

**COMMENTS OF UTILITY CONSERVATION SERVICES, LLC (UCONS)  
ON PUGET SOUND ENERGY'S BIENNIAL CONSERVATION PLAN**

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**I. INTRODUCTION AND SUMMARY**

Utility Conservation Services, LLC (UCONS) has reviewed Puget Sound Energy's Biennial Conservation Plan (BCP or Plan) and commends the utility for the Plan's level of detail. While offering much information, however, the Plan would deny hard-to-reach Washington ratepayers an equitable share of cost-effective conservation services as required under I-937 and as established by the Northwest Power and Conservation Council's 7<sup>th</sup> Power Plan as an important regional goal. More comprehensive and equitable programs are available which would provide the conservation services programs that PSE ratepayers have requested; such programs have been demonstrated to provide a more cost-effective conservation resources portfolio for the utility, but are not included in the current filing. The Plan's shortcomings and inequities underscore the need for a Commission rulemaking to confront and reduce the significant barriers which have been erected to effectively and fairly serving hard-to-reach, largely low- and lower-income customers. There is ample and persuasive precedent from neighboring states to guide the development of such a rule.

After providing some background on UCONS, these comments: (1) briefly respond to several points made in the Plan's Executive Summary and in its Appendix on Evaluation, Measurement and Verification; (2) provide information on the availability of cost-effective conservation in the manufactured home market and the legal obligation of PSE to pursue such conservation opportunities; and (3) describe the "lessons learned" from UCONS' involvement with PSE's development of the BCP, and how those lessons suggest the need for rule making.

**II. BACKGROUND**

UCONS is a national leader in the development and implementation of residential conservation programs, headquartered in Kirkland, Washington. UCONS has done or is doing business in Washington, California, Oregon, Idaho, Texas, Utah, and New York. We provide services under contract to a large number of utilities, both investor-owned and publicly-owned, as well as to major property management firms. Since 1993, UCONS has delivered direct-install energy efficiency programs to over 320,000 multifamily tenants and over 100,000 manufactured home

utility customers. The aggregate energy savings from these efforts total nearly 500,000,000 kWh and 10,000,000 therms. In recent years, we have focused our work on hard-to-reach (HTR) markets, particularly in the manufactured homes (MH) sector.

In late 2015 and early 2016, UCONS worked with Washington’s representatives on the Northwest Power and Conservation Council (Council) to advocate for acquiring the potential cost-effective conservation in HTR markets, particularly the MH sector. In its 7<sup>th</sup> Power Plan, adopted on February 10, 2016 (Plan), the Council described the “special challenges” of realizing such a conservation potential:

Manufactured Homes: The manufactured home segment may face special challenges related to income, ownership, building codes, and some difficult-to-implement conservation measures specific to manufactured housing and their heating systems. The assessment should determine whether the adoption of measures in the manufactured home segment is on pace to complete implementation of nearly all remaining cost-effective potential over the next 20 years. Where expected shortfalls appear, specific barriers to implementation should be identified and solutions targeted at those barriers. While this market segment has been successfully targeted with a limited set of conservation measures (e.g., duct sealing), a more comprehensive approach that identifies and implements an entire suite of cost-effective measures during a single visit may be more cost-efficient.<sup>1</sup>

Following the Council’s lead, in July 2016, UCONS published a paper entitled “Energy Efficiency in Manufactured Homes in Washington: The Path Forward.” It summarized the legal framework for utilities to acquire “all cost-effective conservation” under I-937 and the work of the Council.

Consistent with the Plan, the Path Forward paper described barriers to acquiring conservation from this HTR market and urged utilities to develop, and the Utilities and Transportation Commission (Commission) to approve, conservation plans which would address this conservation potential.

After discussing the Path Forward paper with Commissioners, Commission staff, and various stakeholders, we were pleased to learn that addressing HTR markets would be part of the conservation plan that PSE planned to file. Accordingly, UCONS participated in PSE’s request for information (RFI) and request for proposal (RFP) processes which were intended to develop conservation programs and measures to acquire, for the two-year period beginning January 2018, “all cost-effective conservation” as required by I-937.

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<sup>1</sup> 7<sup>th</sup> Power Plan at 4-12 (recommendation MCS-1).

UCONS responded to the RFI with an innovative proposal targeting HTR customer groups which contained the following elements:

- Working with owners and renters of manufactured homes and parks to make them aware of the greatly expanded list of measures and incentives available in the proposal.
- Segmenting MH programs from other residential programs (as PSE did in 2010).
- Offering, on a comprehensive basis, all measures which are identified as cost effective in the 7<sup>th</sup> Power Plan.
- No requirement for a financial contribution from a customer class which has demonstrated it cannot participate when a contribution is demanded. To the extent that customer co-payments are still deemed necessary, work with select lending institutions on credit options or, if possible, work with the utility to implement on-bill financing or repayment.
- Evaluate energy usage on a per customer basis.

In its response to the UCONS innovative proposal, PSE stated, “We are pleased to inform you that the Hard to Reach Manufactured Home concept will be incorporated into one of our Request for Proposal (RFP) concepts for the 2018-2019 Energy Efficiency Services program portfolio.”

However, when the RFP was issued, it focused only on rental housing, excluding ratepayer-owned manufactured homes. Given that more than 80% of MH customers actually own their home, usually on leased land, this limitation effectively negated any real effort to achieve cost-effective conservation from this sector in the context of this BCP.

Accordingly, we respond to PSE’s BCP, focusing on points made in its Executive Summary.

### **III. COMMENTS ON THE BCP EXECUTIVE SUMMARY**

*Portfolio Savings Targets (page 1):* The BCP’s Portfolio Savings Targets do not address the current inequity in conservation services provided to hard-to-reach customers in manufactured homes. In its July 2016 Path Forward paper, and as elaborated upon in Section IV below, UCONS, using information from PSE’s hard-to-reach customers, identified a minimum of 10.6 aMW of cost-effective conservation potential in PSE’s HTR MH customer class (consistent with the 5-year Power Plan goals approved regionally). This data has been previously provided to the UTC in accordance with data reporting requirements under I-937. This was the focus of UCONS’ response to the RFI and was earlier provided to PSE as a proposed innovative Pilot in January 2017. The program would have a Total Resource Cost (TRC) above 2.0; all elements of the proposal were created in accordance with the Council Plan and requirements for cost-effectiveness, and were designed with by U.S. DOE contractor Greg Sullivan. PSE reports no errors or mistakes in this proposal.

*Development of Ten-Year Conservation Potential and Reference to PSE's IRP (page 2):* The I-937 rules governing the BCP in WAC 480-109-100(2) describe how the utility is to determine its ten-year conservation potential:

(a) This projection must consider all available conservation resources that are cost-effective, reliable, and feasible.

(b) *This projection must be derived from the utility's most recent IRP*, including any information learned in its subsequent resource acquisition process, or the utility must document the reasons for any differences. When developing this projection, utilities must use methodologies that are consistent with those used in the Northwest Conservation and Electric Power Plan.

The highlighted language directs the utility to go to its IRP to derive its conservation potential. The PSE IRP was filed in draft form before the BCP was filed, but the final IRP was filed just after the BCP was filed, on November 14. Appendix J is the Conservation Potential Assessment, was conducted by Navigant. Note that on page 46, Navigant states:

Commercial retail establishments, residential manufactured homes, and other commercial (unclassified) buildings also account for significant electric energy potential, with the remaining segments each making relatively small contributions to the balance of the total potential.

Despite this recognition by Navigant, neither the IRP nor the BCP properly considers the MH market's conservation potential.

*Biennial Target (page 3):* WAC-109-100(3)(b) requires that the biennial target be "no lower" than pro rata share of the ten-year conservation potential. Of course, this means that the target may be higher, as it should be if additional cost-effective conservation can be acquired in that two-year period. And, in any event, the Commission's regulations require that the utility "adaptively manage" its conservation portfolio to adapt to changing conditions. WAC 480-109-100(1)(a)(iv).

However, when presented a more cost-effective new resource in January 2017 and presented with it again during PSE's RFI/RFP processes, PSE declined to pursue that resource. Furthermore, increased attention to the MH sector would help remedy a severe imbalance between load and conservation expenditures. Manufactured home customers consume nearly 6% of all PSE electric load, but have received less than 1% PSE's conservation budget (which is embodied in the 2-year IRP guidance of 54 aMW listed on page 3).

*2018-19 Budgets (page 6):* Again, PSE spends less than 1% of its annual electric conservation budget (less than \$2 million) on cost effective conservation services for a customer class that, despite its low average household income, annually provides over \$100,000,000 in electric

revenues. PSE has claimed that there “was no more cost-effective conservation potential” remaining, contrary to the 7<sup>th</sup> Power Plan’s goals and to the findings of UCONS audits of over 20,000 PSE MH customers.

*Low Income Weatherization (page 6).* In its September 2017 presentation to the Conservation Resource Advisory Committee (CRAC), PSE indicated that it provides substantial funding for low-income weatherization (LIW) which produces very low levels of energy savings. The Department of Commerce and various agencies serving low-income ratepayers also confirm that very few homes benefitted from these high LIW expenditures, as they included funding for many MH repairs unrelated to energy conservation. UCONS applauds PSE’s efforts to support LIW and supports an increase in such funding. But such funding does not address the goals of pursuing “all cost-effective conservation.” Moreover, LIW programs preclude service to the very large portion of PSE MH customers who do not qualify for it. We ask the UTC to not merge budgets for BCP programs and budgets for low-income customers. Energy savings from low-income programs should be counted toward I-937 goals, but low-income programs should not displace funds for acquiring “all cost-effective conservation.” Both programs suffer when comingled. The September 2014 PSE presentation to the CRAC demonstrates that low-income funding does not provide the most cost-effective results and that PSE has curtailed significantly its funding for hard-to-reach customers who do not qualify for low-income programs. PSE’s selected “SF Rental Pilot” is a further example of the problems that arise when not separating low-income program budgets from the more general I-937 budgets. As a matter of law, low-income programs do not replace or supersede other energy efficiency obligations of the utility.

*Electric TRC (page 7):* PSE reported a Total Resource Cost (TRC) benefit-to-cost ratio of 1.40. This is significantly below the TRC benefit-to-cost ratio from the UCONS innovative proposal to PSE which would have provided the utility a new program with a TRC of 2.2. This is more evidence of a missed opportunity to pursue and acquire cost-effective conservation for the benefit of the utility and the customers.

*Single Family Rental Pilot (page 7).* PSE states it plans “to pursue a single family rental pilot to promote savings in that hard-to-reach customer segment.” UCONS applauds all programs that promote savings in the HTR customer segment but notes the following concerns with the pilot:

- Single family (SF) rental has not been identified as a hard-to-reach customer class in the 7<sup>th</sup> Power Plan (and in fact may not be HTR). More importantly, PSE has lumped together two sectors—SF houses and MH—which it has acknowledged are very different from one another and require very different solutions.
- The 2018 SF rental pilot would eliminate from consideration the 80 percent or more of HTR MH customers who own rather than rent their manufactured homes. PSE’s investments in programs for MH owners have declined precipitously over the past two years, even while customer data demonstrates

that a very high level of cost effective conservation potential remains. Under the BCP, the vast majority of HTR MH owners would continue to be denied an equitable level of conservation services.

- PSE’s BCP does not reflect that the SF Rental Pilot was offered by PSE for many years to its customers in manufactured homes. Data from its prior rental programs demonstrate that PSE MH owners who rent out their manufactured homes will typically not participate, even in a fully-funded direct install program. Because of its prior experience with MH owners who rent out their manufactured homes, UCONS has collaborated with customer groups to assist the contractor selected by PSE to run the new single-family pilot.
- Since 2010, it has been clear to PSE and to energy services contractors that renters represent a small fraction of HTR ratepayers living in manufactured homes. Further, the Washington MH owner associations representing this customer class (AMHO and MHOW) confirm that the MH owners who rent out their homes will rarely participate in a utility conservation program, especially when they need pay for a portion of the improvement for the measures. This market barrier is attributed to the underlying value of a rented manufactured home and the relatively short-term investment in it by its owner, in contrast to typically long-term investments in stick-built, single family homes.
- PSE has filed comments with the UTC that “administrative costs” are very high, making the TRC for programs for many hard-to-reach customer classes a burden to their portfolio. This has certainly not been true for past utility MH programs which UCONS has successfully supported in Washington state, especially when the utility approved a budget to run a sufficiently large program, so that fixed administrative costs were a small fraction of the total budget.

*EM&V (Exhibit 8):* The Evaluation, Measurement & Verification (EM&V) exhibit of the BCP filing provides many details describing data and methods employed nationally for evaluation of energy efficiency programs. However, it does not address the necessary requirement for an independent program evaluation. Exhibit 8 refers to the CRAG and its role in PSE’s conservation programs. But the CRAG is not an independent evaluation party. Further, CRAG members acknowledge such a role could create a conflict of interest for them. The primary function of “customer groups” in Washington, Oregon and California is to provide a public forum for diverse customer input, not to displace the role of the regulator as an independent evaluator. In all other West Coast states, there are important customer groups (like the CRAG) to facilitate public input. However, all independent EM&V is conducted by the regulatory agencies to assure the rigor of evaluation and protect the ratepayer.

For a utility to write a bid specification, hire an evaluator, and make program decisions on “cost effectiveness” without direct regulatory review and approval places both the utility and its

programs in a difficult situation. The primary reason for removing utility involvement in program administration or evaluation by legislation (in Oregon) and by regulatory rulemaking (in California) was to protect the ratepayer and the utility from the inherent conflict in a for-profit utility selling power, while concurrently being required to achieve all cost-effective conservation. These are often mutually exclusive goals.

#### **IV. THE AVAILABILITY OF COST-EFFECTIVE CONSERVATION IN THE MANUFACTURED HOME MARKET AND THE OBLIGATION TO ACQUIRE SUCH CONSERVATION**

Over the years, various utilities, including PSE, have sought to serve customers in the MH market using UCONS or other contractors. As a result, UCONS has a great deal of data on what services have been performed. Based on data from the Council and the Northwest Energy Efficiency Alliance, and as explained further in our initial Path Forward paper, there is a realistic conservation potential of 10.6 aMW during the 5-year period of the 7<sup>th</sup> Plan (2016 – 2020) for this HTR customer class. Data show that MH residents use far more electricity per household than other utility customers – over 17,000 kWh annually. However, even though PSE’s MH customers constitute over 5% of PSE’s load, only 1% of PSE’s conservation budget is directed to MH conservation and efficiency improvements.<sup>2</sup>

The conservation potential in this sector is substantial. Ishbel Dickens, past Executive Director of the National Mobile Home Owners Association, has stated in a letter to us “that manufactured home owners across the country are missing out on important conservation opportunities that ought to be as available to them as they are to other homeowners.” Indeed, this conclusion is supported by PSE’s own Conservation Potential Assessment which accompanies its filed 2017 IRP. In that document, PSE’s contractor, Navigant, states: “Commercial retail establishments, residential manufactured homes, and other commercial (unclassified) buildings also account for significant electric energy potential . . . .”<sup>3</sup>

Because there is a large remaining cost-effective conservation potential in the MH sector, I-937 requires that it be pursued by the utilities and included in its conservation plans. That is clear from the plain language of the statute as well as the Commission’s implementing regulations which require the utility to “[i]dentify cost-effective, reliable, and feasible potential of possible technologies and conservation measures in the utility’s service territory,” “[d]evelop a

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<sup>2</sup> PSE’s current IRP and September 2017 CRAC presentation data demonstrate this customer class accounts for over 5% of all PSE electricity revenues. Customer and contractor data required under I-937 show that conservation funds for the MH sector have decreased in recent years, with about 3% of total funds being spent on the MH sector in 2010-15, decreasing to less than 0.5% in 2016-17.

<sup>3</sup> *2017 PSE Integrated Resource Plan*, App. J (Conservation Potential Assessment), at 46.

conservation portfolio that includes all available, cost-effective, reliable, and feasible conservation,” and “[i]mplement conservation programs identified in the portfolio . . . .”<sup>4</sup>

Even if cost-effective conservation programs for the MH sector were not required to be included in any given conservation plan, the Commission requires utilities to “[c]ontinually review and update as appropriate the conservation portfolio to adapt to changing market conditions and developing technologies.”<sup>5</sup>

## V. “LESSONS LEARNED”: INSTITUTIONAL BARRIERS TO THE ACQUISITION OF “ALL COST-EFFECTIVE CONSERVATION”

The UCONS experience in the RFI and RFP processes revealed several institutional barriers that limit PSE’s acquisition of all cost-effective conservation:

- *Too much early discretion lies with the utility.* Leaving the RFI and RFP processes in the hands of the utility effectively took the Commission and Commission staff out of the process in its early stages, when there were opportunities to expand the utility’s conservation portfolio to include all cost-effective conservation.
- *The RFI process actually discourages innovation.* While the RFI process is intended to solicit innovative ideas, in practice it discourages innovation because, by its terms, any ideas presented become the utility’s property.<sup>6</sup> As a result, a contractor which spends considerable resources developing an idea and submits it in response to an RFI has no assurance of a potential payoff in the end. The utility may convert the idea into an RFP and then award a bid to some other contractor. This barrier has been addressed in California where the PUC has required that by 2020 at least 60% of utility conservation programs be third-party programs, thereby tapping the non-utility sector’s creativity in developing such programs.<sup>7</sup> California also employs a “request for abstracts,” which differs from the RFI and RFP processes used by PSE in the development of its BCP. The RFA process allows the third parties submitting proposals to “own” their ideas rather than transferring their ownership to the utility. This gives the third party submitting a proposal comfort that its work and innovation will not just be transferred to the utility. California also employs third party evaluators at the front end of the process to ensure that those third parties submitting proposals are treated fairly.
- *The process resulted in mixed messages.* Though PSE indicated that the UCONS submission would “be *incorporated* into one of our Request for Proposal (RFP) concepts

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<sup>4</sup> WAC 480-109-100(1)(a)(i)-(iii).

<sup>5</sup> WAC 480-109-100(1)(a)(iv).

<sup>6</sup> On page 3 of the RFI, PSE states as a “key consideration for bidders”: “Your response to the survey will become the property of PSE upon its receipt by PSE . . . .”

<sup>7</sup> See Decision Providing Guidance for Initial Energy Efficiency Rolling Portfolio Business Plan Filings, Dec. 16-08-019, Dkt. No. 13-11-005 (Cal. P.U.C., Aug. 18, 2016).



for the 2018-2019 Energy Efficiency Services program portfolio,” it was not. Instead of focusing on the potential for energy efficiency in *all* manufactured homes, PSE jettisoned any focus on improving delivery of conservation programs to the vast majority of manufactured home owners who live in the homes they own.

- *The process artificially restricted proposals.* In the end, PSE rejected the UCONS proposal because it did not address the MH rental market, even though PSE has demonstrated since 2010 that MH owners who rent out their homes will not participate in a utility program which is not comprehensive or fully funded. So, instead of evaluating the UCONS proposal based on its potential for acquiring cost-effective conservation from throughout the MH sector, PSE rejected it because it did not fall within the confines of its artificially narrow focus on rental markets.
- *There are inadequate incentives for utilities to actively pursue all cost-effective conservation.* In Washington, I-937 requires utilities to pursue *all* cost-effective conservation, and the Commission’s adoption of revenue decoupling is intended to remove any disincentive for utilities to do so by making utilities “agnostic” on whether or not they acquire conservation resources. However, despite this mandate and regulatory policy, utilities are not finding it in their economic interests to aggressively pursue all cost-effective conservation as required by state law. Further, leaving utilities in their current role of being involved with evaluating their own conservation programs does not promote confidence that “all cost-effective conservation” has been achieved. Indeed, that has not occurred.

In our view, the best way to overcome these and other barriers and to ensure the acquisition of all cost-effective conservation by utilities would be to take conservation programs out of the utilities’ hands and place them with an independent third party, akin to the Energy Trust of Oregon (ETO).<sup>8</sup> In Oregon, the creation of the ETO has led to consistency of programs across utilities, reduced administrative oversight, and eliminated the inherent conflict of interest that utilities have when they are required to acquire conservation but have the economic incentive to sell more energy instead. Adopting an ETO model in Washington would require legislation, and developing such legislation and getting it enacted would take years. In any event, creating an ETO model in Washington is beyond the scope what is currently before the Commission.

## **VI. REQUEST FOR COMMISSION ACTION**

Based on UCONS long history of serving HTR markets, particularly those in manufactured homes, the focus of the Northwest Council on acquiring cost-effective conservation in such markets, and our experience in navigating the PSE RFI and RFP processes, we recommend the following:

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<sup>8</sup> See <https://www.energytrust.org>. Other states have that model as well, including Vermont and Wisconsin.

1. *Consideration of PSE's BCP.* In evaluating PSE's BCP, the Commission should direct PSE to renew its efforts to pursue conservation in the MH market, as PSE indicated it would in its 2017 update and in early discussions relating to the BCP's development. The requirement that utilities "adaptively manage" their portfolios provides ample authority for the Commission to mandate this. This Commission action could include:
  - a. Directing PSE to issue a new RFP that would permit contractors to propose programs to acquire conservation from HTR markets, without artificial limitations relating to property ownership.
  - b. Issuing a broader "Request for Ideas" akin to the process in California to coax out of the private sector new ideas that would be the property of their third party creator and would be accepted by the utility if demonstrated to be cost-effective.
  - c. Direct Commission Staff to take an active role in any such supplemental process to ensure that it is fair and thorough.
  
2. *Longer Term.* Because of the above-described institutional barriers, the Commission should direct Staff to conduct workshops, perhaps leading to a rule-making proceeding, that would consider the following:
  - a. Adopting some elements of the program in effect in California in which the California Public Utilities Commission currently requires utilities to include at least 20% third party programs (increasing to 60% by 2020) and provides for utility "requests for ideas" that can lead to innovative approaches to the acquisition of conservation.
  - b. Requiring greater transparency, including publication, of a utility's avoided costs so third parties are better able to determine whether to invest in developing innovative proposals.
  - c. Requiring, at the front end of the process, independent third-party evaluations of utility RFIs and RFPs to ensure that the utilities do not artificially constrain the scope of their solicitation of ideas. Requiring at the back end of the process independent EM&V oversight by the UTC of conservation funded programs administered by regulated utilities
  - d. Requiring that utilities prepare and submit data segmented by customer group to facilitate further evaluation of conservation potential from such customer groups.
  - e. Consideration of mechanisms by which utilities could receive appropriate incentives to acquire more conservation. These policies could include performance or other financial incentives designed to move utilities from being "agnostic" on acquiring energy efficiency (as revenue decoupling seeks to do) to becoming zealous advocates for demand-side resources.

The purpose of all of these proposed actions, both within the context of the pending PSE BCP and ongoing and future efforts, is to enhance conservation efforts by the State and its utilities and

to spur innovation in that effort. Providing additional cost-effective energy efficiency services to the HTR MH market has been endorsed by the Council; it is required by I-937; and it is the right thing to do for HTR MH customers and ratepayers generally. We look forward to working with the utilities and the Commission in this endeavor.