Estimating the Impact of DSM on Energy Sales Forecasts

A Survey of Utility Practices

PRESENTED TO
CRRI Western Conference 2017

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June 29, 2017
For the past few years, utilities have been consistently over-forecasting sales, and one of the main reasons is DSM

We describe several different approaches to estimating the impact of DSM on sales, based on conversations with several utilities in 2013 and 2016
What is Demand-side Management (DSM)?

Demand-side management (DSM) refers to programs and technologies encouraging customers to modify their level and pattern of electricity usage.
Increased Penetration of DSM throughout the U.S.


Source: Form EIA-861 data. Energy Saved Percentage is calculated as DSM Savings/Total Sales.
Utilities have Consistently Over-Forecasted Sales Due to Factors Like DSM

Similar Trends Have Been Observed Outside the U.S.
Over-forecasting Sales leads to Approved Tariffs to be Too Low to Recover the Desired Revenues

Desired Revenues

Overly Projected Sales

Approved Rates being Too Low

Revenues Fails to Recover Costs
Key Challenge in Estimating the Impact of DSM on Load Forecasts

It is hard to determine how much, if any, DSM is accounted for in the historical sales data

- The impacts from the DSM are mixed with customer’s naturally occurring conservation and impacts from government codes and standards
Brattle Surveyed 16 North American Utilities in 2013

The 2013 Survey:
- Do you make any exogenous adjustment to your load forecast for DSM?
- If so, what are the methodologies used?
Brattle 2013 Survey of Utilities on Handling DSM

- Already Embedded - Adjust for Incremental DSM: 50%
- Already Embedded - No Adjustment Needed: 6%
- Reconstructed Sales - As if No DSM: 25%
- DSM as a RHS Variable: 6%
- Hybrid Model (SAE): 6%
- Mixed Methods: 6%
Approach 1: DSM Already Embedded in Sales Data - No Post-regression Adjustment Needed

- Reconstructed Sales - As if No DSM 25%
- DSM as a RHS Variable 6%
- Hybrid Model (SAE) 6%
- Mixed Methods 6%
- Already Embedded - No Adjustment Needed 6%
- Already Embedded - Adjust for Incremental DSM 50%
Approach 1: DSM Already Embedded in Sales Data - No Post-regression Adjustment Needed

This approach has been used by utilities when

- There is no history of DSM and no expected DSM activity in the future
- There was some DSM activity but its intensity remained constant historically and was expected to stay at the same pace in the future

Annual Sales

Historical Period

Forward Period

Constant Level of DSM

Gross Sales (No DSM)

Actual & Projected Sales (Net of DSM)

2017

Year
Approach 2: Historical DSM Already Embedded in Sales Data - Need Adjustment for Incremental DSM
Approach 2: Historical DSM Already Embedded in Sales Data - Need Adjustment for Incremental DSM

This is the most widely used approach among North American utilities

- No prior history of DSM but with projected DSM in the future
- Constant historical DSM but with an incremental DSM in the future
The Second Approach Relies on an Exogenous Estimate of Incremental DSM Savings

The incremental DSM savings are estimated outside the load forecasting models.
Approach 3: Reconstruct Historical Sales – As if No DSM

- Reconstructed Sales - As if No DSM: 25%
- Already Embedded - Adjust for Incremental DSM: 50%
- DSM as a RHS Variable: 6%
- Hybrid Model (SAE): 6%
- Mixed Methods: 6%
- Already Embedded - No Adjustment Needed: 6%
Approach 3: Forecast with Reconstructed Sales as if no DSM and Do Post-regression Adjustment

- The main reason for utility companies to adopt this approach is that there are considerable change in the intensity of DSM programs during the past few years.
- It still requires estimates of DSM impacts from either end-use models or qualitative surveys.
- The forecast accuracy from this approach, to a great extent, depends on the accuracy of DSM impacts estimates.
Approach 4: Include DSM Activities as a Right-hand Side Variable in Econometric Models
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This approach explicitly accounts for the impact of DSM by introducing DSM variable as a right-hand side variable in the econometric model.

- It does not rely on exogenous estimates of DSM impacts like Approach 2 and 3; instead, it estimates its own DSM impacts within the econometric models.

- Utilities need to collect data of potential DSM variables which can be time consuming or even infeasible.

- Choices of DSM variables:
  - Expenditures ($ spent) of DSM programs
  - Number of customers involved in the programs
  - Binary variables if expenditures are not quantifiable
Approach 5: Develop a Hybrid Model (SAE) that Embeds End-use Features in Econometric Models
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A hybrid model approach combines end-use models with econometric models

- End-use concepts are applied as model variables in the regression equation which allows the model to account for naturally occurring changes in DSM

- Such models reap the benefits of econometric models and end-use models, with fewer time and resource requirements than a traditional end-use model

- Statistically adjusted end-use (SAE) models are an example of this approach
Approach 6: Used a Combination of Approaches Discussed Above
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Utilities choose to use a combination of approaches for various reasons

- Short-Term Forecasting v.s. Long-Term Forecasting
  - Short-term (1-2 years): Approach 1
  - Long-term (> 3 years): Approach 2

- Choose Different Approaches Based on Rate Classes and Jurisdictions

- Use Another Approach as Cross Check
# Advantages and Disadvantages

<table>
<thead>
<tr>
<th>Approach</th>
<th>Advantages</th>
<th>Disadvantages</th>
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<tbody>
<tr>
<td>Already Embedded – No Adjustment Needed</td>
<td>Easy to Implement</td>
<td>Only Useful with Limited and Stable DSM</td>
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<tr>
<td>Already Embedded – Adjust for Incremental DSM</td>
<td>Easy to Implement; Can Account for Increase in Intensity of DSM</td>
<td>Need to Estimate Exogenous DSM Savings Outside the Sales Forecast Models</td>
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<tr>
<td>Reconstructed Sales – As if No DSM</td>
<td>Can Account for Considerable Changes in Historical DSM</td>
<td>Forecast Accuracy Depends on Accuracy of the Estimates of DSM Savings</td>
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<tr>
<td>DSM Activities as a RHS Variable</td>
<td>No Need to Estimate Exogenous DSM Savings</td>
<td>Data Hard to Acquire</td>
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<tr>
<td>Hybrid Model (SAE)</td>
<td>Capture both Naturally Occurring Efficiency Trends and DSM Impacts</td>
<td>Need Sophisticated Software and Trained Personnel to Execute</td>
</tr>
<tr>
<td>Combination of Approaches Above</td>
<td>Can Reap the Benefit of Multiple Approaches</td>
<td>Costly to Implement</td>
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Brattle Conducted a Second Survey in 2016

The 2016 Survey:

- What approach are you using to incorporate DSM into your sales forecast?
- Is this the same approach you were using four years ago?
- If not, why did you make the change?
- How satisfied are you with your approach?
- Has the approach been accepted by the regulatory body?
- If you are estimating DSM impacts outside of an econometric model, are you using an end-use model to estimate them?
Brattle Survey Results

Four utilities switched to a different approach
- SAE model gained popularity among utilities especially for long-term forecasting
- More utilities adopted mixed approaches

Rationale behind the switches
- Increased intensity of DSM programs
- More years of DSM variables data becomes available
- Improvements in software
Conclusions

- Forecast sales with impact of DSM is a challenging yet crucial task to utilities

- Six approaches adopted by utilities to account for DSM

- Utilities should understand the advantage/disadvantage of each approach and choose the best one based on
  - The nature of the DSM programs
  - Data availability
  - Change in time may warrant another review

- Similar method can be applied to DG and government mandated Codes and Standards
Ahmad Faruqui leads the firm’s practice in understanding and managing the changing needs of energy consumers. This work encompasses tariff design and evaluation, distributed generation, energy efficiency, demand response, demand forecasting and cost-benefit analysis of emerging technologies. He has consulted with more than 125 clients, including utilities, system operators, and regulatory commissions, in the U.S. and in Australia, Canada, Egypt, Hong Kong, Jamaica, Philippines, Saudi Arabia, and Thailand. He has filed testimony or appeared before state commissions, government agencies, or legislative bodies in Alberta (Canada), Arizona, Arkansas, California, District of Columbia, Illinois, Indiana, Kansas, Maryland, Michigan and Ontario (Canada). He has spoken at conferences in Australia, Bahrain, Brazil, Egypt, France, Germany, Ireland, Jamaica, and the United Kingdom. And his work has been cited in Business Week, The Economist, Forbes, The New York Times, USA Today, The Wall Street Journal and Washington Post. He has appeared on Fox News and National Public Radio and is the author, co-author, or co-editor of four books and more than 150 articles on energy economics. Dr. Faruqui holds bachelors and masters degrees from the University of Karachi in economics and masters and doctoral degrees from the University of California, Davis, in economics and in agricultural economics.

The views expressed in this presentation are strictly those of the presenter(s) and do not necessarily state or reflect the views of The Brattle Group.
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Additional Resources

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