

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1893

In the Matter of

PUBLIC UTILITY COMMISSION OF
OREGON,

Investigation Into the Methodology and
Process for Developing Avoided Costs Used
in Energy Efficiency Cost-Effectiveness Tests.

ORDER

DISPOSITION: STAFF'S AMENDED RECOMMENDATION ADOPTED

This order memorializes our decision, made and effective at our February 27, 2018 Regular Public Meeting, to adopt Staff's recommendation in this matter with one amendment. We amended Staff recommendation to request that Staff provide status updates on its work in this investigation at a Public Meeting every six months. The Staff Report with the recommendation is attached as Appendix A.

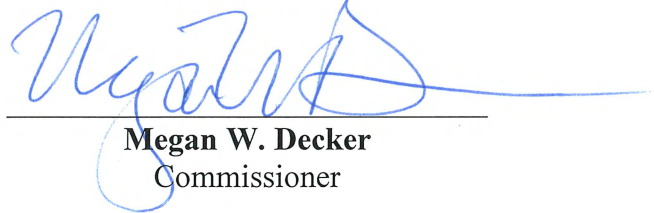
Dated this 27 day of February, 2018, at Salem, Oregon.



Lisa D. Hardie
Chair



Stephen M. Bloom
Commissioner



Megan W. Decker
Commissioner

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Circuit Court for Marion County in compliance with ORS 183.484.

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 27, 2018

REGULAR X CONSENT _____ EFFECTIVE DATE February 28, 2018

DATE: Feb 21, 2018

TO: Public Utility Commission

FROM: JP Batmale *JB*

THROUGH: Jason Eisdorfer *J Eisdorfer*

SUBJECT: OREGON PUBLIC UTILITY COMMISSION STAFF:
(Docket No. UM 1893) Report on findings from energy efficiency avoided cost workshops and recommendations for next steps.

STAFF RECOMMENDATION:

The Oregon Public Utility Commission (Commission or OPUC) direct Staff to launch Phase Two of the investigation into avoided costs for electric and gas energy efficiency, which includes the establishment of a regular, on-going process to update and improve avoided costs and open an associated rulemaking to adopt avoided cost reporting rules before December 2018.

DISCUSSION:

Issues

Whether the Commission should direct Staff to launch Phase Two of its investigation that will establish an on-going process for avoided cost

Whether the Commission should open a rulemaking docket to adopt avoided cost reporting rules.

Applicable Law

Under ORS 756.515(1), whenever the Commission believes that an investigation of any matter relating to any public utility or telecommunications utility or other person should be made, the Commission may, on its own motion, investigate any such matter.

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Per ORS 756.070, in performing its duties, the Commission has the right to obtain all necessary information from any public utility. Under ORS 756.060, the Commission may adopt reasonable and proper rules relative to all statutes administered by the Commission.

In October 2017 the Commission issued an order in this docket opening an investigation into, "the process for developing and updating avoided costs used in cost-effectiveness tests for electric and natural gas energy efficiency, with Staff reporting back to the Commission with a proposed process for future updates."¹

Analysis

Background

Staff recommended opening this investigation because the current avoided cost methodology and processes used to establish and update avoided costs of energy efficiency did not:

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- Have a transparent and streamlined framework for stakeholders to engage with;
- Easily allow for Staff and stakeholders to propose and explore new avoided cost methodology elements.

Staff proposed two phases to this investigation. In Phase 1, Staff would engage with the utilities and stakeholders in a series of workshops. The culmination of this first phase of the investigation is a report to the Commission. The report shares Staff's findings from the workshops and recommends possible changes in the future to the production and updating of avoided costs for Commission approval. This memo serves as that report.

Phase 2 involves the work to implement the Commission-approved changes to the avoided cost process and methodology in time for the current administrator, Energy Trust of Oregon (ETO or Energy Trust) to develop its 2019 budget. Staff initially believed this process would take no longer than three months.

After the completion of Phase 2, Staff initially envisioned a regular, on-going, Staff-managed process to update avoided costs every year.

¹ See Order No. 17-394, October 12, 2017, page 1.

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Review of Phase 1 Activities

The following describes the activities completed since the Commission authorized the Staff's investigation in October 2017:

- Workshop #1 – Kick off²

Nearly thirty people attended Staff's December 1, 2018 workshop to learn more about the proposed scope, schedule and goals of the investigation and to provide their initial feedback.³ Broadly, the comments can be grouped into three categories: Concerns around the proposed process; electric capacity value; and parking lot issues.

With regards to the process, Staff utilized a strawman process proposal to guide the conversation and solicit stakeholder feedback.⁴ Stakeholder concerns about the overall process ranged from the need for the investigation to result in greater transparency, consistency and structural improvements, to the need to better understand Energy Trust's processes around the use of avoided costs in cost-effectiveness tests, to the impact of any proposed changes on existing Integrated Resource Planning (IRP) processes and current Commission rules. The concerns raised by stakeholders around the IRP interaction with avoided costs was significant and played a large role in Staff's findings for Phase One of this investigation.

Stakeholder feedback on process also lead to a detailed discussion on the dual use of energy efficiency avoided costs – IRP forecasts and the annual acquisition of cost-effective measures – and the process of blending values across utilities by Energy Trust for energy efficiency programs. Stakeholders sought more transparency into this process and its potential impact on their IRP filings and outcomes.

With regards to electric capacity value, there is a recognition that Energy Trust's method to quantify capacity value differed from the methodology used by the Northwest Power and Conservation Council (Council) in their 7th Power Plan.⁵ A technical workshop on this topic was proposed conducted and is discussed below.

² See UM 1893, PowerPoint Presentation from Workshop #1, December 1, 2018.

³ Organizations represented by attendees included all five regulated utilities, Energy Trust, the Northwest Power and Conservation Council, Industrial Customers of NW Utilities, Citizens Utility Board, Renewable Energy Coalition, Northwest Energy Coalition, and the Oregon Department of Energy.

⁴ See Workshop #1, slides 14 and 15 for more details.

⁵ Energy Trust followed the resource deficiency methodology used in PURPA resource avoided costs assigning value to deficiency years where as the Council assumes efficiency provides capacity deferral value every year

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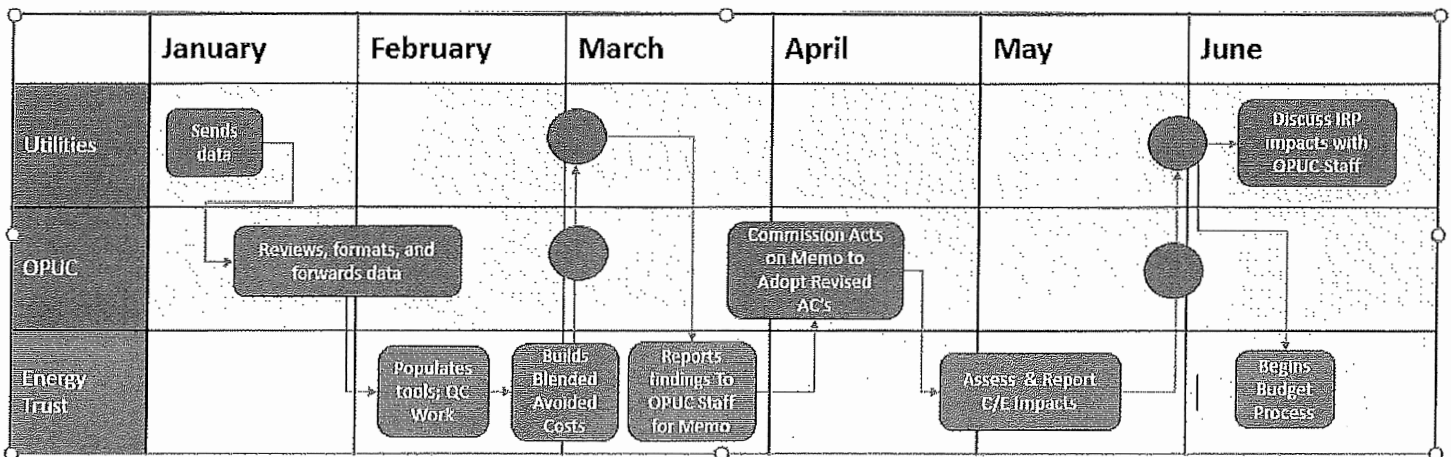
- Technical Workshop – Electric Capacity Value

On December 19, 2018 Staff held a technical workshop on the electric capacity value. Over 15 people attended representing the Council, Energy Trust, Portland General Electric (PGE) and PacifiCorp (PAC). While the initial focus of the workshop was to review and compare the avoided capacity element used in the utilities' avoided cost calculations to the Council's methodology, stakeholders identified the seasonal valuation of energy efficiency's capacity contribution as an even larger, higher priority issue than the underlying avoided resource and sufficiency/deficiency assumptions. Staff and stakeholders focused the robust discussion on seasonal value. The conversation was wide ranging enough that Energy Trust agreed to host further one-on-one meetings with each utility to identify next steps and possible improvements to their capacity methodology, which may be in time for the 2019 avoided cost update.

- Workshop #2 – Summary of Staff Findings to Stakeholders

On Wednesday January 24th Staff hosted the second comprehensive stakeholder workshop. At this final workshop Staff presented their findings from the two previous meetings and a proposal for two new avoided cost processes. These processes would be further refined and then implemented as part of Phase Two of the investigation.

The first new process would focus on simply updating avoided cost values at a regular, annual interval. Broadly it would work as follows:



Some concerns voiced at the workshop about this proposed process include: a more explicit role for outside stakeholders; and, a better understanding of how

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this would work with existing IRP processes for developing avoided costs.

The second new process would be an annual process to improve or change the utilities' actual avoided cost methodologies. This process would be distinct but complementary to the annual avoided costs data update process depicted above. Generally, Staff would conduct a series of workshops annually with all interested stakeholders, beginning in June and ending in November, to identify, prioritize and implement improvements or changes, as necessary, to avoided cost methodologies. For example, the proposed changes Staff would like to make to the electrical capacity element would take place under this process.

Staff presented its four major findings of this investigation based on stakeholder feedback. These adjustments are:

- 1.) A rulemaking process to synchronize and clarify existing avoided cost reporting rules in support of the new update process.
- 2.) IRP interaction with the proposed update process is more complicated than was anticipated and requires careful consideration of tradeoffs. These tradeoffs are more fully described below.
- 3.) The implications from Energy Trust's current blending process need to be more thoroughly reported and tracked.
- 4.) The changes Staff anticipated making to the electric utilities' avoided generation capacity element for use in 2019 will take longer than anticipated.

- Conference Call - Gas Energy Efficiency Discussion

Finally, Staff held a conference call with all three gas utilities and Energy Trust to discuss any gas-specific avoided cost issues. Most of the discussion centered around implementation concerns, especially as it relates to existing IRP avoided cost processes and the blending of avoided costs.

Staff Findings

Phase One of this investigation helped to identify several issues regarding how to best update avoided costs. Staff's major findings are:

- 1. Energy efficiency avoided costs serve two very distinct purposes and both would be impacted by any changes to the update process and any methodology changes.**

Energy efficiency avoided costs are used to do two things:

- To analyze and define measures for short term program acquisition with blended utility system avoided costs

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- To create utility system specific avoided costs used to produce assessments of achievable cost effective energy efficiency over the long term Integrated Resource Plan (IRP) horizon.

Staff's initial memo focused on the use of avoided costs for the first purpose. The feedback from stakeholders reinforced the importance of avoided costs to developing IRPs and the interactions between annual budgets and IRP forecasts. Staff and stakeholders concluded that implementation of changes to avoided cost processes and methodologies would need to account for all impacts to the utilities. This led to identification of the following two sub-issues.

1a. The linkages between a utility's specific avoided costs for IRP forecasts for energy efficiency and the blended system avoided costs used to develop annual goals and budgets for energy efficiency programs requires deliberative consideration.

Throughout Phase One stakeholders continually raised legitimate concerns about the widening divergence between the blended avoided costs used for annual program budgets and the utility specific avoided costs used in IRP analysis. Energy Trust "blends" utility specific avoided costs by weighting each element by the percentage of each utilities contribution to Energy Trust's revenue. Staff determined that any process update would need to include a "feedback loop" so that all parties understand the blended avoided cost values being used in the upcoming year.

Further, with regard to methodology updates, other approaches to avoided cost elements used by organizations such as the Council may not match the methodology used by individual utilities when developing avoided costs for their IRP forecasts. As part of Phase Two of this investigation, Staff will investigate whether some misalignment may be necessary between the avoided costs used in an IRP's energy efficiency forecast and those avoided costs used to develop cost-effective energy efficiency calculations for Energy Trust's annual budget and savings goals. Staff would seek to minimize any discrepancies annually.

1b. Timing with IRP cycle needs to be synchronized.

Utility stakeholders continually raised concerns about the potential for an annual avoided cost update process to essentially require them to re-conduct their IRP analysis, essentially duplicating work. In designing the update process to meet the timing needs of Energy Trust's annual measure analysis for ETO's budget needs, Staff proposed a fixed annual schedule from January through June. However, each of the five utilities are on different schedules for updating their

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IRP assumptions, currently causing Energy Trust to manage differing vintages of assumptions across the two different needs for avoided costs. As part of Phase Two, Staff will need to consider ways to mitigate the impacts of an avoided cost update process on the IRP process.

One tradeoff Staff discussed with the stakeholders in the second workshop was the importance of the alignment between avoided costs used in the IRP forecasting process and the annual budget and goal setting process. Staff posed the following questions: Is the benefit of having the most up-to-date avoided costs for the IRP justified by the cost to create new values outside of an annual update process? If the processes cannot be aligned, what is more important: accurate avoided costs for the annual acquisition of cost effective savings or using the latest available avoided costs for IRP forecasts?

2. Developing any changes to the data update process and the process for avoided cost methodology improvements will require more time to establish than Staff initially anticipated.

While Staff had envisioned the need for two complementary but distinct processes – an update for this year’s budget cycle and a regular update process for identifying and considering methodology improvements, there is insufficient time to complete an update in Spring 2018. As a result, any proposed changes to avoided capacity value will have to wait until the new processes are established in Phase Two of this docket. Staff anticipates restarting the dialogue on changing the avoided capacity value methodology in July of 2018, with the annual update process commencing in January 2019, so that changes going into effect in 2019 can impact Energy Trust’s 2020 budget.

3. Adopting a more regular, structured, transparent, Commission-led approach to updating avoided cost data and changing or improving the avoided cost methodologies will require rulemaking.

In the past, Energy Trust has updated avoided costs for electric and gas energy efficiency as an internal project, collecting data directly from the utilities. Staff’s proposed process for an annual update will require utilities to submit their data to be used for this purpose directly to the Commission. Following additional process, the Commission will adopt revised avoided costs and provide them to Energy Trust. Staff requests that the Commission open a rulemaking docket to adopt these requirements.

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As part of this rulemaking, Staff will consider the existing administrative rules that contain or would be affected by changes in avoided cost reporting and update or clarify, as necessary the utilities' various reporting obligations for avoided cost data. Staff would seek to synchronize reporting obligations as appropriate in light of the investigation in this docket regarding the IRP cycle, and avoid any redundancies. For example, NW Natural noted it currently is required to provide and update avoided costs on a biannual basis, as part of the IRP process under OAR 860-030-0007.

Staff expects to undertake informal rulemaking activity by June 2018. Our goal would be to have the any necessary permanent rule changes complete by November 2018 so as to implement the proposed process for updating avoided cost data in 2019.

4. All utilities expressed an interest to learn more about Energy Trust's cost-effectiveness tests, which use avoided cost values and serve as the basis for both annual savings goals and savings potential in IRP forecasts.

While this concern was outside the scope of the investigation, nearly all utility stakeholders wanted to have greater insight into Energy Trust's cost-effectiveness model. Staff recognizes that exploring this in greater depth after both processes are established and operating would be helpful to all.

Conclusion

Staff believes Phase One of this investigation was successful. The meetings and feedback gave Staff the guidance necessary to continue its investigation as part of Phase Two and begin to take steps to implement changes over the next one to three years in the process of updating and collaboratively changing energy efficiency avoided costs. Additionally, Staff believes that Phase One created a positive space for a diverse group of stakeholders to engage on the topic of avoided costs and other related issues that can continue into Phase Two. Staff would like to open Phase Two that includes:

- Hosting a series of workshops, beginning in July, to identify, prioritize, and develop methodological improvements for energy efficiency avoided costs.
- Opening a rulemaking docket to consider any changes to exist administrative rules on reporting avoided costs that will clarify, as necessary, the utilities' various reporting obligations for avoided cost data and synchronize related reporting obligations so as to support Staff's proposed changes to the avoided cost update process.

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PROPOSED COMMISSION MOTION:

Open Phase Two of the investigation into avoided costs for electric and gas energy efficiency, which includes the establishment of a regular, on-going process to update and improve avoided costs and open a rulemaking docket to adopt avoided cost reporting rules before December 2018.