



Incentivizing Utility Energy Efficiency

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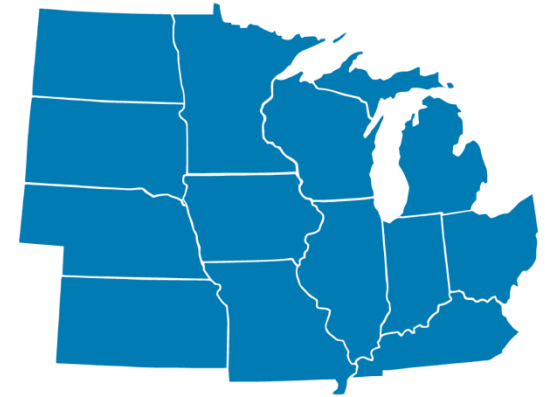


About MEEA

The Trusted Source on Energy Efficiency

We are a nonprofit membership organization with **160+ members**, including:

- Utilities
- Research institutions
- State and local governments
- Energy efficiency-related businesses



As the key resource and champion for energy efficiency in the Midwest, MEEA helps a diverse range of stakeholders understand and implement cost-effective energy efficiency strategies that provide economic and environmental benefits.



Presentation Objectives

- Iowa Energy Efficiency Status Update
- Explain Midwest utility energy efficiency incentives
- Share the impacts

Energy Efficiency

A History in Iowa

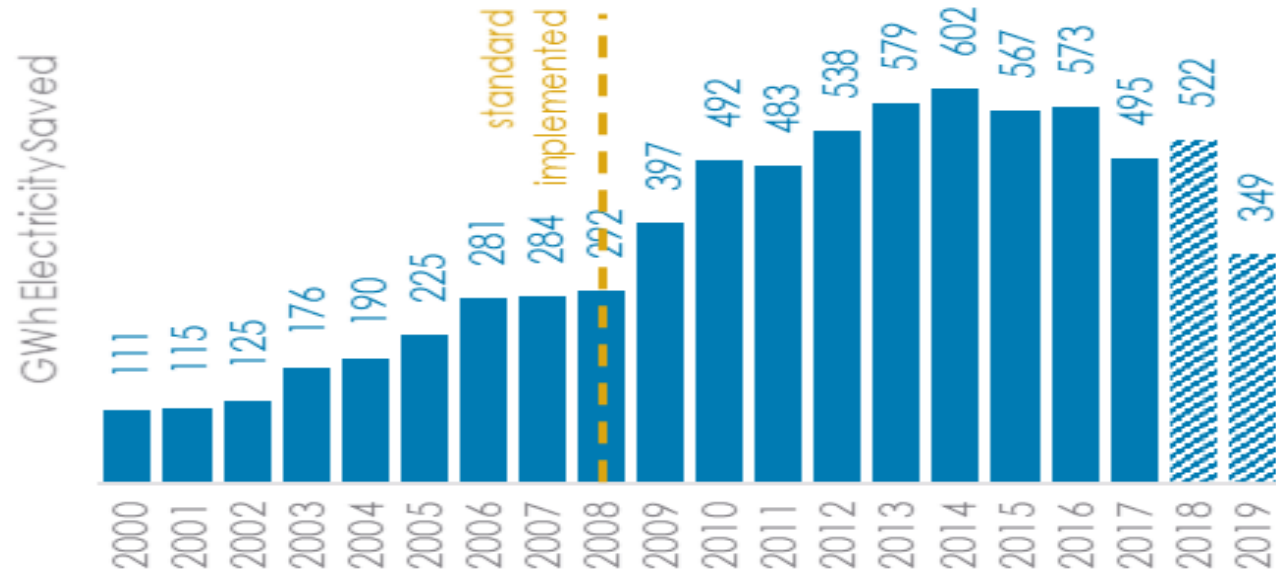
- 1990 Iowa Energy Efficiency Act
- 2008 Executive Order implements EE standard
- Investment and savings levels
- Since 2008 standard
 - 60% increase in electric savings
 - 40% increase in gas savings
- SF 2311 (2018) rolls back EE investment

Energy Efficiency

Rollback in Iowa

- Spending constraints placed on EE in SF 2311 (2018)
 - SF 2311 contained “soft caps”
 - Societal Cost Test to Total Resource Cost Test
 - Opt-out provision triggered by rate impact measure (RIM)score below 1
- SF 638 was signed into law
 - Places hard spending caps for energy efficiency plans - 1.5% (gas) and 2% (electric) of annual retail rate revenue. Turns “soft caps” to “hard caps”

Historic savings



Note: If 2018 savings data is available, this figure will be updated

Energy Efficiency Planning

- Developed for each utility every five years after an assessment of energy usage and savings potential
- Utilities file five-year plans
- Programs must be cost-effective (c/e)
- Utilities may recover the costs of c/e programs
- Iowa Utility Board sets annual energy savings targets

Traditional Utility Business Model

Overview

- Revenue increases as energy sales increase
- Inherent disincentive to implement energy efficiency

Traditional Utility Business Model

Impacts

- Programs that move beyond low-hanging fruit need larger budgets
- Insufficient programs offerings (i.e. for businesses and industries)
- Budgets run out faster

Three-legged stool

Overview

- Policies that align utility business model with energy efficiency
 - **Program cost recovery:** utilities recover the cost of administering EE programs
 - **Lost-revenue recovery:** utilities recover an authorized amount of revenue lost from selling less energy due to successful EE programs, removing the disincentive for energy efficiency
 - **Performance incentives:** financial bonuses for utilities that meet and exceed EE goals; a return on investment like that for supply-side resources

Program Cost Recovery

Three-legged-stool

- Program Cost Recovery:
 - Evaluation of prudent and reasonable program expenses eligible for recovery
 - Definition of the recovery period limited to the life of the program
 - Itemization of capital and non-capital program costs
 - An annual reconciliation of amounts recovered versus actual program costs

Lost Revenue Recovery

Three-legged stool

- Earning a return on investment in EE just like G, T & D
- Decoupling- fixed and volumetric charges
- Annual true up
- The most common approach is to treat program costs as an expense, which is then recovered as an additional element of the revenue requirement during the next rate case, or through the levying of a public benefits charge or tariff rider.
 - Rate Case Recovery
 - Public Service Surcharge

EE Performance Incentives

Midwest Look

States with utility EE incentives

Illinois
Indiana
Kansas
Kentucky
Michigan
Minnesota
Missouri
Wisconsin
South Dakota

States w/o utility EE incentives

Iowa
Nebraska
North Dakota
Ohio

Note: The info on this slide will be placed in the format of a Midwest map

Illinois

Case Study: Illinois

IL Energy Efficiency Policy

- Energy savings requirements
- Minimum spending requirements
- Cost recovery
- Performance incentives
- Lost-revenue recovery

EE Performance Targets

Illinois

- Cumulative persisting annual savings
 - Goal for total energy saved by 2030
 - Annual goals are determined to incrementally reach total savings goal by 2030
- Cumulative targets vary by utility
 - ComEd – 21.5% by 2030
 - Ameren – 16% by 2030
- Gas savings target is 1.5% every year

EE Performance Incentives

Illinois

- Authorized by Future Energy Jobs Act (2016)
- Allows electric utilities to earn performance incentives for meeting and exceeding savings goals.
 - Consistent methodology to determine incentives for utilities
 - An evaluator determines if a utility achieved less than or more than the annual incremental goal
 - Return on investment in EE is either increased or decreased (electric), depending on energy savings performance.

- Note: this slide will include a figure on savings over time, indicating a sustainable policy

Minnesota

Case Study: Minnesota

Energy Efficiency Policy

- Conservation Improvement Program
- Annual savings targets
- Minimum spending requirement
- Cost recovery
- Performance incentives
- Lost-revenue recovery

EE Performance Targets

Minnesota

- Annual electric savings goal of 1.5% of annual sales
- Annual gas savings goal of 1% of annual sales

EE Performance Incentives

Minnesota

- MN performance incentive
 - Commission adjusts utility incentives to reward achievement
 - Utilities can submit proposals for incentives

EE Performance Incentives

Minnesota

- Currently, shared savings model
 - Incentives increase as savings increase
 - Net savings are “shared” between ratepayers and utilities
 - Awards utilities for achieving higher net benefits to ratepayers along with higher energy savings

- Note: This slide will contain a figure showing savings over time, indicating a sustained and improved savings since 80's

Michigan

Case Study: Michigan

Energy Efficiency Policy

- Energy Waste Reduction Act (2008)
- Minimum savings requirements
- Cost recovery
- Performance incentives
- Lost-revenue recovery

EE Performance Targets

Michigan

- Michigan performance targets
 - Electric: annual savings target of 1% retail sales through 2021
 - Gas: annual savings target of 0.75% retail savings

EE Performance Incentives

Michigan

- Tiered incentives for electric utilities that achieve annual savings of 1% to 1.5% of electric sales in MWh
 - Increasing bonuses as they exceed 1%, 1.25% and 1.5% energy savings

Note: This slide will contain a figure depicting savings as a % of revenue over time

Conclusions

- Incentives...
 - Establish EE buy-in from utilities
 - Structure varies across states
 - Improve EE metrics & customer benefits
 - Are one element in a suite of state policies driving savings for customers

Thank you!
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