Funding Limitations for Large Energy Users

History of the Methodology Used in Determining the Limit and Current Status

April 16, 2014

Background

The 1999 Oregon law that gave rise to Energy Trust, SB 1149, required the electric utilities to devote three percent of their revenues to electric efficiency programs. The three-percent charge is collected from all electric customers regardless of the amount of energy they use. A 2007 state law, SB 838, authorized electric utilities to add an additional amount to the bills of all customer sites with usage less than or equal to 1aMW. The resulting funds are to be used to fund electric efficiency beyond the established public purpose charge from SB 1149, to meet efficiency resource needs identified in utility integrated resource planning.

Because larger customers are not paying in to the 838 fund, they are ineligible for efficiency program funding from 838. Language describing this efficiency funding mechanism in legislation reads as follows;

> SECTION 46.
> (1) In addition to the public purpose charge established by ORS 757.612, the Public Utility Commission may authorize an electric company to include in its rates the costs of funding or implementing cost-effective energy conservation measures implemented on or after the effective date of this 2007 Act. The costs may include amounts for weatherization programs that conserve energy.
> (2) The commission shall ensure that a retail electricity consumer with a load greater than one average megawatt:
>
> > (a) Is not required to pay an amount that is more than three percent of the consumers' total cost of electricity service for the public purpose charge under ORS 757.612 and any amounts included in rates under this section; and
> > (b) Does not receive any direct benefit from energy conservation measures if the costs of the measures are included in rates under this section.

Large energy users are both commercial and industrial customers that span the mix of market segments from hospitals, higher education campuses and commercial real estate to food processing, cold storage facilities, metals, forest products, semiconductors and other manufacturing.

As a way of assuring that large customers are not benefitting from this added funding, a 2008 informal multiparty agreement set a limit to the percentage of 1149 incentive funding that Energy Trust can allocate to customers over 1 aMW.

Funding Limit Methodology

One of the first steps in implementing 838 efficiency funding was to set up processes for ensuring that large energy users were not charged and did not receive direct benefit from funds collected. This development of a process to limit benefits was never a question of setting a dollar in (revenues from large customers) to dollar out (expenditures on large customers) measure but rather to find a way to set a reasonable level of spending for large users that made sure they were not benefiting from 838 funding.

1. Defining the baseline "pre-838"

To ensure that those that are not contributing are not directly benefiting was interpreted as meaning that the “pre-838” spending practices should not be exceeded going forward. The baseline spending was defined as project incentives paid to >1aMW sites compared to total 1149 efficiency revenues and are calculated on a utility specific basis. For PacifiCorp the baseline period is 2005-2007 with incentives being 27% of total 1149 revenues. For PGE, the baseline period covers 2004-2007 with incentives being 18.4% of total 1149 revenues.

The difference is representative of specific project activity that occurred during the base period; PAC territory saw many forest products projects move forward while PGE activity was largely limited to one large paper mill. A larger and growing proportion of PGE’s large customer loads are from the semiconductor industry. Energy Trust programs were not as active in that industry until “post 838”.

2. Defining the current spending, “post 838”

Determining current spending was agreed to be calculated as a rolling, cumulative look. Because large projects can have lumpy impacts on program incentive spending with year by year variability, measuring compliance on a year to year basis did not seem appropriate. The resulting methodology takes a broader perspective by summing all large energy user post 838 incentives are divided by total 1149 revenues across the same time period.

For example, to determine spending through 2012, by utility, all large user incentives from 2008-2012 are summed and divided by the total 1149 efficiency revenues by utility. PacifiCorp was 22% and PGE was 17%.

3. Determining compliance to limits

The final step is to compare the “post 838” percentage to the baseline funding limit. Through 2012 activity, PAC is 5 percentage points below the limit and PGE is 1 percentage below their limit. 2013 results are currently in draft and expected to be finalized by May 2014.

If cumulative spending reached or exceeded baseline spending, parties agreed that time would be needed for “correction” to be able to adjust program spending below the limit within 2 years.

Results to Date

Due to success of the programs serving them, savings from large customers and incentives going to them have been increasing. Strong program interest from large sites is expected to continue, leading to the potential for the current funding cap methodology to limit Energy Trust’s ability to acquire all cost effective resources. If in PGE territory we were to continue >1aMW incentive spending at a rate equal to the average of the past 3 years (2010-2012, $5.9M/yr. in incentives), we would exceed the current spending limit in 2015. Figure 1 shows year by year incentive dollars to >1aMW participants as a percent of total 1149 efficiency revenue to Energy Trust for PGE. 2008 – 2012, program demand has been consistently increasing.

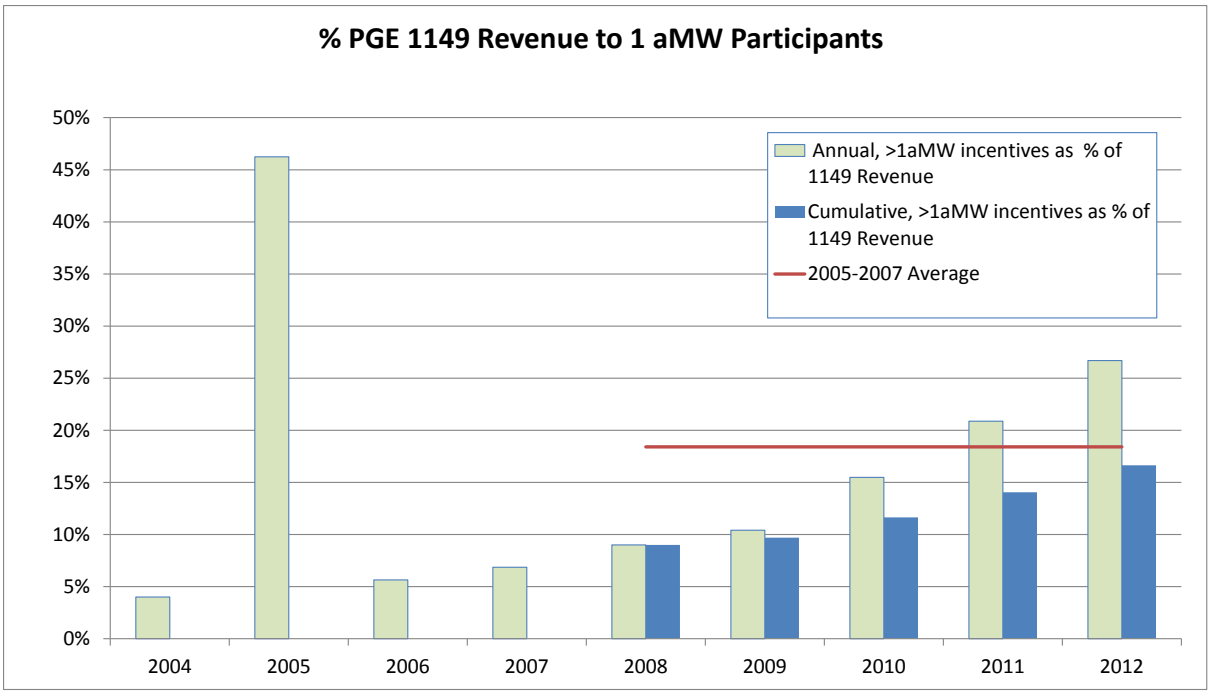

Figure 1

In PacifiCorp territory, we don't foresee a short-term risk of needing to forego resource acquisition with the current methodology and demand but PAC customers could be impacted by program designs or other changes instituted to manage funding for PGE. Figure 2 shows year by incentive dollars to >1aMW participants as a percent of total 1149 efficiency revenue to Energy Trust for PacifiCorp.

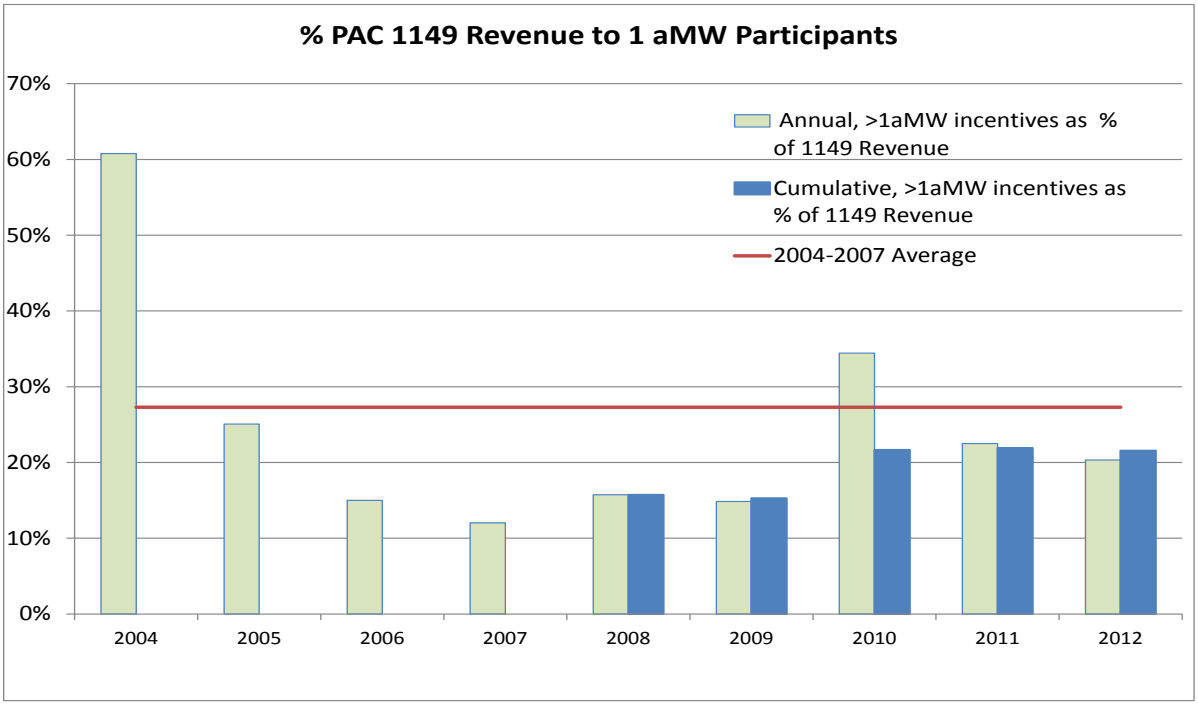

Figure 2

Possible Impacts

To reach goals we will need to redirect funds above the cap to smaller, higher cost projects from 838 eligible sites. On average, large site projects are 2.5 times more cost effective than 838 eligible site projects. Therefore directing funding away from large site projects would result in fewer savings at higher cost. It is also possible that as a consequence Energy Trust cannot acquire all cost effective resource in some years. The result may mean lost opportunity of low cost resource, unmet demand and unrealized savings. In the long run, some savings from larger sites will not be captured. This is a particular threat for "lost opportunity" savings that must be acquired during specific events, such as a major capital investment in a process line upgrade or redesign or a building renovation. A significant share of Energy Trust large customer savings comes through such events.

Outreach Efforts

In anticipation of reaching the funding limit in PGE territory before 2015, Energy Trust staff raised the topic of possible impacts on the program at the June 2013 board retreat. Program staff outlined program tactics that could be employed if we were to reach the limit and need to take actions to adjust program spending downward.
(http://energytrust.org/library/meetings/board/120607_Board_strategic_Planning_Workshop.pdf)

Energy Trust convened a meeting of stakeholders January 31, 2014 to discuss the issue and current situation. In attendance were representatives from utilities, OPUC staff, CUB, ICNU, NWFPA, NWEC, NEEC, ODOE, and Energy Trust staff. A variety of views were heard. Stakeholders offered a range of ideas to address the funding limitations including;

- Expand 838 charges to large energy users (would require legislative action)
- Revisit the methodology so that it's more reflective of current large energy user potential activity and available cost effective resource
- Change the methodology to allow more funding to large users under the condition that those paying to 838 see direct rate benefit from the low cost efficiency in which they are investing (would require rate re-design)

No consensus was reached among attendees but Energy Trust did agree to keep the group fully informed of the situation going forward.

Next Steps

Energy Trust plans to have final results of the 2013 analysis in April/May 2014. If we have met or exceeded the funding limit in PGE territory, we plan to begin to take programmatic actions to lower funding and come back into compliance over a two year period. These actions will be worked through with our Conservation Advisory Council.