



Public Utilities Commission

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March 6, 2020

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, OH 43215

RE: *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval to Continue Demand Side Management Program for its Residential, Commercial, and Industrial Customers*, Case No. 19-2084-GA-UNC.

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendations regarding the application filed by Vectren Energy Delivery of Ohio, Inc. for approval to continue its demand side management energy efficiency programs as proposed in Case No. 19-2084-GA-UNC.

A handwritten signature in black ink, appearing to read "K. Schaefer", with a long horizontal stroke extending to the right.

Krystina Schaefer
Division Chief, Grid Modernization & Retail Markets
Public Utilities Commission of Ohio

Enclosure

Cc: Parties of Record

Vectren Energy Delivery of Ohio, Inc.
Case No. 19-2084-GA-UNC (DSM Program)

Summary

On November 22, 2019, Vectren Energy Delivery of Ohio, Inc. (Vectren, VEDO, or “the Company”) filed an application requesting the Commission’s approval of a three (3) year demand side management (DSM) energy efficiency (EE) program portfolio (known as DSM EE) for the 2021 through 2023 calendar years. As proposed, the program would cost \$17,913,881 over the three-year period, which would be recovered through the Energy Efficiency Funding Rider (EEFR), and result in total energy savings of approximately 4.3M hundred cubic feet (Ccf). The Company provided information to support that the program portfolio is cost-effective using both the Total Resource Cost (TRC) Test and Utility Cost Test (UCT). As proposed, the Company would also like to implement a shared savings incentive.

After reviewing the application and supporting materials, Staff recommends that the application be approved, except for the proposed implementation of a shared savings incentive. Staff believes that the three-year DSM EE program portfolio is consistent with state policy and in the public interest. However, the Company did not sufficiently demonstrate why a shared savings incentive is necessary to achieve the benefits of the program or to achieve savings in excess of projections.

Procedural History

On January 7, 2009, the Commission approved a Stipulation and Recommendation in Case No. 07-1080-GA-AIR, et al. (2007 Rate Case) that authorized Vectren to implement the EEFR, which was initially set at zero. The Stipulation also stated that the Vectren Collaborative (“Collaborative”) – previously established in Case No. 05-1444-GA-UNC – would monitor the implementation of programs recovered through the EEFR. Per the terms of the Stipulation in the 2007 Rate Case, the Company was to submit an initial application for a \$1 million minimum investment to establish charges for a low-income weatherization program, which signatory parties agreed would be supported by the Collaborative. Subsequent requests for changes to the EEFR programs and rates would be addressed by the Collaborative, subject to approval by the Commission.

Since that time, VEDO has implemented DSM EE programs designed to improve natural gas efficiency in residential and commercial buildings. The Company’s programs have been updated over time while working with interested parties and stakeholders through the Collaborative.

On February 21, 2018, Vectren filed an application in Case No. 18-298-GA-AIR, et al. (2018 Rate Case), which included a request to increase base rates, modifications to the EE programs and funding, a proposal to expand straight-fixed variable (SFV) rate design to non-residential customers, and other provisions. On August 28, 2019, the Commission approved a Stipulation and Recommendation that removed all DSM EE program expenses from base rates and designated the EEFR as the mechanism to recover all approved DSM EE expenses going forward.

The provisions of the Stipulation in the 2018 Rate Case also instructed the Company to work with interested parties through the Vectren Collaborative to attempt to develop consensus for an EE DSM program and associated funding levels that would start with the 2020 calendar year. If Vectren was unable to establish an unopposed Stipulation & Recommendation by October 1, 2019, then the Company was directed to file an application by November 30, 2019. Per the Stipulation, the application was to be filed in accordance with the following:

- i. *Such application shall seek Commission approval of an EE portfolio and EE funding to take effect beginning 2021.*
- ii. *VEDO may propose an annual performance incentive in the 2019 application, which any Signatory Party may support or oppose.*
- iii. *VEDO may propose annual funding in excess of \$5.6 million in the 2019 application, which any Signatory Part may support or oppose.¹*

The Company was unable to establish an unopposed Stipulation & Recommendation, which resulted in the application in the current case.

Company Filing

On November 22, 2019, Vectren filed an application requesting the Commission's approval of a three (3) year DSM EE program portfolio starting January 1, 2021 and ending December 31, 2023. The Company proposes continuation of its current DSM EE program portfolio, with proposed modifications detailed below, and with funding through the EEFR rider of approximately \$5.8 to \$6 million annually. The Company projects natural gas savings of approximately 1.4M Ccf annually through these programs.

As proposed, VEDO's program portfolio includes:²

<u>Program</u>	<u>Description</u>
<i>Residential Prescriptive</i>	<i>Residential Prescriptive is designed to encourage customers to purchase high efficiency products that would have otherwise purchased standard efficiency products in the absence of the program.</i>
<i>Home Insulation</i>	<i>The objective of the program is to deliver air sealing and insulation upgrades to serve individually metered 1-4 unit single family homes in the utility territory through a network of participating contractors.</i>
<i>School Education</i>	<i>The program is designed to raise awareness about how individual actions and low-cost measures can provide significant reductions in energy and water consumption.</i>
<i>Multifamily Direct Install</i>	<i>The program is designed to produce immediate electric and gas energy savings in multifamily buildings through the direct installation of energy-saving measures.</i>

¹ *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of an Increase in Gas Rates, Case No. 18-0298-GA-AIR (VEDO Rate Case), et al., Opinion and Order at 29 (Aug. 28, 2019).*

² *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval to Continue Demand Side Management Program for its Residential, Commercial, and Industrial Customers, Case No. 19-2084-GA-UNC (VEDO DSM), Application of Vectren Energy Delivery of Ohio, Inc. to Continue its Demand Side Management (DSM) Program for Residential and Commercial Industrial Customers at 5 (Nov. 22, 2019).*

<i>Home Energy Reports</i>	<i>Energy Efficiency behavior modification reports to motivate customers to engage in energy efficiency actions.</i>
<i>Low Income</i>	<i>The program focuses on shell measures such as insulation and air sealing, but also includes replacement of non-functioning natural gas furnaces and water heaters, minor repairs intended to increase the health and safety of the occupants of the home.</i>
<i>Commercial Prescriptive</i>	<i>The program is designed to influence commercial customers to install energy efficient technologies.</i>
<i>Commercial Custom</i>	<i>The program encourages the purchase and installation of efficient technologies or implementation of process improvements.</i>

As proposed, the Company plans to continue:

- Using previously approved procedures in the process to amend the EEFR rider annually.
- Using the VEDO Collaborative for review, evaluation, and monitoring of the DSM program portfolio.
- The ability to transfer program funds within a calendar year.

As proposed, the Company plans to modify the program by:

- Discontinuing the VEDO Collaborative voting process.
- Discontinuing the partnership with Dayton Power and Light (DP&L) on energy efficiency kits and instead shifting those funds to the Multi-Family Direct Install program.
- Adding Smart Wi-Fi Thermostats to the Multi-Family Direct Install and Home Insulation programs.
- Implementing a shared savings incentive for all programs except the low-income programs, as detailed below. The Company estimates the maximum achievement under the shared savings incentive to be approximately \$450,000 per year, which would be eligible for recovery through the EEFR.

<i>Performance Incentives</i>	
<i>Achievement Level Between (Ccf)</i>	<i>Incentive Level (NPV of net benefits of UCT)</i>
<i>≥125%</i>	<i>10%</i>
<i>120 and <125%</i>	<i>9%</i>
<i>115 and <120%</i>	<i>8%</i>
<i>110 and <115%</i>	<i>7%</i>
<i>105 and <110%</i>	<i>6%</i>
<i>100 and <105%</i>	<i>5%</i>

The program portfolio was designed using the 2017 Ohio Market Potential Study, which was included as an attachment to the application. Morgan Marketing Partners also conducted a cost-benefit study of the plan, which was included as an attachment, and demonstrated that the benefits outweighed the costs using both the Total Resource Cost Test and the Utility Cost Test (UCT).

Staff Comments

Staff's review of Vectren's proposed three-year DSM EE program portfolio consisted of a prudence review of proposed costs as they relate to projected natural gas savings, as well as confirmation of the calculations to verify the accuracy of projected expenditures. Staff conducted this review through a combination of document reviews, interviews, and interrogatories.

After reviewing the application and supporting materials, Staff recommends that the application be approved, except for the proposed implementation of a shared savings incentive. Staff believes that the three-year DSM EE program portfolio is consistent with state policy and is in the public interest. However, the Company did not sufficiently demonstrate why a shared savings incentive is necessary to achieve the benefits of the program or to achieve savings in excess of projections.

Vectren is requesting the implementation of a shared savings program in this case, as detailed above. The Company states that the shared savings incentive is needed to encourage effective and efficient management of DSM EE programs. As part of its application, the Company provided documentation (see below) indicating that it has exceeded savings goals for the past eight (8) years.³

Expenses (in Millions)		CCF Savings			
Year	DSM Only	Actual	Planned	% to Goal	Cumulative Savings
2009	\$1.49	254,475	365,399	70%	254,475
2010	\$3.11	877,833	902,528	97%	1,132,308
2011	\$3.63	1,149,211	1,079,713	106%	2,281,519
2012	\$3.55	1,115,429	922,203	121%	3,396,948
2013	\$3.13	922,723	900,074	103%	4,319,671
2014	\$3.13	964,918	917,768	105%	5,284,589
2015	\$3.12	954,255	847,296	113%	6,238,844
2016	\$3.52	1,101,144	1,009,144	109%	7,339,988
2017	\$2.86	1,072,185	932,666	115%	8,412,173
2018	\$3.48	1,391,738	1,263,806	110%	9,803,911
Total:	\$31.01	9,803,911	9,140,597		48,464,424

Staff does not see a need for a shared savings incentive program when Vectren has been able to manage its DSM program successfully without such an incentive. Vectren has consistently demonstrated its ability to exceed the annual goals without a shared savings incentive in place. Further, given the Company's SFV rate design, where fixed costs are recovered through fixed charges and variable costs are recovered through volumetric charges, the Company is neutral to the implementation of programs designed to reduce consumption of natural gas. As the Commission stated in the 2018 rate case, "The SFV rate design proposed by Staff and adopted by the Stipulation eliminates any conservation disincentive to VEDO and properly aligns VEDO's interests with consumer interest in energy efficiency and conservation (VEDO Ex. 12.1 at 12,

³ VEDO DSM at Attachment D.

17).”⁴ Therefore, Staff recommends that the Commission approve Vectren’s application with the exception of the portion requesting the implementation of a shared savings incentive.

⁴ *VEDO Rate Case* at 76.

This foregoing document was electronically filed with the Public Utilities

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Case No(s). 19-2084-GA-UNC

Summary: Staff Review and Recommendation Staff's Review and Recommendations regarding the application filed by Vectren Energy Delivery of Ohio, Inc. for approval to continue its demand side management energy efficiency programs as proposed in Case No. 19-2084-GA-UNC. electronically filed by Ms. Krystina M Schaefer on behalf of PUCO Staff