework Discussions

In an effort to improve current Total Resource Cost (TRC) calculation practices, the SWAG followed several of the steps outlined in National Standard Practice Manual (NSPM) to review the RVF and Resource Value Test (RVT) to determine whether areas of improvement to the current cost effectiveness. This appendix provides a summary of those discussions.

## Appendix D: Member Input

All SWAG members were provided opportunities to contribute to or make comments on this Report. Member comments are provided verbatim in this Appendix.

## Appendix E: Meeting Summaries

This Appendix provides a summary of the six 2018 and one 2019 SWAG meetings.

[5] *See* RCW 19.285.040(1)(f) The commission may rely on its standard practice for review and approval of investor-owned utility conservation targets.

## Appendix F: State Wide Advisory Group Charter

This Appendix provides the charter to which members agreed in the formation of the SWAG.

## Treatment of NEEA Savings in Future Biennial Target-Setting and Reporting

In approving the IOUs' 2018-2019 Biennial Conservation Plans, the Commission directed the IOUs to form a joint advisory group[6] to discuss the following issues related to the treatment of NEEA savings in future biennial periods:

1. Whether to include the various subsets of NEEA savings,
2. Whether the EIA requires that NEEA savings be included in target calculations,
3. Consistency with target setting requirements for consumer-owned utilities, and
4. The degree of control the Companies have over NEEA's execution of its programs.

All of these topics were discussed at various SWAG meetings and the results of those discussions are summarized below.

### 1. Whether to include the various subsets of NEEA savings

At the May 18, 2018, SWAG meeting, NEEA staff presented an overview of how NEEA forecasts and reports estimated energy savings for Washington IOUs. The presentation included a summary of the three subsets of savings NEEA currently tracked:

- Program measures: Savings from measures NEEA has directly worked on through its market transformation programs
- Codes and Standards: Savings from state energy codes, and state and federal appliance standards NEEA has worked on and influenced
- Trackable measures: Savings from efficiency measures that NEEA does not include in targets or actual achieved savings values

Consistent with how the IOUs applied NEEA's savings forecast in 2018-2019 biennial target setting, the SWAG reached consensus on how the three subsets of savings should be treated in future biennia:

- Program measures should be counted, as they represent NEEA's estimate of the impact of NEEA initiatives, less the savings already counted through IOU programs.
- Codes and standards should be counted only if the code or standard was not already accounted for in a utility's Conservation Potential Assessment (CPA) baseline. Due to differences in timing of when each IOU completes its CPA, this may lead to differences in which codes and standards are included in the NEEA savings forecast used for biennial target-setting and reporting.
- Trackable measures should be excluded, as they are not directly attributable to a NEEA initiative and may not meet the quality standards of utility programs or NEEA initiatives. For example, some savings in this category have been attributed to LED light bulbs that do not meet ENERGY STAR® specifications.

[6] Order 01, Docket UE-171087, ¶ 26, page 7.

## 2. Whether the EIA requires that NEEA savings be included in target calculations

For the past three biennia (2014-2015, 2016-2017, and 2018-2019), the Commission has approved adjusted targets for the IOUs that exclude forecasted NEEA savings, consistent with the joint IOU proposal filed with the Commission in October 2012.[7] In approving 2018-2019 IOU biennial targets, the Commission directed a statewide group to discuss whether the EIA requires a change in this practice to include NEEA savings in target calculations.[8]

After review of applicable statutes and rules, the SWAG was unable to agree on whether the EIA requires NEEA savings in penalty calculations.[9] However, the SWAG did agree that the EIA gives the Commission discretion to determine the elements that should be included in the targets subject to potential penalty.[10] To address this concern, the SWAG developed two standard definitions:

1) EIA Target, which is set by the Commission and does include NEEA savings.
2) EIA Penalty Threshold, which is also set by the Commission, and may exclude NEEA savings as part of the Commission's standard practices.

## 3. Consistency with target setting requirements for consumer-owned utilities

At the March 30, 2018, SWAG meeting, attendees were presented with an overview of items included in targets and how savings are reported. Through that discussion, it was made clear that consumer-owned and investor-owned utilities do not currently treat NEEA savings consistently in target-setting: IOUs exclude NEEA savings from targets subject to potential penalties, whereas consumer-owned utilities include these savings. However, over the past several years, the IOUs have worked with Commission and Department of Commerce staff to ensure consistency in reporting between the consumer-owned and investor-owned utilities.

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[7] *PacifiCorp 2010-2011 Biennial Conservation Plan*, Docket UE-100170, Joint Utility Proposal (Oct. 13, 2012).

[8] *In the Matter of Pacific Power & Light Co. Report identifying its 2018-2019 Electric Biennial Conservation Target Under RCW 19.285.040 and WAC 480-109-120*, Docket UE-171092, Order 01 at ¶25.

[9] Commission staff was the only party dissenting.

[10] *See* RCW 19.285.040(1)(f) The commission may rely on its standard practice for review and approval of investor-owned utility conservation targets.

## 4. The degree of control the Companies have over NEEA's execution of its programs.

The IOUs have limited control over NEEA's execution of programs. While the IOUs actively participate on the NEEA Board of Directors and Advisory Committees, the structure of these groups does not allow one funder, or a small group of funders, to directly dictate NEEA's actions:

- Board of Directors: Each funding utility has one seat on NEEA's Board of Directors. Washington electric IOUs collectively hold only 3 of the 20 voting Board seats.[11] Board approval or disapproval of NEEA actions only requires a simple majority, not unanimous consent, and therefore, the IOUs are not able to unilaterally dictate the execution of NEEA's programs.
- Regional Portfolio Advisory Committee (RPAC): The RPAC provides NEEA with broad based advice, experience and guidance on electric market transformation programs and supporting activities.[12] In general, the RPAC is a non-voting advisory group with two exceptions:
  - Full consent of RPAC voting members is required in order for a NEEA program to advance through the Initiative Start and Scale-up Approval milestones.
  - An RPAC member may call for a temporary suspension of efforts on a NEEA program if the member believes NEEA has violated the Standard Rules of Engagement or if NEEA activities go beyond the scope of effort agreed upon by the Advisory Committee.

  In either of the instances above, if the issue cannot be resolved to the dissenting member's satisfaction, the ultimate decision on whether to advance the initiative or continue the suspended effort rests with NEEA's Executive Director.[13]

- Other Advisory Groups: The IOUs participate in other NEEA advisory groups that provide input to NEEA on various topics. These groups are purely advisory with no ability to vote or authority over NEEA's actions.

[11] Of the 20 NEEA board seats, 5 are Washington State IOUs (2 of which are natural gas utilities, and therefore, not subject to the EIA), and 5 are Washington State Public or Municipal utilities subject to the EIA.

[12] RPAC Charter: https://neea.org/img/funder-documents/RPAC_Charter_Dec2017.pdf

[13] RPAC Charter: https://neea.org/img/funder-documents/RPAC_Charter_Dec2017.pdf "If the Advisory Committee does not reach full consent for program advancement, the advancement of the program will be delayed and NEEA's Executive Director will direct the program team to address the committee's concerns and bring a modified program proposal back to the Advisory Committee for a vote. In the rare occasions when consensus cannot be achieved through this process, the Executive Director will discuss with the Board prior to the Executive Director making the final decision on the program's advancement."

## 5. Conclusion

Without having reached a consensus among all members, there was a general belief that NEEA savings should remain excluded from IOUs' EIA Penalty Thresholds. Many SWAG members agreed that NEEA savings could be included in targets subject to potential penalty if the inclusion was coupled with the creation of a new incentive mechanism, which is discussed in Appendix A. However, if a utility chooses not to use an incentive mechanism, then the IOUs recommend that NEEA savings would continue to be excluded from the EIA Penalty Thresholds, consistent with the Commission's standard practice.

# Appendix A

## Utility Performance Incentive - SWAG Discussions

### *Background*

Consideration of proposing an IOU utility performance incentive began with Commission Staff comments to the 2018-2019 Biennial Conservation Plans (BCPs) filed in the three IOU respective dockets. The following is a quote from PSE's BCP section, *Performance Incentive*:

> "As described in WAC 480-109-100(9), a utility may propose a positive incentive to encourage achievement exceeding the biennial conservation target. Properly designed, Staff believes this type of incentive could be beneficial to both utilities and ratepayers. PSE chose not to propose an incentive in this biennium's conservation plan; however, the Company suggests conducting a workshop in a statewide collaborative setting. This may be a useful exercise and Staff proposes a joint advisory group meeting halfway through the biennium to discuss this, as well as any other common issues."[14]

Utilities are permitted to seek incentives for additional conservation in the following directives:

(1) RCW 19.285.060(4): "The commission shall determine if an investor-owned utility may recover the cost of this administrative penalty in electric rates, and may consider providing positive incentives for an investor-owned utility to exceed the targets established in RCW 19.285.040."[15]
(2) WAC 480-109-100(9): "A utility may propose to the commission positive incentives designed to stimulate the utility to exceed its biennial conservation target as identified in RCW 19.285.060(4). Any proposed utility incentive must be included in the utility's biennial conservation plan."[16]
(3) Policy guidance for developing performance incentives was established by the Commission in Docket U-100522 – *Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, To Encourage Utilities to Meet or Exceed Their Conservation Targets*.[17]

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[14] Commission Staff Comments Regarding Electric Utility Conservation Plans; Dockets: UE-171087, UE-171091, UE- 171092 [P.10]

[15] https://app.leg.wa.gov/rcw/default.aspx?cite=19.285.060

[16] https://apps.leg.wa.gov/wac/default.aspx?cite=480.109&full=true

[17] Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, to Encourage Utilities to Meet or Exceed Their Conservation Targets; Docket U-100522 Policy Statement 11-4-10.

### *Discussion*

Consistent with the SWAG charter,[18] and pertinent to the preceding discussion on the treatment of NEEA savings, the IOUs first introduced the topic of performance incentives for discussion at the May 18, 2018 SWAG meeting.

IOUs' research from the American Council for an Energy-Efficient Economy (ACEEE) was presented to demonstrate the type of incentive mechanisms offered around the nation, and SWAG members continued to discuss these options during subsequent meetings, including three performance incentive models applicable to electric and natural gas.[19] The three mechanisms discussed were:[20]

1. The 2007-2009 PSE Pilot Model: This model attempted to replicate the incentive mechanism that was run from 2007-2009 by PSE which combined a flat $/MWh above the target and a shared savings incentive component that provided a graduated incentive percentage of the levelized net Total Resource Cost (TRC) benefits.
2. A Flat Incentive: This model provides a per-MWh or per-therm direct incentive on savings.
3. A Shared Benefits Model: This model pays a graduated (increasingly larger) percentage of the total levelized net Utility Cost (UC) benefits on savings above the minimum savings incentive threshold.

The SWAG reviewed the three models and more members of the SWAG expressed a preference for the second model due to lower barriers to calculation/implementation, lack of incentive for Non-Energy Impacts (NEIs) and greater symmetry with the EIA penalty.[21] Some members also provided alternative, hybrid models for consideration subsequent to the December 7, 2018 SWAG meeting. However, through discussions in SWAG meetings, a tiered unit per savings model (versus a flat-rate model) was agreed upon as the most preferred model.

The SWAG also agreed that it may be appropriate for incentive mechanisms to share certain parameters, while the Advisory Groups determine the specifics of the mechanism.

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[18] The SWAG Charter was first distributed to SWAG members prior to the first SWAG meeting on March 30, 2018, and is included in this Report as Appendix F.

[19] Public Counsel does not fully support natural gas performance incentive mechanisms *[ed.: April 9, 2019]*.

[20] Extracts from the complete December 7, 2018 SWAG meeting presentation are presented in Appendix D.

[21] As will be discussed in Appendix D, Public Counsel does not support a flat incentive. Conversely, another SWAG member indicated discomfort with the tiered approach. Some SWAG members indicated a preference for neither flat nor tiered structures. AWEC's concerns with incentive mechanisms are discussed in Appendix D.

## The Framework

The following guidelines were discussed with the SWAG.[22] The first series of bullets for framework inclusion are from the Commission's 2010 Report.

### *Items Described in Docket U-100522, WUTC Report and Policy Statement on Regulatory Mechanisms*

- Performance incentives can be in addition to mechanisms designed to recover lost margins – that is, decoupling.
- Conservation portfolio savings must be cost-effective, even after performance incentive payments are included.
- Utilities must identify actions that contributed to exceeding the target and show why these actions were not included.
- Utility must describe and justify any variable utility program incentive levels above the conservation target that it proposes.
- If a utility seeks a performance incentive to achieve its conservation targets early, it should describe any proposed levels of achievement.
- Electric utilities must propose any incentive mechanism in conjunction with their required EIA biennial filing. If a gas utility also provides electric service, it should propose the incentive mechanism at the time that it proposes such a mechanism for electric service. Gas-only utilities should propose such a mechanism in conjunction with a request in a general rate case.
- The Conservation mechanism should be proposed at least 120 days earlier than the EIA target filing to give parties time to evaluate the proposal.

The SWAG also discussed the following possible features to performance mechanisms, including whether:

- Verified NEEA savings should be included in the penalty threshold and incentive.
- A deadband, which includes the 5 percent decoupling savings commitment, should be achieved before a utility can be eligible for a performance incentive.
- A cap on any electric incentive should be set at 150 percent of the EIA target.
- Savings eligible for incentive should be verified by an independent third-party reviewer.
- A utility should explain its plan to exceed or accelerate savings forward in the target and explain any added budget for the additional savings. The plan for the excess or accelerated savings may or may not be separate or distinguishable from the planned savings projected for the EIA Target.
- Conservation portfolio savings should be cost-effective from both a Utility Cost Test and Total Resource Cost Test perspective, even after performance incentive payments are included.
- Penalties should be paid from shareholder dollars and incentives should be collected via the utility's existing conservation cost-recovery mechanism.

[22] Not all SWAG members supported the incentive framework or all of the indicated parameters. AWEC, for instance, provided feedback—noted in Appendix A—that they are not supportive of an incentive that doesn't provide an evaluation of the customer benefit of an incentive mechanism.

The SWAG continues to discuss the following issues:

- Timeline for collecting incentive payments.
- The amount of the deadband, which will include the decoupling commitment of 5 percent over the EIA Target. In the January 24, 2019 SWAG meeting, there was discussion on the amount of the deadband. Some member suggested 105 to 115 percent above the EIA Target, while several others suggested a 105 to 110 percent above the EIA Target would be reasonable.
- Level of incentive per-MWh or per-therm above the minimum savings incentive threshold.
- Whether a utility can request, and the Commission can approve, to retain excess savings, receive an incentive, or allocate each by bands. For example, if a utility achieved 132 percent of its EIA Target, savings achieved in the 105 to 110 percent band are always considered excess, as that is the deadband. A utility may then choose to receive an incentive on the savings in the 110 to 127 percent range, and count the savings in the 127 to 132 percent range as excess. . Interested Parties can comment on (to support or dispute) the request in a proceeding before the Commission.
- Whether a utility can propose an additional incentive for specific programs or activities.
- Whether savings above the decoupling threshold amount but below incentive eligibility are considered excess savings, and might be treated in compliance with RCW 19.285.040(c) and WAC 480-109-100(3)(c).
- Whether it is ripe for utilities to propose a natural gas conservation incentive mechanism, given recently passed legislation and the lack of Commission rules governing the administration of natural gas conservation programs.

### *Advisory Group Considerations*

Individual utility advisory groups may consider the above parameters, and specific programs or areas of focus and conceptual design for incentive savings (consideration of specific sectors). Any parameters, as outlined above, included in a consensus emerging from this process are intended to guide advisory group discussions.

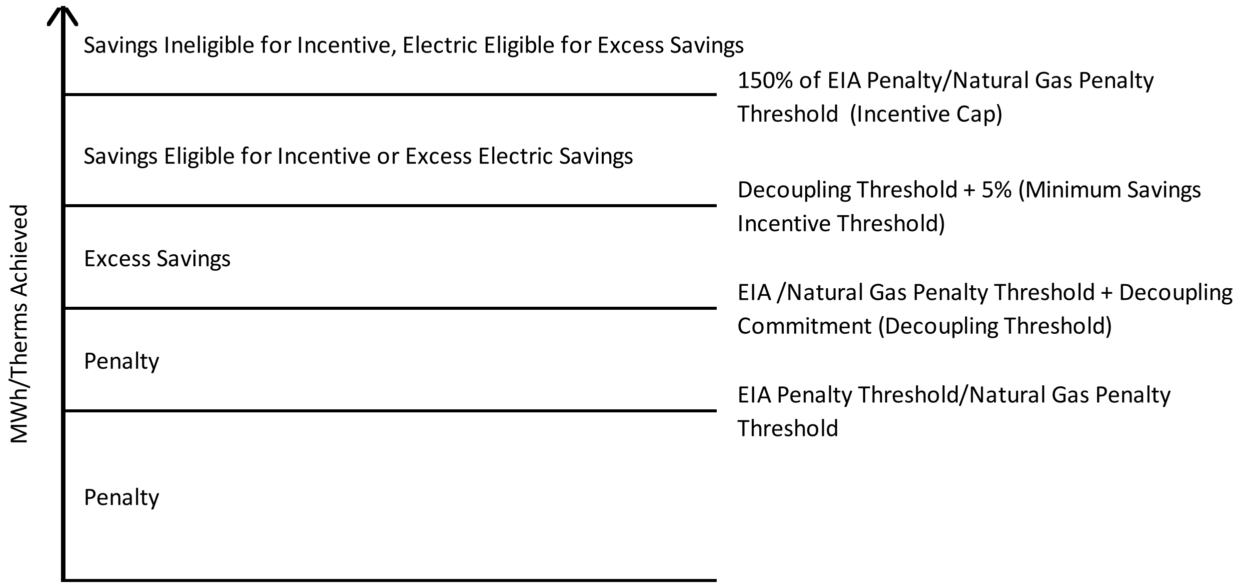
### *Framework Examples*

Figure 3-1 provides a conceptual view of the Utility Performance Incentive model. Starting from the bottom, the EIA Electric/Natural Gas Penalty Threshold and Penalty Threshold + Decoupling Threshold are existing utility mechanisms. Similarly, treatment of any excess savings achieved beyond these two thresholds was established in 2014. The first five percent (after the additional 5 percent decoupling commitment)[23] of excess savings band has been referred to as the "deadband" in SWAG discussions.

Above this level, the utility starts collecting a per-MWh or per-therm incentive up to 150 percent of the EIA Penalty Threshold/ Natural Gas Penalty Threshold. Above 150 percent of the EIA Penalty Threshold, electric savings are only eligible for excess savings.

[23] The 5 percent above the decoupling commitment was the prominent—although not definitive—figure discussed in the SWAG.

Figure 3-1: Electric/Natural Gas Savings Targets and Incentive Eligibility




## Utility Performance Incentive Next Steps

The IOUs believe that, over the course of several SWAG meetings in 2018 and 2019, significant and constructive conversations provided members with utility incentive overviews, some conditions that might be implemented for an incentive mechanism, and also raised potential issues.

For instance, the Alliance of Western Energy Consumers (AWEC) expressed a lack of support for an incentive structure that is not based on an evaluation of the incremental customer benefits, similar to the conservation incentives that the Commission approved in PSE's 2006 rate case (Docket UE-060266). AWEC's complete comment on the utility performance incentive is located in Appendix A.

Based on the understandings and positions expressed in the relevant SWAG meetings in 2018, the IOUs that intend to develop an incentive mechanism will work with their respective Advisory Groups to flesh out implementation details and resolve as many outstanding issues expressed by SWAG members as possible. Interested IOUs will develop petitions for incentive mechanisms and, consistent with the Commission policy statement in Docket U-100522, will file them 120 days prior to their EIA Target filing.

# Appendix B

## Three Utility Performance Incentive Model Alternatives

(Extracted from the December 7, 2018 SWAG meeting presentation.)

### Alternative 1: 2007-09 PSE Model

- Two components to incentive
  - Flat incentive payment for each MWh above target
  - Shared savings incentive pays a graduated percentage of the levelized net TRC benefit
- Incentive is calculated separately for each tier achieved in the incentive range, then added to determine the total incentive
- Incentive payment capped at 150% of target
- Penalty for electric is same as EIA ($50/MWh in 2010 escalated to current dollars), gas penalty adjusts EIA electric penalty using ratio of Btu/therm to Btu/MWh
- Pros
  - Multi-factor incentive rewards utility for MWh achievement plus efficient program delivery/cost-effectiveness
- Cons
  - Complex to calculate and administer
  - Using TRC net benefits means incentive is based partly on non-utility system impacts
  - Not symmetrical with penalties

# Alternative 2: Flat Incentive Model

- Single flat incentive paid on all savings above target (no difference by tier) with gas incentive per unit being equivalent to electric on a Btu basis; same as penalty
- Penalty for electric is same as EIA ($50/MWh in 2010 escalated to current dollars), gas penalty adjusts EIA electric penalty using ratio of Btu/therm to Btu/MWh
- Pros
  - Simple to calculate and administer
  - Perfect symmetry with penalty structure
  - Eliminates variability in Utility Cost and TRC net benefits due to factors other than amount of energy savings that can cause differences between utilities in the results of the other models
- Cons
  - Does not explicitly reward utility efforts to improve program delivery/cost effectiveness

# Alternative 3: Shared Benefits Model

- Pays a graduated percentage of the levelized net UC benefit; modeled after Minnesota mechanism
- Incentive is applied to all savings above target at the incentive percentage of the highest tier achieved
- Penalty for electric is same as EIA ($50/MWh in 2010 escalated to current dollars), gas penalty adjusts EIA electric penalty using ratio of Btu/therm to Btu/MWh
- Pros
  - Simple to calculate and administer
  - Incentivizes utilities to improve program delivery/cost effectiveness
  - Uses Utility Cost Test as incentive basis; so large NEIs do not drive incentive payout
- Cons
  - Using UC net benefits can result in differences in payouts to utilities due to factors other than amount of energy savings, such as incentives paid to customers
  - Not symmetrical with penalty

# Appendix C

## Resource Value Framework

The SWAG spent several days working through the elements of the Resource Value Framework (RVF) over the course of 2018. The National Standard Practice Manual (NSPM) was used as a guide to begin the collaborative process and walk through the RVF and corresponding Resource Value Test (RVT).

The group reviewed current TRC practices and compiled methodologies in order to outline areas of consistency. To kick-off the steps of the RVF, Commission Staff compiled a list of applicable policy goals based on their review of Washington statutes implemented by the UTC for the group's review and discussion. The group then reviewed the utility system costs and benefits at length to explore and identify all costs and benefits. Lastly, the SWAG has progressed to discussions of non-utility costs and benefits and worked collaboratively to determine which additional non-utility system costs and benefits to potentially include in the RVT.

A detailed listing of potential NEIs that could be included in a cost-effectiveness test along with the applicable policy goal linkage has been established. As the next step, Staff is planning to develop an RVT proposal and present it to the group for specific feedback, but at this time a proposal for RVT is on-hold pending the completion of the IRP Rulemaking in docket U-161024 and the outcome of the current legislative session.

# Appendix D

## Member Input

*Section for individual SWAG members to include opinions*

### *Commission Staff*

Staff supports the conclusions and recommendations of the SWAG.

#### NEEA Savings

In regards to NEEA savings, if the Commission approves a conservation incentive, the SWAG is in general agreement that NEEA savings should be included in all savings calculations. If the Commission does not approve, or a utility does not propose, an incentive mechanism, the SWAG recommends removing the forecast of NEEA savings from the penalty threshold.

Staff disagrees that the risk IOUs face by including NEEA savings in the conservation target is significant enough to modify the penalty threshold of the EIA target. The ability of utilities to bank excess savings under the EIA has lowered what Staff had already judged to be a low risk. In addition, consumer-owned utilities in Washington are currently subject to penalties under the EIA if NEEA underperformance causes savings to fall beneath the target.

However, based on discussions in the SWAG, Staff will not oppose the Commission's approval of conservation targets that remove NEEA savings from the penalty threshold. The SWAG agreement that the EIA target and the penalty threshold may be different has helped assuage Staff concerns about consistent reporting to Commerce and the ability to properly count all achieved savings in a potential situation where these savings are monetized as a result of carbon regulation.

If an incentive mechanism is not approved, Staff recommends the Commission affirmatively state that it is the Commission's standard practice to remove forecasted savings from previously undertaken market transformation activities when calculating the penalty threshold. Staff further recommends that the Commission recognize language agreed upon with the SWAG recognizing that the EIA Penalty Threshold may diverge from the EIA Target. The EIA Target will be calculated in accordance with RCW 19.285.040 (1)(a) and (b) and be used when reporting to Commerce and when calculating decoupling commitments.

### *Public Counsel Unit*

NEEA Savings

Public Counsel has firmly held the position that NEEA saving should be outside of an IOUs penalizable EIA target. Through the discussions and presentations presented at the SWAG, our position has not changed. In fact, our position was reinforced by the complexity of attributing NEEA savings to specific IOUs and regions, as well as the lack of control Washington IOUs have over the planning processes of NEEA. However, for the purposes of reaching a compromise, Public Counsel agreed that if a performance incentive mechanism was proposed by an IOU and approved by the Commission, Public Counsel would support NEEA's inclusion in the penalizable target.

#### Performance Incentive Mechanism

Public Counsel appreciated the discussions and debates around the performance incentive mechanism. At this time, Public Counsel supports an incentive mechanism for electric IOUs. However, we do not fully support an incentive for natural gas service. Our primary concerns with a gas mechanism, is lack of (at the time of drafting May 3, 2019) statute or rules requiring verified savings, penalties (except for PSE[24]), or target setting. However, Public Counsel is open to discussing and supporting an incentive mechanism for the gas IOUs once these rules are in place.

Public Counsel proposed a hybrid tiered model (for electric IOUs) to the SWAG for consideration. While many stakeholders supported the flat-rate tier, Public Counsel believes that the hybrid approach provides a more reasonable incentive calculation to meet the needs of ratepayers and utilities, for the following reasons. The incentive calculation is simplistic with three tiers of savings that escalate as the utilities achieve more savings. Under this design, tiers with increasing per MWh payments further incentivize the utility to achieve more conservation

Below is a list of items Public Counsel originally proposed for an electric incentive mechanism:

- Only verified NEEA savings are included in the penalty threshold and incentive.
- A deadband of 10 percent, not including the five percent decoupling savings commitment, must be achieved before a utility can be eligible for a performance incentive.
- A cap on any electric incentive is set at 150 percent of the EIA target.
- Savings eligible for incentive should be verified by an independent third-party reviewer.
- A utility should explain its plan to exceed the EIA target and explain any added budget for the additional savings, in a manner distinguishable from the savings and budget for the EIA penalizable target and budget.

[24] Public Counsel is still considering whether a gas incentive mechanism is appropriate for PSE considering that it currently has penalties for not meeting its gas conservation targets.

- Conservation portfolio savings must be cost-effective from both a Utility Cost Test and Total Resource Cost Test perspective, even after performance incentive payments are included.
- Penalties will be paid from shareholder dollars and incentives will be collected via the utility's existing conservation cost-recovery mechanism.
- 50/50 timeline for cost recovery after savings have been verified.
- Excess or accelerated savings (i.e. those eligible for incentive payments) should not be attained from conservation measures that are considered "low-hanging fruit". We prefer savings from a variety of sectors, such as hard-to-reach sectors, deep retrofits, and other measures/programs that are considered 'riskier' investments.

We look forward to continuing these discussions with the SWAG and within the individual Advisory Groups.

### *Alliance of Western Energy Consumers (AWEC)*

AWEC opposes the IOUs' recommendation "that the Commission acknowledge the SWAG consensus view on the utility performance incentive ...." While AWEC does not necessarily oppose the creation of a performance incentive mechanism for conservation, this issue was outside of the scope of issues for which the Commission formed the SWAG, which was limited to the reporting and tracking of NEEA savings. The SWAG is, of course, free to discuss any issues it likes, just as any stakeholder to that group is free to take any position on conservation incentive mechanisms it feels is appropriate. AWEC participated in the SWAG, but was unaware that this group was going to provide recommendations to the Commission outside of the issues the Commission specifically requested be investigated. Accordingly, AWEC recommends that positions on utility performance incentives be evaluated *de novo* in a docket in which such a performance incentive is at issue, without giving any weight to what the IOUs mischaracterize as the "SWAG consensus view." AWEC, in fact, is not part of this "consensus" because it does not take any position on conservation performance incentives at this time, when no specific incentive mechanism is under evaluation and the Commission did not request recommendations on this issue. What AWEC can say is that, to the extent a conservation performance mechanism should be approved, its provision and amount should be based on an evaluation of the incremental benefits customers receive from the acquisition of incentivized conservation, similar to conservation incentives the Commission has approved in the past, such as the one approved for PSE in its 2006 rate case. Docket UE-060266, Order 08, ¶¶ 145-58 (Jan 5, 2007). It is not clear that the framework included in the report recommends that type of incentive and, to the extent it does not, AWEC opposes it.

# Appendix E

## Meeting Summaries

- Meeting 1 – March 30, 2018; NEEA in/out of EIA target, Intro to RVF, Commerce Reporting
- Meeting 2 – May 18, 2018; NEEA presents NEEA savings calculations, Performance Incentives in the U.S., RVF Step 1 Identify Policy Goals
- Meeting 3 – June 29, 2018; RVF Step 1 cont., WA Statute Review, NEEA Savings Reporting
- Meeting 4 – August 3, 2018; RVF Step 2 Identify Costs and Benefits
- Meeting 5 – September 7, 2018; RVF Step 3 Introduction
- Webinar – November 9, 2018; RVF Step 3 Identify Applicable Non Energy Impacts
- Meeting 6 – December 7, 2018; Performance Incentive Model Alternatives
- Meeting 7 – January 24, 2019; Performance Incentive Framework Finalized

## Appendix F – State Wide Advisory Group Charter

What: IOU's to partner with UTC staff and lead a process to try and achieve consensus on three key issues with advisory groups participation.

Issues: Three key issues were identified out of the 2018-2019 BCP process with common interest to WA IOU's:

1. NEEA in/out of the penalty target,
2. Areas of CE improvement (Consistent TRC/ Investigate RVT),
3. Utility performance incentive.

How: Convene and facilitate a monthly (TBD) statewide working group at the Smart Buildings Center (Pacific Tower, 1200 12th Ave S Suite 110, Seattle, WA 98144). Kickoff meeting by the end of March.

Result: Utilities to prepare a report on consensus status and/or next steps by December 1$^{st}$, 2018 to the Commission and implement as needed in the 2020-2021 Biennium.