# Commission Staff Request for Direct Benefit to Customer Information

(Extracted Excerpts from Commission Staff’ email of December 21, 2016.)

Staff would like to clarify the issue that caused the delay of the conservation portion of the December 22 Open Meeting. We have found an issue with the ratio of incentives to total budget; our analysis shows that the ratio has been declining over the last few years among several of the utility conservation programs. Staff believes this percentage should be no lower than 60%. Currently, for Washington utilities, there is a range of 45% to 70% of direct benefits (incentive) to administrative costs.

Based on the figures provided for Puget Sound Energy, staff has calculated a ratio of 68% for electric and 64% for gas.

In order to acknowledge the 2017 conservation plan, staff requests that each utility file a supplement to their current plan, explaining the current budget status of their program by January 6.

Staff would like each company to provide costs associated with all “direct benefits to customers,” including but not limited to: customer incentives, rebates, bill credits, credits on purchases, payments to CAP agencies, free efficiency measures, and upstream incentives to partners or trade allies. This direct benefit number should be compared, at the portfolio level, to the total conservation budget.

The table below outlines the minimum amount of information we expect from each company. PSE has adequately provided this information as part of Exhibit 1.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Direct Benefit to Customers | Other Costs | Total Utility Costs |
| Residential |  |  |  |
| Non-residential |  |  |  |
| Low income |  |  |  |
| NEEA  |  |  |  |
| Total |  |  | \* |

\*For gas programs, NEEA should be excluded from the total budget at this time.

Each company must explain why the current ratio is appropriate for your company’s conservation programs. We plan to place the 2017 conservation plans on the January 26 Open Meeting Agenda.

# PSE Response

## PSE’s Direct Benefit to Customer Ratio is Appropriate

PSE ensured a high degree of involvement and engagement with its Conservation Resource Advisory Group (“CRAG”) throughout the development of both its 2016-2017 Biennial Conservation Plan and the updates provided in its 2017 Annual Conservation Plan. PSE reviewed—at regular intervals throughout 2015 and 2016—the business and market climates affecting its conservation programs, and the adaptive management steps that Energy Efficiency program staff consistently made to their suite of offerings throughout the time period to ensure maximum customer participation and prudent management of its customers’ funding. PSE’s estimated Direct Benefit to Customer (“DBtC”) ratio for 2017 is appropriate. It is expected that the ratios remain fairly consistent, given the nature of the spectrum of Portfolio costs, discussed below.

PSE appreciates Commission staff’s observation that the elements comprising the table contained in their email request are already provided in its Exhibit 1: Savings and Budgets. It should be pointed out that PSE has included this information since developing Exhibit 1 in 2011.

PSE provides the DBtC ratios, as requested in the below section “Reporting on Direct Benefit to Customer”.

## PSE’s Direct Benefit to Customer Background

All PSE customers—whether participating in Energy Efficiency programs or not—derive benefit from cost-effective Energy Efficiency programs through delaying the need for more expensive energy resources. It is important to clarify that (1) PSE’s Direct Benefit to Customer (DBtC) metric represents the concept that participating customers derive benefits from PSE’s Energy Efficiency programs other than simple remuneration, and (2) PSE deems that DBtC is a conservative determination of that value. The metric is also intended to make the point that a simple “administrative versus incentives” ratio is an incomplete analysis.

1. One example of customers deriving benefits beyond simple remuneration is PSE’s residential refrigerator decommissioning program.  The program offers a $35 incentive for qualifying customers. In addition to a $35 incentive payment however, customers also receive the substantial intangible benefit of avoiding the costs associated with transporting their old refrigerator to the recycling plant or transfer station.
2. Customers also derive intangible benefits from their interactions with Energy Advisors, which often lead to Home Energy Assessments or the direct installation of measures.  Commercial customers derive a substantial benefit by working with Energy Efficiency Energy Management Engineers (EMEs), who perform evaluation, project management guidance, and verification tasks throughout the customer’s project, which can sometimes span over a year. These elements also represent a direct benefit, although PSE excludes them from the DBtC calculation.

These intangible benefits also need to be considered when reviewing overall Portfolio budgets and actual expenditures. It isn’t possible to quantify labor costs associated with the intangible benefits, as the administrative burden to track, assimilate and report these activities would be unreasonable, and would result in many projects and programs becoming non-cost effective.

In varying degrees of detail, PSE has tracked and discussed this in its recent Annual Reports and Biennial Conservation Plans.[[1]](#footnote-1)

## Impacts on Direct Benefit to Customer Ratios

Program staff constantly analyze and manage customer incentives (rebates and custom grants) to maximize the greatest level of customer participation and impact the marketplace. In addition to incentive levels, other key impacts on PSE’s DBtC ratio include, but are not limited to:

* One-time expenditures (for instance, the costs associated with upgrading to a new tracking system),
* Regulatory requirements (the BECAR, minimum spending requirements on evaluations, participating in regional collaboratives, evolving reporting and data requirements, for instance),
* Measure cost adjustments (either increased or decreased costs, which are impacted by manufacturing costs, etc.),
* Hard-to-Reach market segments often require significantly more staff time, effort, and cost to have any kind of impact, and
* Marketplace circumstances: saturation of certain measures leave only higher-cost measures availability, increased or decreased customer demand may require less incentives to move the market, (artificially keeping incentive high is not a prudent use of ratepayer funding) market saturation may make some measures no longer desirable, building codes make some measure obsolete.

Each of these has the potential to impact a program’s cost-effectiveness. Every element is actively managed by program staff in order to continue offering cost-effective programs while demonstrating prudent use of customer funding.

## Reporting on Direct Benefit to Customer

PSE views its DBtC two ways: first, at the Program level (comparing the DBtC of its Sectors to the expenditures of those same Sectors)—which PSE believes is  a more true view of DBtC—and secondarily, at the Portfolio level, which accounts for Energy Advisors, Market Integration, Strategic Planning, Market Research, other Portfolio support costs, and excludes Other Electric Programs.

In the first view, if one considers the DBtC ratio of the Sectors that generate savings (Residential and Business Energy Management, Pilots, Regional Programs) on their own, the electric ratio for the 2017 ACP is 76.7 percent. At the secondary, Portfolio level—if one removes single-time and regulatory-required spending—the electric ratio is 70.4 percent, versus the 69.1 percent that one can derive from the budget categories listed in Exhibit 1: Savings and Budgets.

The impact is more substantial in the natural gas Sector: savings-generating programs have a DBtC ratio of 64.4 percent. At the Portfolio level, if required expenses are excluded, the ratio goes from 57.8 percent (which includes NEEA natural gas market transformation) to 65.6 percent.

PSE created its DBtC metric several years ago as simply a way for PSE to consistently measure the value that Energy Efficiency is returning to its customers year-over-year. It is not intended as a means to indicate the Portfolio’s operational efficiency, nor is it intended to be compared against other utilities.

It is also important to consider that the actual DBtC ratio, as reported in PSE’s Annual Report of Energy Conservation Accomplishments, is consistently higher than the DBtC ratio provided in its Biennial and Annual Conservation Plans. This is a result of program staff’s consistent focus on adaptive management and prudent cost control. The below tables present sector-level views of DBtC planned expenditures compared with other program costs.

Please note that Portfolio Support, Research & Compliance and Other Electric Program planned expenditures are excluded for purposes of this discussion.





## Additional/Potential Avenues for Providing Direct Benefit to Customers

While many programs fulfill direct benefits to customers via what may be considered “standard” incentives, or monetary remuneration—custom grants and rebates—other benefits that PSE provides to its energy efficiency customers that are classified as DBtC include, but aren’t limited to Thank You Kits, direct installation of measures—including labor and measures, CFL recycling, Leave-Behind Kits, Pop-Up Events, and payments paid to low-income CAP agencies. PSE will consider other avenues of providing its energy-efficiency customers direct benefit, such as on-bill repayments, in the near future.

1. Some of the most recent examples include page 13 of the 2015 Annual Report of Energy Conservation Accomplishments, pages 20, 21 of the 2016-2017 Biennial Conservation Plan, and page 10 of the 2014 Annual Report of Energy Conservation Accomplishments. [↑](#footnote-ref-1)