Energy Efficiency Action Plan

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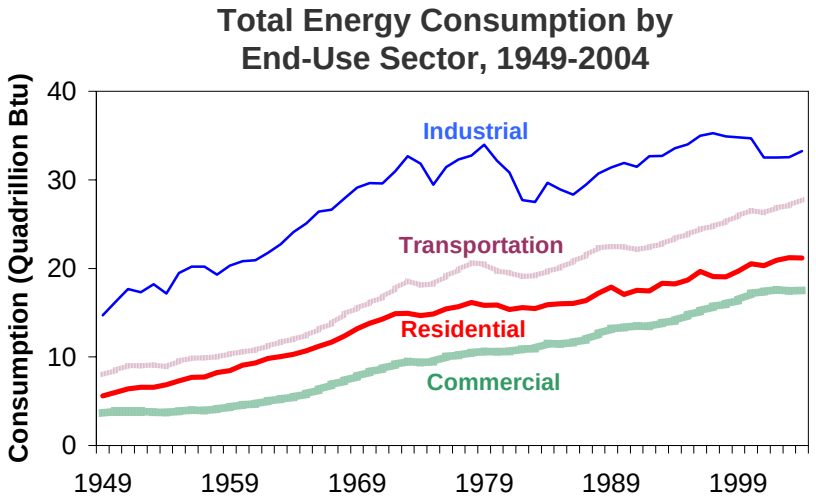
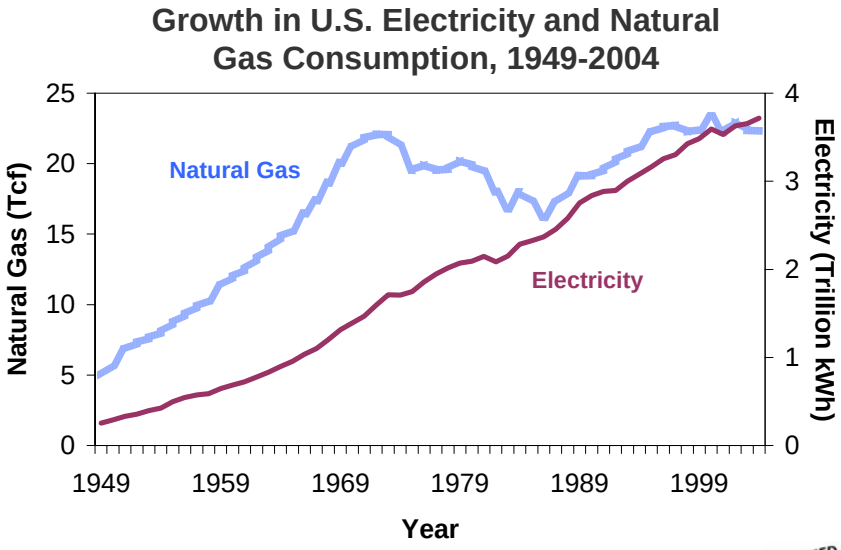
Time for Action on Energy Efficiency

- Energy demand continues to grow
- Higher energy prices than seen for decades
- High energy expenditures
- Reliability issues
- Capital expenses for generation, transmission and congestion relief
- Investment risk associated with climate change
- Security concerns





Sources: EIA Annual Energy Review 2004

Overview of Energy Efficiency Action Plan

- Many cost-effective energy efficiency solutions
  - Well-designed and cost-effective programs that work
- Significant potential for greater investment and savings
  - Efficiency can help control electricity growth 50%+
- Utilities well positioned to deliver more efficiency, but barriers exist
- **Goal Statement**
  - To create a sustainable, aggressive national commitment to energy efficiency through gas and electric utilities, utility regulators, and partner organizations.
- Leadership Group:
  - Recognizes that utilities and regulators have critical role
  - Recognizes success requires joint efforts
  - Will work across their spheres of influence to remove barriers
  - Commits to take action within their own organization

Energy Efficiency Action Plan

- Who: **Leadership Group**

  Comprised of electric and gas utilities, state public utility commissions, state energy/environment agencies, energy consumers, energy service providers, NGOs

- What: **Working Groups to Address Key Barriers and Develop Business Solutions**

  – Utility Ratemaking and Revenue Requirements
  – Rate Design
  – Planning Processes
  – Programs Best Practices

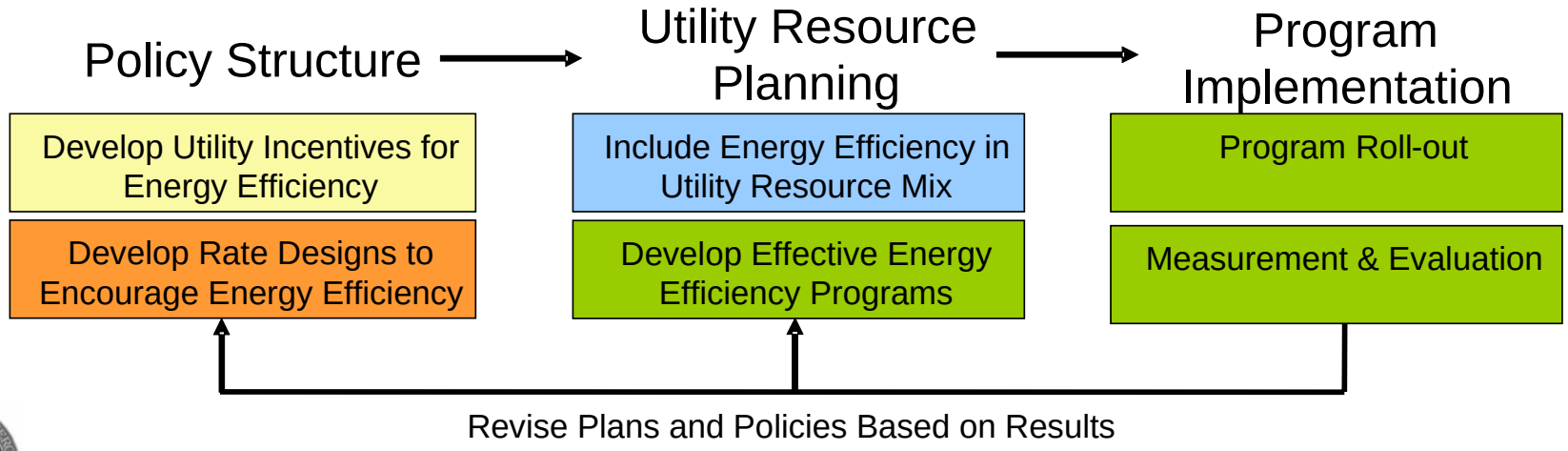
Facilitated by US DOE and EPA

Proposed Work

Action Plan Working Groups and Key Barriers

Utility Ratemaking & Revenue Requirement	Rate Design	Planning Processes	Model Program Documentation
EE reduces utility earnings	Rates do not encourage EE investments.	Planning does not incorporate demand-side resources	Limited information on existing best practices

Key Utility Policy, Planning, and Program Activities



Key Barrier -- Utility Incentive Structures

- Net revenue linked to throughput creates disincentive for utility EE investment and other policies leading to lower use
  - Decoupling mechanisms are a solution
- Investor-owned utilities do not earn the same rate of return on EE as supply side investments
  - Shareholder incentive mechanisms can reward investor-owned utilities
- Publicly-owned utilities must justify rate increases or decrease net revenue to promote energy efficiency investments
  - Evaluate Average Bill Impact rather than Rate Impact

Key Barrier – Rate Designs

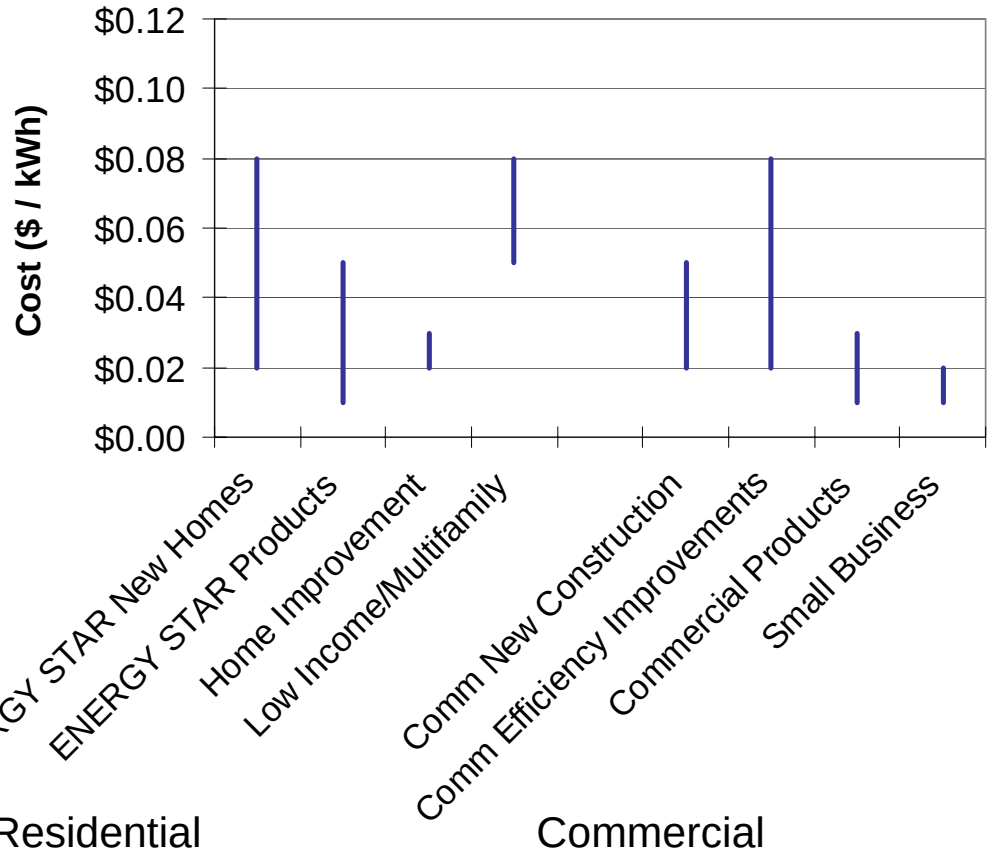
- Frequently does not encourage energy efficiency
- Do not encourage less usage when high costs for energy or capacity
- Rate design changes to promote EE can be difficult, particularly when mandatory
  - Pilots are exploring what can work
- Must address trade-off between economic efficiency and complexity to develop rates that provide appropriate signals

Key Barrier -- Utility Planning Processes

- Standard utility resource planning processes do not typically evaluate EE as a competitive resource
  - While M&V is well-developed, there remains some skepticism that the system benefits from energy efficiency will be available when needed
- Comparison of EE, supply side resources, T&D requires consideration of appropriate trade-offs in key areas
  - Cost
  - Reliability
  - Environmental Impact
  - Others
- Portfolio of demand and supply options should consider policy direction, incentives and goals of commissions (Investor-owned) or communities (publicly-owned)

Key Barrier: Lack of Information/Awareness on Programs that Work

- Document programs that work
  - Political/ administrative factors
  - Across end-use sectors and customer classes
  - Designing the portfolio
  - Cost-effectiveness tests
- Established M&V procedures
  - Gross to net
  - Persistence of savings



Sources: NYSERDA, CA, MN Xcel, VT, NWPPC

Expected Outcomes

- Documenting business practices / solutions for overcoming barriers limiting utility investment in energy efficiency
  - Removing disincentives / providing incentives
  - Integrating EE into utility planning
  - Examples of EE programs that work
  - Tactics that help EE succeed
- Communication strategy for spreading practices / solutions during Summer/Fall 2006
  - regional/state workshops
- A network of experts and resource materials on energy efficiency practices

Upcoming Milestones

- Draft working group materials by early March 2006
  - Business cases
  - Draft communication strategy
- Next Leadership Group Meeting on March 23
  - Review all draft Working Group material
  - Agree to Communication Strategy
  - Commitments
- Summer 2006
  - Final Working Group materials
  - Initiate Communication Strategy
  - Update at Summer NARUC Meetings