

Ms. Katherine Collier

September 30, 2019

Executive Secretary  
Mississippi Public Service Commission  
PO Box 1174  
Jackson, MS 39725-1174

RE: *Docket No. 2018-AD-64; ORDER ESTABLISHING DOCKET TO INVESTIGATE THE DEVELOPMENT AND IMPLEMENTATION OF AN INTEGRATED RESOURCE PLANNING RULE ORDER SEEKING COMMENTS ON PROPOSED RULE*

Dear Ms. Collier,

The American Council for an Energy-Efficient Economy (ACEEE) welcomes this opportunity to provide comments to the Mississippi Public Service Commission on the above-referenced docket.

ACEEE is a nonprofit research organization based in Washington, D.C. that conducts research and analysis on energy efficiency. ACEEE is one of the leading groups working on energy efficiency issues in the United States at the national, state, and local levels. We have been active on energy efficiency issues for more than three decades. In Mississippi, we developed an energy efficiency potential study covering electricity savings opportunities in 2013,<sup>1</sup> and for several years have provided technical assistance on energy efficiency topics.

Our comments below focus on four key areas:

1. The importance of setting minimum targets for energy savings;
2. Best practices ensuring an open and transparent integrated resource planning process;
3. Clarifications and suggestions for key elements of the Annual Energy Delivery Plan; and
4. Clarification of the Commission's role in approval of the Annual Energy Deliver Plan and the Integrated Resource Plan.

### **Set Minimum Targets for Energy Savings**

ACEEE would like to commend the Commission for the significant progress that the state has made in energy efficiency since adopting Rule 29 in 2013.

Energy efficiency investments reduce energy waste, lower customer bills, create local jobs, and stimulate local economic development by attracting businesses and improving business competitiveness. Utility energy efficiency programs cost about 2 to 5 cents per kilowatt-hour, which is much less than the cost of

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<sup>1</sup> See ACEEE, *A Guide to Growing an Energy-Efficient Economy in Mississippi* (2013), <http://aceee.org/research-report/e13m>.

new power plants. Because utility energy efficiency programs generally cost less than supply-side options, investments in energy efficiency reduce costs for *all* ratepayers by allowing utilities to spend less on additional electricity and natural gas supply capacity. Every dollar invested in these programs typically produces more than \$2 in benefits for all ratepayers.

Since 2012, Mississippi has risen seven spots on ACEEE's *State Energy Efficiency Scorecard*, from 51<sup>st</sup> in 2012 to 44<sup>th</sup> in the most recent 2018 *State Scorecard*. Investments in energy efficiency have resulted in real, measurable savings for electricity customers in the state. Energy efficiency also supports 15,400 jobs in the state.<sup>2</sup> Utilities have successfully ramped up programs under the Quick Start framework. Energy Mississippi's 2018 programs delivered 65% more energy savings than programs delivered in 2017. Combined, electric utilities have helped customers reduce energy usage by nearly 69,000 MWh and reduced peak demand by over 120 MW. The efficiency programs delivered by natural gas utilities have reduced energy use by more than 1 million therms and reduced peak demand by more than 7,000 therms.<sup>3</sup> These results speak to the importance of a regulatory framework that encourages energy efficiency. With stronger goals, much more is possible.

We strongly recommend that the Commission require delivery of energy efficiency programs going forward and set energy savings goals that utilities must meet, as initially envisioned under Rule 29. These savings goals will ensure that customers across Mississippi will have access to programs that will help them better control how and when they use energy. Targets are the best way to support the achievement of meaningful energy savings. In 2017, 19 of the top 20 electricity-saving states had mandatory energy savings targets in place, as did 6 of the top 7 natural gas-saving states.<sup>4</sup> Mandatory energy savings targets cover approximately 49% of national electric sales while accounting for approximately 80% of reported nationwide utility savings in 2016 and 2017. Taken together, the utilities covered by these policies reported roughly 20 million MWh of savings in 2016 and almost 22 million MWh of savings in 2017.<sup>5</sup>

Especially when paired with complementary utility incentives and cost recovery policies, mandatory, long-term targets are a more effective means of achieving long-term, sustainable energy savings than other regulatory mechanisms, such as voluntary goals or inclusion of energy efficiency in integrated resource planning (IRP). States with savings targets saved on average more than four times as much electricity as those who did not have targets in 2017 (1.3% of retail sales compared to 0.3%).<sup>6</sup> While many states have aligned integrated resource planning processes and energy efficiency efforts, IRP alone does not drive savings – states with IRP only (and no savings targets) saved on average 0.4% in 2017. (More details are shown in the table below). Mandatory targets increase investment in energy efficiency, expand ratepayer-funded programs and savings, and encourage utilities to view efficiency

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<sup>2</sup> E2 and E4theFuture (2019). *Energy Efficiency Jobs in America*. <https://www.e2.org/wp-content/uploads/2019/09/Energy-Efficiency-Jobs-in-America-2019-Full-Report.pdf>.

<sup>3</sup> 25x25 (2019). "Mississippi Renewable Energy and Energy Efficiency Update."

<sup>4</sup> Berg, W. et al. (2018). *State Energy Efficiency Scorecard*. <https://aceee.org/research-report/u1808>.

<sup>5</sup> ACEEE (2019). "State Energy Efficiency Resource Standards." <https://aceee.org/sites/default/files/state-eers-0519.pdf>

<sup>6</sup> We calculate the 0.3% savings including both states who engage in IRP and states who have neither IRP nor targets, a variation from the datapoints shown in the table.

as a resource equivalent to supply-side assets--these results benefit all utility customers, participants and nonparticipants alike.

Policy Framework	Number of States with Policy in 2017	Average Electricity Savings (2017)
Mandatory Targets	25	1.3%
IRP Only	18	0.4%
No Targets or IRP	7	0.2%

Source: Molina, M., and M. Kushler. (2015) *Policies Matter: Creating a Foundation for an Energy-Efficient Utility of the Future* with updates to reflect 2017 policies and savings.  
<https://aceee.org/sites/default/files/policies-matter.pdf>

We have also found that mandatory energy savings targets increase transparency for regulators, staff, and stakeholders alike, and therefore enable more informed engagement with utility proposals. While efficiency can and should be incorporated into utility resource planning efforts, long-term targets offer assurance that utilities will invest in energy efficiency, generally the lowest-cost resource available to them. Utilities have a financial interest in investing in other asset-based resources to meet demand for which they may earn a return on investment. Without significant adjustments to their utility business model, they may invest in options that are more profitable for shareholders but that are higher cost for all ratepayers or provide fewer benefits. Minimum targets are a proven way to ensure that utilities invest in meaningful levels of energy efficiency.

Other states have established reasonable and escalating savings targets to support the evolution of energy efficiency programs and allow the broadest possible customer base to access energy efficiency. Savings targets should be based on experience during the Quick Start phase, ramping up at a reasonable rate. A survey conducted by the Southeast Energy Efficiency Alliance (SEEA) in 2015 found that utilities throughout the Southeast have regularly achieved and exceeded savings targets (expressed as a percentage of annual sales) that increase by 0.25% per year.<sup>7</sup>

We strongly urge the Commission to establish targets for comprehensive efficiency programs for utilities, as originally directed in Rule 29. In doing so, Mississippi can follow Arkansas' proven pathway to success. Annual energy savings targets in Arkansas began at 0.25% in 2011, and ramped up 0.25% per year, reaching 0.75% in 2013. More recently, the Arkansas PSC adopted steady targets that will achieve savings of 1% in 2019. Importantly, these targets ensure a minimum level of savings – and associated benefits – for all customers.

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<sup>7</sup> See SEEA, *Southeastern Utility Program Ramp-Up Rates* (2015), <http://seealliance.org/wp-content/uploads/Resource-Paper-2-Ramp-up-Rates-FINAL.pdf>.

## **Ensure an Open and Transparent Integrated Resource Planning Process to Place Demand-Side Resources on More Equal Footing**

In several places (e.g., Section 100, Section 104(1), Section 105, etc.) Rule 29 expresses an emphasis on the objectives of transparency, public access and stakeholder participation. Yet the requirements and processes described in the proposed Rule 29 contain many elements that impede those objectives. We recommend that the Commission reconsider how the IRP framework can best enable stakeholder engagement. Specifically, the IRP should outline a process whereby utilities engage openly with stakeholders as they are developing their IRP.

It is important to understand that, unless proactive steps are taken to facilitate stakeholder engagement, a utility is at a tremendous advantage when it comes to the filing and review of an IRP. The utility possesses the modeling software used to perform the analyses (typically proprietary), and the utility determines all of the data and input assumptions used in the analyses. To the public and interested stakeholders (and often Commission Staff), the IRP methodology and analyses are typically an impenetrable black box. While it is important for the utility to take a lead role in conducting integrated resource planning, our research and experience in multiple states demonstrates that it is very helpful if the Commission, its Staff, and interveners have the ability to take an active role in methodology and assumption development, in order to produce a least-cost outcome for customers.

The process and schedule proposed in Rule 29 (Section 105) greatly exacerbates our concern that the process will be neither open nor transparent. As proposed, a utility would develop the IRP on its own and deliver it to the Commission as a *fait accompli*. An interested party would only have 45 days to file comments (60 days for Staff), after first having to negotiate confidentiality provisions and file formal data requests. Moreover, there is no particular time requirement for utility response, and no apparent access to the IRP modeling software used by the utility. Stakeholders (and Staff) would need to guess at what questions to ask, and then be at the mercy of how timely and forthcoming a utility might choose to be in responding to information requests and to the inevitable follow-up requests for further information or clarification. This process makes it very challenging and time consuming to even discover and truly understand the inputs and assumptions that were used, much less succeed with any requests for the utility to run analyses using alternative assumptions or scenarios. This approach is a prescription for a frustrating and contentious process which is unlikely to result in the best outcome for utility customers.

We strongly urge the Commission to clarify a process, ideally overseen by Commission Staff, whereby information is exchanged, questions are answered, and suggestions are heard and considered by the utility as it develops its assumptions and inputs, and as it analyzes alternate scenarios – prior to the submission of the draft IRP to the Commission. A good-faith implementation of such a process would not only make “stakeholder engagement” more meaningful, it should greatly enhance information exchange, reduce formal case conflicts, and potentially even establish an opportunity for achieving settlement agreements or consensus plans.

We note that one desirable aspect of the proposed rule in terms of helping to “level the playing field” is the element in Section 105 (5) that enables the Commission Staff to obtain assistance from consultants in assessing a utility’s IRP, with the utility required to pay the cost. We encourage the Commission to

retain this important element of the proposed rule; however, that assistance should still be combined with addressing the transparency and access issues discussed above.

### **Clarifications and suggestions for Annual Energy Delivery Plans**

The proposed rule is expansive, covering a variety of ways that utilities might best meet the needs of their customers. With the goal of ensuring low energy bills and reliable electricity for customers across Mississippi, we suggest the following clarifications:

1. *Use a definition of 'strategic load growth' that will ensure that benefits accrue to customers and the state.* Rule 29 contains many supportive comments and elements relating to a utility pursuing 'strategic load growth.' While it is true that load growth can potentially decrease average rates, because fixed costs can be spread over a greater amount of unit sales, there are also ways in which load growth can increase utility system costs by creating need for additional generation and distribution infrastructure investments, and subsequently increase customer costs (and potentially rates). Moreover, while load growth can signify economic development, which may benefit the economy, it will also increase the 'dollar drain' of costs to import energy fuels into the state, which can have an adverse impact on the state economy. Overall, Mississippi has to import 84% of the fossil fuel energy that it consumes from other states and countries.<sup>8</sup>

Therefore, ACEEE recommends a definition of 'strategic load growth' that helps ensure that customers and the state will truly benefit. This definition is especially important because utilities will have an inherent economic interest in increasing electricity sales, which could lead them to unduly favor load growth approaches in their IRP.<sup>9</sup> For example, Minnesota has carefully examined the opportunities from electrification, as well as some of the challenges outlined above. The state is considering the following definition of "efficient fuel switching," as proposed earlier this year in legislation:<sup>10</sup>

1. Results in a net reduction in the cost and amount of source energy consumed for a particular use, measured on a fuel-neutral basis;
2. Results in a net reduction of statewide greenhouse gas emissions;
3. Is cost-effective from a societal perspective, considering the costs associated with both the old and replacement fuels;
4. Is installed and operated in a manner that does not unduly increase the utility's system peak demand or require significant new investment in utility infrastructure.

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<sup>8</sup> U.S. DOE Energy Information Administration. <https://www.eia.gov/state/seds/>

<sup>9</sup> Under traditional regulation, increasing electricity sales between rate cases tends to increase profitability, whereas decreasing electricity sales tends to reduce profitability. This is sometimes referred to as the "throughput incentive" (<https://www.epa.gov/sites/production/files/2015-08/documents/incentives.pdf>).

<sup>10</sup> HF 2208 <https://legiscan.com/MN/text/HF2208/id/2001875>

2. *Clearly define cost-effectiveness testing inputs and assumptions and ensure they are balanced and uniform across utilities*

We strongly urge the Commission to update the proposed rule to offer more structured guidance on cost-effectiveness testing, ensuring that utilities use clearly defined inputs and methodologies. We recognize that the Commission is seeking to balance costs and flexibility with customer protections. However, as written, stakeholders will have no opportunities to offer feedback on the methodologies for these tests, which are the key determinants of the programs that utilities include in their efficiency portfolios.

Strong, balanced cost-effectiveness testing methodologies are a critical customer protection, ensuring not only that utilities are only investing in efficiency programs where benefits outweigh costs, but also that they are not overlooking programs that provide important benefits to customers that can help keep bills low. Cost-effectiveness testing methodologies should be developed through a stakeholder process to ensure that tests are reflective not only of utility priorities, but of state policy priorities more broadly. The *National Standard Practice Manual* (NSPM) offers a framework for ensuring that cost-effectiveness tests are balanced and include Mississippi's stated policy goals, for example the delivery of reliable service, low bills, and economic development benefits. Importantly, the *NSPM* is clear that cost-effectiveness tests should be developed with sufficient stakeholder input, which "can be achieved through a rulemaking process, a generic jurisdiction-wide docket, commission orders on specific EE plans, working groups, [or] technical sessions."<sup>11</sup>

Since the results of the assessment of cost-effective energy efficiency will directly inform the IRP process, it is critical that stakeholders be able to actively engage with, critique, and recommend changes or adjustments to cost-effectiveness methodologies and the utilization of the results of these tests. As written, the Commission leaves no room for stakeholder engagement.

3. *Link cost-recovery to energy efficiency outcomes that deliver the most benefits to customers*

Rule 29 correctly notes that reducing energy use "can be detrimental to utilities and their owners," and includes some recommended cost recovery features to attempt to address that. However, the specific approaches included are not optimal for achieving desirable energy efficiency outcomes while protecting customers.

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<sup>11</sup> See [https://nationalefficiencyscreening.org/wp-content/uploads/2017/05/NSPM\\_May-2017\\_final.pdf](https://nationalefficiencyscreening.org/wp-content/uploads/2017/05/NSPM_May-2017_final.pdf)

We recommend the following best practices for cost-recovery related to energy efficiency programs:

1. Base the core utility incentive for DSM on actual energy savings achievements, not simply on spending. Merely rewarding spending can result in (and in fact encourage) wasteful spending with little actual efficiency resource achievement.<sup>12</sup> We suggest the Commission establish a framework for incentives in this rule rather than allowing utilities to propose mechanisms, in order to create statewide consistency and leverage lessons learned from incentive design in other states.<sup>13</sup>
2. If utilities are allowed to decrease sales projections in their rate case (and hence raise rates) based on projected energy savings from their DSM programs, include a true-up mechanism that adjusts for the actual energy savings achieved and documented through quality EM&V. Otherwise, there will be an inherent incentive to over-predict savings and not have them actually materialize.<sup>14</sup>

Our research finds that a superior strategy for ensuring utilities are made whole after investments in energy efficiency is to adopt full revenue decoupling, or formula rates with annual adjustments. Decoupling is a balanced approach which allows utilities to make up for revenue deficits when actual sales are below forecast but protects customers by requiring a rate reduction if actual sales revenues exceed forecast.<sup>15</sup>

#### 4. *Require independent evaluation of DSM achievements*

The proposed rule states that “third-party evaluation, measurement and verification (“EM&V”) shall not be required where the utility offers to provide its analyses used in evaluating demand-side management investments to the Staff and any public witnesses in conjunction with the Evaluation of Demand-Side Management Offerings.” While we understand that the Commission is seeking to lower costs associated with EM&V, we note that this option is a major detriment to open and transparent stakeholder engagement. Stakeholder groups, and even Commission staff, typically do not have the technical or financial resources needed to evaluate the impacts of energy efficiency programs. Instead, they rely on the reports of independent evaluators to lay out results clearly. In its guidance on energy efficiency evaluation for states, the US Department of Energy states that “evaluators should be as free of bias as is reasonable and should not have a stake in the outcome of the evaluations with respect to the performance of the programs under consideration.”<sup>16</sup>

Under the system proposed, evaluation could be conducted by the utility, an entity with a clear stake in the results. While the Commission requires that in these cases the utility make its analyses available, it

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<sup>12</sup> See Nowak, S, et. al. 2015. Beyond Carrots for Utilities: A National Review of Performance Incentives for Energy Efficiency. ACEEE, for examples of the impacts of spending-based incentives compared to performance-based incentives.

<sup>13</sup> *Ibid.*

<sup>14</sup> See, Gilleo, A., et. al., 2015, Valuing Efficiency: A Review of Lost Revenue Adjustment Mechanisms. ACEEE, for examples of the ratepayer impacts of asymmetrical lost revenue recovery.

<sup>15</sup> <https://aceee.org/files/pdf/collaborative-reports/decade-of-decoupling.pdf>

<sup>16</sup> [https://emp.lbl.gov/sites/default/files/emv\\_framework\\_final2\\_1.12.18.pdf](https://emp.lbl.gov/sites/default/files/emv_framework_final2_1.12.18.pdf)



is not explicit as to the specific data points that the utility needs to provide, nor does it make resources available for stakeholders to assess the quality of the utility's analysis. To facilitate a truly transparent process, we recommend that the Commission follow national best practices and require independent evaluation of DSM programs.

### **Clarification of the Commission's Role in Approval of IRP and AEDP**

As proposed, Rule 29 sets up a process for regular reporting to the Commission on how a utility plans to meet demand through both supply-side and demand-side resources. This reporting is a key tool for helping the Commission and other stakeholders understand how and why a utility is prioritizing resources. However, the rule is not explicit as to the role of the Commission in approving either of the key planning documents the utility must submit, the Integrated Resource Plan and the Annual Energy Delivery Plan. For the Integrated Resource Plan, the Commission may require the utility to resubmit its plan to address concerns raised by Staff or the Commission.

We look forward to continued engagement with the Commission on these issues. ACEEE welcomes this opportunity to provide comments.

Sincerely,



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Note: Annie Gilleo substantively contributed to these comments. She has since departed ACEEE, but we wish to acknowledge her contributions here.