# BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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| In the Matter of the | ) | **Docket No. U-100522** |
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| Conservation Incentive Inquiry | ) | **NW Energy Coalition's** |
| | ) | **Statement of Issues** |
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The NW Energy Coalition ("Coalition") respectfully submits the following statement of issues in response to the Commission's April 8 Notice of Opportunity to File Statements of Issues and Written Comments ("Notice").

The Coalition actively participated in many of the Commission's previous dockets that included review of mechanisms to address lost revenue due to conservation.[1] In those dockets, we advocated for regulatory strategies that, at a minimum, make utilities neutral to increases or decreases in their customers' energy use, and motivate them to support sustained investment in all cost-effective energy efficiency.

A utility may need more than programmatic cost recovery in order to put energy efficiency on a more equal footing with other utility expenditures and to ensure acquisition of all cost-effective conservation. We believe consistently-applied regulations are needed to design and govern conservation incentive mechanisms and address declines in revenues due to increasing conservation investments. We appreciate the Commission opening this docket to examine this issue comprehensively.

We concur with the list of topics the Commission intends to examine in this docket.[2] A distinction exists between incentive and disincentive-based mechanisms, and we are pleased to see the Commission's expectation that both of these will be addressed. Though no one approach is perfect for all situations, both types of mechanisms offer the potential to increase the acquisition of cost-effective conservation. We also support inclusion of evaluation, measurement and verification protocols, and believe the time is ripe for discussing consistent application of such protocols.

We recommend ensuring that any discussion of the impact of revenue recovery mechanisms and conservation incentives on utility rates and bills specifically addresses positive and/or negative impacts on low-income households. Low-income households must be able to access utility services they can afford.

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[1] For example, the Coalition intervened and sponsored witnesses on this subject in UE-060266 & UG 060267, UG-060518, UG-060256, and UG-060518/090135/090134. We also participated as the Northwest Conservation Act Coalition (NCAC) in UE-900385, UE-901183/UE-901184, UE-940932, and as the Coalition in U-090222.

[2] Notice, p. 4.

In November 2009, the Coalition's Board adopted a set of guiding principles for addressing energy efficiency incentives and disincentive removal mechanisms. Individual and organizational Coalition members, representing diverse interests from around the region, approved this resolution. To the extent it may help inform the process in this docket, we have provided that resolution here as Attachment A.

We hope this proceeding aids the Commission in establishing specific guidelines of general applicability that are designed and intended to reduce or eliminate disincentives to energy conservation and provide incentives to ensure that utilities capture all cost-effective energy savings. We look forward to participating in upcoming workshop discussions.

**ATTACHMENT A:**

**NW Energy Coalition**
**Utility Energy Efficiency Incentives and Disincentives Resolution**
**November 14, 2009**

WHEREAS there are many barriers to energy efficiency that mean market mechanisms alone will not be enough to move consumers to acquire and install all the cost-effective measures available. Consumers, including residential, commercial, and industrial power users, often lack the time horizon, information, financing, technology and economies of scale. They also do not receive all the benefits of saving energy due to split beneficiaries and the failure of markets to reflect most environmental costs; and

WHEREAS utilities can support—or hinder—efforts to overcome many of these barriers…but only if they are motivated, or at least not penalized, to do so; and

WHEREAS most current regulatory regimes strongly reward investor-owned utilities when usage increases, and penalize them when usage decreases. For a variety of reasons in the mid-1990's, many investor-owned utilities in the region chose to expense rather than capitalize their energy efficiency investments and do not currently earn a return on those investments, but they are provided this opportunity for infrastructure investments; and

WHEREAS consumer-owned utilities face different obstacles, but they face the same challenge covering costs when sales decrease as investor-owned utilities experience. To the extent that these utilities focus on rates, rather than bills, they may be resistant to energy efficiency investment opportunities and more focused on increasing sales; and

WHEREAS the problem, therefore, is to design alternatives to these incentives/disincentives that, at a minimum, make utilities neutral to increases or decreases in energy use of their customers, and preferably provide incentives that motivate them to support sustained investment in all cost-effective energy efficiency; and

WHEREAS no single mechanism to reduce disincentives, create incentives, or both is perfect for all situations, and multiple approaches may produce equally beneficial results. The states and consumer-owned utility governing bodies should consider alternative approaches. Ideally the interest of the utility should align with the interests of its consumers and the environment;

THEREFORE BE IT RESOLVED that the NW Energy Coalition will advocate for a policy package that promotes acquisition of all cost-effective energy efficiency in the electric and natural gas sectors at the lowest lifecycle cost to consumers; and

THEREFORE BE IT RESOLVED that the NW Energy Coalition adopts the following guiding principles for support for regulatory incentives and disincentive removal mechanisms that motivate utilities to pursue and support cost-effective energy efficiency:

**General Principles for Energy Efficiency Policy Package**

- Aggressive energy efficiency targets should be a key component of any policy package addressing energy efficiency.
- Utility incentives and disincentives should be aligned with the overarching goal of promoting acquisition of all cost-effective energy efficiency.
    - Utility disincentives for effective energy efficiency (such as regulatory incentives that reward increased sales and penalize sales below accepted levels, i.e., throughput incentive) should be addressed.
    - Utility incentives for energy efficiency investments and performance should be considered to help even the playing field with the incentives that may exist for supply-side investments.
- Utilities should have timely cost recovery for prudent and cost-effective energy efficiency expenditures, including addressing the delay in cost recovery from increased energy efficiency program efforts.
- Consumers should receive the substantial majority of the net economic benefits (the difference between the benefits of the measure and its cost) of energy efficiency investments.
- Cost effectiveness should include energy and non-energy benefits. Energy benefits include, but are not limited to: reduced generation costs, avoided losses, distribution and transmission costs, taking account of load shape, load factor, peak demand and locational benefits. Non-energy benefits may include, but are not limited to: reduced environmental damage, reduced water and other resources, health and safety benefits, and economic development.
- Any mechanism that is found to significantly increase or decrease shareholder risk should consider including an appropriate increase or decrease in the allowed shareholder return.
- Creation of an incentive mechanism or a disincentive removal mechanism should include detailed analysis of the positive and/or negative impacts of that mechanism on low-income consumers; analysis indicating an "average" condition for residential consumers is not sufficient. Implementing such a mechanism should not increase the difficulty for low-income households to access utility services they can afford.
- Increases in energy efficiency program budgets for low-income consumers should be at least roughly proportional to the increases in funding for energy efficiency programs for other residential consumers, assuming there is unaddressed need.
- An independent evaluation should be conducted to examine the effectiveness of an incentive mechanism or a disincentive removal mechanism.

**Principles for Addressing Disincentives to Energy Efficiency (Throughput Incentive)**

- Any mechanism should be linked to a commitment from the utility to pursue significant energy efficiency savings.
- As it removes the disincentive to decrease sales, any mechanism should also reduce the incentive to maximize sales as a way to increase profit.
- Utilities should not be disadvantaged by energy efficiency achievements regardless of whether they are accomplished through end-use consumer programs, codes, standards or markets.
- Master metering and straight fixed variable rate design are not acceptable solutions if they create a disincentive to consumer investment in energy efficiency.
- Any mechanism should not erode a utility's incentive to control costs or to improve operational efficiency.
- The mechanism should not result in an unwarranted shift in costs between customer classes or to low-income consumers.
- The mechanism should be designed to limit excess year-to-year fluctuations in rates.
- Once in place, the mechanism should strive to be understandable and impose low administrative cost for the regulatory agency, the utility and public interest advocates.

**Principles Providing Incentives for Energy Efficiency**

- The best resource mix for consumers should also be the most profitable path for utilities.
- Utilities should have a timely earnings opportunity, in which earnings are directly linked to efficiency program performance.
- The incentive mechanism should ensure that the substantial majority of benefits of energy efficiency are received by consumers and should be set no higher than is required to induce the sustained investments needed.
- Incentives should reward superior performance.
- Incentives should be designed to reward achievement of results equitably throughout all sectors to which the incentive applies, not just within a single sector.
- Incentive rate design should avoid creating large changes in earnings from small changes in savings levels.
- Performance metrics should focus on energy savings, economic savings, and carbon savings.
- Additional indicators should be considered as performance metrics or as thresholds for receiving incentives, such as market transformation, hard-to-reach sectors, cost minimization, and maximizing cost-effectiveness and net benefits.

**Principles for Addressing Rate Design**

- Retail rates should be designed to provide efficient price signals to consumers.
- End-block rates should align the rates for incremental usage with long-run incremental costs, including production, transmission, distribution, administrative, and environmental costs.
- Time-varying rates should not be implemented in a manner that creates severe hardships for consumers.

*Adopted by the NW Energy Coalition Board November 14, 2009.*