Valuing Efficiency:
A Review of Lost Revenue Adjustment Mechanisms

Annie Gilleo

National Conference on Energy Efficiency as a Resource

September 21, 2015

Defining the Problem

1. The costs of efficiency programs constitute financial losses to utilities unless they are able to recover those costs through rates or fees.

2. Investments in capital assets like power plants provide a return on investment under the traditional utility business model. Expenditures on energy efficiency programs avoid the need for these capital investments but do not provide a return.

3. The traditional utility business model is based on a throughput incentive, whereby utilities earn more profits by selling more electricity. Investments in energy efficiency drive down energy use and therefore utility revenues. However efficiency does not reduce the short-term, fixed costs of providing service.

Defining LRAM

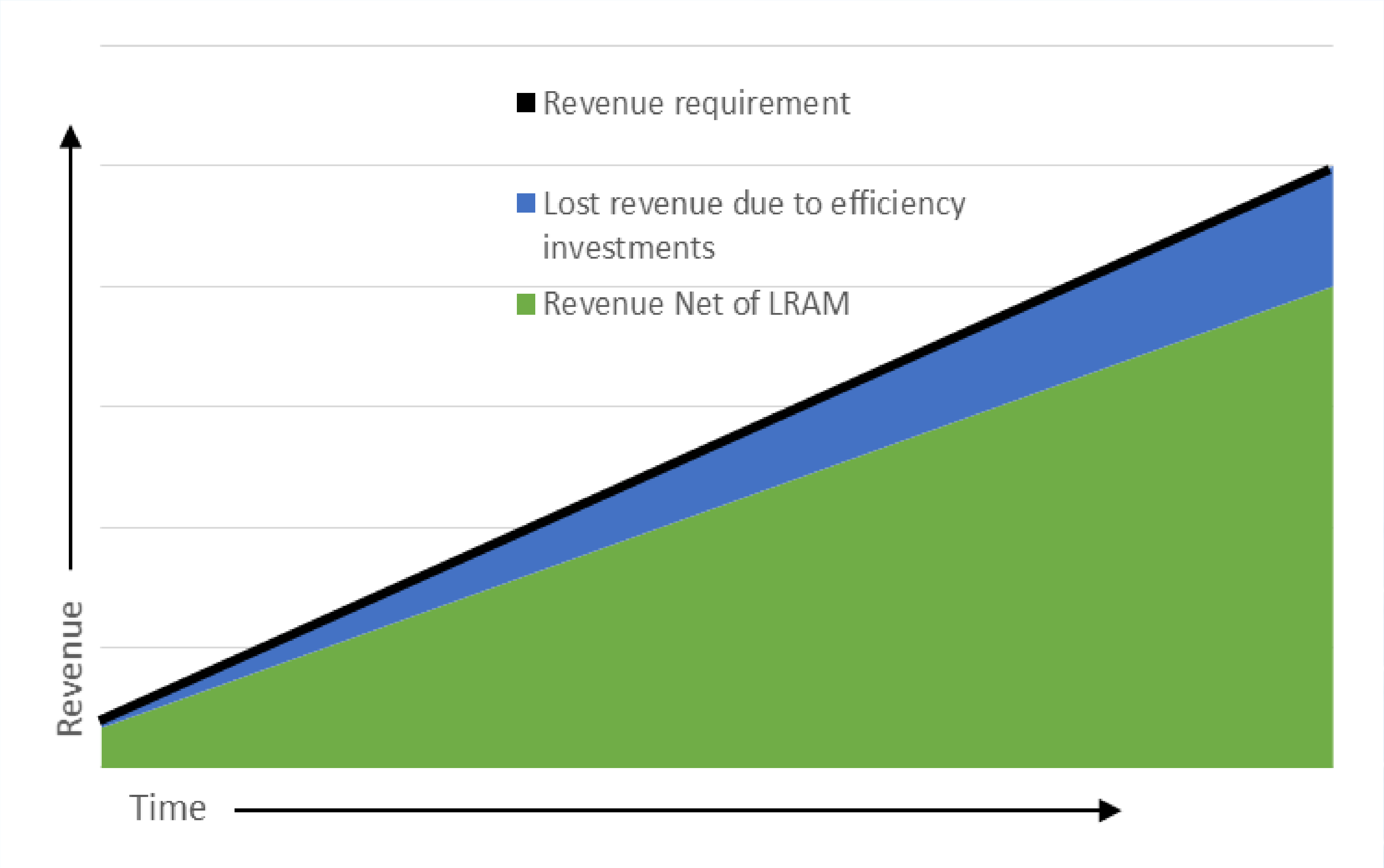
An LRAM is a rate adjustment mechanism that allows a utility to recover revenues that are reduced specifically as a result of energy efficiency programs.

Used as an alternative to decoupling with a few key differences

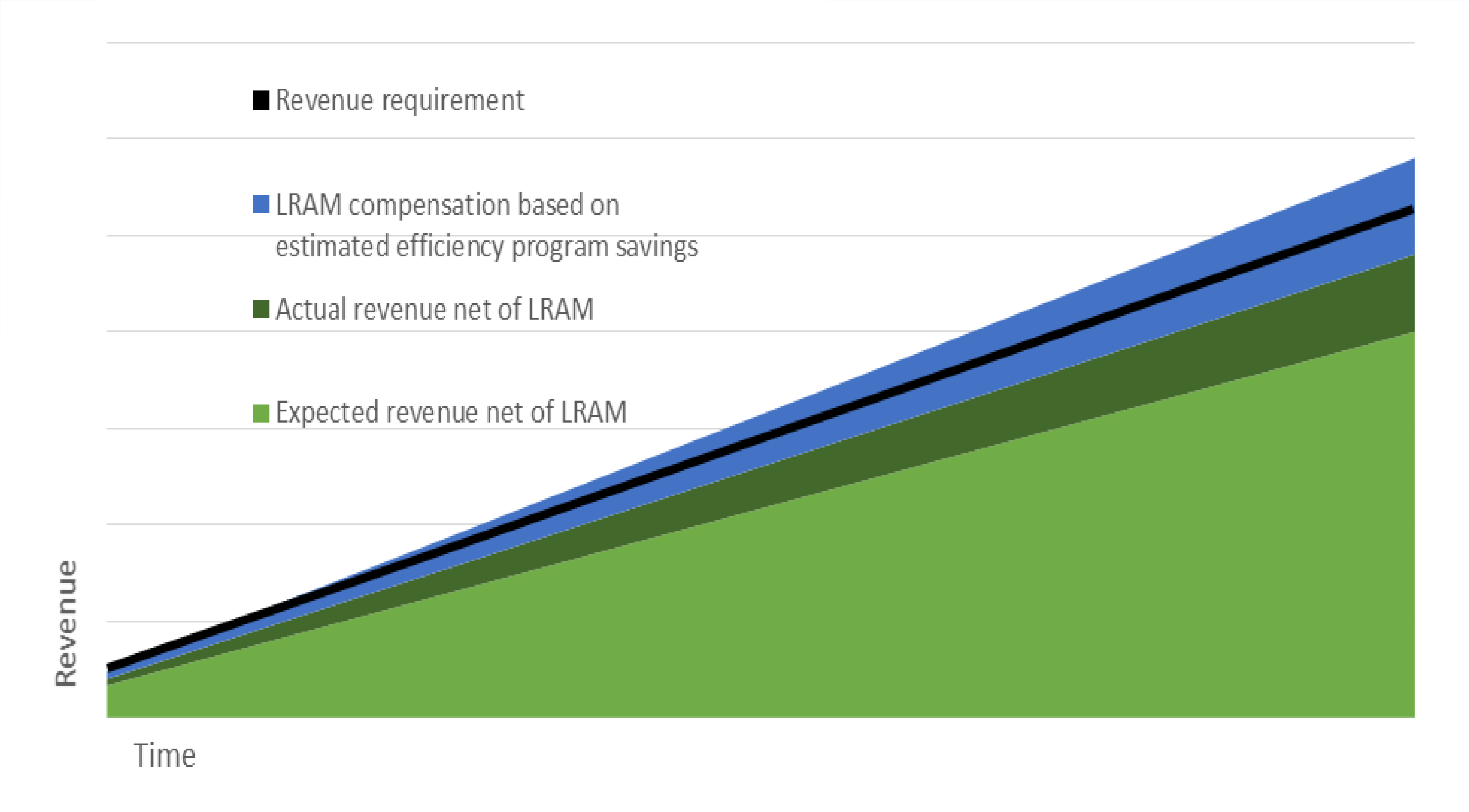
- LRAM requires a utility to estimate energy savings over a given time period
- LRAM is typically not symmetrical

American Council for an Energy-Efficient Economy

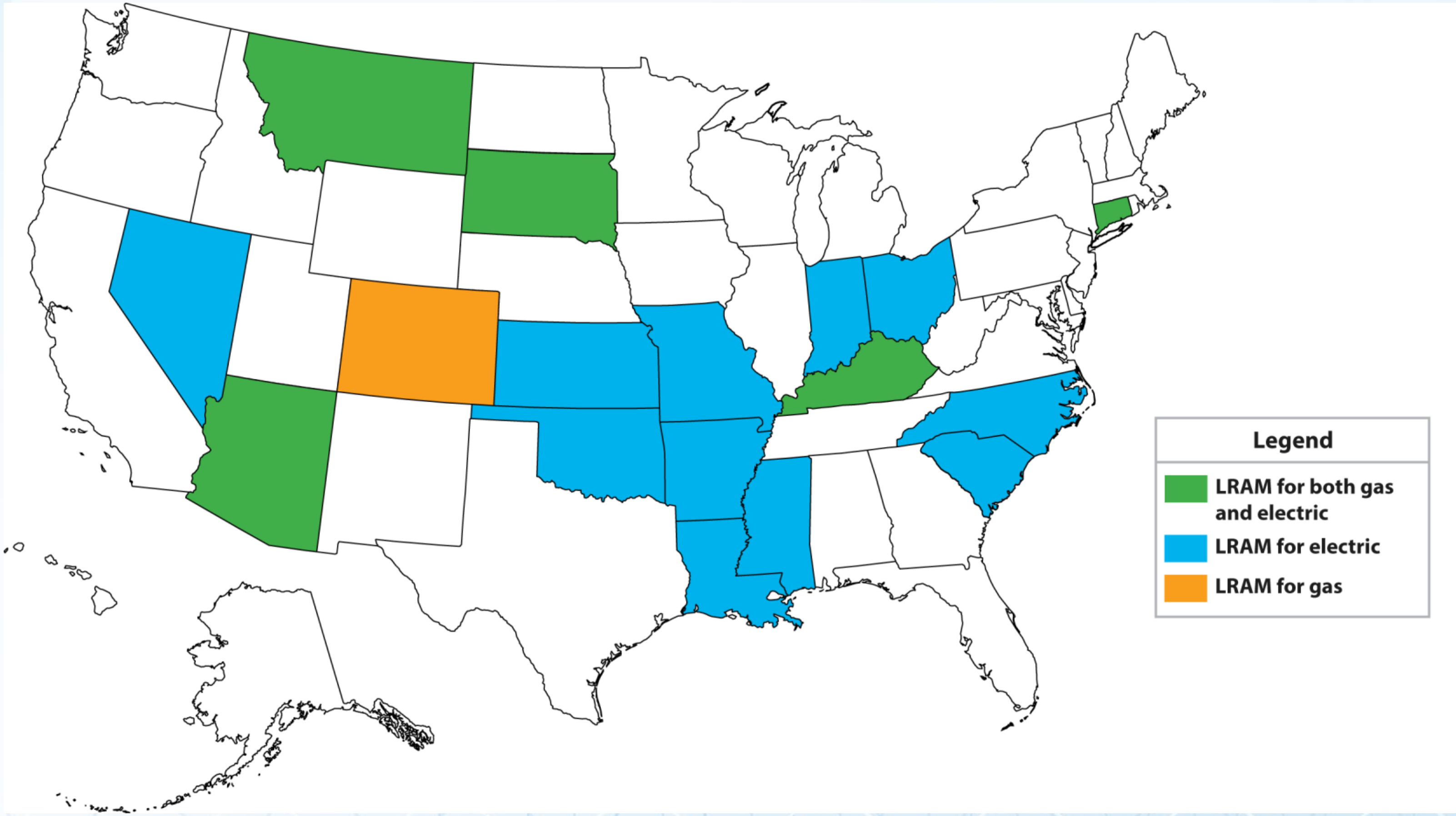
LRAM: the theory



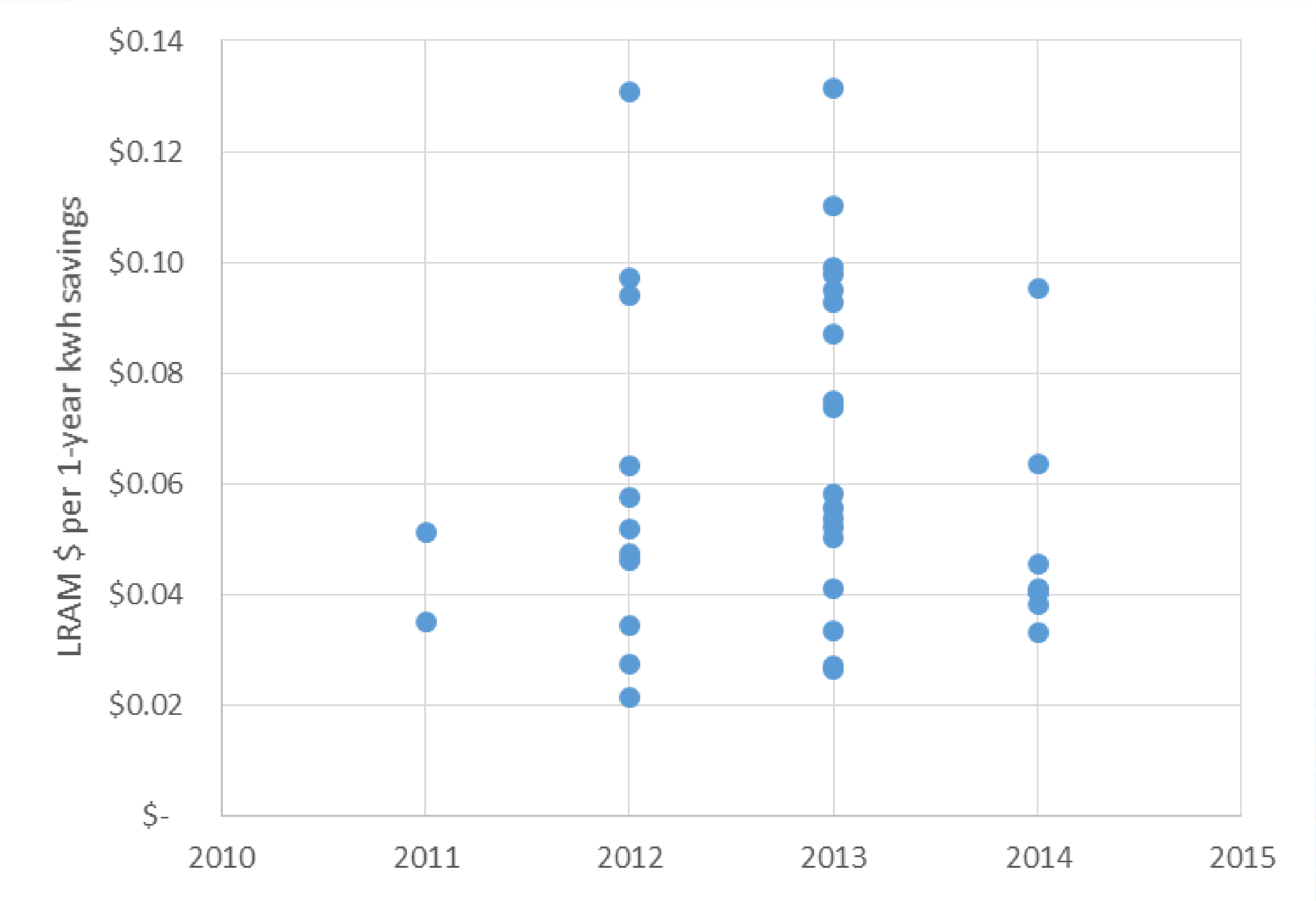
LRAM: the (potential) reality



States with LRAM

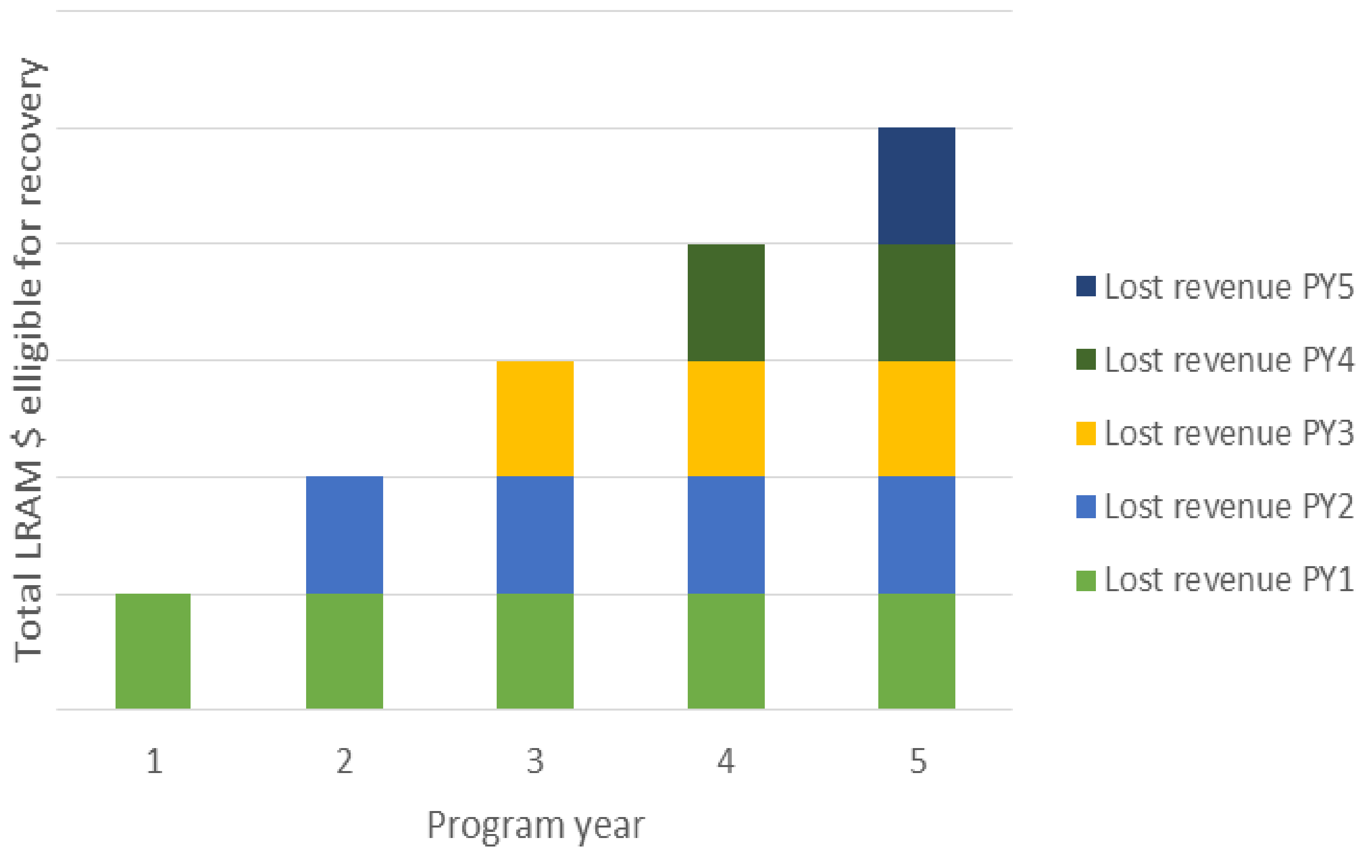


American Council for an Energy-Efficient Economy

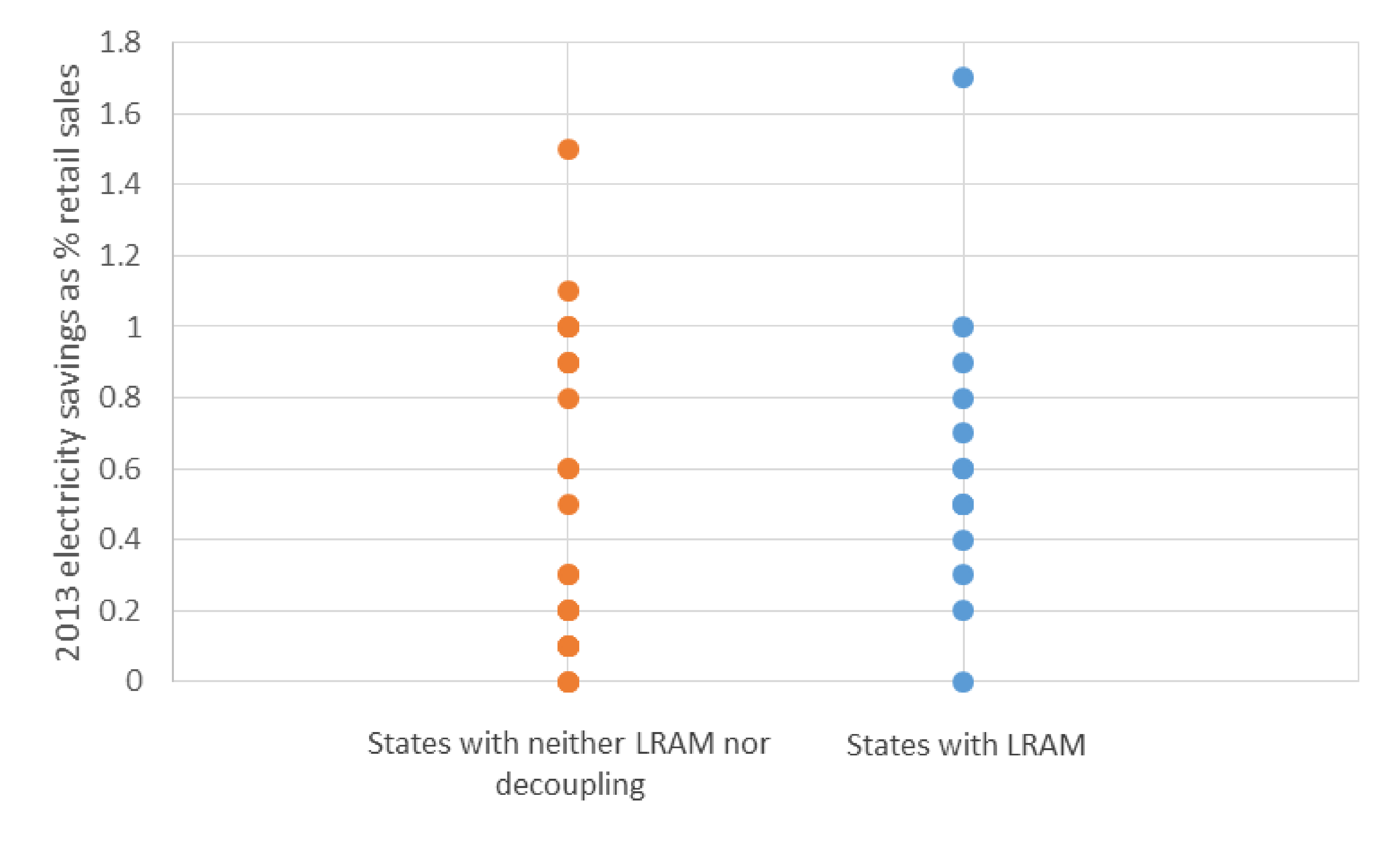


Lost revenue adjustment dollars recovered per kWh savings for electricity efficiency programs.

The pancake effect



American Council for an Energy-Efficient Economy



Electricity savings in states with LRAM compared with states having no revenue adjustment mechanism

What has state experience been like?

- Lots of variation in the amount of lost revenue recovered
- Trade-offs between EM&V and simplicity of mechanism
- Process and timing were a major focus
- LRAM isn't associated with higher levels of energy savings
- <u>BUT</u> LRAM brings utilities (and others) to the table

American Council for an Energy-Efficient Economy

Decoupling – the simple* solution!

- It *really* removes the throughput incentive
  - No incentive to load-build (excess sales are refunded)
- No fighting over EE evaluation methods and results
  - Uses actual total sales as the metric
- Removes incentive to “game” the forecast in rate cases
  - It’s all trued-up based on actuals

Thank You!

Annie Gilleo

agilleo@aceee.org

http://aceee.org/valuing-efficiency-review-lost-revenue-adjustment