BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

DOCKET # R-31106

LPSC, ex parte

In Re: Rulemaking to study the possible development of financial incentives for the promotion of energy efficiency by jurisdictional electric and gas utilities.

Introduction:

On May 25, 2023, the Louisiana Public Service Commission Staff ("Staff") issued the proposed *"Phase II Energy Efficiency Rule - Statewide Commission Led Program"* ("Phase II Rules") Following that notice, Staff issued a request for comments by or before July 11, 2023 to support Staff's stated objectives most fully, The Alliance for Affordable Energy ("Alliance") respectfully submit these comments in response.

Given the comments stakeholders have provided in previous iterations of the EE rules, here the Alliance focuses only on the critical issues it continues to find most in need of further revision. The organization stands behind our previous recommendations and note that the absence of comments here on specific issues should not be construed as support for how those issues have been addressed in the latest draft.

The Alliance has been engaged in this proceeding with concern for customers' broader interests, including reducing the magnitude of the total energy bills that they pay and the potential health, housing, and environmental benefits that would result from appropriate and reasonable investments in energy efficiency ("EE").

We recommend that the finalization of the Phase II Rules be prioritized and completed according to the schedule approved at the May 2023 LPSC Business and Executive Session.

Discussion:

I. Minimum Criteria for Cost Effectiveness

As the Alliance has previously noted in comments filed into this docket[1], energy efficiency is widely recognized as a least cost energy resource. As such, increased investment in cost-effective energy efficiency reduces utility system costs from power generation, resulting in lower power bills for customers. The foundation of such investments is the evaluation of cost-effectiveness, which is a minimum criteria for demonstrating that ratepayer money for energy efficiency programs is being spent wisely. Cost effectiveness evaluation not only serves as a protection against fraud and abuse for individual projects and programs, it is also the basis by which one can demonstrate overall return on investment for the total portfolio of energy efficiency programs.

[1] "Comments sent on behalf of The Alliance for Affordable Energy" 19 January 2021. https://lpscpubvalence.lpsc.louisiana.gov/portal/PSC/ViewFile?fileId=p9uGJV0ZA7U%3D

For over 40 years, nearly every state with utility energy efficiency policies has adopted standardized methods for evaluating the cost effectiveness as a minimum requirement[2] for their energy efficiency program portfolios.[3]

In the near term, we continue to recommend the Commission adopt the Total Resource Cost test as the primary basis for determining cost effectiveness. As the name suggests, the Total Resource Cost test considers the full incremental cost of energy efficiency investments against the corresponding total benefits. Because this test considers the combination of spending by both utility ratepayers and participating individual customers, it is appropriate to consider both the energy and non-energy benefits to the participating customer and the utility system as a whole.[4] Since the Commission's energy efficiency rules apply to both electric and gas utilities, both electric and gas efficiency benefits should be included in all cost effectiveness calculations. A passing score of at least 1.0 on the Total Resource Cost test should be a minimum criteria for the Commission's energy efficiency programs.

For Commission approval, the energy efficiency portfolio as a whole must pass the test as a minimum criteria to demonstrate cost effectiveness. TRC cost effectiveness analysis should be used for evaluation of energy efficiency potential, program design, and presented to the Commission during regular reporting on efficiency program performance.

Under limited circumstances individual measures and programs may not be required to separately pass cost effectiveness screening. Specific measures that are not cost effective on their own may be combined with a package of other relevant improvement measures into a program that passes cost effectiveness overall. Exceptions can also be made for deployment of new measures and programs during a prescribed startup phase, after which it is expected cost effectiveness will be achieved. Due to the unique barriers to participation and their greater need, programs that are specifically designed to serve low-income customers are customarily exempted from standard cost effectiveness requirements (though such programs should still be expected to deliver good value for the money).

II. Budget should be driven by Savings Goals

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[2] As noted below, programs designed specifically to serve income qualified low-income participants are generally not expected to meet the same cost effectiveness requirements of standard efficiency programs.

[3] The Total Resource Cost test and Utility Cost Test are the predominant primary cost effectiveness tests, respectively. The Utility Cost Test is more narrow than the Total Resource Cost test, considering only whether utility spending on energy efficiency will cost less than power supply (thereby reducing the utility system costs paid by its customers). Although the Utility Cost Test has its strengths, differences in avoided supply costs between individual utility companies would create serious challenges for a statewide energy efficiency administrator. For this reason, we strongly recommend that the Commission adopt the Total Resource Cost test as the primary basis for determining cost effectiveness in Louisiana – at least and until such time as the Commission undertakes the process for customization outlined in the National Standard Practice Manual. The National Standard Practice Manual established a methodology by which individual jurisdictions can adapt and customize these long-standing cost-effectiveness tests to incorporate and reflect local policy priorities. While use of the NSPM is a best practice, the process is likely too time consuming for the Commission's present intent, but should be considered in the future.

[4] Arkansas' method of evaluating energy and non-energy benefits is a well-established model that is already familiar to Entergy and SWEPCO.

The Commission's latest draft is clear on its intention to save energy and money for ratepayers. Thus, the targets for the program should be based on savings rather than spending. The Alliance is not opposed to including direction in the rules regarding an initial budget expectation, however, we recommend that the baseline budget would be informed by the goals laid out in Section I of the most recent draft rules. We suggest the Commission direct the selected Administrator to provide a proposed budget and portfolio of programs designed to meet the priority program and savings goals. We recommend the Commission's savings goals direct the Administrator to use the four-year program cycles, as a frame for incremental savings increases. The first four-year program cycle term goal should be to reach 1% efficiency savings as a percentage of utility retail sales and the second term should continue up to 2% efficiency savings relative to utility retail sales. We recognize that the beginning years of the program will require significant trade ally, contractor, and market development state-wide, thus we encourage flexibility within a program cycle goal that enables an Administrator to escalate savings over time. The Administrator's budget and program portfolio design should demonstrate a clear plan for escalation to meet the savings goals.

If the Commission is committed to a spending target rather than the savings target we propose, then we recommend that the rule also include clear savings expectations associated with these budgets. Ratepayers deserve to understand what kinds of benefits they and the system will receive from their money.

III. Commissioner Involvement with EE Programs and Projects

Commissioners have unique knowledge of their Districts and can show leadership in supporting the Administrator's energy efficiency program plan, however approving each individual energy efficiency project will be cumbersome for Commission offices. Commissioners should be present for major projects to take pride in their District and the work accomplished, but should not be responsible for the fair distribution of ratepayer money nor the evaluation and verification of the cost effectiveness of those funds. Commissioner input could be extremely helpful in statewide program design and District specific priorities; however fragmented program offerings that are different from one district to another will only cause confusion for a third-party administrator and trade allies.

Energy efficiency budgets should be treated as an energy resource investment, similarly to supply side resources, and not used as an opportunity for political gain. We respectfully caution the Commission against allowing direct Commissioner oversight on individual projects as it could lead to misuse of ratepayer money, and likely hold up verifiable energy efficiency projects.

Our LPSC Commissioners have a lot of responsibility to protect Louisiana ratepayers. As currently written, all projects will be routed through Commission offices which will require a level of bureaucracy that could be burdensome, create undue delays and not take full advantage of the third-party administrator's energy efficiency expertise. For example, Commission staff likely do not have the bandwidth to effectively oversee the third party administrator and EM&V consultants at this granular level, which could create duplicative and error prone systems.

Should the Commission decide to incorporate direct Commissioner oversight on each energy efficiency project, we respectfully recommend a sunset clause to allow for those programs to phase out and allow for the third-party administrator to utilize their expertise to implement consistent energy efficiency programs on a broader statewide level.

IV. Establishing Consistent Statewide Efficiency Program Offerings

Enlisting a statewide program administrator to deliver the Commission's energy efficiency programs makes it possible to create a set of consistent offerings for customers regardless of where they live or which utility serves them. There are numerous advantages to a consistent program design and implementation approach, including (but not limited to) cost and administrative efficiencies and making the programs comparatively easy for the public to understand and access. By contrast, fragmented program offerings create a host of potential problems like customer confusion, administrative headaches for utility companies and the program administrator, problems establishing trade ally networks, and increased marketing expenses. All of these problems are avoidable when a statewide program administrator offers consistent energy efficiency program offerings. Ultimately, customers should not have their ability to access energy efficiency programs restricted on account of which utility services them or which political district they reside in. A customer-centric set of energy efficiency programs will lead to more savings at lower cost, and better outcomes relative to the established goals for the Commission's EE programs.

V. Coordinating and Aligning Electric and Gas Efficiency Programs

The Alliance strongly supports the Commission's commitment to ensuring that Louisiana's EE programs should be offered to both electric and gas customers. Customers should be able to access efficiency services that reduce energy waste for both electric and gas end uses, including and especially when improvements reduce energy use for both fuels simultaneously. Indeed, this is a distinct advantage of having a statewide implementer for both electric and gas efficiency programs. Every effort should be made through program design, marketing, and implementation to enable customers to seamlessly access all energy efficiency services designed for both fuel types, and the financial benefits of energy savings for both fuel types should be considered together when evaluating cost effectiveness.

VI. Attracting Experienced and Effective Program Administrator and EM&V Consultants

Commission staff have requested input on approaches to seek the proper administrator and EM&V contractor to design, implement, and evaluate the statewide energy efficiency program.
In making the transition to comprehensive energy efficiency programs with a statewide program administrator, we strongly recommend the Commission's first step be issuing a request for qualifications ("RFQ") for experienced potential program administrator and EM&V consultants. The RFQ should be followed by a formal request for proposals ("RFP), through which the winning bids will be selected. In its solicitation, the Commission should emphasize its desire to receive bids from experienced program implementers, especially those with a demonstrated commitment to pursuing high levels of efficiency savings.

Potential applicants may have concerns, however, about administrative budget levels, discussed further below, and about the stability and political commitment of the LPSC to these rules. Potential program implementers must have confidence that the Commission will remain committed to these energy efficiency rules, and have assurance that the guidelines under which they will operate will be predictable. Concerns about political inconsistency or insufficient funds for responsible program administration, if left unaddressed, could be a serious impediment to attracting the proper program administrator and EM&V consultants - without which the Commission's energy efficiency programs are unlikely to succeed.

VII. Need for Transparency, Accountability and Checks and Balances

Greater clarity and more accountability is needed with regard to the intersecting responsibilities of the program administrator, EM&V consultant, utilities, and the Commission. The Alliance recommends that the Commission and its staff produce a set of clear guidelines to accompany these rules spelling out the specific responsibilities of each party and expectations for how they will work together for each area of overlapping activity. This would include (but not be limited to) the following:

- The customer experience workflow between the program administrator and utilities with regard to enrollment, program eligibility (when applicable), project completion, and incentive payments
- Data collection between the program administrator, utilities, and EM&V consultant for the purposes of efficiency potential analysis, verification of claimed savings, and reporting financial savings from the Commission's energy efficiency programs.
- Roles, responsibilities, and deliverables related to the program administrator, EM&V consultant, utilities, Commission staff, and stakeholders participating in the Energy Efficiency Working Group ("EEWG"), as well as how deliveries of the EEWG tie into Commission decision making.
- Financial tracking mechanisms between the utility, program administrator, trade allies and program participants, as well as how corrective action and enforcement will happen in the event of non-payment.
- How the program administrator and EM&V consultants will interact with future rulemaking regarding the Commission's energy efficiency programs.

Managing a statewide energy efficiency program is a complex affair requiring consistent clarity of purpose and responsible financial stewardship. To support long term success of the Commission's energy efficiency programs, a single purpose nonprofit organization with a board of directors could be created as has been done in other states like Maine. At core, its task will be to ensure the mission of the Commission's energy efficiency programs is faithfully executed in accordance with the policy goals articulated in the Commission's EE rules, while also providing valuable strategic thinking, financial accountability, and continuity over time. Statewide energy efficiency programs like the Energy Trust of Oregon and Vermont Energy Investment Corporation (now VEIC) provide two such examples.

VIII. Creation of an Energy Efficiency Working Group

Previous iterations of this rule included an Energy Efficiency Working Group ("EEWG") to mitigate potential legal challenges and allow for Louisiana's energy efficiency program to grow and adapt to changing priorities. An organized group of stakeholders with regular convenings for information sharing, problem solving, and pursuing new savings opportunities is a well-established feature of all successful utility-funded energy efficiency programs in the southeast and would be beneficial for Louisiana ratepayers as a resource to evaluate and modify EE programs to make adjustments that lead to increased energy savings.

This group should consist of trade allies, energy efficiency experts, affordable housing advocates, Commission Staff, etc. and the purpose of the group should be clearly articulated with deliverables, timelines, and commitment for LPSC decision-making. This working group will help streamline the implementation of programs over time by reducing Commission action on every minor modification.

The current draft rule contemplates additional energy efficiency rulemaking once the third-party administrator and EM&V consultants are hired. An EEWG could support this effort, while working to ensure further changes are driven by ratepayer priorities and implementation capabilities. The deliverables of the working group can include recommendations for rule revisions that will expedite and support Commission decision making, thereby reducing demands on Commission Staff, and reducing points of disagreement between parties in future rulemaking proceedings.

We urge the Commission to take steps to ensure these rules can stand the test of time and adapt as new priorities and energy efficiency offerings emerge. Many states have implemented and subsequently refined their energy efficiency rules in response to lessons learned, while also learning from each other's experiences. Louisiana is setting its own path with these rules, but has the opportunity to learn from other's efforts as it strives to deliver effective energy efficiency programs that provide financially robust benefits to its customers.

IX. Clarifying Administrative Roles and Budgets

In order to attract qualified program administrator bidders and enable their ultimate success when implementing the Commission's energy efficiency programs, administrative funds must be adequate for the task at hand. The Commission has indicated that it wants to specify and limit the amount of money spent on program administration, but critical details remain unclear - including which activities associated with implementing the EE programs are to be classified as administrative expenses. For instance, the draft rules indicate that the program administrator will design, develop, administer, and revise the Commission's EE rules, ensure said rules are adhered to, and participate in dispute resolution. The program administrator will also market the programs, process participant applications and incentive claims, and establish a network of trade allies to serve customers throughout the state. It will also collect data, collaborate with Commissioners in program design, regularly report its program implementation progress to the Commission, and potentially support future rulemaking. Are all of these activities included in the 10% administrative budget limit? Are EM&V consultant expenses also included in the 10% administrative cost cap? It is currently unclear. Without knowing these answers, it is difficult to make direct comparison to the administrative costs in other jurisdictions, but the 10% administrative cost cap contemplated in the draft rules appears to be significantly less than the actual cost typically incurred for these activities in other jurisdictions.

Louisiana is preparing to transition and ramp up from Quick Start programs to more comprehensive efficiency program offerings. Also relevant for planning administrative costs is the fact that developing and implementing new programs tends to be more expensive during startup and ramp up phases.

Ultimately, it will be important to clarify which costs are included within the administrative cost caps[5] prior to issuing RFP solicitations for the program administrator and EM&V consultants. Ultimately, the budgets for these administrative and EM&V roles ought to be generally similar to those of states with an established track record of delivering strong energy efficiency program savings. This is sensible for good financial planning, but it is also important for attracting experienced program administrators and EM&V

[5] As well as how costs for any of the activities noted above that are not counted towards the administrative cost cap will be funded.

consultants. If the opportunity to earn is not comparable and reasonably competitive with other jurisdictions, qualified program administrators may not submit to the Commission's solicitation.

X. Transition Timeline

The Alliance urges the Commission to consider a transition period that enables a seamless transfer of programming from utilities to the Administrator. The shift from a utility-led program to one directed by the Commission is significant, as is the ramp up of savings and budget. A transition period of one year is appropriate for the kind of planning and implementation needed to reach the Commission's stated goals to save energy and money. We propose the following timeline for the transition, with interim Commission actions underlined.

- <u>January 1, 2024 – Commission selects Administrator/ EM&V Contractor</u>
- January-April 2024 – Commissioner priority input to Administrator
- April 1, 2024 – Utility deadline to file uniform reporting and EER proposal to Commission for approval.
- May 1 (2024 and 2028 prior to new term)- Administrator EE program portfolio and budget filing
- May 1 (each year)- EM&V report filing deadline
- <u>July 31, 2024- Commission approval of uniform reporting/EER</u>
- <u>July 31, 2024- Commission approval of Program Administrator EE program portfolio and corresponding budget</u>
- September 1, 2024 (and annually)- Industrial Opt-Out deadline
- October 1, 2024- Program Administrator files detailed program plans and implementation strategy.
- January 1, 2025- New Energy Efficiency program roll out

This timeline will give the Commission ample time to provide direction and priority goals to the Administrator, allow a smooth transition, and enable public awareness of the programs.

XI. Initial Program Focus of the Commission's Energy Efficiency Programs

Commission staff sought feedback on whether year one of the Commission's efficiency programs should focus on a specific type of projects, such as weatherization. The Alliance proposes that the focus of first year programs should be substantially driven by these two priorities:

- Delivering meaningful levels of bills savings for customers with energy inefficient homes, and
- Raising awareness of the Commission's new efficiency programs and their financial benefits, while creating a pipeline for sustained growth in customer participation over time.

Weatherization encompasses several common and effective energy efficiency improvements for homes. A well-recognized model is the Weatherization Assistance Program (WAP) funded by the Department of Energy (DOE), which assists customers with a comprehensive set of efficiency improvements that substantially reduce household energy bills. A typical weatherization project includes a diagnostic blower door test, direct install lighting and hot water efficiency measures, comprehensive air sealing, and (as needed) duct sealing, insulation, and maintenance, repair, or replacement of the heating, ventilation, and air conditioning (HVAC) system. DOE funded WAP projects are free to participants who meet low-income qualification requirements. These same measures are an appropriate initial focus for the Commission's efficiency programs. While some of these measures should be provided at no charge to low-income customers and households with highly inefficient homes, in many instances programs ought to provide incentives that cover a portion of the incremental cost (rather than cover the full cost), with the customer paying the remaining difference.

The Arkansas Public Service Commission has required that utility energy efficiency programs in that state provide a similar set of energy efficiency improvement services to those described above[6] for free to customers with highly inefficient homes, regardless of income. Incentives also are available for homes that are not determined to be highly inefficient, but in those cases the improvements are not free. The Alliance encourages the Commission to follow the Arkansas model for whole home weatherization for highly inefficient homes and make incentives available for all customers for the measures included in DOE's WAP.

Regarding the second priority above, customers will need to be made aware of the Commission's new energy efficiency programs, while being provided with convenient and financially attractive ways of participating. Therefore, the program administrator should aim to provide a mix of programs that will entice people to participate across a wide array of individual needs, circumstances, and housing types. Programs should be designed to attract both a broad base of participation and deliver meaningful bill reductions for individual participating customers. Therefore, in addition to the comprehensive weatherization services for highly inefficient homes described above, programs should also be designed to reach large numbers of customers through neighborhood deployment programs, upstream channels, and programs specifically designed for multifamily buildings and mobile home parks. While these deployment approaches may not achieve the same deep levels of savings for individual customers as described for comprehensive weatherization above, an experienced program administrator should be able to engage large numbers of customers through these broad-based strategies and can then work to assist each participating customer to make more extensive improvements over time.

XII. Prioritizing Energy Efficiency Services for Low-Income Programs

For struggling families, high energy bills can lead to painful decisions between affording food, rent, and medical bills, or having the lights cut off. By lowering unaffordable energy bills, utility-funded energy efficiency programs are a sustainable solution to reducing utility disconnections, while improving the overall finances of families with the greatest financial need.

Because upfront costs are a significant barrier for low-income households needing energy efficiency improvements, to be effective programs must be designed with their financial circumstances in mind. For this reason, efficiency programs for low-income customers are typically provided at no charge to customers who meet the programs' income eligibility requirements. Likewise, low-income energy efficiency programs are also typically exempted from standard cost-effectiveness requirements, though it is important that these programs also achieve good cost-to-value benefits, so a modified standard for cost effectiveness for these programs should be established.

With among the highest poverty rates in the nation, Louisiana must prioritize delivery of energy efficiency programs for low-income households. The Alliance proposes that 15% of the Commission's program budget be directed towards income-qualified energy efficiency programs for low-income customers. Emphasis should be placed on achieving meaningful levels of bill savings for participating low-income customers, sufficient to materially improve household finances.

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[6] Notably, HVAC tune-up and replacement are not free, but incentives are available through other utility offerings.

XIII. Utility Demand Side Programs and Integrated Resource Planning

Demand side management ("DSM"), including efficiency and demand response should all be considered as resources available to the utilities to help provide energy and services to customers, and as a matter of policy. Historically utilities have run the Quick Start Program as directed by the Commission, and have included DSM potential studies within their Integrated Resource Planning ("IRP"). But the studies, even when they show potential cost savings, have not driven DSM investments. The Commission's EE rules and corresponding programs should be considered a baseline for minimum savings in all IRP analysis. However, if higher levels of efficiency savings are cost effective relative to supply side additions, utilities should pursue higher levels of efficiency savings above those that are required by the Commission's EE rule. Where utility IRPs identify additional efficiency savings or low-cost resource opportunities, additional investment in DSM could either be made by utilities on behalf of customers in utility-run programs or could be coordinated with the Commission's EE Administrator. In either event, the DSM potential studies from IRPs should be delivered to the Program Administrator and Energy Efficiency Working Group in order to inform portfolio development.

Conclusion

The Alliance looks forward to completion and implementation of the Commission's Phase II EE rules and is committed to working with Commissioners and Staff to ensure a smooth transition away from the Quick Start Phase. We applaud the Commission for prioritizing the finalization of this rulemaking as a way to lower energy usage and utility bills for all Louisianans. Energy efficiency is a least cost resource, and maximizing its full potential will offset the need for further supply side resource additions and electrical grid upgrades. We thank the Commission for allowing us to provide comments on this matter.

Certificate of Service

I hereby certify that I have this 11th day of July 2023, served the required number of copies of the foregoing correspondence upon all other known parties of this proceeding, by USPS or electronic mail.

Jessica Hendricks
Alliance for Affordable Energy