



CADMUS



Presented at the 2013 ACEEE National Conference on Energy Efficiency as a Resource

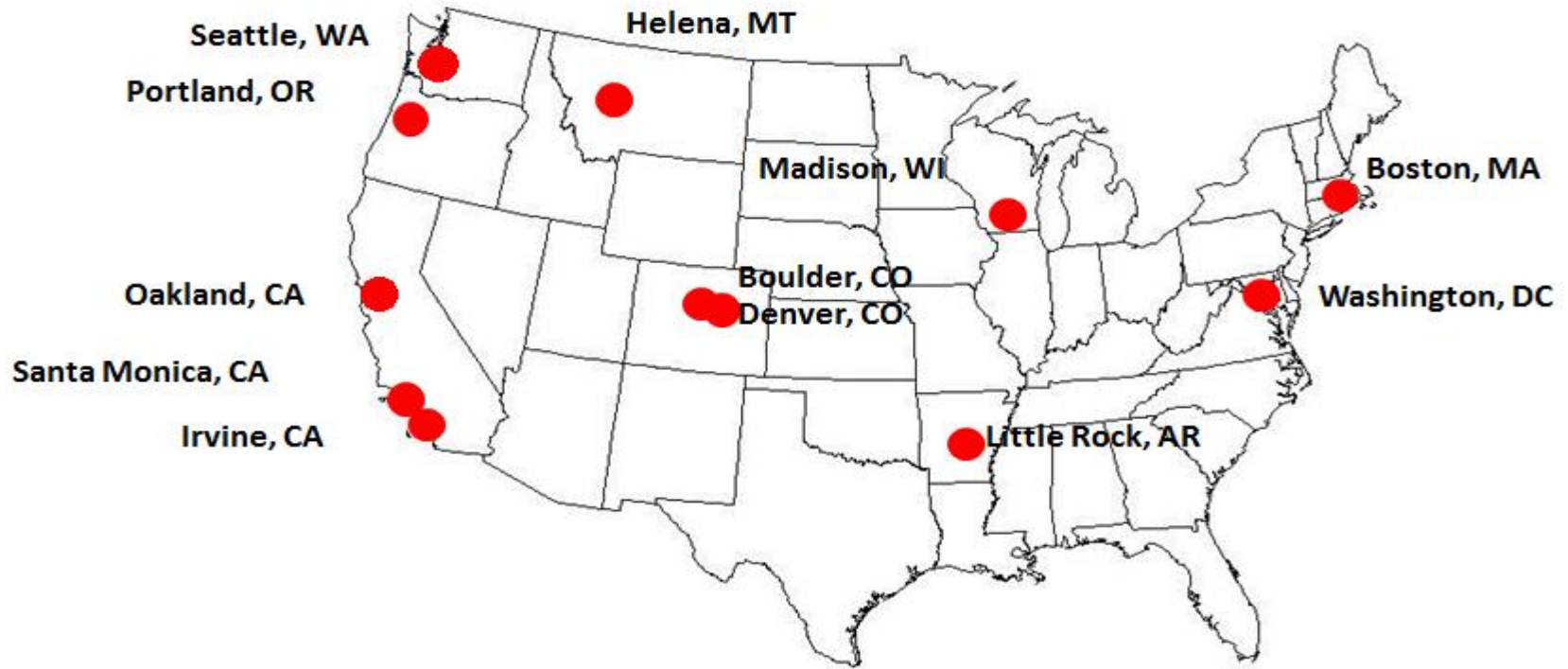
Leveling the Playing Field – Regulatory Treatment of DSM Savings and Expenditures

Brian Hedman, Executive Director, Cadmus

September 23, 2013



About Cadmus



Over 400 engineers, economists, scientists and communications professionals



Areas of Expertise





History of DSM as a Resource



Pre-70's

70's-80's

90's

00's - Today



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DSM a novelty

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Deregulation

- Disaggregation
- Stranded Assets
- Competition



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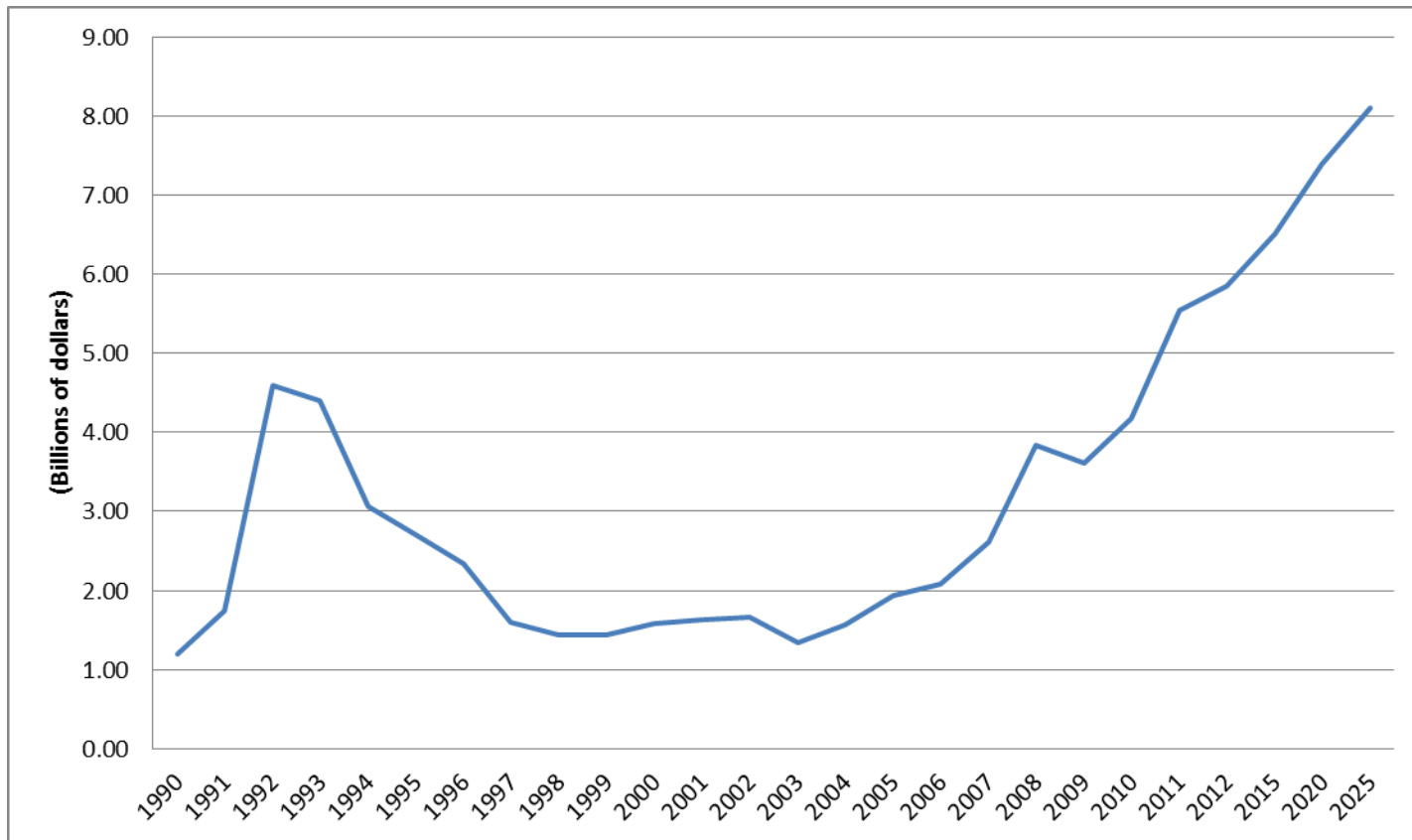
- Disaggregation
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DSM a resource

- IRP
- Cost recovery
- Lost revenues
- Incentives



Electric DSM Program Spending



Source: 1990-2012: EIA 861.

Source: 2015, 2020, 2025: *The Future of Utility Customer-Funded Energy Efficiency Programs in the United States: Projected Spending and Savings to 2025* (medium case), LBNL, Galen L. Barbose et al, 2013



DSM Cost Recovery and Incentives

Cost Recovery

Expense

Revenue Recovery

Performance Incentives



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Lost Revenue Adjustment Mechanism

Performance Incentives



Performance Incentives

- **Why?**

- Utility investors earn a return on investments in utility owned assets.
- Typically, DSM programs do not result in a utility owned asset. Consequently, there are no earnings associated with DSM programs.
- An incentive mechanism can provide shareholder earnings to allow DSM expenditures to be considered on par with supply side resources.



DSM Cost Recovery and Incentives

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Lost Revenue
Adjustment
Mechanism

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Shared Savings



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Enhanced ROE



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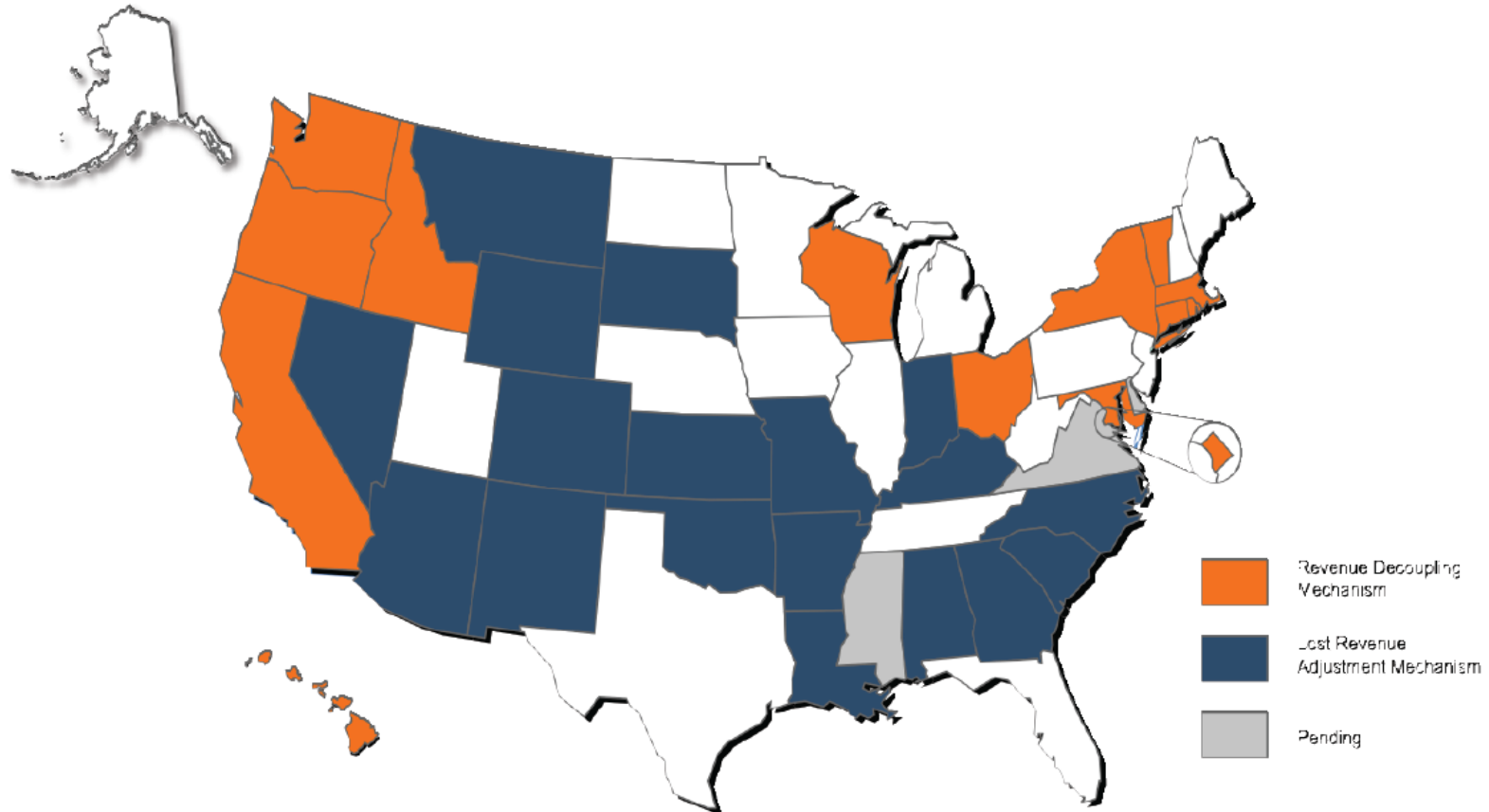
Shared Savings

Enhanced ROE

Performance Targets



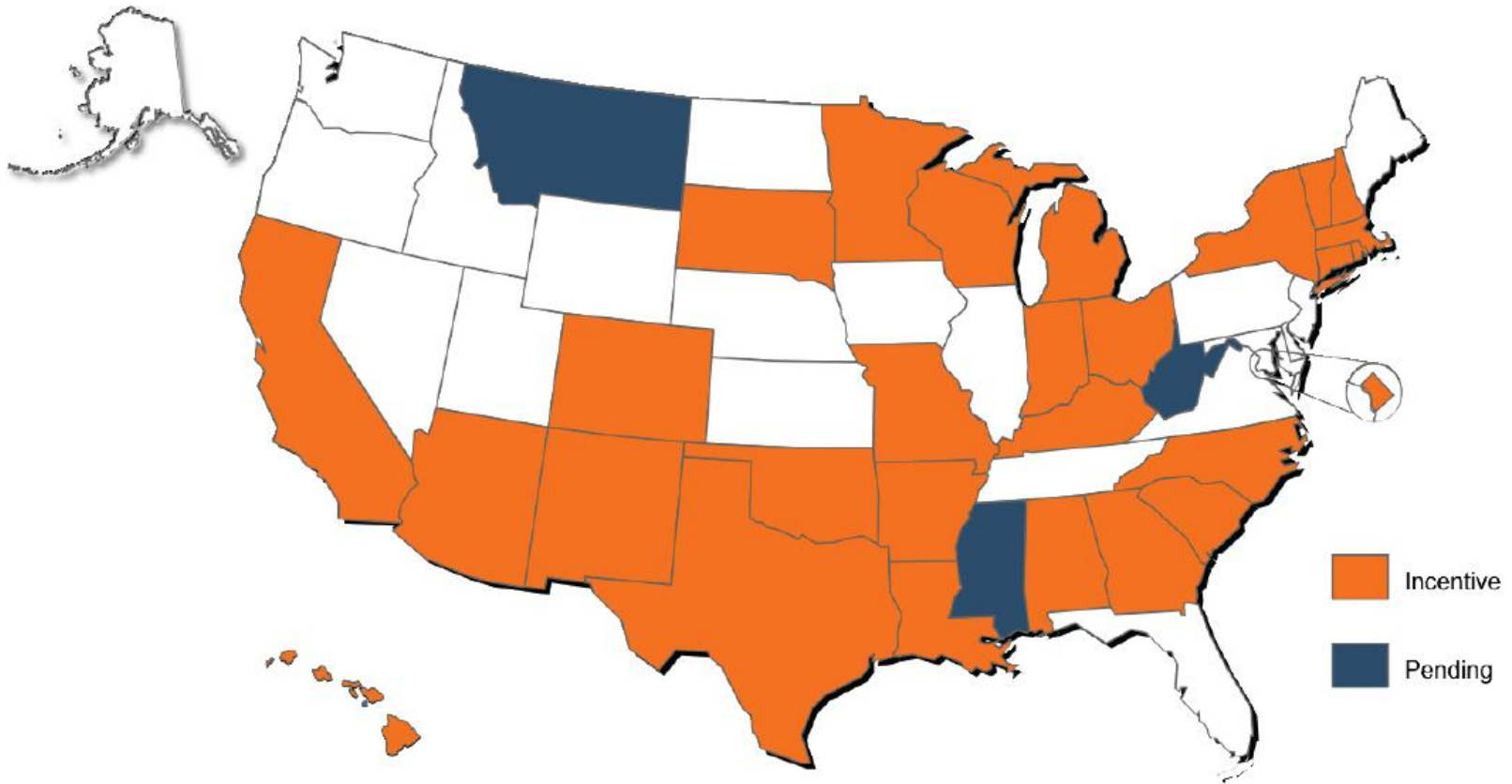
Lost Revenue Recovery by State



Source: STATE ELECTRIC EFFICIENCY REGULATORY FRAMEWORKS
IEE Report July 2013



Performance Incentives by State



Source: STATE ELECTRIC EFFICIENCY REGULATORY FRAMEWORKS
IEE Report July 2013



California

- **Decoupling**
 - **Allowed revenue determined in periodic general rate cases;**
 - **Rates adjusted once a year based on attrition allowances**
- **Performance Incentive**
 - **2010 – 2012 programs**
 - **Management fee equal to 5% of actual energy efficiency portfolio expenditures + 1% performance bonus (2010-2012 programs)**
 - **2013-2014 programs (approved September 5, 2013)**
 - **Up to 8% of EE budget (minus codes and standards) based on achieving net lifecycle goals**
 - **Management fee equal to 3% of non-resource program budget**
 - **Management fee equal to 12% of codes and standards budget**
 - **Up to 3% of EE budget (minus codes and standards) based on conformance with ex-ante review requirements**
 - **Capped at \$178 million (approximately 10.85% of EE budget)**



Ameren - Missouri

- **Throughput Disincentive**
 - **Compensation for lost fixed-cost recovery through a shared utility cost test net benefit mechanism**
- **Performance Incentive**
 - **Additional sliding scale performance incentive**
 - **0% to 4% of net benefits based on 70% to 130% of target**



Duke - Indiana

- **Lost Revenue Adjustment Mechanism**
 - kWh reduction based on ex-ante savings used for cost effectiveness testing
 - Fixed cost calculated as total revenue less fuel and variable O&M included in base rates divided by sales
 - Collected for the shorter of 3 years or the life of the measure
- **Performance Incentive**
 - Tiered incentive capped at 15% of program costs for savings exceeding 110% of target



Why Does it Matter?

Vicious Cycle from Disruptive Forces

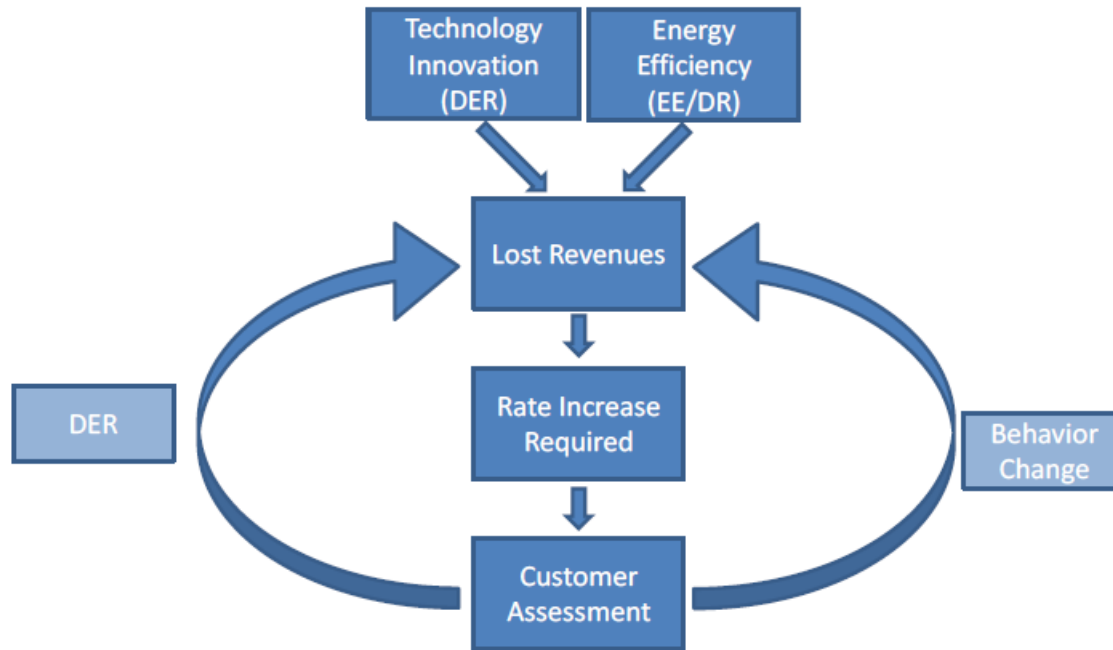


Figure from EEI: *Disruptive Challenges: Financial Implications and Strategic Responses to a Changing Retail Electric Business*, January 2013

See also: Bloomberg Businessweek: *Why the U.S. Power Grid's Days Are Numbered*, August 22, 2013



Questions/Comments

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