Cost Effectiveness Policy Revision- CAC presentation 5/18/11

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Background- Benefit/Cost Fundamentals

Societal (Total Resource) Cost B/C

Benefits =All benefits to participant or utility system

Costs= All costs borne by consumer or ratepayer

Utility System B/C

Benefits = All benefits to utility system

Costs = All cost to utility system (ET fully allocated cost

Both ratios must be 1.0 or better for ET to invest

Consumer "test"

Payback

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Background- What Cost-Effectiveness Policy Does

- Applied to gas and electric efficiency. Renewable generation is under different legislative mandate
- ***Policy sets overall guidance***
  - Energy Trust planning staff then develop detailed procedures and updates as needed.
  - Energy Trust applies test to screen investments.
  - Applied once for prescriptive measures, each case for custom measures.

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Background

- Initial Policy Developed in 2002
  - Addressed cost-effectiveness
  - Guided efficiency investments more broadly
- Since 2002
  - SB 838 process clearly links Energy Trust and utility integrated resource planning
  - Energy Trust, PUC and utilities have clarified several key issues in 2002 policy:
    - Avoided cost linked to utility IRP
    - Non-energy benefits and tax credits
  - Energy Trust 2009 Strategic Plan now guides overall investment policy. e.g.: Balance of innovation and risk

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Decision Steps

1. Initial presentation to Board of Directors Policy Committee
2. Additional Clarification and Rewrite
3. *Today Review by CAC*
4. Revise as needed, return to Policy Committee
5. Approval of modifications by board.

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Major Changes

1. Clearly states that we use utility avoided cost forecasts- individual utility for IRP and in combination for each fuel for ET decisions and reporting.
2. Simplify references to avoided power delivery and T&D deferral costs- utility manages the details.
3. Allows for augmentation with hedge value and other ancilliary values by agreement with utilities and PUC.

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Major Changes

1. Costs covered by Fed and state tax credits are excluded from costs in tests- by agreement with PUC.
2. Costs covered by Fed and state programs also excluded. (PUC has not yet spoken on this issue).
3. Delete the consumer “test”

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Examples of Policy Flexibility We Now Employ

Under Modified Policy (consistent with current practice):

1. ET can look at measure cost-effectiveness over several years if there is evidence that volume or refinements will drive costs down in time.
2. ET can consider future market transformation
3. Carbon costs are included as costs to utility

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More Examples of Policy Flexibility We Now Employ

4. In societal test:
   - ET can consider quantifiable non-energy benefits to the consumer or utility system (not to others)
   - ET can consider non-quantifiable non-energy benefits if they are clear, large, and difficult to quantify
5. ET may consider hedge value or other factors not in utility IRP by agreement with utility and PUC

We cannot ignore costs or assume them away- but we can make reasoned adjustments using these tools.

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Implications of Policy Revision for Operations and Decisionmaking

1. Simplifies and clarifies roles
2. Decisionmaking and operations are essentially as they are today.
3. We continue to invest only in programs and measures that are cost-effective or are likely to be in the foreseeable future, or, in a few cases, as part of a research plan to test or refine estimates of savings.

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