

Kansas Corporation Commission Workshop on Energy Efficiency

Docket No. 08-GIMX-441-GIV

August 26, 2008

John R. Perkins
Consumer Advocate of Iowa

WHY UTILITIES?

- Debates about energy efficiency usually assume utilities should be primary delivery agents of energy efficiency programs.

Why?

NON-UTILITY EE DELIVERY METHODS

- Building codes
- Tax credits
- Energy Star
- Research & Development
 - National labs, EPRI, GTI
 - Manufacturers –Lighting, Appliance, HVAC
- Sales incentives by retailers
- 3rd party providers (e.g., Efficiency Vermont, Oregon Energy Trust)

EPRI/EEI STUDY

Energy Efficiency: How Much Can We Count On?

April 21, 2008

Between now and 2030 electric demand will grow 30%.

- Would grow over 50%, except building codes and market driven EE (non-utility programs) will reduce 23% of new demand growth.
- Utility programs can further shave 7% of new demand growth.

ACEEE STUDY

Report No. ASAP-6/ACEEE-A062 March 2006

- Projected EE savings from Federal Appliance and Equipment Efficiency Standards by 2020:
 - 394 TWh/year (9.1% of projected US use)
 - 4.6 Quads/year (includes fuel use in homes and power plants)
 - *Net benefits by 2030 – \$234 billion.*

ACEEE Study

Report No. ASAP-4/ACEEE-A043 September 2004

- Projected DOE standards annual EE savings by 2030 (kWhs):
 - Residential Furnaces & Boilers – 30 billion.
 - Commercial Air Conditioners – 12 billion.
 - Distribution Transformers – 18 billion.
 - *NPV cumulative dollars saved – \$22.3 billion.*

UTILITIES' DECOUPLING ARGUMENT

- Utilities claim:
 - Incentive not to reduce sales of kWhs & therms through EE. Sell more.
 - If want us to encourage EE, must keep all our revenues whole.
 - Doesn't matter why revenues decline (loss of customers, poor management, higher costs, EE programs).

QUESTION

Why should utilities be EE delivery mechanism?

- Fiduciary duty to shareholders to sell more kWhs and therms.
- Decoupling by itself provides no incentive to push EE. Makes utility neutral to EE.
- Decoupling shifts risk of poor performance by utility from shareholders to ratepayers.
- Decoupling is contrary to proven rate setting principles.

Significant departure from proven regulation.

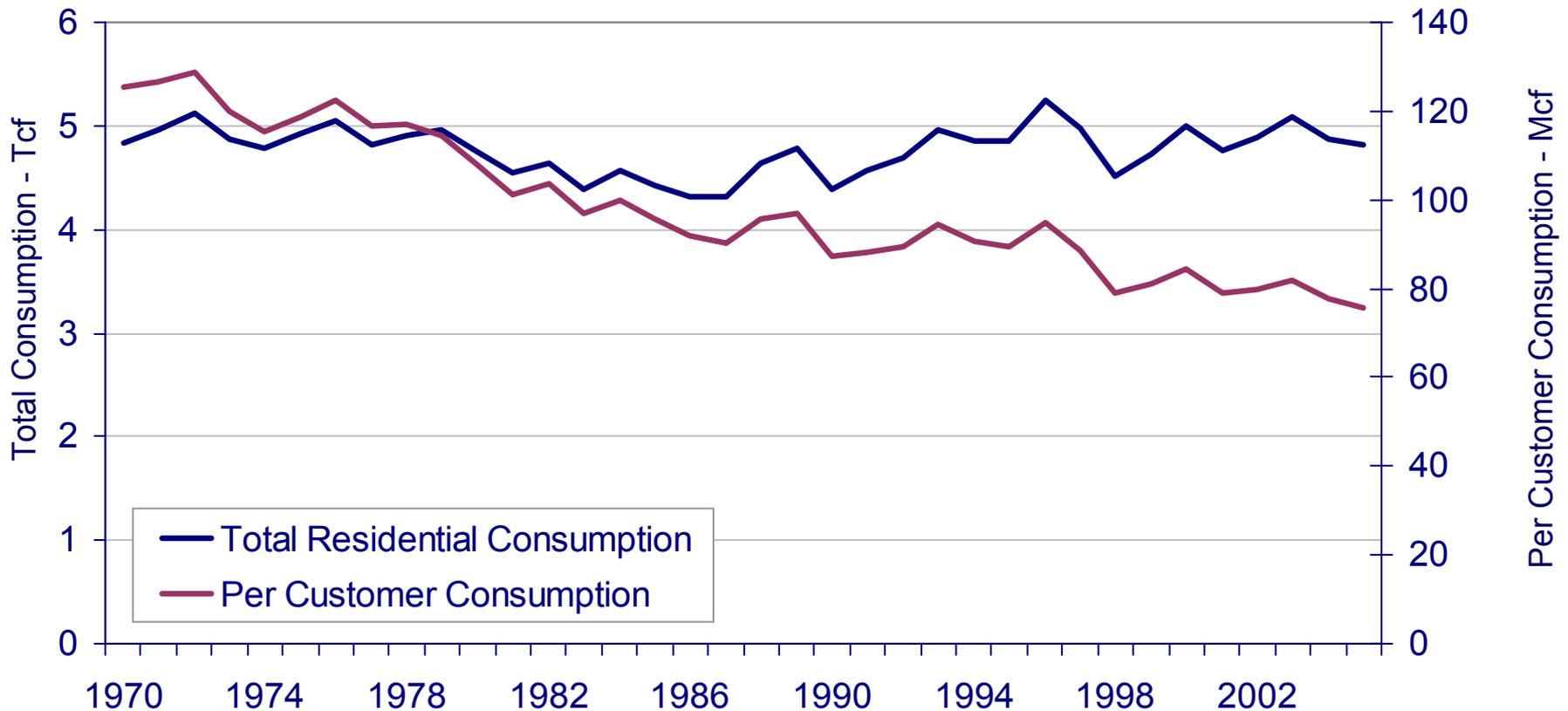
- Base rates are typically fixed and based upon an allowed rate of return under traditional regulation.
- Purpose is to avoid single issue ratemaking.
 - Parties are forced to acknowledge both favorable and unfavorable changes at date X — not piecemeal
 - Financial need must be proven, nothing is automatic
 - Parties have formal process for discovery, analysis and issue development

Defeats Benefits of Regulatory Lag

- Between rate cases:
 - actual rates of return can vary from allowed.
 - regulatory lag can provide important incentives.
 - it is up to the utility to manage risk associated with sales (revenue) and find opportunities for efficiency (cost). Use of hedging increasing.
 - decoupling substantially reduces or eliminates the need to manage sales risk.
 - Regulated utility has a state-granted monopoly. It's the only competition a regulated utility faces.

The impact of changes in use per customer for the gas industry are overstated and address the wrong causes on changes in margins.

While overall use per customer is decreasing, overall residential natural gas usage is flat to increasing.



Source: Energy Information Administration, US Department of Energy

Question

How should EE be delivered?

ONE ANSWER

- Promote EE only through market driven methods.
- Don't spend money encouraging utilities to promote EE. Their fiduciary duty is to their shareholders to legally make largest profit they can – sell as many kWhs and therms as they can. They want too large a share of the pie for their efforts.
- Let other segments of commerce concentrate on EE methods to cut back that use.

IUB EE Jurisdiction

- IUB reviews and approves EE plans for rate-regulated gas and electric utilities
- EE plans must include:
 - Range of programs for all customer classes (residential, commercial, industrial)
 - Low-income EE assistance
 - Use of Iowa agencies or contractors to maximum extent that is cost-effective
 - Technical assessment of potential
 - Performance standards

Process for IOUs

- IOU plans are developed, reviewed, and implemented on 5 year cycle.
- Board sets target requiring IOUs to file new plans.
- IOUs prepare new plans.
 - Joint Study of Energy Efficiency Potential initially conducted.
 - Each IOU develops individual plan.

Collaboration on New Plans

- IOUs
- Office of Consumer Advocate
- Advocacy groups
 - Iowa Environmental Council
 - Sierra Club, Iowa and Midwest Chapters
 - I-Renew
 - Iowa Center on Sustainable Communities
- Customer groups
 - Low-income advocates
 - Iowa Industrial Energy Group
- IUB CANNOT participate in these discussions

IOUs File Plans with IUB

- IOUs send preliminary notice of new EE plan filing to customers.
- IOUs file new plans, including testimony, with IUB.

IUB Hearing

- IUB docket plans and sets procedural schedule
 - Informal public meetings are scheduled
 - Written comments are solicited. Board may request more information from the utility
- Interested parties may request intervention
- Formal hearing and cross-examination of testimony occurs
- Post hearing briefs are filed by parties
- Board issues decision

Approved Utility EE Plans

- Utilities must now implement new EE plans
- These include
 - New goals
 - New or revised programs
 - New or revised incentives and promotions
- Utilities periodically meet with IUB and interested parties to review progress

IOU Energy Efficiency Expenses

- IOUs recover their expenditures for energy efficiency programs concurrently, based on the budgets in their energy efficiency plans, adjusted for actual costs.
- Cost recovery by law does not allow returns, rewards, or lost revenues.

Iowa Utilities Board Inquiry into the Effect of Reduced Usage on Rate-Regulated Natural Gas Utilities, Docket No. NOI-06-1

Inquiry Question:

Are alternative regulation mechanisms (decoupling and rate design) needed to address impacts of reduced natural gas usage?

Iowa Utilities Board Inquiry into the Effect of Reduced Usage on Rate-Regulated Natural Gas Utilities, Docket No. NOI-06-1 -- Continued

Inquiry Answer:

- Tension between energy efficiency & natural gas utilities' opportunity to earn authorized rate of return “does not appear to be a substantial problem in Iowa.”
- The data does not show a direct correlation between IOU net operating income and declining customer usage as a result of energy efficiency programs.