



Memorandum

To: SAG Market Transformation Savings Working Group

From: Margie Gardner, Resource Innovations

Date: July 10, 2019

Re: Policy Issues and Background for the Proposed Cross-Cutting TRM Attachment C: Framework for Estimating MT Savings

Attached, please find a draft framework for estimating market transformation (MT) savings as Attachment C in *the Illinois Statewide Technical Reference Manual (TRM) Volume 4, Cross-cutting Measures and Attachments*. This draft incorporates the first round of comments from the SAG MT Savings Working Group that were due June 28.

ComEd and Nicor Gas commissioned Resource Innovations to gather a team to develop a framework for estimating savings for Market Transformation Initiatives. The Attachment is the result of that work. It is currently in the process of being reviewed by the Stakeholder Advisory Group's (SAG) MT Savings Working Group and has been presented to the IL NTG Working Group.

This memo describes the purpose of the Attachment, describes the Illinois context for MT (including a proposal to use the SAG MT Working Group to process policy issues), and then surfaces initial policy issues for MT Working Group to discuss.

Purpose

The purpose of the Attachment is to develop the basic framework for estimating savings for market transformation (MT) initiatives operating in Illinois¹. This paper draws from best practices from 25 years of market transformation implementation nationwide, and particularly from the experience of developing MT savings in the Northwest.

Because specific initiatives will have unique constraints and data considerations, there is a high likelihood that the framework will need to be supplemented with unique protocols for individual MT initiatives. The need for these initiative specific protocols will depend on the outcome of discussions with an advisory group that is proposed later in this memo.

¹ With adjustments for individual regulatory and stakeholder environments, this could be used as a map for developing savings estimates in other states looking to adopt market transformation as a tool to achieve their energy efficiency goals.

There are two major sections of the Attachment: the first provides background information on market transformation in the Illinois context, the second focuses on the estimation of savings for market transformation, both in theory and in practice. The appendices include a sample outline of an MT Business Plan, a glossary of terms, and references.

Illinois Context for Market Transformation

Market transformation programs² were administered by the Illinois Department of Commerce and Economic Opportunity (DCEO) from 2008 to 2017. The Future Energy Jobs Act (FEJA) shifted the administration of market transformation from the DCEO to the state's utilities beginning on June 1, 2017.

In late 2018, as part of developing market transformation initiatives that would be 'best in class' and fit well with utilities' approach to energy efficiency, Nicor Gas and ComEd initiated an effort for utilities to work together and established the Midwest Market Transformation Collaborative. This effort was based on the principle that if Midwest utilities work together and pool resources to investigate, implement and evaluate MT initiatives together, they can significantly leverage each other's resources to share start-up and oversight/evaluation costs. Collaboration through MT also enables leveraging the normal activities of market actors, such as marketing to customers, to enhance market impact.

Although the utility MT Collaborative is fairly new, it has accomplished a number of activities driving toward MT best practices including: a summit on best practices, webinars on defining MT and evaluating MT savings, and the development of tools such as a template for MT Business Plans and logic model direction. An MT Business Plan, built around the MT logic model, is a foundational document that describes in detail the MT initiative and its logic, which is crucial to sound evaluation of savings. The table of contents for a typical MT Business Plan appears in Appendix A of TRM Attachment C.

Proposed Forum for Discussing Policy Issues and MT Initiatives

Because there is a unique policy landscape in Illinois and because MT is new to Illinois, this memo recommends using the existing SAG MT Savings Working Group on an ongoing basis to:

- Provide a forum to discuss policy issues related to MT savings evaluation and estimation (see list below); and
- Provide a review of individual MT initiatives and the data/approach that is proposed to be used to develop savings, particularly the items: savings/unit; total market unit data collection; natural market baseline data and projections; service territory accounting; and the duration of any MT savings credit.

This proposal will be discussed at the July 17 Working Group call.

² Although labeled as Market Transformation, the Illinois DCEO programs did not generally include the key elements of a market transformation program design, documentation, and evaluation described in this paper. To avoid confusion, this paper uses the term "MT initiative" to differentiate from these earlier MT efforts in Illinois.

Illinois Policy Issues Raised by Using the MT Approach

A number of policy questions arose during public comment on the draft Framework that are independent from any particular MT initiative. The following is an initial list that the SAG MT Savings Working Group could discuss.

1. **How, if at all, will MT savings be incorporated into utility goals (gas and electric), portfolio cost-effectiveness, and utility performance incentives (electric)?**

MT savings are more uncertain than RA savings. This is caused by both the type/availability of data to measure savings³, and by market trends that emerge outside of programmatic activity⁴. This, in turn, can cause savings to be unexpectedly high or unexpectedly low. As savings vary from the expected value they become contentious. The MT saving paper argues that due to the long time periods involved and the number of different influences bearing on the market, determining attribution for MT initiatives is more difficult than for RA and this has implications for utility goals and performance mechanisms.

This is not typically an issue early in the life-cycle of an initiative because savings are too small to be contentious so there is time to address the issue. But as market intervention initiatives progress, unexpectedly large rewards or penalties could hinge on the determinations of outcomes that are difficult to predict, and may not be directly caused by the MT activities. Illinois should closely review the mechanisms for goals and incentives developed for RA in the context of MT and ensure there is a policy framework that both encourages the use of the MT approach to secure savings, and reasonably protects ratepayers.

2. **Will adjustments in the Natural Market Baseline be applied retrospectively or prospectively?**

Some commenters indicated that the Natural Market Baseline used to determine savings should be constructed ex-post (or at least a few years into an ongoing initiative since MT initiatives have a very long life-cycle) and applied retroactively. The paper recommends that the Natural Market Baseline be set at the beginning of the initiative, that changes be done when they are large enough to matter, and intends for them to be applied prospectively. This is consistent with current Illinois practice where adjustments such as the NTG ratio are applied prospectively and reflects best-practice experience in the NW.

3. **For what duration will continued market savings be credited to the utility after active utility engagement has ended or been reduced significantly⁵?** The period of time utilities are allowed to take credit for savings from MT initiatives often requires

³ Examples include total volume of a product sold in a market, and the sales volume of energy efficient versions; or projections of sales in the future for the natural market baseline of the efficient version.

⁴ Examples include the dramatic changes in commercial real estate construction depending on whether it's in a boom or bust cycle. An MT initiative's savings would be closely correlated to this construction cycle, and unlike RA programs, the MT initiative is aiming to be part of the entire market, so it's arguably more impacted than RA savings by market swings.

⁵ This discussion is independent from the lifetime of a measure or unit.

judgement. It is usually best to make this decision early in the MT initiative design process to provide more certainty for planning cost-effectiveness and portfolio impact and the SAG Working Group can help provide this judgement.

4. **Related to the duration of counting savings, savings will likely accrue in an energy efficiency planning cycle that has not yet been approved, and significant costs may be in a prior cycle.** Will savings in future planning cycles be counted and if so, how?