

Commission Decisions on Energy Efficiency

Briefing by Janet Buchanan
before the Kansas Energy Council
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The following summary of the Commission's findings in Dockets No. 07-GIMX-247-GIV, 08-GIMX-442-GIV and 08-GIMX-441-GIV reflects the Commission Staff's best effort to interpret the Commission's orders in these dockets. However, the orders speak for themselves and this briefing should not be construed to reflect the view of individual Commissioners or the Commission as a whole.

Findings in Docket No. 07-GIMX-247-GIV

- The Commission has general authority to approve efficiency and conservation procedures.
- The Commission encourages utilities to collaborate in the implementation of energy efficiency programs rather but will not require utilities to implement programs.
- The Commission has broad authority to provide incentives to utilities to promote efficiency and conservation of energy in addition to increases in rates of return.
- The Commission has broad authority and discretion regarding cost-recovery methodology for energy efficiency programs.
- The Commission has wide discretion to determine the methodology for approving energy efficiency programs, including the consideration of "externalities" such as environmental costs and benefits.
- The Commission finds it is necessary to establish a framework for review and evaluation of energy efficiency programs on a uniform and consistent basis.

Findings in Docket No. 08-GIMX-442-GIV

- Energy efficiency should be considered a resource to meet present and future demand.
- The Commission encourages utilities to develop energy efficiency programs for all classes of customers, including low-income customers.

- Energy efficiency programs need to produce cost-effective, firm energy savings, throughout the lifetime of the program. Programs should address efficiency improvements in a comprehensive manner using sound building science principles. Programs should implement the most cost-effective programs in a logical sequence to maximize the energy savings per dollar spent.
- Proposed energy efficiency programs should target customers residing in structures most in need of conservation improvements. (Rental units, Low-income homes)
- The Commission noted the How\$mart Rider pilot program developed by Midwest Energy as a program that deals effectively with problems associated with low income and rental units.
- The Commission believes dynamic pricing is a critical component of energy efficiency programming because of its potential to reduce peak energy demand and, thereby, postpone or avoid the need to build or acquire additional peaking generation capacity.
- The Commission encourages utilities to propose dynamic pricing programs – rate designs such as time-of-use, critical peak and seasonal price differentials that send more accurate price signals to customers.
- Energy efficiency programs should be accompanied by programs to educate consumers regarding the actual cost of providing energy to their homes or businesses. The Commission is particularly interested in exploring use of the monthly bill to provide information to consumers to increase their ability to make informed decisions.
- Benefit-Cost Tests are one tool the Commission will utilize to assure that proposed energy efficiency programs further the goals and priorities the Commission has delineated. The Commission will make use of all five standard tests discussed in the California Standard Practice Manual. Emphasis will be placed on the Ratepayer Impact Measure and the Total Resource Cost test. The Commission did not set bright-line values that must be achieved. Educational programs will not be subject to benefit-cost tests.
- The utility must submit a plan for evaluation, measurement and verification of energy efficiency programs with the application for approval of the program. The evaluation, measurement and evaluation of a particular program should not exceed 5% of the total program cost.
- The Commission directed Staff to work collaboratively with the utilities to work out the details related to the benefit-cost test calculations and the evaluation protocol.

Findings in Docket No. 08-GIMX-441-GIV

- While current energy costs are relatively low and there are few capacity constraints, energy costs will inevitably rise and the Commission believes it is important to establish the framework to enable a ramp-up of energy efficiency programs that are developed now before energy costs rise.
- Given the status of the national and Kansas economies, the Commission determined it must consider the appropriateness of raising short term costs at this time.
- The Commission will permit recovery of energy efficiency program costs through a rider mechanism. This reduces risk to the utility because it provides for relatively rapid recovery of program costs. This also reduces the potential for rate shock to consumers as might occur if all costs were deferred for recovery during a rate case. It reduces the need for recovery of carrying costs.
- The Commission will review applications for a decoupling mechanism as a means to remove the throughput incentive for utilities that can demonstrate its energy efficiency programs achieved measurable and verifiable success.
- Because decoupling lowers the risk associated with cost recovery for the utility, the Commission will factor this lowered risk in setting rates of return in rate cases of utilities that employ a decoupling mechanism.
- The Commission will permit natural gas utilities to propose either a decoupling mechanism or straight fixed-variable rate design to address the throughput incentive. However, proposals for the latter must address disproportionate impacts on low-income or fixed income customers. Again, the Commission will factor the change in risk faced by the utility into setting rates of return in the utility's rate case.
- Given the Commission's interpretation of K.S.A. 66-1239 (i.e., requiring utilities to consider energy efficiency when seeking predetermination of ratemaking principles and treatment of cost incurred in construction of new generation or an upgrade of existing generation), the Commission is reluctant to provide additional incentives for implementing energy efficiency programs which will result in increased costs to consumers.
- To balance this consideration with the concerns of the utilities, the Commission will consider allowing incentives for programs it believes are most beneficial for energy customers and for meeting the long-term energy efficiency goals of the Commission. Incentives will be considered for programs targeted at low-income and fixed-income customers and renters. Incentives will also be considered for programs that target new and existing residential housing utilizing the whole house concept.
- The Commission prefers use of the shared-net benefits method of providing an incentive. Customers and the utility will share in the net savings achieved through the program.

Yet, the Commission recognizes that while energy costs are low, this method may not provide significant incentives. The Commission will reconsider other types of incentives if necessary.

- The Commission does not believe cost capitalization is a good option for providing an incentive to utilities. This approach has been abandoned by many states and has the potential to greatly increase the costs to consumers. Additionally, since a rider mechanism may be implemented, this addresses utility concerns over carrying costs.

The Commission does not favor providing an additional rate of return to energy efficiency assets but will not rule out doing so as provided by K.S.A. 66-117(e) on a case-by-case basis.

Next Steps

- The Commission has scheduled a collaborative meeting for December 11 and 12, 2008, to discuss and attempt to resolve the details related to benefit-cost analysis and evaluation, measurement and verification protocol. Staff will file a report with the Commission detailing the issues that have been resolved by consensus, the discussion on issues unresolved and making procedural recommendations for addressing the unresolved issues.
- If time permits on December 12, 2008, Staff will begin discussions with the utilities regarding use of the monthly bill to provide customers with information to make informed decisions regarding energy usage. Discussion of this issue will resume at a later date.
- Concerns over energy efficiency programs with incentives designed to encourage customers to switch fuels were raised in Docket No. 08-GIMX-442-GIV. The Commission did not have enough information in this proceeding upon which to make a determination so the Commission opened Docket No. 09- GIMX-160-GIV to consider the issue. Initial comments were filed by interested parties on November 18, 2008. Reply comments are to be filed on December 12, 2008. After reviewing the comments, the Commission will either make a determination on the issue or require additional information be provided.
- The Commission's staff has begun reviewing the current rate design employed by utilities within the context of a rate case application. Staff will likely make recommendations for implementing changes, over time, where the rate design does not encourage energy efficiency.
- The Commission continues to conduct research regarding dynamic pricing and advanced metering.