(GUEST OPINION)

Boosting Efficiency Investment

THE VIEW FROM MISSOURI // BY ROBERT S. KENNEY

ENERGY EFFICIENCY MEASURES are those measures that reduce the amount of energy needed to achieve a particular result. Energy efficiency is the single most cost-effective resource that provides a means of meeting energy and demand needs while also minimizing the need to build new, expensive generating plants or to retrofit older fossil fuel plants. The benefits of energy efficiency can inure to consumers, to the utility and to the environment.

In recognition of these facts, in 2009, the Missouri General Assembly passed and Gov. Jay Nixon signed into law Senate Bill 376, The Missouri Energy Efficiency Investment Act. The act sets forth the policy of the state of Missouri 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."

In implementing this policy, the Missouri Public Service Commission is instructed to provide timely cost recovery for utilities. The commission is to ensure that utility financial incentives are aligned with helping customers use energy efficiently in a way that enhances and sustains utility customers' incentives to use energy efficiently. Regulators are to provide utilities timely earnings opportunities associated with cost-effective, measurable, and verifiable savings attributable to energy efficiency.

Our rules allow for recovery of program costs and also for the recovery of lost revenue associated with implementing energy efficiency programs. As to this last component,

NewsFlash

CHINA IN TENNESSEE

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A Tennessee conservative political group is criticizing plans by Guizhou Gouchuang Energy Holdings to buy Triple H Coal in Jacksboro, Tenn.

The deal would make the Chinese company the first to buy a coal operation in America, according to an article in the *Chattanooga Times Free Press*.

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recovery of lost revenue is limited to revenue directly attributable to measurable and verifiable energy-efficiency measures and only if the decrease in kilowatt-hours is less than the kilowatt-hours assumed in the utility's last rate case. So, not only must the utility demonstrate a decreased amount of kilowatt-hours sold directly attributable to measurable energy efficiency programs, but it must also show that it is worse off than projected in its last rate case.

In implementing energy-efficiency programs, a significant obstacle arises in the form of reconciling the utility's traditional business model with the goal of decreasing energy consumption. The conundrum of asking the utilities to promote and encourage energy efficiency is that it runs counter to the traditional business model. Asking the utility to promote and encourage energy efficiency is akin to asking the widget maker to sell fewer widgets. Solving the problem of the so-called "throughput disincentive" is viewed as a significant challenge and a barrier to implementing robust energy-efficiency programs.

Recently, the Missouri commission approved two proposals that elegantly address this problem. Ameren Missouri and KCP&L Greater Missouri Operations Co. are each implementing a portfolio of energy-efficiency programs aimed at residential, industrial and commercial consumers. These proposals are supported by a broad coalition of stakeholders, including residential, industrial and commercial consumer advocates.

The utilities will be allowed to recover their actual costs of implementing energy efficiency programs. This element is straightforward and noncontroversial. But additionally, the utilities will be allowed to recover a portion of net shared benefits, which are equal to the current value of the lifetime avoided costs – avoided energy, capacity, transmission and distribution, and probable environmental compliance costs – over the life of the program plan implementation, minus the present value of the total utility costs of administering the programs. The recovery of "Net Shared Benefits" allows the utilities to address the throughput disincentive while at the same time ensuring that the offset of lost revenue is directly attributable to measured and verified energy efficiency programs. In addressing the throughput disincentive in this fashion, the utilities' disincentive is removed while ensuring that consumers are appropriately bearing the costs of only the results of utility-administered energy-efficiency programs.

Finally, at the end of a three-year period, the utilities will be eligible to earn a performance incentive. This bonus will vary depending upon the actual, measured success of their energy-efficiency programs over the three-year period. The greater the number of megawatt-hours of decreased energy consumption and decreased megawatts of peak demand or peak capacity, the greater the bonus. The performance incentive bonus represents a percentage of the net shared benefits. Once the three-year period is complete and the energy-efficiency programs' performance – energy and demand savings – is measured and verified by an independent analyst, the utilities will be eligible to receive a performance incentive bonus equal to an agreed-to percentage of the net shared benefits for the achieved performance level.

It is important that state public utility commissions find ways to encourage and promote good public policies such as encouraging energy efficiency while also recognizing the realities of the utility's business model. And we must do all of this while also ensuring that the good public policies are providing benefits to consumers. These proposals will go a long way toward accomplishing those goals.

Robert S. Kenney is chairman of the Missouri Public Service Commission.

Gatherings// Legal Arena

June 10-12	Energy and Utility Affordability	San Diego
July 8-11	Intersolar North America	San Francisco

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