Before the City Council of New Orleans

IN RE: PROPOSED RULEMAKING TO ESTABLISH INTEGRATED RESOURCES PLANNING COMPONENTS AND REPORTING REQUIREMENTS FOR ENTERGY NEW ORLEANS, INC. UD-08-02

March 10, 2017

Alliance for Affordable Energy’s response to Entergy New Orleans, Inc’s “Application of Entergy New Orleans, Inc. For Approval of the Implementation and Cost Recovery Plan for Program Years 7 through 9 of the Energy Smart Plan,“

The Alliance for Affordable Energy respectfully submits this letter of comment into the record of Council Docket UD-08-02 in response to the Application for Approval of the Implementation and Cost Recovery Plan for Program Years 7-9 of the Energy Smart Program, and related filings submitted by Entergy New Orleans, Inc, (ENO). While the accelerated timeline for the program’s implementation did not afford time for a formal “comment period” for intervenors, the Alliance has prepared these recommendations ahead of Council’s action on the application, expected to be raised at the March 29, 2017 Utility Committee Meeting.

The Alliance strongly recommends the Council move forward and approve the Energy Smart plan that corresponds to the Council’s 2% targets, described in ENO’s application as Scenario 2. The Council has made their wishes clear in multiple resolutions, motions, and public comments, including but not limited to R-17-27 in January, 2017, R-17-30 in January, 2017, and R-15-599 in December, 2015, each directing the utility to plan for these energy savings targets, up to 2% of annual sales (“2% targets”). To choose a different scenario, despite these resolutions, strong support by the community, and data showing the broad benefits of such an improvement to the program, would represent a wasted effort on behalf of the all parties engaged in 08-02, and a squandered opportunity for the city of New Orleans to reduce our energy costs, grow a clean energy economy, and improve our housing stock. New Orleans residents, with some of the highest energy burdens in the nation, has real needs that can be filled with strong Demand Side Management programs. It is time to grow the Energy Smart program.

The Alliance is encouraged to see attention paid to concerns regarding stakeholder engagement around program design. Numerous jurisdictions have seen enhanced programs, participation, and savings as a result of collaboration among utility, program administrator, and stakeholders, and it appears the program design undertaken thus-far has benefited from such involvement by a “Stakeholder Advisory Panel” and trade allies. We look forward to continued coordination of

program administration, EM&V, and stakeholders. The Alliance supports formally convening these stakeholders for continued program design and IRP planning around DSM levels.

**Council Approval of Scenario 2 – Council’s 2% Targets Level**

In Council Resolution R-17-27, Entergy was directed to develop the Energy Smart budget in a manner consistent with the 0.2% annual escalating targets set by the Council.

> That within 30 days from the adoption of this motion, Entergy New Orleans is required to submit to the Council its proposed Energy Smart Program design for Program Years 7 to 9 including the programs to be included, the budgets, and the Council’s kWh savings goals and incentives, including increasing savings by 0.2% of kWh sales annually until it reaches 2% of kWh sales annually.²

This is the level at which the Council should authorize Energy Smart for years 7-9 the following reasons:

1) The benefits of implementing the Council’s targets clearly outweigh the costs and yield superior value over the lower budget levels presented by ENO

2) Energy Efficiency targets are empirically proven to produce better results for customers and the Council’s 2% energy saving goals are achievable

3) Greater Demand Side Management (DSM) investments reduce risk and aids Council decision-making on new supply

Two pieces of evidence demonstrate that the benefits of implementing the Council’s targets outweigh the costs and yield superior value over the lower budget levels presented by ENO. The first factor, the cost benefit results, show a TRC score of 1.38 and a UCT score of 1.84. This indicates that the Council’s 2% Targets scenario is not only cost effective, but that for every dollar the utility spends there are $1.84 of utility system benefits, which translate into lower costs for customers. Stated another way, it would cost the utility 1.84 times as much to meet the equivalent level of energy needs through non-DSM means, thereby resulting in higher costs for customers.

The second factor, a comparison of the budget to savings ratio between Scenarios 2 and 3, indicate that the 33% difference in budget is significantly exceeded by the 42% additional energy savings produced by the Council’s 2% Targets scenario over the ENO IRP scenario. Thus, not only

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² New Orleans City Council Resolution R-17-27, January 12, 2017 at 1.
does the 2% target level produce more benefits in absolute terms, it yields higher return on investment dollar-for-dollar against the lower ENO IRP budget level.

The energy savings goals of the Council’s 2% Targets scenario are achievable and represent an empirically superior way to ensure customers receive higher levels of cost savings from DSM. This is clear when one considers that Energy Smart program activities in New Orleans remain relatively immature compared to other jurisdictions, have reached only a small fraction of New Orleans customers with programs known to save significant energy, and savings levels to date have consistently fallen between 0.3 – 0.4% of annual gross sales – far below the level of more experienced and successful programs elsewhere in the country. The American Council for an Energy Efficiency Economy (ACEEE) ranks both Louisiana and New Orleans in bottom end of the lowest quintile on their energy efficiency scorecards. Numerous ACEEE reports demonstrate that other jurisdictions are currently achieving savings at levels three or more times higher than New Orleans, going as high as 2% per year (a goal New Orleans would not hit for nearly a decade at 0.2% annual escalation).

It is notable, that the average annual savings level for those jurisdictions with proscribed Energy Efficiency Resource Standard (EERS) targets is 1.1%; while the average for those without EERS policies is 0.3% - thus those states with EERS are delivering more than 3 times as much energy savings to their customers as those without. No jurisdiction without Energy Efficiency Resource Standard-type (EERS) targets in place is achieving more than 1%. The takeaway point is that setting proactive DSM targets like the Council’s 2% targets goal is the way to achieve higher level savings and greater financial benefit for customers than the other approaches offered by ENO. Furthermore, ACEEE’s “Big Savers” report shows that ramp up rates between 0.2% and 0.5% annual are regularly achievable. And finally, Entergy Arkansas has consistently met Arkansas Public Service Commission directed DSM targets with results that are three times higher than those achieved by ENO over the past three years. ENO should be able to achieve comparable levels of savings, but to date has not done so. Thus the Council’s 2% Targets Scenario not only will deliver greater financial savings than the alternatives, ample evidence suggests ENO will be able to achieve the proscribed targets levels and should do so.

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Also: Kushler, Martin. “IRP v. EERS: There’s a Clear Winner”, December 16, 2014. Available at: http://aceee.org/blog/2014/12/irp-vs-eers-there%E2%80%99s-one-clear-winner-
5 Kushler at 1
6 Molina at 13
The approval of Energy Smart energy savings targets and budgets does not stand in isolation of other Council decisions regarding how to meet New Orleans’ energy and capacity resource needs. DSM resources are cheaper than any other available energy resource and greater DSM investments not only save customers money, they reduce the need for other supply resources. Thus DSM investments may also have the effect of reducing the urgency and pressure being placed on the Council to construct and acquire more expensive supply resources. By their nature, DSM savings programs and budgets are far more flexible than capital-intensive centralized power plant projects. Should customer capacity and energy needs change, DSM programs can be adjusted to accommodate, but once a power plant is built and the costs sunk, customers are obligated to pay for a supply resource whether they need it or not.

Such a scenario is not a mere hypothetical consideration, it is directly relevant to the current decision of whether or not to build a natural gas fired power plant in New Orleans East. In that proceeding, ENO recently declared that the load projections upon which their application was based have been revised significantly downward. While ENO has neither confirmed nor denied whether the revised load projections are inclusive of the effect of the Council’s DSM Targets, if they have not yet been included the load projections would likely be even lower. At minimum, this means that a greater share of New Orleans energy and capacity load could be served with lower cost DSM – thereby reducing the need for supply resources and giving the Council more time to better evaluate its options before committing to a potentially oversized or otherwise mismatched generation resource.

**Peak Demand Targets**
The Alliance acknowledges that resolutions and Council directions thus far have not extended to goals to reduce ENO’s peak demand. Presently, the Council’s targets are tied to kWh savings goals, but the utility has no guidance or incentive to reduce peak demand. Those programs that have little impact on demand do not count toward the 2% targets, even while they are some of the most beneficial to customer and the system. We have noted that programs that target peak demand are some of the most beneficial, as they reduce overall capacity needs when energy is most expensive. The Alliance recommends the council contemplate setting goals for demand savings in order to better target particular capacity needs. While additional direction at this time would be useful for tracking and to develop expectations, we recommend that Year 7 of the program not link initial demand reduction goals to penalties or incentives so that appropriate expectations can be set.

**Lost Contributions to Fixed Costs**
The rationale for Lost Contributions to Fixed Costs is to provide a mechanism whereby the utility can be made whole if volumetric energy sales drops as a result of energy efficiency
programs to the point that fixed costs are not recovered and the utility misses it’s revenue requirement. If the utility is earning more than their revenue requirement from sales on an annual basis, (compare ENO FERC Form 1, 2015 to Appendix 7 revenue calculations) there is no justification for additional compensation to the utility through an LCFC mechanism, since the utility has already covered their fixed costs. If Lost Contributions to Fixed Costs are treated as a default payment, based on an assumption of losses “expected to occur,” whether the utility has met their revenue requirement or not, and is functionally separate from the revenues collected, the mechanism is being used as an additional profit driver and customers are being double charged.

Decoupling is a preferable solution to this issue, but since it is not yet in place the Alliance suggests the council re-consider the LCFC payments mechanism and require a true-up based on whether the utility has met it’s revenue requirement through regular energy sales. If it has not, LCFC payments should be limited to the amount necessary to reach the minimum Council authorized revenue requirement level.

Additionally, LCFC costs do not belong in the tables exhibited on page 7 of ENO’s Application for Approval of Budgets for Program Years 7-9. To represent these costs (increasing the Scenario 2 budget by 17.3% for Legacy and 16.2% for Algiers) as a part of the “total costs” of the Energy Smart program is to suggest that the costs are not linked to the revenue requirement that the utility should be making as a matter of course, with or without the Energy Smart program, and is to instead treat the payments as additional utility earning. If the utility has recovered its fixed costs, there is no logical reason, nor need to pay the utility as if they had not recovered said costs. The utility’s fixed costs exist regardless of whether there is an energy efficiency program, is not caused by the existence of the energy efficiency program, and therefore is not itself a cost of the Energy Smart program. Calculating LCFC as part of the “total costs” of the program is misleading.

The Alliance continues to support full revenue decoupling to manage the through-put incentive problem created by DSM programs, and looks forward to the implementation of decoupling following the 2018 rate case.

**Performance Incentives**

In recent program years, ENO has collected an additional 7-8% of their Energy Smart budgets as a performance incentive. According to national comparisons conducted by ACEEE®, the median for performance incentives, awarded for sales reductions goals, is 8% of program spending. ENO is requesting their incentive be increased to 12.5%. The utility has not given a justification

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for this increase. While the Alliance agrees that performance incentives are an appropriate mechanism to encourage the utility to improve and increase their interest in DSM programs, an incentive of 12.5% with no justification is inappropriate and outsized. The Alliance recommends the council consider national averages and other performance incentive structures to develop a more appropriate incentive for the utility.

As requested in the utility’s application, Performance Incentives and LCFC represent a combined 29.5% of the total budgets presented. We believe these charges are excessive and incompatible with basic regulatory obligations for the utility to provide service at the lowest practical cost.

**Total Program Benefits**

Notably missing from the utility’s application are tables that clearly demonstrate the benefits that accrue to customers, presumably a key consideration for the Council. The table below was developed from information from multiple documents in the filing, combining ENO Legacy and Algiers data to show customer benefit potential from the three scenarios. In the future, we recommend a more standardized template be utilized for Energy Smart implementation plan filings that would, for example, include tables showing customer costs and benefits using net present value for lifetime DSM savings. The purpose is to demonstrate that benefits to customers will outweigh the costs of the program, as shown in the table below, developed from ENO’s Total Resource Cost benefit calculations. Also missing from the utility’s calculations is a full analysis of the Utility’s Cost Test, which would give council a more clear picture of the direct benefits of these programs as compared to costs.

<table>
<thead>
<tr>
<th>TOTAL ENO LEGACY and ALGIERS Program Years 7-9 (3 years)</th>
<th>Program+Incentive Costs (minus LCFC)</th>
<th>TRC Benefits</th>
<th>MWh savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario 1 – Status Quo</td>
<td>$24,676,547</td>
<td>$40,605,538</td>
<td>75,494</td>
</tr>
<tr>
<td><strong>Scenario 2 – 2% Targets</strong></td>
<td><strong>$41,137,334</strong></td>
<td><strong>$66,758,191</strong></td>
<td><strong>127,941</strong></td>
</tr>
<tr>
<td>Scenario 3 – IRP</td>
<td>$31,416,830</td>
<td>$51,420,404</td>
<td>91,593</td>
</tr>
</tbody>
</table>

**Bill Impact**

Finally, an expected bill impact for an average ENO customer as a result of the benefits and savings should be included for all customers. The utility included an expected bill impact for
Algiers customers\(^9,10\), but the impact is likely to be lower for Legacy ENO customers as a result of existing FERC funds available only to those customers. Additionally, any funds available from ENO’s Proposed Internal Restructuring (Docket UD-16-03) could be used to buy down the total costs of the programs, further extending the benefits available to customers.

**Energy Smart Program Offerings**

The Alliance observes and applauds additions that have been made to the Energy Smart program offerings designed to expand access to new customer segments and lead to greater savings in some areas. We support such efforts and believe that many such opportunities yet exist to expand participation and capture additional savings. One notable absence that is hard to understand is why there is no program for residential HVAC replacement, considering that this is one of the largest energy users in a home, there are a wide range of efficient technologies available on the market, and Entergy Louisiana offers such a program throughout their service territory in other parts of the state. We recommend that such a program be added to Energy Smart years 7-9 within the existing budget framework.

**EM&V**

Evaluation, Measurement, and Verification enables the accurate quantification of actual achieved DSM program-related energy savings used for performance incentive and LCFC compensation calculations. But, EM&V also has the critical function of informing program design and policy making about what is and is not working, while enabling continuous improvement and the intelligent evolution of DSM policies and program design over time. EM&V for Energy Smart has fallen far short of these objectives and the level of control ENO holds over the EM&V budget, hiring, scope and activities reveals not only a serious conflict of interest, it deprives the Council of critical resources and capacity to oversee and improve Energy Smart at the policy level. The Alliance has raised these concerns consistently in previous filings and does so now with the specific request that the Council reserve funds, hiring authority, and responsibility for oversight of at least a significant portion of the EM&V budget and functions here forward. Despite a significant increase in EM&V funding in years 5 and 6, to date there is little to nothing to show for the investment. Even the Technical Resource Manual (TRM), which was an added requirement by the Council has not been produced and to our knowledge there has been no engagement with stakeholders in New Orleans on the subject. By comparison, Arkansas developed their TRM, as referenced by the Council, with the participation of their collaborative working group, but nothing of the sort has been convened in New Orleans, as far as we are aware.

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\(^{10}\) It is unclear if these bill impacts were calculated for a 1000 kwh a month customer or an average Algiers customer usage.
The Alliance respectfully submits these comments and encourages the council to consider these recommendations in advance of action on Entergy’s proposed implementation plan.

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ENTERGY NEW ORLEANS, INC
IN RE: PROPOSED RULEMAKING TO ESTABLISH INTEGRATED RESOURCES PLANNING COMPONENTS AND REPORTING REQUIREMENTS FOR ENTERGY NEW ORLEANS, INC.
Certificate of Service Docket No. UD-08-02

I hereby certify that I have this 10th Day of March, 2017, served the required number of copies of the foregoing correspondence upon all other known parties of this proceeding, by USPS or electronic mail.

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IN RE: PROPOSED RULEMAKING TO ESTABLISH INTEGRATED RESOURCES PLANNING COMPONENTS AND REPORTING REQUIREMENTS FOR ENTERGY NEW ORLEANS, INC.

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