

Designing Utility Regulation to Promote Investment in Cost-Effective Energy Efficiency



National Action Plan for Energy Efficiency

Mid-Atlantic Implementation Meeting

April 30, 2007

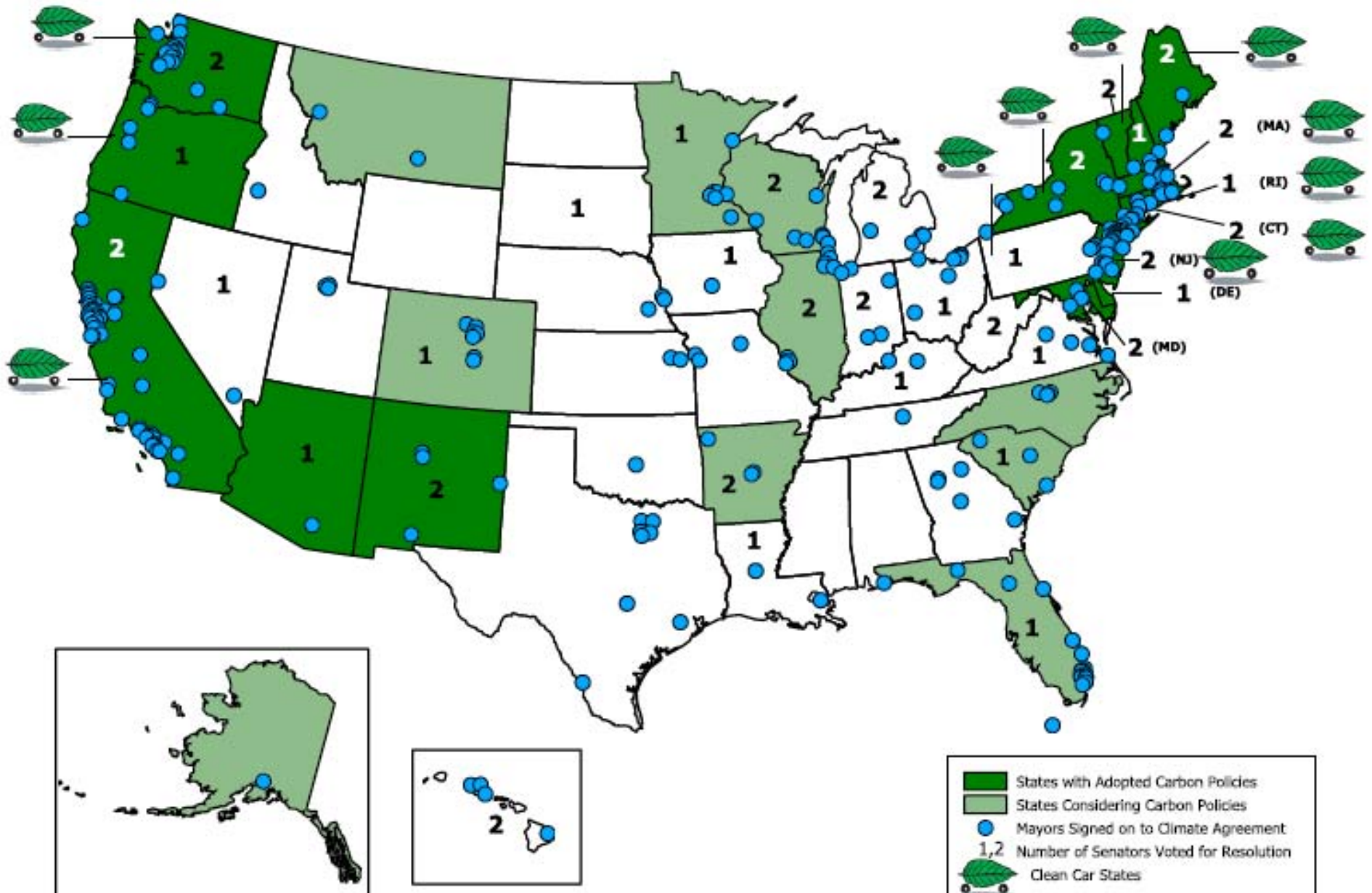
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Overview



- **RGGI Update**
- **Role of Energy Efficiency**
- **Importance of Decoupling**

The Rising Tide for Global Warming Solutions



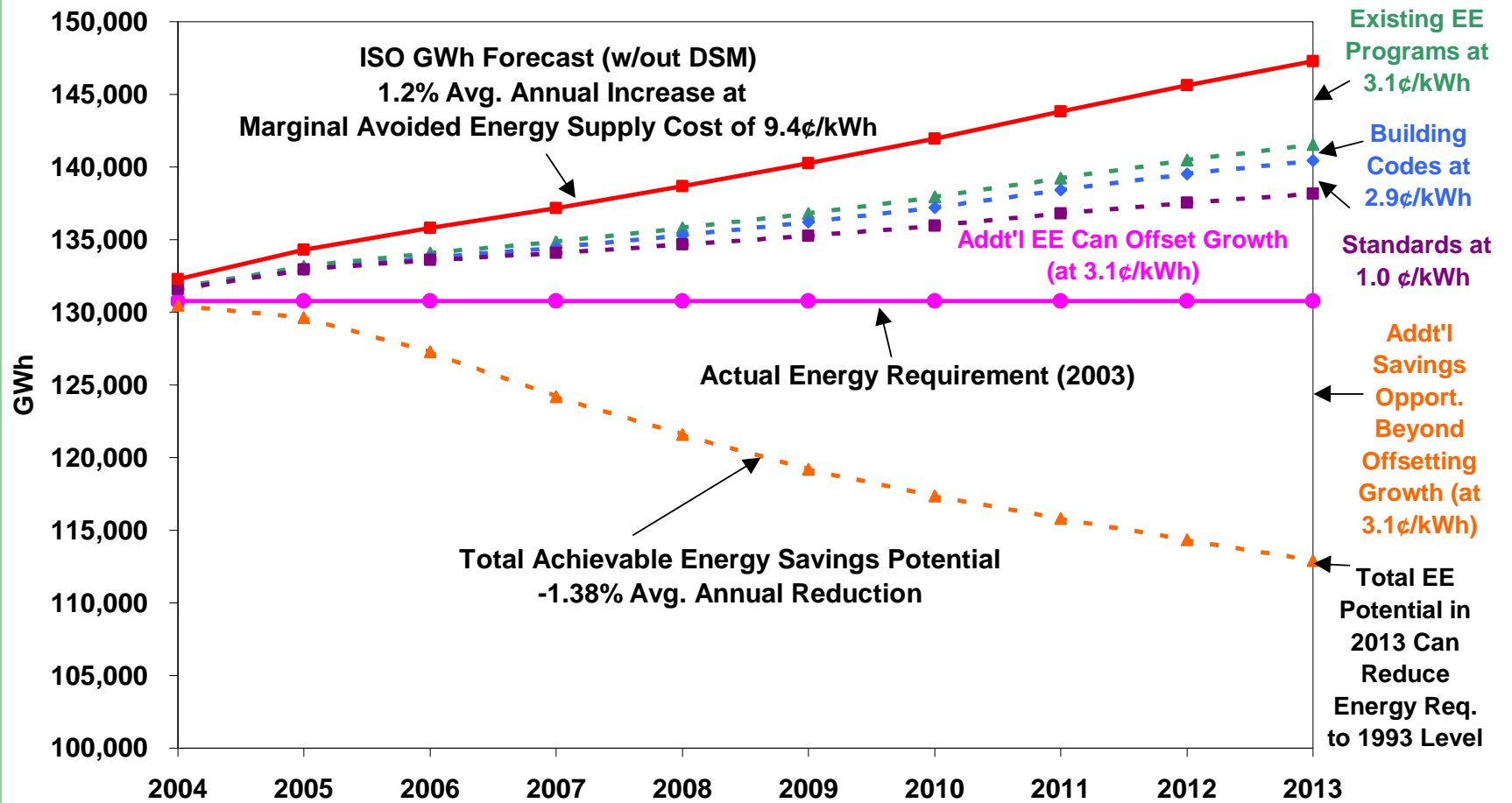
Regional Greenhouse Gas Initiative

- **Cap-and-trade**
 - CO₂ only (may expand to all 6 GHGs)
 - Power plants only (may expand to stationary sources)
 - 10% reduction from current levels by 2019
- **January 2009 Implementation**
 - MOU signed by 7 Governors December 2005
 - Model Rule released August 2006
 - 10 state rulemakings / legislation 2007

Key Policy Issues:

- **Cap Level & Design**
- **Allowances**
- **Complementary Energy Policies/ Efficiency**
- **Offsets**
- **Leakage**

Energy Efficiency Potential



Importance of Decoupling

- **Removes disincentive that discourages utility support for energy efficiency**
- **Still need *incentive* to support efficiency**

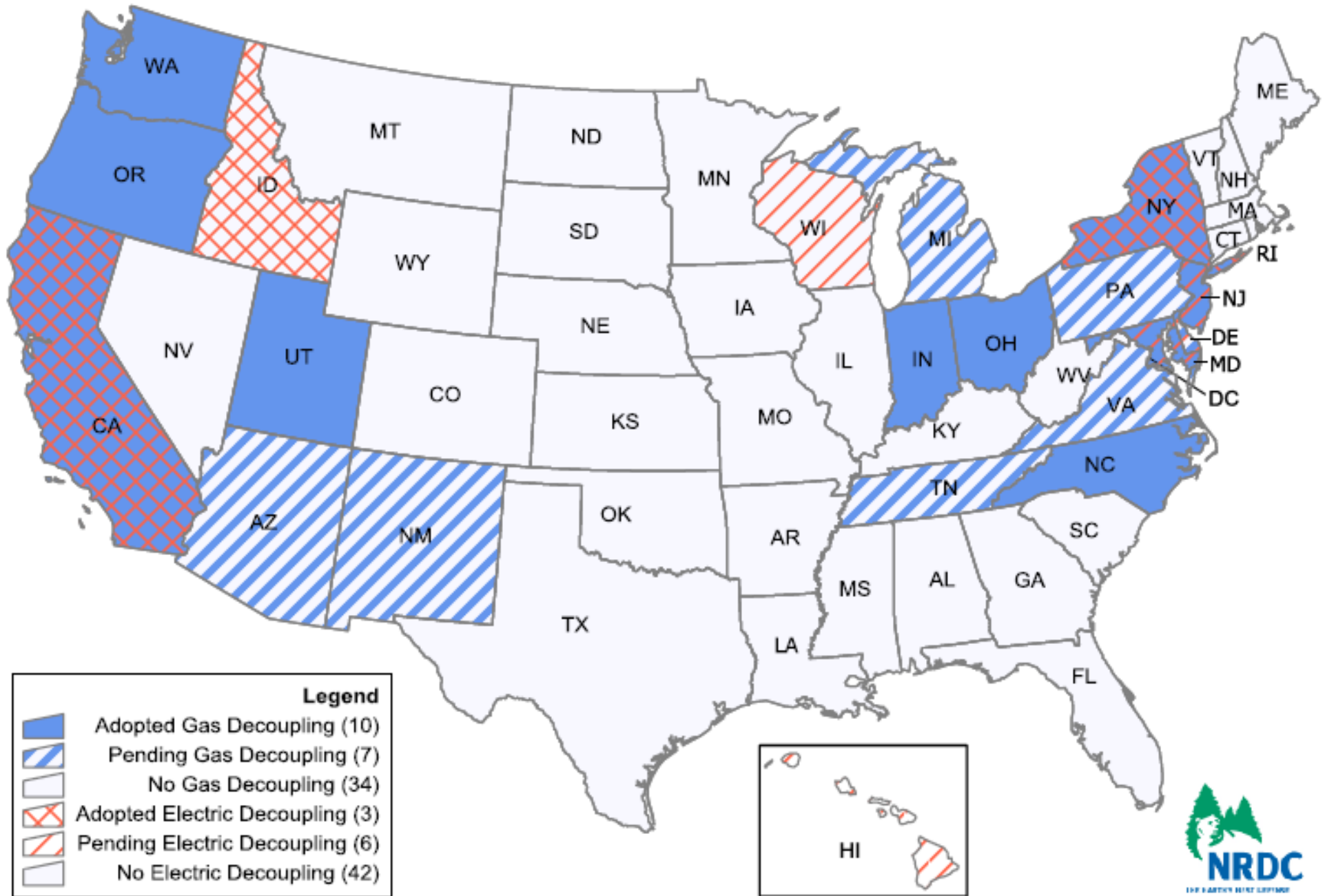
Traditional Regulation

- **Rewards sales / encourages consumption**
- **Discourages utility support for efficiency**
- **Recovery of fixed costs uncertain**

Decoupling

- **Severs link between profit and sales**
 - Modest true-ups in both directions vs. rate cap
 - Assures recovery of fixed costs
 - Removes incentive to increase sales
 - Aligns consumer and shareholder interests
- **Rewards safe, reliable service**
 - Customizable to reward/ penalize based on performance
- **Decoupling + energy efficiency target**
 - Guarantees net benefit for consumers

Gas and Electric Decoupling in the US



Decoupling Objectives

- **Environmental Benefit (w/ EE requirement)**
 - Energy efficiency competes directly with supply
 - Reduced consumption = reduced environmental impact
 - Lower gas prices put more competitive pressure on coal
- **Consumer Benefit (w/ EE requirement)**
 - Utilities have an incentive to actively help customers reduce demand, lower bills
 - Utilities have an incentive to procure efficiency as least cost resource
 - Reducing demand reduces electric and gas prices for all (ACEEE study)
- **Utility Benefit**
 - Guaranteed fixed cost recovery
 - Reduced risks associated with economy, weather, efficiency standards
 - Better service to customers
- **Improved Reliability (w/ EE requirement)**
 - More efficiency means less strain on system

Policy Context

With decoupling utilities can support:

- Least cost procurement rules
 - Portfolio Management
 - Energy Efficiency Portfolio Standards
- System Benefit Charge Programs
- Codes and Standards
- Least cost transmission and distribution system planning

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- **Least cost compliance with carbon caps**

Alternatives to Decoupling

- Increase fixed customer charges
 - Reduces reward for end-use efficiency
 - More disruptive to rate structures than modest true-ups that decoupling would require
- Lost revenue recovery mechanisms
 - Asymmetrical; fails to recapture “found” revenues from excess sales
 - Does not address disincentive to promote efficiency beyond programs (e.g., codes and standards)
- Codes and standards; SBC programs
 - Current regulation discourages utility support
 - Funding uncertain
- Massive subsidies for coal gasification; LNG
 - Much more expensive than promoting efficiency