

MENZA Candice

From: JOHNSON Juliet
Sent: Monday, August 25, 2014 8:06 AM
To: MENZA Candice; TAYLOR Annette M
Subject: FW: Cost Effectiveness Workshop Wednesday August 27th - Gil Peach

Hello Candice and Annette – Can you please add these comments to the administrative file for Docket UM 1622?

Thanks,
Juliet

From: H. Gil Peach [<mailto:hgilpeach@scanamerica.net>]
Sent: Sunday, August 24, 2014 3:29 PM
To: JOHNSON Juliet
Cc: hgilpeach@scanamerica.net
Subject: Cost Effectiveness Workshop Wednesday August 27th - Gil Peach

Juliet,

Is the Cost Effectiveness Workshop an open workshop, or is attendance restricted to members of certain groups?

I am thinking of coming because I believe the issues surrounding determination of cost effectiveness are important.

Also, there are two good reasons to delay actions:

- (1) The new National Standard Practice Manual will likely come out next year and I think the framework, though neutral, will be much more flexible than that of the California Standard Practice Manual and public interest will be a key theme. I think we should begin to articulate the public interest theme now, rather than wait. But, at the same time, wait until we have the new manual.
- (2) And, the federal (USDOE) evaluations of low-income Weatherization Assistance and the ARRA Weatherization Assistance programs will be out next year. I am on the federal peer review committee with Phil Degens and others, and our review is now complete. It will likely take another six to eight months before the evaluation report series is released. I had to sign a confidentiality agreement so cannot discuss specifics but some of the work included on Non Energy Benefits moves quantification forward quite a bit with new work. Also the programs are nicely cost-effective overall. In part this is due to the use of OMB guidance on discount rate for regulatory programs. This ranges from about -2% to +2% depending on average measure life.

What I would like to focus on is discount rates. One of the things I have been increasingly uneasy about over the years is the use of the utility weighted average capital cost (WACC) as a discount rate for DSM programs since the WACC or the WACOG have no material application. There is no step in actual practice through which they arise empirically. They are simply defined into the calculation to make the calculation appear parallel to construction of a plant (for a new plant, the WACC is appropriate). Instead DSM programs are authorized by administrative action and funded through rate riders that create a balancing account. If we analyze each step in the assembly of this funding there

is no discount rate involved because the funds are not raised through a conservation bond or through a market.

Also, while a cost effectiveness test is necessary, a physical test seems most appropriate. If we were operating in the health field, outcomes would be in natural units (such as number of “normal” days of mental health or number of drug free days). For DSM, the outputs are conserved therms, conserved kWh, and the like. For a physical test to work correctly, there would be no discounting (similar to the formula for the federal ARRA Weatherization program). Optimizing using a purely physics test would restore needed balance over testing procedures that emphasize first year savings and discount long-term savings into irrelevance.

If you look across the states, discount rates range from one-quarter of one percent to two percent for states that have determined a public discount rate is appropriate; then from about 4.25 to 12 percent for states that use the WACC, with a clustering about 7%. Massachusetts, the top state for DSM in ACEEE’s newest ranking uses a 2% discount rate. Everyone calls their test the “TRC” but actual assumptions and calculation vary by jurisdiction.

So, I would like to present this information on discount rate alternatives in a crisp and brief format, if that would be appropriate. I work primarily in other regions of the country and in Canada so I am not integrated into the discussion here. I think the Energy Trust has constructed a very good empirical response to the problem of the declining commodity cost of natural gas and that it is up to them as the experts to determine the specific recommendations. But I would like to add in perspective on selection of the discount rate and frame this in terms of overall climate change adaptation. ET cannot do this because they work for the commission and tend to stay appropriately within what they interpret as set terms and conditions. I think for this problem we have to step outside the DSM “box” for perspective and then come back in from a public interest perspective.

If the workshop is closed or open but very tightly structure so that this information would not fit, please let me know. I am an evaluation advisor for the New York, New Hampshire and Nova Scotia commissions so I do understand that it is sometimes not productive to come in with a new perspective when people have been working for over a year and may be near consensus.

- Gil Peach