PSC REF#:275508

Public Service Commission of Wisconsin
RECEIVED: 09/24/15, 12:48:01 PM

PUBLIC SERVICE COMMISSION OF WISCONSIN

Memorandum

September 16, 2015

FOR COMMISSION AGENDA

TO: The Commission

FROM: Jeffrey J. Ripp, Administrator
Carol A. Stemrich, Assistant Administrator
Jolene A. Sheil, Director, Focus on Energy
Division of Energy Regulation

RE: Quadrennial Planning Process II 5-FE-100

Follow-Up Issue Regarding Focus on Energy Revised Goals and Renewable Loan Fund

Suggested Minute: The Commission directed Division of Energy Regulation staff to draft an order in accordance with its discussion.

Background

This memorandum addresses two issues affecting Focus on Energy (Focus) that were included in the Quadrennial Planning II Process, docket 5-FE-100, for which the Commission issued several orders in 2014. These two issues are: (1) revised Focus goals for the 2015-2018 quadrennium resulting from 2014 carryover funds; and (2) proposed administrative costs for the Focus renewable loan fund. These decisions must be made by the full Commission, rather than be decided by the delegated Commissioner.

1. Adjustment to the Four-Year Goals Due to Carryover Funds

At the end of every program year there are carryover funds, with the amount varying from year to year. Carryover funds exist because of the need to ensure that portfolio spending stays within budget and also due to the timing of project payments. For example, if a project is completed in one program year but not submitted in time to be included in the payment cycle for

the year, it is then paid in January of the new program year. Carryover from 2014 totaled $9,302,751. Of this amount, $9,020,434 was from the Business and Residential program implementation and $282,317 was from program administration. The Commission's Order in docket 5-GF-1919, served January 13, 2015, directed that 2014 administrative carryover funds be used to cover the cost overrun associated with 2014 prescriptive renewable energy incentives. (PSC REF#: 229640.) The 2014 prescriptive renewable energy cost overruns totaled $120,900. This resulted in $161,417.54 in administrative funds being allocated to the 2015 administrative budget. As in previous years, the Focus-delegated Commissioner approved the reallocation of both the implementation and administrative carryover funds in an amendment to the Statewide Energy Efficiency and Renewables Administration and Chicago Bridge & Iron contract. This amendment was finalized and approved on August 25, 2015.

The first quadrennium ended December 31, 2014. The first quadrennium was the first time Focus had a four-year budget and four-year goals. Because there is $9,302,751 in carryover funds, it is necessary to adjust the original goals for the current quadrennium to reflect the increased budget for the 2015-2018 period. This $9,302,751 results in an increase in the program implementation budget for the 2015 program year of about 10 percent, which translates to about a 2.6 percent increase for the quadrennium. The Program Administrator has proposed the following adjustments to the four-year goals:

Original and Proposed Four-Year Goals

Unit	Original Verified Gross Lifecycle Goals	Proposed Verified Gross Lifecycle Goals	Original MMBtus	Proposed MMBtus	Original 90% Threshold	Proposed 90% Threshold
kW	413,122	422,624	N/A	N/A	N/A	N/A
kWh	30,426,797,117	33,464,283,514	103,816,232	114,180,135	27,384,117,405	30,117,855,163
Therms	1,588,026,749	1,544,790,067	158,802,675	154,479,007	1,429,224,074	1,390,311,060
TOTAL			262,618,907	268,659,142		

The Program Administrator proposes to increase the overall million British thermal unit (MMBtu) four-year goal by 2.3 percent. This is less than the 2.6 percent increase in the four-year budget. However, based on Focus's program history, the Program Administrator estimates there will be carryover of about $4.5 million from the current quadrennium, 2015-2018, to the next. If the Commission accepts the Program Administrator's $4.5 million estimate of carryover from the current quadrennium to the next, the appropriate budget increase to consider for the purpose of setting goals for the 2015-2018 quadrennium is about 1.3 percent.

While it proposes to increase the overall MMBtu goal (2.3 percent), kilowatt (kW) goal (2.3 percent), and kilowatt-hour (kWh) goal (10.0 percent), the Program Administrator proposes to decrease the verified gross life cycle therm goal by 2.7 percent. The Program Administrator did not meet its therm savings goals for the 2011-2014 quadrennium and states that it continues to be difficult to achieve cost-effective therm savings due to low natural gas prices. The therm goals established for the 2015-2018 quadrennium were based on the assumption of achievement of 2011-2014 goals, plus 15 percent. Given the continued low natural gas prices, achievement of this goal may not be realistic. Also, a reduction in therm goals may be appropriate as the decline in natural gas revenues has reduced the contribution to Focus from natural gas customers. The amount of Focus funding from natural gas customers has decreased from about $32 million, or 32 percent of Focus funding, in 2012 to about $25 million, or 24 percent, in 2015.

Commission Alternatives

Alternative One: Accept the revised four-year goals proposed by the Program Administrator for the 2015-2018 quadrennium.

Alternative Two: Accept the revised four-year overall MMBtu and kW goals proposed by the Program Administrator for the 2015-2018 quadrennium and increase the verified gross lifecycle kWh and therm goals by the same 2.3 percent as the overall MMBtu goal.

Alternative Three: Establish a different overall MMBtu goal than proposed by the Program Administrator, and commensurate kW, kWh, and therm goals.

2. Renewable Energy Revolving Loan Fund

The Commission's Order in docket 5-FE-100, served November 21, 2014, addressed funding for renewable energy programs. (PSC REF#: 225109.) The Commission determined that $10 million of undesignated funds should be set aside for the creation of a renewable revolving loan fund ($2.5 million for each of the four years of the quadrennium). In addition, $5 million and $3.5 million were to be made available for renewable energy incentives in 2015 and 2016, respectively. The Commission also directed the Program Administrator to report back no later than mid-2016 on the status of the loan program in order for the Commission to evaluate the effectiveness of the loan mechanism and determine whether Focus should transition entirely to loans, retain the combined loan and incentive program, or otherwise amend the program.

The Program Administrator worked with Commission staff to develop the renewable loan structure. A Request for Proposals for an implementer for the renewable loan program was released on April 6, 2015, with proposals due by May 5, 2016. Commission staff is requesting guidance from the Commission as it appears that the proposed administrative costs for the programs may be higher than the Commission anticipated. The proposed average administrative cost for each year of the quadrennium ranged from $300,000 to $487,825, not including the administrative costs of the Program Administrator. The scope of work for the implementer of the loan program includes, but is not limited to, working with customers to fill out loan

applications, and outreach and education to banks interested in providing financing. The Program Administrator will incur costs to solicit proposals through the existing Renewable Energy Competitive Incentive Process (RECIP) and to conduct the technical review of proposals. During the last round of RECIP, over 80 proposals were received. Each proposal requires varying degrees of technical review by engineers to confirm the estimated energy savings. The Program Administrator estimates its administrative cost at $300,000 annually.

Commission staff believes it may be possible to reduce administrative costs in two areas. First, the outreach to banks, marketing, and advertising outlined by bidders could be greatly reduced or eliminated. It is likely that banks will self-select for these loans and, therefore, a systematic and time consuming outreach program is not necessary. Second, Commission staff believes that the costs proposed by the Program Administrator to review the proposals are likely too high. Since there is already a process in place to deal with a high volume of proposals, there are few administrative start-up costs. Soliciting proposals through RECIP also reduces incremental administrative costs for the loan program in the future as some proposals may request both incentives and a loan, with only one technical review needed for each project proposal. Also, the Program Administrator expects 20 to 50 loans per year. While the demand for loans is unknown, it is possible that there will be fewer proposals during the program ramp-up period.

Commission Alternatives

Alternative One: Direct the Program Administrator to proceed with selecting an implementer for the Renewable Loan Program based on the bids received.

Additional Option A: Direct Commission staff to work with the Program Administrator to reduce its administrative costs for the Renewable Loan Program.

Alternative Two: Direct the Program Administrator to reduce the program implementer's scope of work for the Renewable Loan Program and negotiate with the selected implementer to reduce implementation costs accordingly.

Additional Option A: Direct Commission staff to work with the Program Administrator to reduce its administrative costs for the Renewable Loan Program.

Additional Option B: If the negotiated Renewable Loan Program implementation costs exceed $100,000 annually (or some other amount deemed appropriate by the Commission), the Program Administrator shall seek further guidance from the Commission.

Alternative Three: Direct the Program Administrator not to proceed with the Renewable Loan Program and to develop a plan as to how the $10 million should be allocated to existing Focus programs.

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Key Background Documents
Final Decision signed and served 1-13-15 - PSC REF#: 229640
Final Decision (signed & served 11/21/14) Callisto Dissent - PSC REF#: 225109