cleanwisconsin

Introduction

Clean Wisconsin appreciates the opportunity to comment on the Staff Memorandum concerning the Focus on Energy Quadrennial Planning Process IV – Phase III – Goals, Targets, and Key Performance Indicators (Docket 5-FE-104), issued on September 13, 2022. In the Staff memorandum, Staff sought stakeholder comments on the following five key areas:

A. Key Performance Indicators for Income-Qualified Programs
B. Key Performance Indicator for Rural Spending
C. Focus on Energy Savings Goals
D. Net Savings KPI
E. Mid-Quad Review of Goals

Clean Wisconsin, assisted by Synapse Energy Economics, offers the following recommendations for the Commission's consideration.

A. Key Performance Indicators for Income-Qualified Programs

a. General comments

As an outcome of Phase I, the Commission directed Focus to develop Key Performance Indicators (KPI) for income-qualified programs to be considered in the current phase (Phase III).[1] Income-qualified programs target the population characterized as having income of between 60 and 80 percent of state median income (SMI).[2]

Staff's Phase I memo outlined different considerations and metrics for equity. These included participation, accessibility, impact, community engagement, and capacity.[3] Collecting and tracking these types of information would help policymakers and stakeholders understand how well the Focus programs are serving its customers. Indeed, the most informative framework will consider multiple measures of program success.

Staff's alternatives target spending and participation. Importantly, participation in a program does not ensure that participants would receive sufficient benefits to actually experience them: the program may provide only superficial savings and not encourage participants to pursue deeper energy savings through the programs or through other channels. For this reason, increasing participation should not be the only

[1] Staff Phase III memo, p. 10.

[2] Ibid.

[3] Staff Phase I memo, page. 99.

measure of the effectiveness of the income-qualified offerings. Likewise, spending is a necessary but insufficient marker of program effectiveness. For example, spending on a community outreach event may increase awareness of the program but would not by itself provide the assistance that the target population needs to address financial and other barriers to implementing energy-savings measures.

As we discussed in our Phase I comments, income-qualified programs should have goals that reflect the imperative that this population experiences the benefits of energy efficiency investment and the ability to better manage their energy bills. The KPI for these offerings should include lifetime electric and gas savings for income-qualified participants.[4] As a gauge of overall program effectiveness, an energy savings goal is well aligned with providing tangible, enduring economic relief to participants and is directly aligned with Focus's mission.[5]

Target energy savings performance should be set relative to the income-qualified segment's potential, according to the Cadmus potential study.[6] The potential study finds that, under the base scenario, roughly a third of electric and gas savings potential for the single-family and multi-family sectors is income-qualified, including all customers with incomes up to 80 percent of SMI. We maintain that the segment of customers between 60 and 80 percent of SMI should experience energy savings in line with its share of potential.[7] In light of the likely budget impacts of our proposal, Focus should continue to build partnerships with other organizations to leverage other resources (including funding from the *Inflation Reduction Act* and outreach efforts by community organizations). Further, Focus should gradually shift toward attaining the income-qualified segment's share of potential savings and could implement or expand tiered offerings.[8] A KPI goal should reflect a gradual increase in savings for this segment relative to past performance over one or two Quad periods.

We recommend that the participation metric proposed by Staff also be included as a KPI. This KPI would help ensure that the programs reach a wide demographic. The basis for the 6 percent increase in number of applications, as proposed by Staff's first and second alternatives, is unclear. While we find

[4] For the low-income population in particular, savings can be eroded by increased consumption if the bill savings from the energy efficiency intervention enabled the participant to, for example, keep the thermostat at a healthier temperature. This does not diminish the need for income-qualified programs, but it does indicate that it may be important to consider non-energy benefits such as improved participant comfort when making decisions about overall investment in the program. It also means that savings expectations for income-qualified programs should be tracked separately from savings for other programs, to provide learnings to further improve the income-qualified programs.

[5] According to the Focus website, "Focus on Energy empowers the people and businesses of Wisconsin to make smart energy decisions with enduring economic benefits."

[6] See Cadmus Group website: https://cadmusgroup.shinyapps.io/focus-tool/.

[7] The total income-qualified potential from the potential study could be allocated to (1) the population segment up 60 percent of SMI and (2) the segment above 60 up to 80 percent of SMI, based on data from the American Community Survey.

[8] With a tiered structure, the first tier could consist of basic services such as LED installation or kits, while a higher tier or tiers would provide deeper savings opportunities, such as HVAC replacement. Tiers are helpful for promoting greater depth of savings to make a tangible dent in the energy burden or bills of participating households, while at the same time pursuing other program objectives, such as (1) reaching as many households as possible and (2) minimizing costs.

that increasing participation is directionally appropriate, we do not take a position on the 6 percent increase or on the timeline in these two alternatives.

We recommend that the spending metric proposed by Staff in Alternatives 3 and 4 be tracked. Tracking performance over time relative to the baseline conditions may provide information on barriers to program success or unintended impacts of the program, and thus inform ways to improve the program. Since the spending-based KPI does not necessarily ensure that the administrator is making effective use of limited resources, it should not be included as a KPI. We also recommend tracking energy burden (the portion of income spent on energy use, excluding energy for transportation) for income-qualified customers, but not including it as a KPI. This is because energy burden is highly influenced by factors outside of Focus's control (such as, but not limited to, the overall economy, employment status, and electric rates).[9]

b. Alternatives in the Staff memorandum

Staff provides the following four alternatives on income-qualified programs.

> **Alt 1**: Set the KPI to increase the number of applications received by the Tier II Income-Qualified program by 6 percent by 2024 over an average baseline from Quad III. The Program Administrator would use the first quarter of 2023 to test the new qualification tool.
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> **Alt 2**: Set the KPI to increase the number of applications received by the Tier II Income-Qualified program by a different percentage by 2024 over an average baseline from Quad III based on the Commission's discussion.
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> **Alt 3**: Set the KPI to increase the Income-Qualified spending to at least 16 percent of annual residential portfolio incentives by 2024.
>
> **Alt 4**: Set a KPI to increase the Income-Qualified spending to a different percentage of annual residential portfolio incentives by 2024 based on the Commission's discussion.

As discussed above, we recommend that the KPIs should include lifetime electric and gas savings for income-qualified participants and for participation. We agree that the proposed participation metric be included as a KPI, although we do not take a position on the 6 percent increase or timeline. We also recommend that energy burden and the spending metric proposed by Staff be tracked but not be included as KPIs.

[9] In our Phase I comments, we provided recommendations for metrics, including that they should be tied to goals, clearly defined, comparable, readily available, objective, easily interpreted, and verifiable. See discussion on p. 22-24 of Clean Wisconsin's Phase I comments.

B. Key Performance Indicator for Rural Spending

a. General comments

The Commission's Phase II decisions directed Focus to develop KPIs to target incentive spending proportional to the share of customers who are rural. Rural customers include those located in zip codes designated as rural based on Census data or who are eligible to receive benefits under the federal broadband Connect America Fund II and the Alternative Connect America Cost Model programs.[10] Focus has increased investment in rural areas, as shown in Table 4 of the Staff Phase III memo.[11] Now, Focus reports that the rural population as a percent of total population has declined from the 36 percent reported during Quad III planning to 31 percent, based on 2020 Census data.[12]

Staff's Alternatives 1 and 2 both contemplate setting the KPI relative to the new rural percentage of 31 percent, but Alternative 1 proposes to only set this percentage for the 2023–2024 period. According to Staff, "[t]his timeframe would allow for the Commission to make adjustments to the KPIs pending the outcome of the Program Administrator's analysis on underserved markets, emphasizing energy burden and small businesses."[13] Staff does not provide the logic for Alternative 2, which would set the KPI performance percentage at 31 percent for the entire Quad IV period.

b. Alternatives in the Staff memorandum

Staff offers the following three alternatives regarding rural program spending.

> **Alt 1**: Set a KPI to target 31 percent of incentive spend which is proportional to the 31 percent of rural customers in the designated zip codes for 2023 and 2024.
>
> **Alt. 2**: Set a KPI to target 31 percent of incentive spend which is proportional to the 31 percent of rural customers in the designated zip codes for the four years of Quad IV.
>
> **Alt. 3**: Set a different KPI based on the Commission's discussion.

Consistent with our recommendation for the Mid-Quad Review of Goals and KPIs (discussed in Section E, below), we find Alternative 1 to be reasonable. This alternative would allow Focus, the Commission, and the parties to take a fresh look at program design and objectives in light of new available information in 2024, including the results of Focus's research on underserved markets.

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10 Staff Phase III memorandum, page 15-16.
11 Id., page. 17.
12 Ibid.
13 Ibid.

c. Focus on Energy Savings Goals

a. General comments

In order to establish energy savings goals for Focus for its Quad IV program cycle, Staff made several adjustments to the results of an energy efficiency potential study conducted in 2021 (the 2021 EE Potential Study). Staff noted in its memorandum that such adjustments were needed because "[t]he study was well in advance of the Commission's policy decisions for Quad IV and prior to the Commission ordering certain topics stemming from the Roadmap to Zero Carbon docket be included in the scope of Quad IV Planning."[14]

Staff provided its rationale for proposing savings adjustments to six measure/program areas: natural gas savings measures, custom industrial process measures, carryover budget, LED lighting measures due to the federal lighting standards, new program initiatives, and renewable energy resources. Staff then provided adjusted energy and capacity savings at the portfolio level in Table 6 of the memorandum. We reproduced this table below.

Proposed Focus on Energy gross lifecycle savings goal, 2023–2026

Type of Savings	Gross Lifecycle Savings Goal
Overall MMBtu Goal	185,692,431
Electric Savings Goal (kWh)	31,676,270,000
Natural Gas Savings Goal (therms)	776,085,000
Electric Demand Goal (kW)	293,900

Staff explained whether each adjustment results in increases or decreases in electricity or natural gas savings. We found that Staff's explanation for each adjustment is reasonable and the direction of Staff's proposed adjustments appear to be appropriate. However, Staff did not provide its calculation for the adjustment for each measure/program area. Thus, we are not able to fully assess the reasonableness of the proposed gross energy savings goal based on the information provided in the Staff memorandum. It would be helpful if Staff could share more information about how it calculated energy savings for each area, including the energy and peak savings before the adjustment solely based on the potential study and the energy and peak savings after the adjustment.

b. Alternatives in the Staff memorandum

Staff provides the following three alternatives regarding Focus on Energy's energy savings goals.

Alt 1: Approve the proposed Focus on Energy gross savings goal in Table 6.

[14] Staff memorandum, page 18.

Alt. 2: Modify the proposed Focus on Energy gross savings goal in Table 6 consistent with the Commission's discussion.

Alt. 3: Reject the proposed Focus on Energy gross savings goal in Table 6 and direct Commission staff to conduct further analysis on appropriate goals consistent with the Commission's discussion.

As mentioned in the previous sub-section, while we agree with the rationales and direction of Staff's proposed adjustments, we found that the Staff memorandum does not provide sufficient information for stakeholders to assess the reasonableness of the proposed gross energy and peak savings goals. Thus, we recommend the Alternative 3.

d. Net Savings KPI

a. General comments

Net savings represent an amount of savings that can be fully attributable to the impacts of programs. Net savings account for the impacts of both free-ridership effects and spillover effects. Free-ridership effects refer to the amount of savings by program participants who would have implemented energy efficiency measures without program incentives or other intervention. The spillover effects (which may be called market effects) represent a positive influence of programs in the market resulting in additional savings beyond direct program impacts.

Staff noted in its memorandum that, while the Quad II performance contract required achievement of net savings, the Quad III performance contract did not include any bonus provisions related to net energy savings. Staff also noted that the Quad III performance contract instead included a performance bonus for achievement of gross savings, customer satisfaction, customer participation, and equity of incentive spending in utility territories. For the Quad IV period, we support the use of similar KPIs as used for the Quad III performance contract. The KPIs used in the Quad III performance contract are important for ensuring programs serve the needs of many customers across various customer segments, while meeting gross savings targets.

We support the inclusion of gross savings for the performance contract instead of net savings for two reasons. First, there are numerous factors that influence free-ridership ratios and net savings, and many such factors are beyond the control of a program administrator like Focus. There is significant uncertainty about the impacts of economy, energy prices, and program intervention by other entities—all of which will influence free-rider effects. In its memorandum, Staff noted significant changes to avoided energy and capacity costs.[15] This also represents significant changes to retail energy prices. Higher avoided costs mean more cost-effective energy efficiency resources. On the other hand, higher retail energy prices could mean higher free-ridership effects if program incentives are not reduced properly. In recent years, various entities including local governments started to offer incentives for

[15] Staff memorandum, page 38.

clean energy measures. These initiatives and any new initiatives, including the federal government's funding supported by the *Inflation Reduction Act*, will also impact free-ridership effects for Focus programs.

Second, Focus would face many challenges if it attempts to modify its programs in order to reduce free-rider effects during the program cycle. To understand the impacts of free-rider effects for *new* programs, Focus has to wait for at least one year. If a study (that may be completed at the end of year one or in year two) finds that free-rider effects are substantially larger than expected, Focus would then need to modify its programs. Focus could then implement new program designs later in year two or year three. This means that Focus could attempt to modify net savings during the second half of the 4-year program cycle at the earliest. However, it is also not clear how effective the new program modifications would be in reducing free-rider effects and increasing net savings due to many uncertainties that may be outside of the control of Focus on Energy.

b. Alternatives in the Staff memorandum

Staff outlines the following two alternatives regarding net savings KPI, along with several sub-alternatives under the Alternative 1 and 2. All of Staff's proposed alternatives would establish KPIs based on lifecycle savings according to the Commission's decision regarding lifecycle versus annual savings goals for the Phase II of the Qual planning process.

> **Alt 1:** SEERA's Quad IV proposed contract to the Commission for approval shall include a performance bonus provision for achievement of a portfolio net savings KPI to be verified by the Focus third-party independent evaluator.
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> > **Sub-Alt. A to D**: A portfolio net-to-gross ratio KPI of 0.75 (A), 0.70 (B), 0.65 (C), or 0.60 (D)
> >
> > **Sub-Alt. E**: a different ratio
>
> **Alt. 2:** Status Quo from Quad III. SEERA's Quad IV proposed contract to the Commission for approval shall not factor the achievement of net savings into the performance bonus structure. The Commission sets a Quad IV net portfolio lifecycle savings goal for itself based on the portfolio gross savings goals approved above. The portfolio net lifecycle savings goals shall be equal to the portfolio gross lifecycle savings goal multiplied by a net-to-gross ratio of:
>
> > **Sub-Alt. A to D**: 0.75 (A), 0.70 (B), 0.65 (C), or 0.60 (D)
> >
> > **Sub-Alt. E**: a different ratio consistent with the Commission's discussion

As we discussed in the previous sub-section, we do not recommend the use of net savings as a KPI or savings goal due to the significant uncertainty about the results of a new net-to-gross study that will be conducted for Quad IV. Thus, we recommend neither Alternative 1 nor the Alternative 2. Instead, we recommend that the Commission set energy savings targets based on lifetime gross savings and use gross savings as one key KPI for the performance contract.

e. Mid-Quad Review of Goals

a. General comments

The Staff memorandum correctly acknowledges several uncertainties that may impact program operations in Quad IV. Such uncertain factors include lingering economic and supply chain impacts of the COVID-19 pandemic, significant changes to program avoided energy and capacity costs, and federal investments in energy efficiency and renewable resources over the course of Quad IV cycle.[16] Given these expected uncertainties, Staff noted that "a mid-quad review may be a useful opportunity to ensure that the goals and measurable targets set by the Commission align with certain market factors beyond the program's control such as the cost of energy, supply chain disruptions, and labor shortages to name a few."[17] We fully agree with this view by Staff and support the implementation of a mid-quad review before the end of the second year of the Quad IV cycle.

b. Alternatives in the Staff memorandum

Staff outlines the following two alternatives regarding mid-Quad review of goals.

> **Alt 1:** Direct staff to perform a mid-quad review of Focus' goals and measurable targets and report the results to the Commission
>
> **Alt. 2:** Take no action at this time

Based on the discussion in the previous section, we recommend Alternative 1.

[16] Staff memorandum, page 38 and 39.
[17] Staff memorandum, page 39.