

# Energy Efficiency Incentives in the Southwest

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# Southwest Incentives Tour

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- Arizona
- Colorado
- Nevada
- New Mexico
- Utah

# Arizona:

## APS Incentive Mechanism

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- Set in Rate Case in 2004
- Required funding levels ~\$10M+ & low income assistance
- Utility keeps up to 10% of net economic benefits
- Some expectation of significant ramp up in EE spending in Arizona

# Arizona:

## Southwest Gas Decoupling

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- Filed for “Conservation Margin Tracker”
- CMT was not adopted
- Commission encouraged parties to develop a stakeholder supported approach



# Colorado Gas Utilities: Bonus Incentives

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- Annual bonus capped at lesser of 25% of the expenditures or 20% of the net economic benefits of the DSM programs
- Bonus does not count against a gas utility's authorized rate of return
- DSM programs implemented in phases shall be eligible to receive a bonus under the bonus structure during its phase-in period.
- Commission may not adopt any measure authorizing a financial penalty for failure to meet the targets in any particular year



# Colorado Electric Utilities: Incentives

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- Commission must allow an opportunity for cost-effective DSM programs to be more profitable to the utility than other utility investments
- Commission must consider the following incentive mechanisms, taking into consideration the performance of the DSM program:
  - A higher rate of return on DSM investments than on other investments;
  - Accelerated the depreciation or amortization for DSM investments;
  - Retention of a portion of the net economic benefits of DSM;
  - Collection of the DSM costs through a cost adjustment clause;
  - Other incentive mechanisms that the Commission deems appropriate.

# Nevada:

## Critical Facilities Incentive

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- “Critical Facilities” incentive for reliability, diversity of supply- and demand-side resources, development of renewable resources, fulfilling statutory mandates and/or retail price stability
- Can be enhanced return on equity, CWIP treatment or creation of “regulatory asset” account
- DSM bonus rate of return 5% higher than returns for supply investments
- Considered proxy for net lost revenues



# New Mexico

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- Commission has statutory obligation to “identify any disincentives or barriers that may exist for public utility expenditures on energy efficiency and load management and, if found, ensure that they are eliminated in order that public utilities are financially neutral in their preference for acquiring demand or supply-side utility resources.”
- Southwestern Public Service (SPS/Xcel) has filed plan addressing disincentives and incentives
- Gas Company of New Mexico (PNM) filed for decoupling in 2006



# New Mexico: SPS Incentive Proposal

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- Would recover all program costs
- Would recovers net lost revenues
- Would recover 15% of net benefits as proxy to replace lost profit opportunities for future plant investments not made

# New Mexico:

## PNM-Gas Decoupling Proposal

- Filed as part of general rate case in 2006
- Proposed a Margin per Customer mechanism
- Rejected by the Commission
  - But, it appears the hearing examiner and the Commission may have misunderstood PNM's proposal
  - Commission opened door for future decoupling



# Utah:

## Questar Decoupling

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- Approved as a “Conservation Enabling Tariff”
- Mechanism is a straight RPC Decoupling method



# Guidelines for Incentive Structures

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- Address disincentives through decoupling or net lost revenue adjustment
- Provide performance-based rewards that increase as EE deployment expands (and gets harder)
- Keep it simple and understandable for customers, utilities and regulators

# The Search for an Energy Efficiency Business Model for Public Utilities...

