**NEEP Maryland Cost-Effectiveness Screening Version 6 Comments- June 6, 2014**

Northeast Energy Efficiency Partnerships (NEEP)[[1]](#footnote-1) commends the EmPOWER Maryland Working Group for its work to revise Maryland’s cost-effectiveness screening methodology. The Cost-Effectiveness Straw Proposal will be a valuable guide to assist the Public Service Commission to determine which energy efficiency investments are cost-effective and best serve the interests of ratepayers for the 2015-2017 EmPOWER program plans. Maryland Energy Administration (MEA) and Public Service Commission (PSC) staff offered extensive opportunity for stakeholders to provide their input into the Straw Proposal and stakeholders have provided constructive input through the process.

The Working Group process has helped to align Maryland’s cost-effectiveness screening tests with its public policy goals, particularly those articulated in the EmPOWER statute. This effort should continue as new state, regional, and national policy initiatives arise (e.g., the new EPA regulations on CO2 emissions from power plants). The process has also improved transparency and understanding of energy efficiency cost-effectiveness screening of energy efficiency resources and the values for avoided energy costs, environmental compliance costs, other resource benefits, and (still to be determined) non-energy benefits.

We offer comment on key aspects areas of the Straw Proposal for the Commission’s consideration as it seeks to apply this framework to the EmPOWER programs:

1. **Scenario Analysis**: The inclusion of three scenarios (the Business as Usual, Expanded Case, and Aggressive Case) in cost-effectiveness screening is a useful way to show how different cost-effectiveness screening methods impact the cost-effectiveness of a portfolio of energy efficiency programs. This will help provide meaningful information to the Commission as it determines which such portfolios are in the public interest.

We note that the “Aggressive Case” should not be considered unattainable or not cost-effective by default. Many states in the Northeast and Mid-Atlantic are pursuing aggressive savings levels above the 1.5 percent in electric savings Maryland achieved last year, with programs that remain cost-effective. Core elements of the Aggressive Case, such as a Societal Cost test and a Societal Discount Rate, are common practice among the Northeast and Mid-Atlantic states. Vermont and Washington, D.C. use the Societal Cost test, for example, while Delaware, Massachusetts, New Hampshire, Rhode Island, Washington, D.C., Vermont all use a societal discount rate. *(See a summary of state practices in Synapse Energy Economics for the Northeast Energy Efficiency Partnerships Regional Evaluation, Measurement, and Verification (EM&V) Forum, “Energy Efficiency Cost-Effectiveness Screening Practices in the Northeast and Mid-Atlantic States,” October 2, 2013, Table 2, p. 9, available at http://www.neep.org/Assets/uploads/files/emv/emv-rfp/emv-products/EMV\_Forum\_C-E-Testing\_Report\_Synapse\_2013%2010%2002%20Final.pdf)*.

1. **Ratepayer Impact Measure (RIM):** The Straw Proposal offers robust cost-effectiveness screening method that examines energy efficiency investments from a variety of perspectives, ultimately incorporating five screening tests. In our view, however, the Ratepayer Impact Measure (RIM) test is unnecessary and does not provide useful information to the Commission about cost-effectiveness. Few states make use of the RIM test as a part of their cost-effectiveness screening. Better information about the rate and equity implications of program portfolios can be gained through thorough bill impact analysis of EmPOWER programs after cost-effectiveness screening has been completed. We suggest that the Commission give the greatest weight to the PAC, TRC, and SCT tests.
2. **Non-Energy Benefits**: The final draft version of the Straw Proposal did not include a list of specific non-energy benefits to be included in the PAC, TRC, and Societal tests. Given that the Straw Proposal proposing using the TRC test as the primary test, the Working Group has had substantial discussion of how to account for both participant costs and key non-energy benefits (NEBs) that compel participants to invest in energy efficiency measures. The NEEP survey shows that the majority of states in our regions that use the TRC test include at least some participant NEBs as part of their screening, including Delaware, Massachusetts, New Hampshire, and Rhode Island. Washington D.C. and Vermont also include participant NEBs as part of their Societal Cost test through a percentage adder (*NEEP/Synapse Survey, Table 2, p.9)*. Though not in the survey, Maine also accounts for some NEBs in its version of the TRC and New York plans to update its cost-effectiveness screening to account for certain NEBs as well*.*

In the final NEBs discussion, Itron presented a recommended set of specific values for non-energy benefits, including CO2 and air emissions reductions, participant health, safety, and comfort, and reduced operations and maintenance expenses. The approach Itron takes is sound, based upon a significant body of respected academic and industry research and feedback from Working Group members. There is a strong basis for including these selected participant and societal NEB values in Maryland’s cost-effectiveness screening framework in light of their relevance to the TRC and Maryland’s public policy goals. That said, the Working Group can and should undertake additional research and analysis in future years to refine and revise these values.

1. **Discount Rates**: The Base and Enhanced Cases base would use the weighted average cost of capital (WACC) of 7.72 percent as the primary discount rate within screening, while the Aggressive Case would use a societal discount rate of 4.7 percent. The Working Group has taken a conservative approach in applying the WACC to energy efficiency programs, equating the risks posed to ratepayers from energy efficiency programs with other utility investments and to account for participant discount rates. We note that other states in this region have chosen to use a societal discount rate of 3 percent or lower to reflect potential risk-related benefits of energy efficiency investments (*NEEP/Synapse Survey, Table 2, p. 9*). NEEP plans to explore discount rates in more detail in the near future and will plan to share our finding with the Commission and the Working Group.
2. **Forthcoming EM&V Forum Guidance:** The Regional EM&V Forum is actively developing guidance on cost-effectiveness screening (forthcoming in July), which will include detailed guidance on non-energy benefits, accounting for risk and choice of discount rates, and accounting for environmental compliance, which may help inform future discussions on these issues in Maryland.  The Forum’s guidance will build on key principles[[2]](#footnote-2) reviewed and discussed to date with stakeholders from across the region, including Steering Committee leadership, as follows:
* Principle #1 – Energy Policies: Efficiency screening practices should be a function of the energy policy goals of each state, as articulated in legislation, commission orders, regulations, and other policy directives. These policy goals provide guidance with regard to which efficiency programs are in the public interest.
* Principle #2 – Symmetry: Efficiency screening practices should ensure that tests are applied symmetrically, where both relevant costs and relevant benefits are included in the screening analysis. For example, a state that chooses to include participant costs in its screening test should also include participant benefits, including non-energy benefits, otherwise screening may undervalue energy efficiency resources.
* Principle #3 - Hard-to-Quantify Benefits: Efficiency screening practices should not exclude relevant benefits on the grounds that they are difficult to quantify and monetize. Several methods are available to approximate the magnitude of relevant benefits and should be considered as options.
* Principle #4 – Transparency: Efficiency program administrators should use a standard template to explicitly identify their state’s energy policy goals and to document their assumptions and methodologies.

We are pleased to see that the Straw Proposal and the Working Group process have followed many of these principles, and look forward to providing further tools and resources through the EM&V Forum to support these efforts.

1. These comments are offered by NEEP staff and do not necessarily represent the view of the NEEP Board of Directors, sponsors or partners. [↑](#footnote-ref-1)
2. The principles are based on a subset of those presented in the Resource Value Framework, a projected of the National Efficiency Screening Project, which was presented to and largely supported by the Forum Steering Committee and project committee members. The latest version of the Resource Value Framework can be found at <http://www.synapse-energy.com/Downloads/SynapseReport.2014-03.0.Resource-Value-Framework.14-027.pdf>. [↑](#footnote-ref-2)