ALLIANCE FOR AFFORDABLE ENERGY
EST. 1985

January 6, 2020

By Hand Delivery

Ms. Lora Johnson, CMC
Clerk of Council
Room 1E09, City Hall
1300 Perdido Street
New Orleans, LA 70112

In Re: 2018 TRIENNIAL INTEGRATED RESOURCE PLAN OF ENTERGY NEW ORLEANS, INC. PENALTY MECHANISMS (Docket No. UD-17-03)

Dear Ms. Johnson:

Please find enclosed an original and three (3) copies of the Alliance for Affordable Energy's Comments on ENO's Application for Approval of the Implementation plan in the above-referenced docket. Please file the attached communication and this letter in the record of the proceeding and return one timestamped copy to our courier, in accordance with normal procedures. If you have any questions, please do not hesitate to contact me.

Thank you for your time and attention,

Sincerely,

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Logan A Burke
Executive Director
Alliance for Affordable Energy

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BY: __UT__

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BEFORE THE

COUNCIL OF THE CITY OF NEW ORLEANS

IN RE: 2018 TRIENNIAL INTEGRATED RESOURCE PLAN FOR ENTERGY NEW ORLEANS, INC.	**DOCKET NO. UD-17-03**

ALLIANCE FOR AFFORDABLE ENERGY'S REPLY TO ENTERGY NEW ORLEANS, LLC's APPLICATION FOR APPROVAL OF THE IMPLEMENTATION PLAN OF THE ENERGY SMART PROGRAM

The Alliance for Affordable Energy ("the Alliance" or "AAE") respectfully submits these responsive comments to Entergy New Orleans, LLC's ("ENO" or "the company") implementation plan for Energy Smart program years ten through twelve. The Alliance supportive of the majority of ENO's Plan for Energy Smart Program. This Council should take pride in the growth that ENO's programs have seen in the past three years. Despite initial hesitation to pursue increasing levels of energy savings and demand reductions, this filing by Entergy signals a future of collaboratively developed efficiency programs that not only align with the Council's 2% targets[1] but show an opportunity and willingness to take more aggressive steps to reduce New Orleans energy bills, waste, and carbon footprint. There is little doubt that this outcome is a direct result of the Council's inclusion of an Independent Demand Side Management ("DSM") potential study. While the use of two distinct DSM studies in the 2018 Integrated Resource Plan cycle was a challenge, the additional data and engagement on this most important topic has proven worthwhile. AAE commends the Council, Entergy, and all participants in the 2018 IRP cycle on this outcome.

Areas of Agreement

[1] Increasing savings from Energy Smart programming by .2% of sales until reaching a level of 2% savings of sales annually.

The Alliance is in support of the majority of Entergy New Orleans' ("ENO") implementation plan filing. Below, we outline our points of agreement and positions.

-*AAE supports continuity in program administration by Aptim and ADM Associates, and the addition of Honeywell Smart Energy for Demand Response programming.* The Energy Smart programs of the last three years have proven successful, and the team assembled to implement these growing energy savings plans should be retained to continue this momentum. AAE is pleased to see the addition of contractors focused on peak demand reduction, and expects to see new opportunities to leverage the relationship already developed with Honeywell, which has been part of the Advanced Metering Infrastructure roll out.

- *AAE supports Proposal for Scenario 2, to more aggressively reduce energy waste in New Orleans, and increase customer benefits for the next three years, including proposed budgets, with some amendments.* These proceedings have moved well beyond the doubts from three years ago that the 2% savings trajectory was unattainable, and where further savings remain cost-effective, AAE encourages the Council to approve the greater attainable savings. Indeed, ENO's filing shows that by pursuing scenario 2, the TRC benefits that will accrue to customers increases from $78.5M to $86M. Recommendations on the proposed Pilot discussed in the section below. In addition, AAE is supportive of the new program offerings, especially Commercial Real Estate, which dovetails with the increase in data access for these customers, thanks to recent Council decisions in Docket UD-18-04.

-*AAE supports the implementation of ENO's proposed Demand Response programs.* The Alliance has been urging Entergy to pursue more robust Demand Response ("DR") programs for many years. This flexible resource will provide greater benefits over time as initial investments are made.

- *AAE supports recovery of costs via the EECR rider, approved by the Council in Docket UD-18-07, with potential amendments.* Following a lengthy procedural schedule, with testimony from various stakeholders on the subject, the Council has recently approved in Resolution R-19-457, including the cost recovery mechanism called the Energy Efficiency Cost Recovery Rider

(“EECR”). The Alliance is supportive of this mechanism, with a potential change to the utility performance incentive formula, which we discuss further below.

-AAE supports Green Light New Orleans

The Alliance is supportive of the Green Light New Orleans initiative and recommends that the remaining budget continue to be dedicated to the project. As Green Light works with additional programs in the city, Green Light should continue to spend down the previously budgeted dollars, using their relationships in the community to provide access to both lightbulb programs and as a conduit and ambassador to other Energy Smart programs and measures. As Entergy suggests in their filing, we are happy to work with the Council and other stakeholders on this matter.

Areas of Disagreement

Utility Performance Incentive

The Alliance agrees that a utility performance incentive (“UPI”) is an appropriate an inducement to capture savings and to further encourage a utility to out-perform their required goals. Entergy argues that as the Council’s savings targets increase, they are required to “work harder, think more creatively, and invest more capital.” In order to incentivize savings beyond the Council’s goals, AAE is supportive of a new mechanism that increases as savings grow.

While AAE does not agree with the exact formula ENO has presented in their Implementation plan filing, the majority of the format is workable. We agree that the historic fixed-dollar UPI has been opaque, while ENO’s proposed formula is a more transparent way for all parties to understand how ENO’s performance is encouraged.

AAE recommends the Council approve the mechanism Entergy has put forward, with the substitution of 5% in place of ENO’s proposed 10% of Council-approved program costs. We agree that the language ENO has put forward protects rate-payers from unnecessary increases, and elegantly ties achieved savings above and below the program year kWh savings goal to an appropriate inducement. It has been our concern that incentives linked to spending, rather than to benefits could drive program design and spending that is increasingly less cost-effective. The solution of fixing a baseline incentive at 100% of the savings target, with an increasing (or decreasing as needed) incentive tied to benefits is one that the Council can confidently approve, without concern for unintended inflation of costs, especially, as ENO points out, this Council approves all Energy Smart budgets ahead of implementation. Our remaining concern is the size of the incentive.

We disagree on the size of the increase of incentive that ENO has put forward, which would **more than double the incentive** (over the historic UPI) for the total of the next three program years. Instead, we propose that in order to modestly escalate the incentive, while still offering the opportunity for an increasing reward for superlative results, the Council should approve a UPI that provides the utility a fair and moderate increase over the existing formula, and one that encourages additional energy savings, but does not excessively reward the utility in a way that is not grounded in Council policy.

Entergy does not make the case that their incentive proposal is an appropriate percentage of budget as a starting place. While the company points to a single historic program year (PY5), there is no reason to assume this was ever considered a best practice or intended threshold for incentive. Indeed, a 10% incentive on EE spending is far in excess of ENO's currently approved Return on Equity or Return on Ratebase in Resolution R-19-457. The figure below illustrates the significant margin of new incentive ENO is requesting, over (1) the historic UPI formula, (2) the Alliance's recommended 5% of Council-Approved budgets, and (3) even the most recently approved WACC of 7.09%. As AAE expert witnesses outlined in testimony in the recently resolved Consolidated Rate Case[2], for various reasons, including ambition of targets and past results that over-shoot savings goals, the UPI should not be equivalent to ENO's WACC unless the achievement is well in excess of 100%. Historically the utility business model has been tied entirely to spending and recouping costs on large capital investments, with an allowed return on investment. However, these programs are different in many ways from that traditional model, and should not try to mimic or fit that out-dated mold.

[2] UD-18-07, Direct Testimony of Justin Barnes, at 51.

The Alliance agrees with Entergy's UPI multiplier framework, which would increase or decrease by 0.1% based on under/over achievement of the 100% goal. This would allow ENO the opportunity to earn up to 7% of Council-approved program costs for savings achieved at 120% of the savings goal.

Our concerns about an excessive baseline incentive is especially true if the Council approves Entergy's more ambitious savings plan for the next program cycle, which the Alliance supports. This inducement would become burdensome to rate-payers, and would be one of the most expensive portions of total Energy Smart costs. However, if the Council approves Entergy's formula, using the Alliance's recommended 5% of Approved Budget, and Scenario 2, the company still has an opportunity to earn a fair and increasing incentive at both baseline and for additional savings.

SCENARIO 1

Historic UPI Formula			5% of Approved Budget			7.09% - WACC			10% - ENO Proposal	
PY10	$829,000		PY10	$801,060		PY10	$1,135,903		PY10	$1,602,120
PY11	$829,000		PY11	$795,548		PY11	$1,128,371		PY11	$1,591,496
PY12	$829,000		PY12	$928,768		PY12	$1,316,993		PY12	$1,857,536
TOTAL	**$2,487,000**		**TOTAL**	**$2,525,376**		**TOTAL**	**$3,581,266**		**TOTAL**	**$5,051,152**

SCENARIO 2

Historic UPI Formula			5% of Approved Budget			7.09% - WACC			10% - ENO Proposal	
PY10	$829,000		PY10	$838,705.25		PY10	$1,189,284		PY10	$1,677,411
PY11	$829,000		PY11	$885,497.95		PY11	$1,255,636		PY11	$1,770,996
PY12	$829,000		PY12	$997,386.35		PY12	$1,414,294		PY12	$1,994,773
TOTAL	**$2,487,000**		**TOTAL**	**$2,721,589.55**		**TOTAL**	**$3,859,214**		**TOTAL**	**$5,443,180**

Demand Response

Flexible resources like demand response are becoming a more valuable utility tool in a modern energy system. The addition of these programs, and the growth of existing ones shows that Entergy intends to both reduce peak demand, and continue to develop a more modern way of managing their local grid. It is encouraging to see the discussion of demand response and reduced peak throughout the implementation plan, with the continued deployment of technologies like smart thermostats and AMI and fairly robust participation by residents by year 12.

The Alliance's remaining concern with the programs as proposed here is that the projections are anemic, especially for SmallCommercial and Industrial ("C/I") offerings. Based on the tables on page 16, the program only projects a peak demand reduction averaging .83 kW from each of these small C/I customers, who have loads as large as 100 kW. This is a shockingly low expectation, and we hope to see greater reductions achieved through these programs. However, without a reason (a set goal or incentive) to use these programs, Entergy may not call on these customers as much as is cost-effective. As for cost-effectiveness testing, while Aptim points out that the higher cost-effectiveness numbers shown in both DSM potential studies is due to a longer term (20 years) it is unclear how many years were used in calculating the TRC benefits shown for the Residential and Small C/I DR programs. Honeywell describes the increasing cost-effectiveness over the course of five years in their filing[3] and it would be helpful to understand this TRC timeline for residential and small C/I programs.

Appliance Pilot

The Alliance appreciates ENO's addition of new programs and pilots, but is concerned that like some other pilots, there may be a dearth of useful information about the success of the program along the way. If the Council approves this appliance pilot, we encourage the utility to supply information regularly, and that the program be re-approved each program year. We understand that the pilot, here, is presented as a three-year program for a better illustration of projected savings and growth, but we believe a three-year pilot that is not cost-effective should have some necessary guardrails.

Conclusion

The Alliance appreciates this opportunity to respond to Entergy's Energy Smart Implementation Plan application. This cycle of IRP and DSM planning has been the most fruitful yet. Multiple threads are now weaving together to create a robust DSM market in New Orleans, and we look forward to Council approval of a resolution that will support ever greater savings.

3 ENO Implementation Plan Filing, Exhibit B-3, at 6.

IN RE: 2018 TRIENNIAL INTEGRATED RESOURCE PLAN OF ENTERGY NEW ORLEANS, INC.

Certificate of Service Docket No. UD-17-03

I hereby certify that I have this 6th Day of January, 2020 served the required number of copies of the foregoing correspondence upon all other known parties of this proceeding, by USPS or electronic mail.

Logan Atkinson Burke
Alliance for Affordable Energy

November 7, 2019

Docket UD-17-03

2018 TRIENNIAL INTEGRATED RESOURCE PLAN OF ENTERGY NEW ORLEANS, INC.

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