



DRAFT TELECONFERENCE MEETING SUMMARY
Residential, Commercial, and Industrial Policy Working Group
Call #8, August 15, 2007

Members Attending:

Dan Chiras
Paul Ira
Pat Keegan
Dave Newport
John Phelan

Doug Seiter
Fred Stoffel
Karen Hancock (Alternate)
Jack Ihle (Alternate)

Governmental agency liaisons: none

Rocky Mountain Climate Organization: Stephen Saunders, Tom Peterson

Center for Climate Strategies: Ezra Hausman, Alice Napoleon, Kenji Takahashi,
Jennifer Kallay

Members of the Public: none

Agenda Item #1: Introductions and Roll Call

Agenda Item #2: Review & Approval of Draft Summary for meeting #7

No objections. Notes are to be considered final.

Agenda Item #3 & 4: Review of process and objectives for today's meeting; Review of CAP Meeting on August 1, 2007

Process, status, and objectives were reviewed.

Agenda Item #5: Discuss current status of Policy Options Document and work to finalize

It was noted that CCS will estimate the impact of HB07-1037 (both electric and gas) but it will not be included in baseline forecast. It will be identified as an "impact of recent actions." HB07-1037 involves a 5% reduction in electricity use relative to the base year (2006). On gas side, utility must spend a set budget for DSM. The impact of this policy is estimated at 3% of projected sales in 2020.

The NPV and cost reflected in our policy analyses will not reflect costs and benefits already accommodated by HB 1037.

There were no objections to this approach.

As discussed at the CAP meeting, Xcel is doing new DSM programs equivalent to .3%/yr. It was proposed to make this part of reductions from recent actions. For 2007 they expect to achieve an 0.35% reduction. The 0.3% is pursuant to a settlement. This should be noted as a reduction from recent actions, but the policy goal will *include* Xcel's current plans. The costs and benefits of this activity will not be attributed to the policy proposal.

Materials posted for this meeting include the Policy Options document plus two memos:

- DSM performance
- Alternative scenarios and minor adjustments (developed in response to CAP/PWG concerns to help wrap-up analysis between this meeting and the next one. Straw proposals for WG discussion.) (Minor adjustments are based on CCS' quality control—we found errors & corrected, adjusted policy document accordingly. The policy document was only changed to reflect corrected errors.)

RCI-1

Policy options analysis

Two alternative scenarios and their results are shown in the memo, strictly to inform the discussion and provide a benchmark for the impact of changing the ramp-in period. What does the group think?

A 5-year ramp in is still too aggressive. 1% may be appropriate but 5-year time frame is too short. Xcel suggested 0.2% by 2009, rising .2% per year every other year.

A member noted that CO has a mix of utilities at different stages with Xcel ahead of the others. Xcel's ramp-up will be faster. Many utilities have done nothing. However, a slower ramp would mean that Ft. Collins doesn't have to do anything for a while. This depends on whether the goal is defined state-wide or utility by utility.

Ramp-up for specific utilities was discussed further. Ft. Collins goal is .6% per year, but could get to 1% over a period of a couple of years. Xcel says they would need 8 years to get to 1%, which is still very aggressive.

There was a discussion of a recent KEMA study with a comparison of ramp-up rates.

There was a proposal to ramp up to 1% by 2015 (seven years for both gas and electric) which was acceptable to Xcel. This was accepted by the group.

Implementation Mechanisms

For this as well as the other policies, CCS proposed straw implementation mechanisms in policy options document.

Issue of current law/statutes: The current law is 5% savings by 2020. Xcel wants to go beyond that. New law will apply to munis and coops. Implementation mechanism must be broken up by utility type; rural coops will need more development of skills and resources.

Incentives for rural coops and munis may be needed, as a mandate would be problematic.

For munis and coops, the focus will have to be on reducing total bills rather than rates. A System Benefits Charge (SBC) or percent of revenue is a simple and effective approach. On IOU side, use existing legislation but expand the goal. This provides a target and lets the PUC increase the goal. Current funding mechanism is up for discussion. There will probably be some incentive mechanism.

Proposal from CCS is to reference the existing incentive mechanism (in HB-1037) for IOUs, with an option of an SBC pool for other entities.

Existing docket (07I-251G) is gathering comments on this now.

Xcel noted that the cost seems to be \$16 per MWh, while the “cost of saved electricity” is \$25? CCS explained that \$25 is the levelized cost of saved energy. \$16 is the present value of the gross cost per unit of saved energy. (CCS will delete the gross cost per unit of energy saved, because it is confusing.)

RCI-5

Policy options analysis

CCS described the difference in the alternative straw proposal results vs. the original for this policy analysis. The new scenario applies different consumption thresholds that are based on 70% of average use in 2003 starting in 2010, 65% starting in 2015, and 60% in 2020.

This policy is designed to be mandatory statewide, although the description says IOUs. The analysis was based on all consumption in the state.

The thresholds are defined as annual per capita consumption for residential, and per square foot for commercial.

Members inquired about splitting the reduced demand/GHG benefits into EE vs. elasticity effects. A member asked for a table of reductions.

Xcel registered opposition to the alternative structure; they may advocate for an increasing block rate but not to be recovered in excess of cost of service. They find this to be inconsistent with real life ratemaking, as well as arbitrary and capricious. It combines two ideas—a BTU tax and ratemaking.

Implementation mechanism

CCS reviewed the straw proposal for implementation mechanisms in the policy document.

A member noted that RCI-5 and RCI-1 both propose funding mechanisms for DSM. If the impact of RCI-5 exceeds RCI-1 then it is *de facto* the funding mechanism for DSM.

A member asked why the elasticity impact on GHG emissions is so much less than DSM? CCS noted that this is consistent with observation.

Implementation mechanism in terms of spending money should follow RCI-1 – based on HB 1037.

Stephen (RMCO) noted that RCI-1 and 5 would not be additive. If this is more money for DSM, does this help Xcel achieve DSM goals? Xcel responded that they have a \$40M stream of money to achieve our DSM. Does this supplement the \$40M or is it a funding mechanism for this?

CCS has not explicitly linked these (RCI 1 and 5) in the past. They will be analyzed individually and then looked at together.

There is no indication of by whom the energy efficiency programs created through RCI-5 would be run. There were no suggestions from the PWG and no objection to leaving this undetermined. PUC oversight of implementation was suggested, but there was an objection is that this implies PUC authority over all LSEs, including munis and coops. PUC oversight could apply to IOUs, while the program could be voluntary for Munis, but they have to meet a DSM goal.

The policy could be changed to just inverted block rates that doesn't fund DSM.

This would just be a block rate structure that would be revenue neutral, just to cover cost of service. Fred indicated that this could be done right now. It was discussed what the impacts of this might be.

Suggestion from Stephen: Three options – original proposal, new scenario, and revenue neutrality. Can we present all three to the CAP? The last could be “conceptual” and not require additional analysis.

There were no objections to this approach.

RCI-2

Implementation approach

CCS explained the straw proposal for policy implementation.

The size of the needed loan fund was discussed. Sen Reid of NV proposed \$400 for four states for just school districts. This may serve as a guideline for the amount of money that might be reasonable.

Members thought the fund should be used for implementation as well as audits. However, it shouldn't just be audits, it has to include all elements. There could be a requirement for implementation in order to qualify for the fund, even though it would apply to the cost of an audit. There could be 3rd party oversight and performance contracting requirements to keep the process moving in the right direction.

The fund should NOT be used for education and marketing. Members asked to delete all of #1 from the second paragraph of implementation mechanisms.

There was discussion of whether this should apply to state buildings, as this would just be the state loaning money to itself. Other members think this does make sense from an administrative standpoint. The implementation mechanism was not modified to reflect a different treatment for state buildings.

There were no objections to proceeding with revised proposal.

RCI-3

Second paragraph already described implementation mechanism.
No objections as written.

RCI-4

Implementation mechanism is difficult to come up with. The CAP had directed the PWG to change goal to a % energy reduction, to be identified as consistent with specific programs such as LEED, etc.

A different approach would be needed for different kinds of government entities.

A member asked what their incentives would be. The idea of exemptions from property tax as an incentive was discussed. A member suggested a five-year exemption. Others felt that this would be too generous, too much of a decrease in local government revenues. One year may be better. There may ultimately be some value increase because of these investments, but they would be small.

Motion: one-year of tax relief for residential. There were no objections.

Commercial: This will cost a lot more than residential, but the taxes are higher, too. A large exemption would be damaging for local governments. As an alternative, only the additional cost of the building could be exempt for a period of ten years. There were no objections to the 10-year exemption for the incremental building cost as an incentive.

RCI-6

There was one change from previous analysis: interest rate changed from 8% to 4.5% for state loans. No objections to this.

Implementation Mechanism

The mechanism would be like that for RCI-2: performance contracting, 3rd party oversight, dependent on implementation of measures, not to include education (which should be the ESCO's responsibility).

The Energy Services Coalition would provide all educational materials. It would be the responsibility of the loan program to do this. Strike last two sections, education services etc.

Based on these changes, there were no objections.

RCI-7

CCS describes two errors in the original analysis: Double counting of program costs plus accounting for energy savings at customer site. In addition CCS reviewed the straw proposal for implementation mechanism added to the policy document.

There were no objections to policy as written.

RCI-8

This will not be quantified.

A member reminded us that measures must be properly installed and operating to qualify for the rebate under this policy.

What is baseline for reduction of energy consumption? Should be against previous usage. There would have to be an energy audit showing 20% use reduction measures were in place, but it would not have to show actual savings. The Governor's energy office would be responsible for auditing program for energy efficiency and verification that the renewable energy system has been installed properly. There has to be actual measurement of production. Some states already have this in place, such as Wisconsin. Tax incentives should be tied to the amount of energy saved or renewable energy production.

Costs could be very high for monitoring and verification.

RCI-9

Minor corrections were made to the analysis as noted in the memo distributed for this meeting.

There were no change recommended to the policy goal. Implementation mechanisms would be based on WGA recommendations.

A member noted no disagreement with 30% of technical potential being economic, but said that there is still some limit to how much of this is achievable. It was suggested to use 50% of economic potential as the policy goal.

For the policy, it was proposed that the Governor's energy office assess the economic CHP economic potential, and that the policy goal would be 50% of this by 2015. For analysis purposes we will assume the goal is 350 MW by 2020.

There was an objection to using WGA part #3 under the implementation. #3 is a cap & trade program, and would be a poison pill under CHP. Similar issue for #7 which is essentially decoupling to support CHP. Change to "consider decoupling...or other mechanisms to remove utility disincentives for CHP."

Also change first sentence to reflect "based on" WGA.

No objections to removing item #3
No objections to changing item #7

RCI-10

The group requested that we restore large enterprises to the plan, which used to be called SMEs. Large enterprises account for much of the success in Ft. Collins.

There was discussion of what would be an appropriate entity for managing Climate-Wise statewide. CCS agreed to discuss the implementation mechanism *ex parte* with John Phelan.

Agenda Item #6: Agenda, time, and date for next call

The last meeting will provide a final opportunity for review of the policy options before final delivery to the CAP. It will be held on August 29 from 9 to 12 mountain time.

Agenda Item #7: Public Input and Announcements

None.