

To: Missouri PSC staff and stakeholders
From: Rebecca Stanfield, NRDC

Date: June 14, 2010

Re: Energy efficiency performance goals

This memo is in response to the material submitted by Ameren earlier today, and addresses the benefits of including numerical energy efficiency targets as part of Missouri's regulatory regime for energy efficiency. This memo includes a state-by-state summary, and a question/answer portion addressing specifically Ameren's assertions.

Much of the background information provided by Ameren actually supports the inclusion of the numerical targets, which we believe would represent reasonable progress toward the goal of capturing all cost-effective energy efficiency in Missouri. We clearly draw very different conclusions from the same body of evidence. It is worth noting that Ameren's chief concern seems to be the 2% goal, which, under the proposed trajectory, would not occur until 2020, well after the rules are re-evaluated in 2014-15. One option is to ensure that the reevaluation of the rules includes a careful assessment of whether these targets remain the best approximation of all-cost effective energy efficiency.

Indiana: The state that is probably most relevant to Missouri's situation was not included in Ameren's materials. I would direct the staff's attention to the order issued by the **Indiana Utility Regulatory Commission** on December 9, 2010. This order, at page 30-31 establishes by rule a set of energy efficiency targets for Indiana utilities going from 0.3% of load in 2010, to 2% of load in 2019. Moreover, the order establishes a common framework for evaluation and implementation that may be instructive for the Missouri staff for other aspects of the rulemaking. The order is available here:

<http://www.ecw.org/ecwresults/Indiana42693PhaseIIFinalOrder.pdf>

ACEEE: The ACEEE policy paper referred to in Ameren's power point presentation submitted today supports an electric utility energy efficiency ramp-up that is nearly identical to the one included in the current draft of the Missouri rules discussed last week. Please see the complete fact sheet at:

http://www.aceee.org/energy/national/FederalEERSfactsheet_Mar09.pdf Ameren's assertions that ACEEE does not support this ramp-up path is unfounded.

Iowa: The Iowa utilities have already filed plans the implementation of which will capture energy efficiency at levels consistent with the targets in the current draft of the Missouri rules. I am reprinting this paragraph on the Iowa utilities, which is contained in the information that Ameren provided, and would note that under the targets in the current draft rule, Missouri utilities would have an additional 3 years to catch up to the level of savings that the Iowa utilities will attain in 2013:

“In compliance with Senate Bill 2386, which requires utilities to file energy efficiency goals, the IUB issued an order in 2008 asking IOUs to submit plans including a scenario to achieve a 1.5% annual

electricity and natural gas savings goal. In a report to the Iowa General Assembly in January 2009, the IUB estimated that savings from the three investor-owned utilities in Iowa (including Interstate Power and Light Company and Black Hills Corporation, formerly Aquila) would reach 1.4% of retail electric sales and 1.0% of natural gas sales by 2013. Most recently, in March 2009, the IUB approved MidAmerican Energy Company's Energy Efficiency Plan, which calls for 1.5% electricity savings by 2010 and 0.85% natural gas savings by 2013. Once the Board approves the utility plan, the goals are binding."

Ohio: We appreciate that Ameren supplied the Ohio statute that created that state's energy efficiency portfolio standard, and would refer the staff's attention to the relevant section, which appears at the bottom of page 33 of that pdf version of the statute, and begins with the following two paragraphs pasted below. We would be happy to see Ohio adopt the same trajectory adopted in Ohio as reasonable progress toward all cost effective energy efficiency. We note that this statute sets out a mandatory standard and imposes penalties for noncompliance. As discussed Friday, the only consequence of failure to meet this trajectory if included in the Missouri rules would be the availability of performance incentives.

Sec. 4928.66. (A)(1)(a) Beginning in 2009, an electric distribution utility shall implement energy efficiency programs to achieve energy savings equivalent to at least three-tenths of one per cent of the total, annual average, and normalize kilowatt-hour sales of the electric distribution utility during the preceding three calendar years to customers in this state. The savings requirement, using such a three-year average, shall increase to an additional five-tenths of one per cent in 2010, seven-tenths of one per cent in 2011, eight-tenths of one per cent in 2012, nine-tenths of one per cent in 2013, one per cent from 2014 to 2018, and two per cent each year thereafter, achieving a cumulative, annual energy savings excess of twenty-two per cent by the end of 2025.

(b) Beginning in 2009, an electric distribution utility shall implement peak demand reduction programs designed to achieve a one per cent reduction in peak demand in 2009 and an additional seventy-five hundredths of one per cent reduction each year through 2018. In 2018, the standing committees in the house of representatives and the senate primarily dealing with energy issues shall make recommendations to the general assembly regarding future peak demand reduction targets.

Illinois: Similar to Ohio, we appreciate that Ameren supplied the statutory authority for the Illinois standards, which are mandatory and the noncompliance of which is accompanied by penalties, whereas in Missouri we are not proposing mandatory standards. We think the Illinois statute provides strong evidence that this is a reasonable trajectory toward eventually capturing all cost-effective savings. We direct the staff's attention to the relevant section beginning on page 132 of Ameren's Illinois attachment and are pasted below.

With respect to the rate impact cap of 2% (also a factor in Michigan), the Illinois statute requires that by June of 2011 the Illinois Commerce Commission must review the rate cap, and report to the General Assembly as to whether it is unduly constraining the utility's ability to acquire cost-effective energy efficiency. The Missouri goal of achieving all cost-effective energy efficiency already requires that energy efficiency captured must meet the total resource cost test, which will already constrain the level of energy efficiency to that amount that saves money for Missouri relative to generation.

"(b) Electric utilities shall implement cost-effective energy efficiency measures to meet the following incremental annual energy savings goals:

(1) 0.2% of energy delivered in the year commencing June 1, 2008;

- (2) 0.4% of energy delivered in the year commencing June 1, 2009;
- (3) 0.6% of energy delivered in the year commencing June 1, 2010;
- (4) 0.8% of energy delivered in the year commencing June 1, 2011;
- (5) 1% of energy delivered in the year commencing June 1, 2012;
- (6) 1.4% of energy delivered in the year commencing June 1, 2013;
- (7) 1.8% of energy delivered in the year commencing June 1, 2014; and
- (8) 2% of energy delivered in the year commencing June 1, 2015 and each year thereafter.

(c) Electric utilities shall implement cost-effective demand-response measures to reduce peak demand by 0.1% over the prior year for eligible retail customers, as defined in Section 16-111.5 of this Act. This requirement commences June 1, 2008 and continues for 10 years.”

New Mexico – New Mexico has also set an energy savings trajectory that is roughly equivalent to the one proposed by NRDC and DNR in Missouri. In 2007, New Mexico set standards requiring investor-owned utilities to achieve a 5% reduction from 2005 electricity sales by 2014, and a 10% reduction by 2020 as a result of DSM programs implemented beginning in 2007. A utility that determines it cannot achieve the energy saving requirements shall report to the Commission, explain the shortfall, and propose alternative requirements based on acquiring all cost-effective and achievable energy efficiency and load management resources. If the commission determines that the requirements exceed the achievable amount of energy efficiency and load management available, it may establish lower requirements for the utility.

Other states: There are 24 states with energy efficiency savings targets, either mandatory or goals, and either statutory or commission-adopted. They are detailed by ACEEE in this fact sheet:

http://www.aceee.org/energy/state/State_EERS_Summary_Apr_2010.pdf

Q/A:

Are we asking Missouri ratepayers to meet the same standards Massachusetts utilities are meeting?

No. The targets that are in the current draft of the rule are not the equivalent of the level of investment Massachusetts is making. Moreover, notwithstanding the targets, utilities would not be permitted to implement an energy efficiency plan that did not meet the Total Resource Cost Test, which means that on the balance, the money saved by the programs would exceed the money spent.

What are the benefits of meeting the targets that are in the current draft rule?

According to the Midwest Energy Efficiency Alliance, achieving these savings targets would save Missouri ratepayers \$4.3 billion over 15 years. I am attaching that document as Appendix 1.

Ameren points out that many states with energy savings targets have a rate cap as a backstop to how much savings can be achieved.

True. However, in Missouri there is already a backstop, which is the requirement that all of the efficiency captured meet a stringent cost-effectiveness test. We are hopeful that the additional backstop of the rate impact cap in Illinois will be eliminated by the general assembly when they receive the report detailing the amount of savings that is out of reach as a result of the cap.

Ameren raises ACEEE’s website, which suggests that lower targets are warranted if savings from building codes and appliance standards are ineligible to count toward the goals. Will the targets include or exclude savings achieved by other programs including building codes or appliance standards?

The stakeholder process has not addressed this question. The answer depends on whether the utility is running any programs that help to ensure that those building codes and appliance standards are enforced. For example,

some utilities have trainings for code enforcement officials. The answer also depends on whether the utility will seek performance incentives for savings that it did not cause. If a federal code or standard puts some of the cost-effective savings potential effectively out of the utility's reach, the commission ought to be able to accommodate that situation on a case-specific basis.

Ameren points out that potential studies vary widely.

Exactly. The EPRI potential study identified substantially less cost-effective savings potential, by excluding significant electrical devices and end uses, than did the potential study performed by a firm that was independent of the utilities. This is precisely the reason for not relying solely on a utility potential study to set performance targets for the utility. There is too much danger that the utility will find unrealistically low potential, and thereby justify a low target in order to exceed the target substantially and earn a greater reward. Setting out a set of presumptive savings goals to aim for, and allowing the utilities and other parties to use potential studies to argue for higher or lower goals on a case-specific basis is more likely to result in maximizing the benefits that efficiency can bring to Missouri consumers and the economy.

Ameren argues that many states with numerical targets allow the inclusion of utility infrastructure improvements.

If the savings for such improvements are included in the potential studies, and are not used in lieu of the other cost-effective energy efficiency measures, there is no reason to exclude improvements such as line-loss reduction, as long as the savings can be verified and if all customers benefit.

Ameren argues that many states with numerical targets allow "re-openers" whereby the utility may present evidence that the targets are not achievable, and for the commission to adjust the targets accordingly.

This is true, and is not necessarily a bad thing.

Ameren implies that Iowa utilities are not actually implementing the 1.5% savings target, but rather they are simply submitting plans that include that scenario.

Not true. See above under "Iowa."

Ameren implies that Vermont is not actually achieving 2% of sales annually.

Not true. This is pretty disingenuous. First, I'm attaching a copy of Vermont's independent evaluation for 2005-2007 as Appendix 2, which shows not only the high level of savings they're achieving annually, but that the TRC is well over 1, and the cost per kwh savings is still only 3 cents per kwh. Ameren has pulled an isolated quote out of a long report, that ultimately recommends that Vermont continue to aggressively pursue higher levels of savings over time.