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June 20, 2014

Mr. Brian U. Ray

Executive Secretary

Mississippi Public Service Commission

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RE: MPSC Docket Numbers: 2014-UA-006 and 2014-UN-10

Comments on MPSC Approval of Proposed Quick Start Energy Efficiency Plans

Southern Alliance for Clean Energy ("SACE") files the following comments on the Quick Start Energy Efficiency Portfolio Plans ("Quick Start Plans") proposed by Mississippi Power Company ("MPC") and Entergy Mississippi Inc. ("EMI"), and approved by the Mississippi Public Service Commission ("MPSC") on June 3, 2014.

First, SACE commends MPC and EMI for submitting their Quick Start Plans and for the effort they put into establishing energy efficiency programs, and the MPSC for approving the utilities' Quick Start Plans. We are optimistic that Mississippi is building a robust framework for successful energy efficiency programs through the Quick Start and Comprehensive Portfolio plans. We enthusiastically support the effort to quickly establish efficiency programs, and we hope that the initial plans will serve as an effective guide for establishing comprehensive plans in the near future.

While we support the approval of Quick Start Plans in general, we offer comments on certain aspects of the Orders (2014-0006-330141 and 2014-0010-330143) approving the specific proposals submitted by EMI and MPC (collectively, the "Companies"). In our comments, we identify one concern with the Companies' applications, and offer insights and additional resources on several topics. SACE's concern with the applications is that the Companies' program impacts and budgets decline or remain flat from 2015 to 2016.

SACE would like to submit information to the MPSC on several topics: (1) best practices regarding the recovery of lost revenues, or lost contributions to fixed costs ("LCFC"); (2) Quick Start program modifications and additional program offerings for the Companies to consider in their Comprehensive Portfolio Plans; (3) sources of clear guidelines for evaluation, measurement and verification ("EM&V") for the MPSC to consider; (4) program flexibility guidance for the MPSC to consider as an alternative to the

Companies' approaches to addressing over-subscription; (5) savings goals for the MPSC to consider; and, (6) the importance of establishing a stakeholder working group to discuss the Companies' energy efficiency programs in a non-regulatory proceeding setting.

I. MPC and EMI Program Impacts and Budgets Decline from 2015 to 2016

MPC and EMI project commendable growth in efficiency impacts from 2014 to 2015, followed by flat or declining efficiency impacts from 2015 to 2016. MPC's total efficiency impacts drop 14%, and EMI forecasts minimal growth in overall efficiency impacts, with declining residential impacts. This results in MPC's savings as a percentage of annual sales declining from 0.19% in 2015 to 0.17% in 2016, as shown in Table 1. There is a limited discussion of the reduction in MPC's application, in which they noted that the apparent decline is due to the "rapid, one-time response" expected from the Behavioral Analysis program, but MPC did not appear to consider ways to sustain growth in the savings realized as a result of the information provided by the program. EMI did not discuss the projected decline in residential impacts in their application. Further, the MPSC did not address the declining impacts in the Orders.

This decrease in efficiency impacts is concerning to SACE because robust efficiency programs that are in the process of ramping up should not have declining savings. There may be an explanation for this reduction, but as stated, we are not aware of the reason.

Table 1. MPC and EMI Quick Start Program Efficiency Impacts

	2014		2015		2016	
	GWh	% of Sales[1]	GWh	% of Sales	GWh	% of Sales
MPC	4.7	0.05%	18.9	0.19%	16.3	0.17%
EMI	10.8	0.08%	34.7	0.26%	35.1	0.26%

Similar to the energy efficiency impact projections, the Companies' budgets decline from 2015 to 2016, as shown in Table 2. There is no discussion in the Companies' applications or the Commission's Orders regarding this decline. In addition, the Companies' budgets were not calculated using the same inputs. MPC provided budgets for administrative costs, EM&V, and marketing and advertising, but EMI did not include any non-program-specific budgets. Further, it is not clear whether EMI's budget figures include funds for providing incentives to customers that installed qualifying measures prior to the

[1] Savings as a percentage of sales is calculated using 2012 sales as reported on the EIA Form 861.

implementation of the company's Quick Start Plan (which is discussed more in the EM&V section below).

Table 2. MPC and EMI Quick Start Program Budgets

Total ($000s)	2014	2015	2016
MPC	1,554.8	3,955.2	3,952.8
EMI	2,854.9	4,874.9	4,770.0

The variation in budget calculations makes comparisons between the Companies difficult. SACE strongly urges the Commission to ensure that in future proceedings all utilities use a standardized format with agreed-upon inputs to ensure that the Quick Start Plans can be benchmarked against each other. The data provided in the Companies' applications indicate that MPC plans to spend 81% of EMI's budget in 2015 and achieve 55% of EMI's projected efficiency impacts. In 2016, MPC compares even less favorably, spending 83% of EMI's budget and achieving only 43% of EMI's projected efficiency impacts. Again, it is unclear if the discrepancy in budget and efficiency impacts is attributable to EMI's exclusion of administrative, EM&V, marketing and advertising costs.[1]

II. Lost Contribution to Fixed Cost Collection Term Should be Limited to Less than the Lifetime of the Measure

In the Commission's orders approving MPC and EMI's applications, the Commission provides limited explanation regarding how the LCFC will be calculated. The Commission stated that LCFC will not include losses in sales due to:

- Weather
- Population change
- Background increases or decreases in customers' self-funded efficiency efforts.

The Commission also notes "LCFC is not collected for measures for which the measure life has expired between rate filings." It is not clear to SACE if a "rate filing" is the annual re-determination proceeding or a full utility rate case. In addition, it is not clear to SACE how long the term of LCFC collection is – the lifetime of the measure, the period between annual re-determination proceedings, or the period of time between rate cases.

The term of the collection of LCFC is a critical policy decision. If the Companies over-collect LCFC as their programs scale up, the lost revenue component may cause the efficiency programs to become too costly due to bloated lost revenue requirements.

SACE encourages the Commission to consider limiting the LCFC to less than the lifetime of the measure so as to split the benefit of energy efficiency between both the Company and the customer.

In North Carolina, South Carolina and Georgia, the utilities are limited to collecting LCFC for 36 months. In North Carolina and South Carolina, this was done by order, limiting the recovery of lost revenues to 36 months; in Georgia, the utility returns to the PSC every three years to set rates.

In North Carolina, the Commission found,

> Reductions in energy use (MWh) resulting from energy efficiency programs may impair the Company's ability to recovery sufficient revenues to cover its fixed costs. In the near term, the reduction in electricity sales resulting from energy efficiency programs will result in "net lost revenues," which present a financial disincentive to the Company to implement energy efficiency programs. To reduce this disincentive, the Company may recover a reasonable amount of net lost revenues for its energy efficiency programs for a limited period of time…net lost revenues may be recovered for a period of 36 months…[2]

In South Carolina, the Commission shortened the period for lost revenue recovery for SCE&G in 2013. The Order states,

> The Parties agree that recovery of net lost revenues through the rate rider shall continue as set forth in Commission Order No 2010-472, except that recovery of net lost revenues through the rate rider shall be limited to a rolling three (3) years. Recovery of net lost revenues shall cease upon the implementation of new retail electric rates in a general rate case proceeding to the extent that those new rates explicitly or implicitly allow the Company to recover the net lost revenues associated with the implementation of those measures in those prior periods.[3]

While there is not a "best practices" document that provides guidance regarding how long utilities should be permitted to collect lost revenues, the goal of a lost revenue policy is to allow the utility to be made financially whole for any unrecovered fixed costs due to the short-term losses in sales that they may experience through energy efficiency implementation.

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[2] NCUC Docket E-7 Sub 831. Agreement of Joint Stipulation of Settlement. Filed June 12, 2009. Exhibit B, Settlement Terms, A.4

[3] Order Approving SCE&G's Request for Approval to Continue DSM Programs and Included Rate Rider and for Approval of Revised Portfolio of DSM Programs, South Carolina Public Service Commission Docket No 2013-208-E, Order No. 2013-826. November 26, 2013.

III. SACE Suggests Program Improvements and Additional Program Suggestions

First, SACE commends the Companies for crafting solid energy efficiency portfolios in their Quick Start Plans, and the MPSC for approving the plans. It is essential that the Companies develop strategies to ensure significant annual growth in energy savings from each of the energy efficiency programs, and in that vein, SACE offers a few suggestions.

In order to stem the projected decline in Residential Lighting savings from 2015 to 2016, EMI could consider increasing incentives to further reduce purchase costs of ENERGY STAR® certified lighting products in 2016, and expanding community-based bulb distributions by exploring additional distribution venues and including LEDs in addition CFLs. Similarly, we recommend that MPC consider ways to leverage the information provided in the Behavioral Analysis program to help customers achieve increasing savings in 2016 and beyond. For example, providing more detailed seasonal energy usage reports paired with customized suggestions for energy savings could prompt customers to take new initiatives to save energy, particularly during the hottest and coldest months of the year.

We commend the Companies for including several measures targeting low-income customers in the Quick Start Plans. However, it is essential that there are dedicated programs with customized strategies for serving the needs of low-income customers. Low-income customers often face additional obstacles to participating in energy efficiency programs, including the problem of split incentives between tenants and property owners, a lack of affordable investment capital, insufficient energy efficiency knowledge, and the fact that low-income customers spend a proportionally higher amount of their income on utility bills. SACE recommends that the Companies consider an on-bill financing program to offer low-income customers an opportunity to lower their electricity bills through energy efficiency. On-bill financing provides low-interest loans for energy efficiency investments that are repaid on monthly utility bills, and can enable low-income customers with limited access to capital to lower their total utility bills, including the added cost of the monthly loan payments. As of late 2011, 20 investor-owned utilities offered on-bill financing, in addition to many electric cooperatives and municipal utilities.[4]

Finally, moving forward, we recommend that the Companies continue to investigate successful energy efficiency programs in other jurisdictions and explore options for their Comprehensive Portfolio Plans, including upstream mobile-home programs, municipal and campus programs, new construction programs, public housing authority programs for

[4] Bell, Catherine, et al. *On-Bill Financing for Energy Efficiency Improvements: A Review of Current Program Challenges, Opportunities and Best Practices.* December 2011.

low-income customers, multi-family programs, and grocery retro-commissioning programs.

IV. Clear Evaluation, Measurement & Verification Reporting Simplifies EECR Proceedings

SACE stresses the importance of annual EM&V and notes that having clear reporting requirements simplifies all stakeholders' review of the Companies' EM&V reports. We recommend that the MPSC establish specific guidelines for a detailed, transparent EM&V process during the Comprehensive Portfolio Plan phase. The State & Local Energy Efficiency Action Network[5] and the EPA National Action Plan on Energy Efficiency[6] both have useful guides on conducting EM&V.

A component of EM&V that will need to be determined relates to net and gross savings. Net savings are those savings that are achieved because of the utility's actions. Often, when moving from gross to net savings, free riders (and free drivers) are accounted for. A free rider is a program participant that would have installed an energy efficiency measure without the utility taking in action, while a free driver is customer that installs more efficiency measures than what the utility has incentivized. There are varying levels of free ridership, and the degree to which the customers actions were motivated by the utility's actions are used to determine how much credit is appropriate for the utility to take when quantifying its efficiency goals.

In EMI's application, it is not clear whether the budget figures include funds for providing incentives to customers that installed qualifying measures prior to the implementation of the company's Quick Start Plan. Providing incentives to customers that have installed measures prior to the program being approved inherently makes those customers free riders. The MPSC's decision on how they would like to address free ridership, through EM&V, will be a clear factor in determining if EMI's potential use of funds to pay free rider incentives is appropriate.

V. Funding Flexibility Is the Best Solution for Oversubscription

SACE supports the Companies' efforts to avoid stop-start funding for their energy efficiency programs. However, the strategies proposed in the Quick Start Plans for handling program oversubscription are inadequate and could be detrimental to the future success of the programs. Many of the Companies' proposals for handling oversubscription involve cutting back on enrollment through the use of various methods,

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[5] http://www1.eere.energy.gov/seeaction/pdfs/emv_ee_program_impact_guide.pdf
[6] http://www.epa.gov/cleanenergy/documents/suca/evaluation_guide.pdf

including establishing waiting lists. It is not clear why the Companies did not rely more heavily on their option to shift funds among the various programs within the Quick Start Plans.

A better approach to handling oversubscription is to enable budget flexibility for the Companies' Quick Start Plans. SACE recommends that the MPSC consider establishing clearly defined flexibility guidelines to smooth the implementation process. As an example, the MPSC could look to the flexibility guidelines approved by the North Carolina Utilities Commission ("NCUC") for Duke Energy Carolinas ("DEC"). In administering its energy efficiency programs, DEC is permitted to make modifications and to exceed its approved budget, subject to certain restrictions. Specifically, NCUC approval is required for: "(1) changes in program costs greater than 20%; (2) changes that resulted in program savings of greater than 20%; (3) any change to the participant incentives offered; (4) changes to the target customer group; (5) any changes that would result in the reassignment of costs and benefits from one class to another; or (6) any combination of the first five criteria."[7]

While the MPSC should not overlook its responsibility to place appropriate restrictions and accountability in place, the balance of control and flexibility should emphasize accountability for results over accountability for process.

VI. Savings Targets Should Align with EPA-Proposed Efficiency Impacts

Currently, the Companies' savings projections are very modest, and the approved programs could achieve much greater efficiency impacts. SACE recommends that the MPSC set energy efficiency goals in the Comprehensive Portfolio Plan phase that, at a minimum; align with the Environmental Protection Agency's ("EPA's") Clean Power Plan Proposed Rule[8] and proposed level of energy efficiency impacts for Mississippi.

Table 3. EPA Proposed Energy Efficiency Impacts for Mississippi[9]

	Savings as a Percentage of Annual Sales
2017	0.07%

[7] Flexibility Guidelines Reference Documentation, in reference to NCUC Docket No. E-7, Sub 831.
[8] More information on the EPA's Clean Power Plan Proposed Rule can be found at http://www2.epa.gov/carbon-pollution-standards/clean-power-plan-proposed-rule
[9] Technical Support Document: GHG Abatement Measures –Appendix 5. Available at http://www2.epa.gov/carbon-pollution-standards/clean-power-plan-proposed-rule-technical-documents-spreadsheets-0

2018	0.22%
2019	0.47%
2020	0.67%
2021	0.87%
2022	1.07%
2023	1.27%
2024	1.47%
2025 -2030 each year	1.5%

SACE supports the MPSC's intent to defer consideration of proposed performance-incentive mechanisms until after establishing specific numerical energy savings targets, and we encourage the Commission to establish a mechanism that optimally balances the need to reward the Companies for exceeding savings targets with the need to mitigate impacts on bills. The MPSC should consider implementing a scale of increasing returns on investment based on the level of savings achieved that would reward the Companies for achieving savings above the established targets. We look forward to actively engaging in the Comprehensive Portfolio Plan phase and providing input into the establishment of energy savings targets and rate recognition of Quick Start Plan investments.

VII. Establishing a Working Group Could Aid in Program Implementation and Review, and Make Proceedings More Efficient

SACE recommends the creation of a working group to aid in the implementation of the approved Quick Start Plans and to engage in ongoing discussions on opportunities for improvement. We believe that a working group could serve multiple goals: 1) a working group will create a venue for the utilities to discuss what the appropriate state-wide efficiency messaging is, per the Commission's suggestion; 2) it can create a formal opportunity for the utilities to share best practices, and allow interested stakeholders to provide useful feedback and discuss appropriate energy efficiency goals for the Comprehensive Portfolios; and, 3) it could serve as a venue for timely reviews of annual EM&V results as they become available. If flexible budgets are established, the working group could also serve to provide input on program changes that do not require MPSC approval. In addition, the working group could make future proceedings more efficient by allowing stakeholders to resolve uncontroversial issues before bringing them before the Commission.

VIII. Conclusion

Overall, the approval of Quick Start Plans for the Companies is a major step forward, and SACE applauds the Companies and the MPSC. However, SACE recommends that the Companies provide a clear explanation as to why their savings and budgets decline when they are presumably ramping up their efficiency efforts.

SACE respectfully proposes that the MPSC: 1) take further steps to ensure that adequate funding is budgeted for each program; 2) deny EMI's request to provide incentives for energy efficiency measures installed prior to the launch of the Quick Start Plan; 3) consider directing the Companies to implement additional programs, including on-bill financing and customized low-income programs; 4) establish clear guidelines for detailed EM&V; 5) permit budget flexibility and certain program modifications without MPSC approval; 6) set targets to position Mississippi to achieve at least the savings recommended by the EPA; 7) place a limit on the collection of LCFC; 8) implement performance-incentive mechanisms to encourage savings above the established targets; and, 9) establish a working group to aid in the implementation and review of the Quick Start Plans.

In closing, SACE commends the Commission for its leadership on energy efficiency in Mississippi and appreciates the opportunity to provide comments. We look forward to continuing to work with the MPSC and other interested stakeholders in this important process.

Sincerely,

Natalie Mims

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