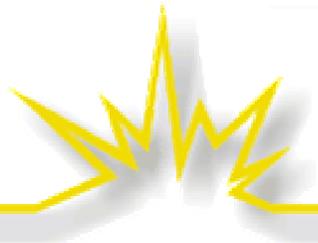


BIG PICTURE: The Status of Restructuring in Midwest States

Midwest Energy Solutions – MEEA

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The Regulatory Assistance Project

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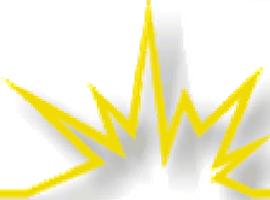


Introduction

Regulatory Assistance Project

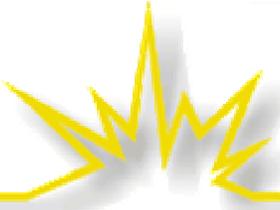
RAP is a non-profit organization, formed in 1992, that provides workshops and education assistance to state government officials on electric utility regulation. RAP is funded by the Energy Foundation, the US EPA and the US DOE.

Richard Sedano was Commissioner of the Vermont Department of Public Service, 1991-2001, and presently serves on the Montpelier Planning Commission



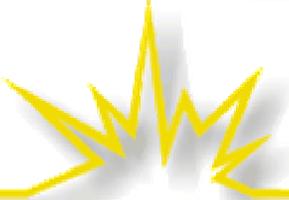
What is Restructuring?

- Not Retail Competition
- Not Wholesale Competition or SMD
- Rethinking Everything
 - ❖ The ways customers are served by utilities
 - ❖ The ways utilities are regulated
 - ❖ The policy priorities of policymakers



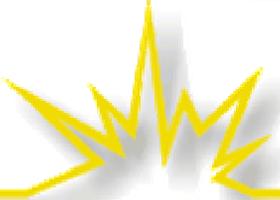
Beginning to see states do mid-course corrections

- Deal with standard offer service caps
 - ❖ Rate flexibility within standard offer
- Deal with standard offer service supplies
- Deal with planning
 - ❖ Restart practices that were suspended during consideration of retail competition
- Deal with sunsets on public benefit funds

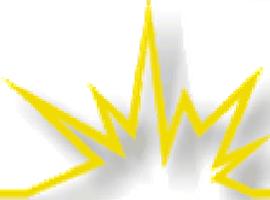


General Topics

- Valuing Energy Efficiency
- Utility Incentives for Energy Efficiency
- Administering Energy Efficiency
- Trends

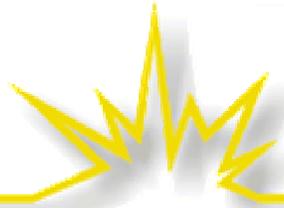


Valuing Energy Efficiency



Evaluating Efficiency

- Address real barriers to public interest
- Solid benefit / cost ratios
- Opportunity programs
 - ❖ And other policy priorities
- Solid Monitoring and Verification
- Target added investment to address growth or system deficiencies
- Risk Management Motivation



Valuing Energy Efficiency

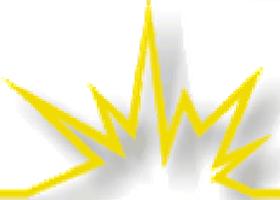
- Stabilize, Optimize Service Area
 - ❖ Avoid risky investments, “lost opportunity” focus
- Target as a resource in high value places
 - ❖ Avoid expensive investments, esp. Peak-driven
- Meet public policy objectives
 - ❖ Synergy with general fund programs, mitigate risk of new environmental controls on generation

Need information about efficiency potential and local system needs to most effectively deploy EE



EE as a Resource

- Less costly than other resources
 - ❖ States are procuring EE at 2.5-3.0 cents/kWh
 - ❖ Gas price increase raises bar: more EE is cost-effective
- Avoids risk associated with other resources
 - ❖ Siting? Fuel prices? Environment/Carbon regulation?
- A useful way to accomplish diversity
 - ❖ More time for renewables, surprises, to emerge
- Based on planning that looks for ALL resources (refer to RAP's *Efficient Reliability, Portfolio Mgt.*)



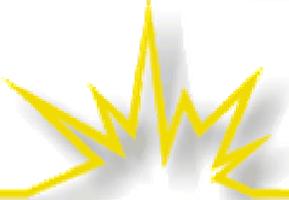
Demand Response

- Idea that markets need an active demand side is catching on
- Energy efficiency is “longer term” demand response
- See New England Demand Response Initiative Final Report for discussion (www.raponline.org)

Footnote:

National Petroleum Council

- National Petroleum Council, addressing policy responses to high natural gas costs in the U.S. in advice to the Secretary of Energy, urges a “Balanced” path that seeks to align public and private interests.
- A key recommendation among many is to implement more energy efficiency
 - ❖ www.npc.org

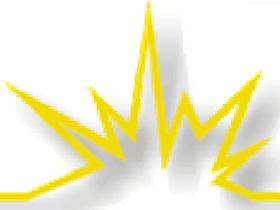


Utility Incentives



Utility Incentive Issues

- Clearly there is value to align the public interest with the utility interest
 - ❖ Credit to utilities that make this alignment a priority
- Question: to what extent is this realistic, and what changes are needed to accomplish this alignment?



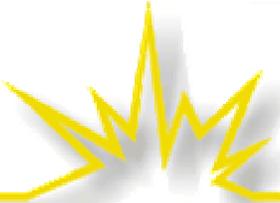
Utility Incentives for Distributed Resources

- Address the throughput incentive
 - ❖ PBR rev cap
 - ❖ ERAM/ACE
 - ❖ Performance incentives



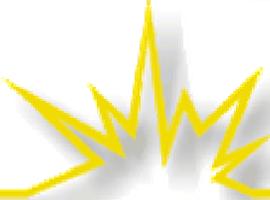
Performance Based Regulation Revenue Cap

- Objective: Sever relationship between electric sales and net income
- A different way to regulate the whole company designed to align consumer and company interests to the maximum degree
- For more info: Profits and Progress through Distributed Resources



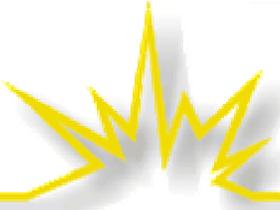
Revenue Cap: How It Works

- Cap on distribution company revenues
- Cap is computed at beginning of first year as average revenue requirement per customer (RPC)
- Allowed revenues at end of year computed as RPC times number of customers.
- RPC adjusted in following years for inflation, productivity, and other factors
- Rates set as usual: per kW and per kWh
- Utility and customers both have incentive to be efficient



Lost Revenue Adjustment

- Electric Revenue Adjustment Mechanism
- Accounting Correction for Efficiency
 - ❖ Calculate lost net income from avoided sales due to demand side activities
 - ❖ Add the revenue to cost of service
 - ❖ Book and defer between rate cases
 - ❖ Amortize over a period set by regulator



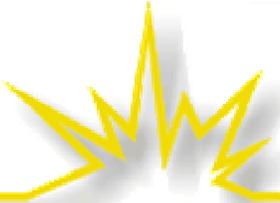
ERAM / ACE Characteristics

- Direct effect on throughput incentive
- Can be extended to non-EE investments
- Important to resolve annual calculations
- Calculations can be cumbersome and subject to dispute
- Commission retains role of supervising expenses and can disallow as with any cost category



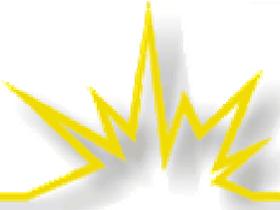
Incentives

- Forces articulation of measures of success
 - ❖ Indicators represent success for consumers
 - ❖ Bonus level should stretch the company
 - ❖ Useful role for a collaborative to propose incentives
- Focuses company on success
 - ❖ Get the Bonus!
 - ❖ Use in Employee Compensation
- Amount can approximate likely ERAM result, yet is a very different calculation



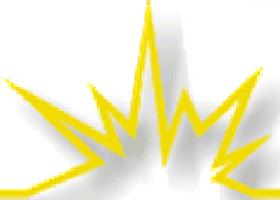
Incentives: An Example

- \$10 million annual program budget
- 5% (\$500K) held back for shareholder incentive
- 5 performance indicators, \$100K for each
- Failure to win bonus means money goes back into program budget
- Sample indicators: total energy saved, total MW saved, penetration of an Energy Star appliance, whole building EE agreements with school districts, number of building operators trained

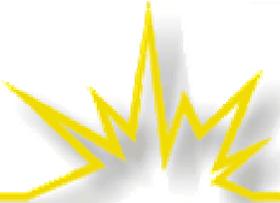


Incentives: Status

- Increasing recognition that the throughput incentive is barrier to sound resource investment
- Inertia very strong, so real change is hard
 - ❖ Progress in some states

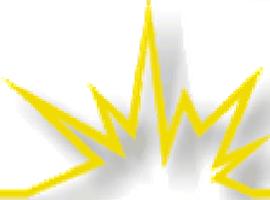


Administering Energy Efficiency



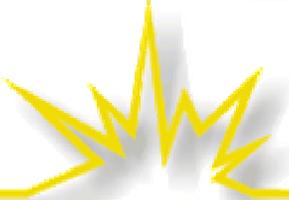
Administering Energy Efficiency

- Administrative structures in use
 - ❖ Utility administration
 - ❖ State administration
 - ❖ Independent administration (best in theory)
- All work when implemented well
 - ❖ Collaboratives can be helpful, esp for utility admin.
- Choice suited to state circumstances
 - ❖ Refer to RAP EE Administration review

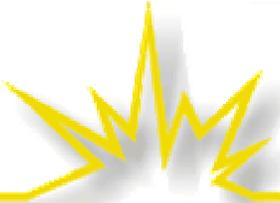


Administration Issues

- Functional Structure (skill, funding, stable)
- Utility Cooperation
- EM&V Independent
- Political Support

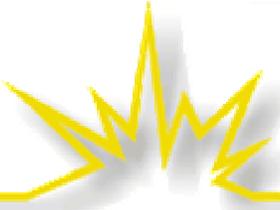


Trends



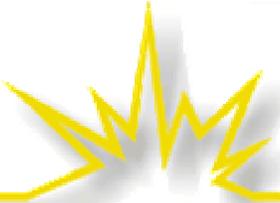
Wholesale Competition is coming slowly to Midwest

- Blackout Response
- MISO market and PJM transition
- Demand side developments still slow
 - ❖ Isolated examples of distributed resources as alternatives to transmission
- Planning appears open to demand solutions
 - ❖ But still unclear how all resources will be included
 - ❖ Resource development slant
 - ❖ There is no “fuel of choice”



Status of Energy Efficiency

- Consumer funded programs still needs to prove themselves (despite great successes)
 - ❖ Market bias, comparative value, EM&V
- Natural Gas prices will help motivate regulators and policymakers looking for answers
- Useful in an AND – AND – AND environment



Thanks for your attention

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❖ RAP Mission: *RAP is committed to fostering regulatory policies for the electric industry that encourage economic efficiency, protect environmental quality, assure system reliability, and allocate system benefits fairly to all customers.*