

SEC INTERROGATORY #32

INTERROGATORY

[A/1/3, p. 31] Please describe the benefits and disbenefits of negotiated NTG results vs. empirically or independently derived NTG results.

RESPONSE

This response is provided with the assistance of Navigant.

It should be noted that empirically derived results may or may not be independently derived results. In addition, negotiated results can also be independently arrived at in some settings. Trying to make these distinctions can be difficult.

The design of empirical studies in evaluation often include many negotiated elements between stakeholders, particularly with respect to the design of questions; agreed-upon scoring methods; and, treatment of complex NTG concepts such as timing and acceleration of investments; and, procedures to mitigate bias (including recall bias, response bias, and bias in survey implementation e.g., interviewer bias and non-response bias). All three state jurisdictions addressed in the Navigant review set out certain NTG evaluation processes in advance of implementation. This requires careful review, comments, proposed approaches, and then an agreed-upon approach. Many elements in this process represent a negotiation in terms of developing an approach in advance of its fielding to develop NTG estimates.

As discussed above, NTG results can be both empirically and independently derived, and also can be subject to stakeholder negotiations. This is the case in Massachusetts and Illinois, where evaluation results are used to inform stakeholder consensus processes for prospective application of NTG values. This negotiation process is particularly important for prospective application where changes are expected to occur in markets or participation.

Negotiated results can be more expansive in the issues that are considered. These can include a recognition of market effects and secondary attribution that might be difficult to estimate empirically but are known not to be zero. Ignoring these known factors, or assuming they have a value of zero where logic and empirical studies show they are, in

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fact, non-zero, can lead to poor policy decisions. Negotiated approaches make use of empirical studies (both within the jurisdiction and from other jurisdictions as appropriate) but are also able to consider the context and robustness of empirical estimates. Knowledge of what is included in a NTG empirical study and what is left out (e.g., secondary attribution, other program influences, spillover, and market effects) can be assessed and addressed judgmentally by making informed adjustments to results where they are aligned with the overall EE policies in a jurisdiction.

Overall, the benefits of negotiated NTG informed by empirical studies include:

1. A focus on developing values that are viewed by the stakeholder group as being “fair”.
2. The ability to make reasoned adjustments for factors that were not able to be included in the empirical study (e.g., spillover, market effects, and any secondary influences).
3. Developing context around empirical study results through examination of the influence of assumptions and judgments embedded in the empirical study regardless of the method used (i.e., econometric, self-report, or quasi-experimental designs). This would include assessing the robustness of estimates across differing sets of assumptions (e.g., scoring methods) applied to the empirical findings.

Empirical NTG results provides benefits in terms of:

1. It is a self-documenting method, where the data that drive the findings are collected and reported.
2. It might be viewed as being less arbitrary, however, there will be reasoned judgments and assumptions in the design of any empirical study and in the interpretation of the results.
3. It forces stakeholders to look at customer and market data that are collected to validate program influence hypotheses – in this context, empirical studies are important.
4. Empirical studies can provide key information for use in decision making regarding NTG values and EE policies; and, can assist in both negotiated and independent assessment processes.

Summary – The best approach is likely to be a negotiated process informed by a review of empirical studies and results. This would involve developing a reasonable range of

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attributed NTG values (rather than point estimates) based on well-designed empirical studies. Assessing the context and robustness of the estimates from empirical studies is important. There should be a particular focus on the influence factors have been successfully addressed by the study as well as those that may have been omitted due to lack of data or an inability of the methods to address these influence factors. Once the empirical results have been reviewed and discussed in a stakeholder process, reasoned judgment should be used to finalize NTG values that equitable considering use of the estimates (e.g., for planning, measuring progress towards targets, and financial incentives).

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