In the Matter of Proposed Amendments to the Missouri Public Service Commission's Rules Relating to the Missouri Energy Efficiency Investment Act

EX-2016-0334

(Office of the Public Counsel)

The applicable statute

- Section 393.1075 RSMo establishes the Missouri Energy Efficiency Investment Act ("MEEIA")

Section 393.1075.2 (Definitions)

- 2. As used in this section, the following terms shall mean:
- (1) "Commission", the Missouri public service commission;
- (2) "Demand response", measures that decrease peak demand or shift demand to off-peak periods;
- (3) "Demand-side program", any program conducted by the utility to modify the net consumption of electricity on the retail customer's side of the electric meter, including but not limited to energy efficiency measures, load management, demand response, and interruptible or curtailable load;
- (4) "Energy efficiency", measures that reduce the amount of electricity required to achieve a given end use;
- (5) "Interruptible or curtailable rate", a rate under which a customer receives a reduced charge in exchange for agreeing to allow the utility to withdraw the supply of electricity under certain specified conditions;
- (6) "Total resource cost test", a test that compares the sum of avoided utility costs and avoided probable environmental compliance costs to the sum of all incremental costs of end-use measures that are implemented due to the program, as defined by the commission in rules.

Section 393.1075.3 (Policy)

- 3. It shall be the policy of the state to value demand-side investments equal to traditional investments in supply and delivery infrastructure and allow recovery of all reasonable and prudent costs of delivering cost-effective demand-side programs.

Section 393.1075.3 (Policy continued)

- In support of this policy, the commission shall:
  (1) Provide timely cost recovery for utilities;
  (2) Ensure that utility financial incentives are aligned with helping customers use energy more efficiently and in a manner that sustains or enhances utility customers' incentives to use energy more efficiently; and
  (3) Provide timely earnings opportunities associated with cost-effective measurable and verifiable efficiency savings.

How does this work in practice?

- Parties to MEEIA applications have generally agreed valuing demand-side investments equal to traditional investments in supply and delivery infrastructure should have three revenue components: the program costs, throughput disincentive component, and an earnings opportunity.

Programs

- 393.1075.2(3) "Demand-side program", any program conducted by the utility to modify the net consumption of electricity on the retail customer's side of the electric meter, including but not limited to energy efficiency measures, load management, demand response, and interruptible or curtailable load;

Programs continued

- 393.1075.2(4) "Energy efficiency", measures that reduce the amount of electricity required to achieve a given end use;

Programs continued

- 393.1075.4. The commission shall permit electric corporations to implement commission-approved demand-side programs proposed pursuant to this section with a goal of achieving all <u>cost-effective</u> demand-side savings.

Programs continued

- … Recovery for such programs shall not be permitted unless the programs are approved by the commission, result in energy or demand savings and are beneficial to all customers in the customer class in which the programs are proposed, regardless of whether the programs are utilized by all customers.

Cost Recovery Mechanism

- Program costs
- Throughput-disincentive
- Earnings opportunity

Program Costs

- Cost of implementing the programs
- Budgeted amount that helps inform the Commission what ratepayers can expect to be charged in order to achieve and establish the energy and demand savings goals
- Deviations from the budget should be scrutinized and rarely permitted.

Throughput-disincentive component

- Traditionally, a utility has an incentive to sell more power.
- Parties agree to “align the utilities incentive” some mechanism is appropriate.
- Company should only be compensated for value of the energy it does not sell as determined by EM&V

Throughput-disincentive component Continued

- Commission has stated:

  "Under MEEIA, and with Commission approval, electric utilities may offer demand-side programs and special incentives to participating customers designed to put demand-side initiatives on equal footing with traditional supply-side resources."

  Order Approving Non-Unanimous Stipulation and Agreement, Case No. EO-2015-0055, p. 5.

Through-put disincentive component Continued

Commission explained the process for true-up of the throughput disincentive:

> "The Signatories further agree the DSIM reasonably relies on retrospective EM&V to determine the actual Throughput Disincentive ("TD") and Earnings Opportunity ("EO") amounts. Ameren Missouri agrees to have its independent EM&V evaluator(s) perform annual EM&V process and impact evaluations, which will include both ex-post gross and net-to-gross ("NTG") evaluations. Annual ex-post gross by measure will be used to adjust the TRM deemed annual energy and demand savings. In contrast to the First Utility Stipulation, the TD in the Second Utility Stipulation will utilize the updated TRM on a prospective basis and still be subject to the true-up provisions provided for in the DSIM."

Order Approving Non-Unanimous Stipulation and Agreement, Case No. EO-2015-0055, p. 4.

Earnings Opportunity

- Traditionally, utilities earn a return on investments made in supply-side infrastructure.
- The Earnings Opportunity component should is a substitute for the value of the earnings opportunity the company would receive on supply-side investments if the company did not pursue energy efficiency.

- Commission described its view of the earnings opportunity:

  "The sole purpose of a "performance incentive" under MEEIA is to give the company an earnings opportunity to place shareholders in a financial position comparable to the earnings opportunity they would have had if those shareholders made a future supply-side investment. A successfully implemented performance incentive would accomplish the policy goal of valuing equally supply-side and demand-side investments."

  Report and Order, Case No. EO-2015-0055, p. 11.

Public Counsel's comments

- Program budget
- Energy and demand savings goals
- Non-energy Benefits
- State-wide Technical Reference Manual

Program budget

- Commission-approved budgets should be followed
- Utility should notify customers and trade allies when budget is exhausted.

Energy and demand savings goals

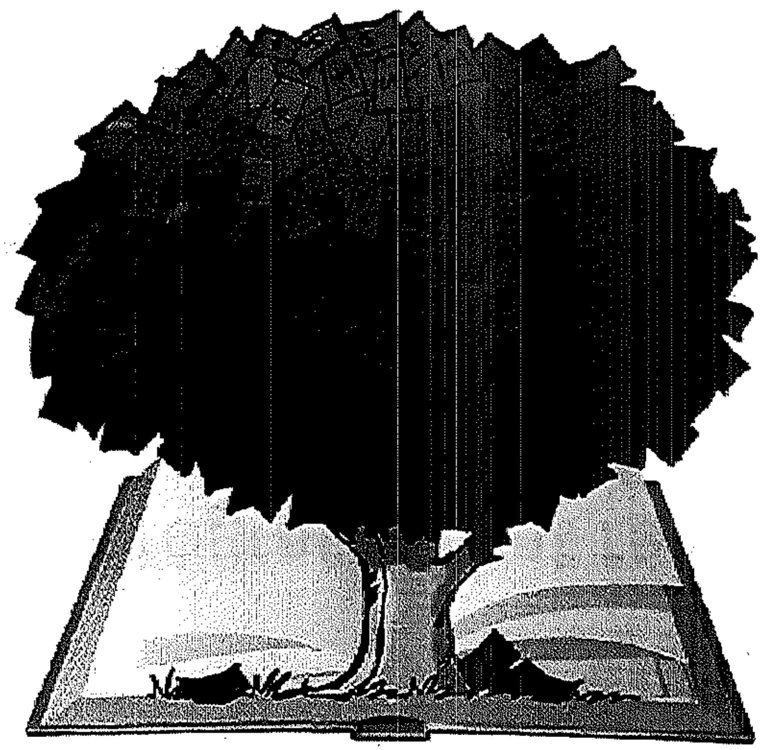
- MEEIA is volutary
- The energy and demand savings targets should be based on market potential studies and the Integrated Resource Plans

Non-energy Benefits

- Not quantifiable
- Distract from identifying programs that result in real cost-effective energy and demand savings
- Add additional complications.

State-wide Technical Reference Manual

The Missouri
Technical Reference Manual



State-wide Technical Reference Manual

- Not clear how it will be used.
- Utilities are intent on pursuing use of "deemed" values.
- Does not contain all measures currently in place.
- No demonstrated cost benefit for ratepayers

Questions?