

2008 Midwest Energy Solutions Conference: Leading the Way!

Regulating for Energy Efficiency: Regulatory Paradigms

Presented to:

Midwest Energy Efficiency Alliance Annual Conference
January 10, 2008

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Indiana Office of
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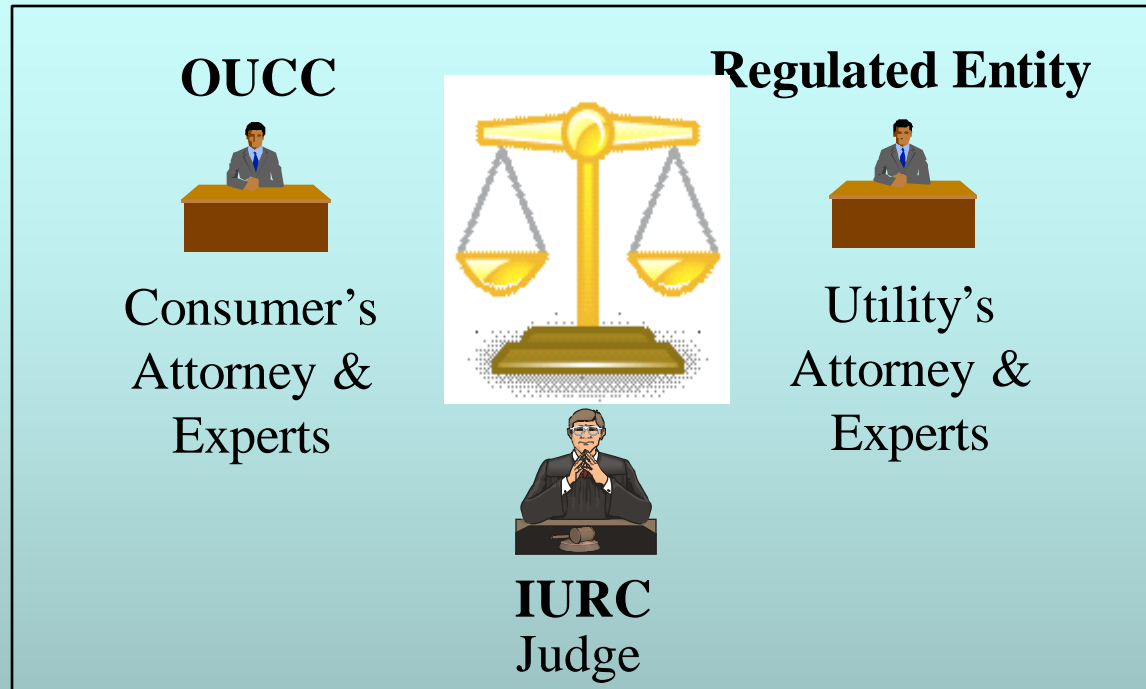
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Overview and Outline

- Overview of OUCC
- EE Investment
 - A General Timeline, An Indiana Example
- The Evolving Indiana Regulatory Paradigm
- Implementing the Plan
 - General Principles
 - The Collaborative Approach
 - Decoupling
 - Examples, Safeguards
 - Rate Simplification Plans
 - Examples, Safeguards
 - The Save-A-Watt Proposal
 - Evaluation, Safeguards
- Summary and Conclusion



OUCC: Representing Ratepayer Interests



- State agency created in 1933.
- Represents all ratepayers.
- Formal party to all IURC proceedings.
- 50 +/- employees: accountants, attorneys, economists, engineers, external affairs.



Electric EE Investment: A General Timeline

- Mid- to late 1970s: Supply disruptions, energy security concerns (Arab Oil Embargo, 1973; Iranian Revolution, 1979) create sense of urgency. Rapid deployment of EE programs emphasizing quick results.
- Late 1980s: More mature EE framework emerges emphasizing “least-cost, integrated resource planning”, “cost effectiveness tests” and “program evaluation.” “Lost revenues” and “decoupling” emerge.
- Early to mid 1990s: Greater deployment of shareholder incentives. EE investment reaches \$3.2 billion; 1.7% of utility revenues. Competition brings cost-cutting measures and EE spending declines.
- Late 1990’s: Declining EE investment brings rise to “public benefits charges.” Third-party administrators and energy service companies arise as alternative delivery mechanisms.
- Present: Western power crisis, energy security, environmental concerns renew urgency. Energy efficiency, shareholder incentives and alternative paradigms promoted as items of national interest.

(see Primer on DSM, CRA No. D06090, pp. 7-10)



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EE Investment: An Indiana Example

- Indiana electric utility investment follows the basic trend: large EE investment, cost-cutting for competition, then renewed EE interest.
- For example, the PSI, then Cinergy, now Duke EE trend:
 - Early 1990s: PSI recovers annually approximately \$23 million for program costs, lost revenues, carrying costs (Cause No. 40003).
 - Late 1990s: PSI Energy reaches settlement transitioning from regulated to competitive paradigm with affiliate providing EE in unregulated market. PSI opines this balances current and future regulatory environment (Cause No. 40229).
 - Present: Duke advances “Save-A-Watt” proposal. Duke calls proposal “novel and progressive,” requests authority to recover a return of and on 90% of the costs avoided by EE investment (Cause No. 43374).



EE Investment: The Evolving Indiana Paradigm

- Energy efficiency cost recovery proposals generally “fund” three cost categories: program costs, lost revenues and shareholder incentives.
- Traditional ratemaking explicitly addresses each category and may or may not fund each.
- Indiana to date has not provided shareholder incentives for EE investment.
- Indiana on a case-by-case basis has allowed certain utilities to directly recover net lost revenues.
- Lost revenues based on projected savings. Proceedings historically complex and contentious.



EE Investment: The Evolving Indiana Paradigm

- Indiana recognizes EE investment challenges:
 - Loss of sales due to successful implementation of EE may lower utility profits.
 - Lowering utility profits may create a disincentive for utility to invest in energy efficiency.
 - Removing the disincentive may not create an incentive to invest in energy efficiency.
- Indiana's strategic energy plan ("Hoosier Home Grown Energy") provides high level support for new regulatory paradigms:
 - Indicates support for alternative regulatory paradigms that encourage EE investments with no negative financial results.
 - Encourages creative pricing mechanisms including interruptible rates, seasonal rate differentials and restructuring of fixed and variable charges.



EE Investment: The Evolving Indiana Paradigm

- The Hoosier Homegrown Energy Plan receives regulatory support:

Indiana's strategic energy plan can serve as a starting point for coordinating and developing statewide programs. It sets the stage for creating a 'stronger energy efficiency culture in Indiana's energy intensive manufacturing sector ...' and for expanding energy efficiency efforts in all sectors (Indiana Utility Regulatory Commission, Staff Report, 4/16/07, Cause No. 42693).



Implementing the Plan: A Collaborative Approach

- Indiana OUCC works collaboratively with Indiana gas and electric utilities to develop and promote EE programs.
- Three (3) Commission-approved Boards oversee EE programming in Indiana's largest gas utility service territories (Vectren, Citizens Gas, and NIPSCO). Each Oversight Board has a voting member from the utility, OUCC, and the Commission (and others as agreed).
- At least three (3) Commission approved EE collaborative working with Indiana's electric utilities (Duke, Vectren, Indianapolis Power & Light) working to develop RFP's for market potential studies and action plans, select vendors, and direct and review work product of selected vendor(s).



Implementing the Plan: General Principles

- DSM proposals should devote significant attention to least cost methods of change including:
 - Pricing reform and associated infrastructure, and
 - Programs that help influence building codes and standards.
- Utilities have a basic responsibility to acquire least cost resources. If shareholder incentives are provided, then:
 - Ratepayers must receive the majority of EE benefit;
 - B/C analysis must include as direct cost shareholder incentives;
 - Cost and incentives recovered only after verification; and
 - No incentives for programs promoting inefficient fuel choice.



Implementing the Plan: Revenue Decoupling

- Addresses utility lost revenue concerns.
- Base revenues determined within traditional rate case.
- Differences between actual and allowed revenues tracked and flowed to customers.
- Pros:
 - Can lower risk and lower cost of capital,
 - EE investment does not affect fixed cost coverage.
- Cons:
 - May adjust for changes in sales unrelated to EE investment,
 - Concerns over frequency of rate changes (monthly changes vs. annual reconciliation),
 - Ratepayers may not receive benefit of lower risk (reduction in ROE).



Implementing the Plan: Margin Per Customer Decoupling

AUTHORIZED

PERIOD 1 ACTUAL

PERIOD 2 ACTUAL

(3)	REVENUES	\$ 125,000,000	
(2)	Customers	AUPC	Rate (annual)
	100,000	1,000	\$ 1.25

(6)	REVENUES	\$ 127,500,000	
	Customers	AUPC	Rate (annual)
	102,000	1,000.00	\$ 1.25

(15)	REVENUES	\$ 130,050,000	
	Customers	AUPC	Rate (annual)
	104,040	1,000.00	\$ 1.25

Change: **Change:**
2.00% **0.00%**

(16)	SRC RIDER from (9)	\$ -	
	Customers	AUPC	Rate (annual)
	104,040	1,000.00	\$ -

(3)	BASE RIDERS	\$ 25,000,000	
	FAC		\$ 23,000,000
	Customers	AUPC	Rate
	100,000	1,000	\$ 0.23
	MISO		\$ 1,000,000
	Customers	AUPC	Rate
	100,000	1,000	\$ 0.01
	DSM		\$ 1,000,000
	Customers	AUPC	Rate
	100,000	1,000	\$ 0.01

(7)	BASE RIDERS	\$ 25,500,000	
	FAC		\$ 23,460,000
	Customers	AUPC	Rate
	102,000	1,000	\$ 0.23
	MISO		\$ 1,020,000
	Customers	AUPC	Rate
	102,000	1,000	\$ 0.01
	DSM		\$ 1,020,000
	Customers	AUPC	Rate
	102,000	1,000	\$ 0.01

(17)	BASE RIDERS	\$ 26,010,000	
	FAC		\$ 23,929,200
	Customers	AUPC	Rate
	104,040	1,000.00	\$ 0.23
	MISO		\$ 1,040,400
	Customers	AUPC	Rate
	104,040	1,000.00	\$ 0.01
	DSM		\$ 1,040,400
	Customers	AUPC	Rate
	104,040	1,000.00	\$ 0.01

(4)	MARGIN = (1) - (3)	\$ 100,000,000	
(5)	Margin/Cust.	1000	

(8)	MARGIN = (6) - (7)	\$ 102,000,000	
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(18)	MARGIN = (15)+(16)-(17)	\$ 104,040,000	
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(9)	REVENUE ADJ. = (14) - (8)	\$ -	
(10)	Customer Growth	2,000	
(11)	Auth. Margin Per Customer = (5)	1,000	
(12)	Growth Margin = (10) x (11)	2,000,000	
(13)	Deferred SRC	-	
(14)	Growth & SRC Adj. Margin = (4) + (12)	\$ 102,000,000	

(19)	REVENUE ADJ. = (24) - (18)	\$ -	
(20)	Customer Growth	4,040	
(21)	Auth. Margin Per Customer = (5)	1,000	
(22)	Growth Margin = (20)x(21)	4,040,000	
(23)	Deferred SRC = (9)	-	
(24)	Growth & SRC Adj. Margin = (4)+(22)+(23)	\$ 104,040,000	

● Customer growth/loss does not trigger adjustment



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Implementing the Plan: Margin Per Customer Decoupling

AUTHORIZED

PERIOD 1 ACTUAL

PERIOD 2 ACTUAL

(1)	REVENUES	\$ 125,000,000	
(2)	Customers	AUPC	Rate (annual)
	100,000	1,000	\$ 1.25

(6)	REVENUES	\$ 123,750,000	
	Customers	AUPC	Rate (annual)
	100,000	990.00	\$ 1.25

(15)	REVENUES	\$ 122,512,500	
	Customers	AUPC	Rate (annual)
	100,000	980.10	\$ 1.25

Change: **Change:**
0.00% **-1.00%**

(16)	SRC RIDER from (9)	\$ 1,000,000	
	Customers	AUPC	Rate (annual)
	100,000	980.10	\$ 0.01020

(3)	BASE RIDERS	\$ 25,000,000	
	FAC	\$ 23,000,000	
	Customers	AUPC	Rate
	100,000	1,000	\$ 0.23
	MISO	\$ 1,000,000	
	Customers	AUPC	Rate
	100,000	1,000	\$ 0.01
	DSM	\$ 1,000,000	
	Customers	AUPC	Rate
	100,000	1,000	\$ 0.01

(7)	BASE RIDERS	\$ 24,750,000	
	FAC	\$ 22,770,000	
	Customers	AUPC	Rate
	100,000	990	\$ 0.23
	MISO	\$ 990,000	
	Customers	AUPC	Rate
	100,000	990	\$ 0.01
	DSM	\$ 990,000	
	Customers	AUPC	Rate
	100,000	990	\$ 0.01

(17)	BASE RIDERS	\$ 24,502,500	
	FAC	\$ 22,542,300	
	Customers	AUPC	Rate
	100,000	980.10	\$ 0.23
	MISO	\$ 980,100	
	Customers	AUPC	Rate
	100,000	980.10	\$ 0.01
	DSM	\$ 980,100	
	Customers	AUPC	Rate
	100,000	980.10	\$ 0.01

(4)	MARGIN = (1) - (3)	\$ 100,000,000	
(5)	Margin/Cust.	1000	

(8)	MARGIN = (6) - (7)	\$ 99,000,000	
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(18)	MARGIN = (15)+(16)-(17)	\$ 99,010,000	
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(9)	REVENUE ADJ. = (14) - (8)	\$ 1,000,000	
(10)	Customer Growth	-	
(11)	Auth. Margin Per Customer = (5)	1,000	
(12)	Growth Margin = (10) x (11)	-	
(13)	Deferred SRC	-	
(14)	Growth & SRC Adj. Margin = (4) + (12)	\$ 100,000,000	

(19)	REVENUE ADJ. = (24) - (18)	\$ 1,990,000	
(20)	Customer Growth	-	
(21)	Auth. Margin Per Customer = (5)	1,000	
(22)	Growth Margin = (20)x(21)	-	
(23)	Deferred SRC = (9)	1,000,000	
(24)	Growth & SRC Adj. Margin = (4)+(22)+(23)	\$ 101,000,000	

● Declining AUPC triggers surcharge



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Implementing the Plan: Margin Per Customer Decoupling

AUTHORIZED

PERIOD 1 ACTUAL

PERIOD 2 ACTUAL

(1)	REVENUES	\$ 125,000,000
(2)	Customers	AUPC
	100,000	1,000
		Rate (annual)
		\$ 1.25

(6)	REVENUES	\$ 126,250,000
	Customers	AUPC
	100,000	1,010.00
		Rate (annual)
		\$ 1.25

(15)	REVENUES	\$ 127,512,500
	Customers	AUPC
	100,000	1,020.10
		Rate (annual)
		\$ 1.25

Change: **Change:**
0.00% **1.00%**

(16)	SRC RIDER from (9)	\$ (1,000,000)
	Customers	AUPC
	100,000	1,020.10
		Rate (annual)
		\$ (0.00980)

(3)	BASE RIDERS	\$ 25,000,000
	FAC	\$ 23,000,000
	Customers	AUPC
	100,000	1,000
		Rate
		\$ 0.23

(7)	BASE RIDERS	\$ 25,250,000
	FAC	\$ 23,230,000
	Customers	AUPC
	100,000	1,010
		Rate
		\$ 0.23

(17)	BASE RIDERS	\$ 25,502,500
	FAC	\$ 23,462,300
	Customers	AUPC
	100,000	1,020.10
		Rate
		\$ 0.23

	MISO	\$ 1,000,000
	Customers	AUPC
	100,000	1,000
		Rate
		\$ 0.01

	MISO	\$ 1,010,000
	Customers	AUPC
	100,000	1,010
		Rate
		\$ 0.01

	MISO	\$ 1,020,100
	Customers	AUPC
	100,000	1,020.10
		Rate
		\$ 0.01

	DSM	\$ 1,000,000
	Customers	AUPC
	100,000	1,000
		Rate
		\$ 0.01

	DSM	\$ 1,010,000
	Customers	AUPC
	100,000	1,010
		Rate
		\$ 0.01

	DSM	\$ 1,020,100
	Customers	AUPC
	100,000	1,020.10
		Rate
		\$ 0.01

(4)	MARGIN = (1) - (3)	\$ 100,000,000
(5)	Margin/Cust.	1000

(8)	MARGIN = (6) - (7)	\$ 101,000,000
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(18)	MARGIN = (15)+(16)-(17)	\$ 101,010,000
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(9)	REVENUE ADJ. = (14) - (8)	\$ (1,000,000)
(10)	Customer Growth	-
(11)	Auth. Margin Per Customer = (5)	1,000
(12)	Growth Margin = (10) x (11)	-
(13)	Deferred SRC	-
(14)	Growth & SRC Adj. Margin = (4) + (12)	\$ 100,000,000

(19)	REVENUE ADJ. = (24) - (18)	\$ (2,010,000)
(20)	Customer Growth	-
(21)	Auth. Margin Per Customer = (5)	1,000
(22)	Growth Margin = (20)x(21)	-
(23)	Deferred SRC = (9)	(1,000,000)
(24)	Growth & SRC Adj. Margin = (4)+(22)+(23)	\$ 99,000,000

● Increasing AUPC triggers refund



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Implementing the Plan: Decoupling Safeguards

- Consider implementation a “pilot” or “experiment.”
- Provide means of evaluating experiment. Compare EE savings determined by M&V to EE savings as adjusted for by mechanism.
- Consider incorporating “recall provisions” that would allow termination of pilot or experiment under certain conditions.
- Consider ways of mitigating potential rate impacts (e.g., cap on potential rate increases with excess deferred).
- Require companies provide evidence of significant, incremental commitment to EE programs.
- Require companies provide evidence of corporate culture committed to EE.
- Consider ways to ensure ratepayers receive benefits of risk reduction (e.g., appropriately establish comparison benchmark).



Implementing the Plan: Decoupling in Practice

- Vectren (Gas) Energy Sales Reconciliation Component (“SRC”) resulting from negotiated settlement – adopts margin per customer approach.
- Requires expanded EE commitment (approx. \$5 million/yr).
- Applies to Residential and General Service (commercial) classes (approx. 675k customers in all classes).
- Recovers difference between actual and approved non-gas revenues.
- SRC recoverable amount initially reduced by 15% in lieu of rate case. Pending rate case requests 100% recovery of SRC.
- SRC amount calculated each month and deferred for recovery in following year to prevent undue volatility during heating months.
- Final calculation of SRC submitted to IURC by March 1 with collection beginning in April amortized over following year.
- January–June 2007 SRC amount totals approximately \$4.3 million.



Implementing the Plan: Decoupling in Practice

- Citizen's Gas decoupling mechanism results from negotiated settlement of rate case. Adopts margin per customer approach.
- Applies to Residential and General Service classes.
- Includes commitment to energy efficiency and establishment of energy efficiency riders (approx. \$2.75 million/yr).
- Collection of deferred amounts begins in January of each year.
- SRC amounts initially recoverable at 100% since implemented in context of rate case settlement.



Implementing the Plan: NIPSCO Rate Simplification

- Provides certain rate relief in exchange for increased commitment to EE.
- Annual EE budget at approx. \$4 million through energy efficiency rider but with no decoupling mechanism.
- Increased customer charges and reduced volumetric charges. Sets inverted rate blocks (for the first time) at 200 therms to promote conservation.



Implementing the Plan: Rate Simplification

Concerns and Safeguards

- Places all or most of utility fixed costs into a fixed monthly fee (e.g., straight-fixed variable rates).
- May want to implement in conjunction with time or seasonally differentiated rates to encourage consumer interest in EE.
- Low use customers could get a large percentage bill increase in transition. May consider low-income program funding/needs.
- Ratepayers may not receive benefit of reduced risk (reduction in ROE).



Implementing the Plan:

The Duke Save-A-Watt Proposal

- October/December 19, 2007 Duke in Indiana files Save-A-Watt application/testimony requesting ratepayers compensate Duke for 90% of the costs avoided by EE investment (amortization of and a return on 90% of avoided costs).
- Duke indicates this produces automatic savings for customers compared to supply side alternatives and treats investments in energy efficiency on a basis comparable to supply-side resource options.
- Duke proposes to exclude save-a-watt revenues from Indiana earnings and expense tests in order for the save-a-watt model to provide a true incentive.
- Duke proposes customers only pay for energy and capacity savings actually achieved as verified by a third party.



Implementing the Plan: Evaluating Save-A-Watt

- Duke's indicates a Save-A-Watt benefit is the 10% discount ratepayers receive relative to supply-side alternatives.
- “Avoided cost standard” may direct attention from “competitive market outcome.”
- The Competitive Question: If competing energy service companies (ESCOs) delivered energy efficiency, then what avoided cost discount would ratepayers receive?
- The Competitive Answer: ESCOs would offer ratepayers an increasing discount until ESCOs earned only normal profits.



Implementing the Plan: Evaluating Save-A-Watt

- Net Present Value (NPV): Find the PV of cash flows discounted at a project's cost of capital. Undertake projects that have a positive NPV.
- Internal Rate of Return (IRR): The discount rate that equates the present value of a project's cash flows to zero. Undertake projects if IRR exceeds cost of capital.
- Utility (Administrator) Cost Test (UCT): A benefit/cost ratio that measures benefits using utility avoided costs and that measures costs using costs of program administration and incentives, including shareholder incentives and all other program costs that become revenue requirements ("shareholder incentives represent a true economic cost in the production of utility program and should be included as a direct cost in the UCT," CPUC, 8/2007).



Implementing the Plan: Evaluating the Save-A-Watt Proposal

	YEAR									
	1	2	3	4	5	6	7	8	9	10
Program Costs	\$ 219,642	\$ 243,064	\$251,562	\$289,408						
Benefits (Avoided Costs)	\$ 65,595	\$ 146,414	\$249,069	\$329,223	\$356,327	\$391,273	\$348,660	\$304,080	\$306,106	\$211,569

PV Benefits (10% discount)	\$ 1,723,595
Present Value Cost	\$ 865,948
Utility Cost Test	1.99

- Stylized costs based on representative data from various Indiana utility studies. Data scaled and random variation introduced to protect confidentiality.
- If energy efficiency programs cause reduced sales that utility cannot recapture, then utility may not have an incentive to invest in energy efficiency programs.



Implementing the Plan: Evaluating Save-A-Watt

YEAR

NPV 1 2 3 4 5 6 7 8 9 10

Program Costs	\$ 865,948	\$ 219,642	\$ 243,064	\$251,562	\$289,408						
Benefits (Avoided Costs)	\$1,723,595	\$ 65,595	\$ 146,414	\$249,069	\$329,223	\$356,327	\$391,273	\$348,660	\$304,080	\$306,106	\$211,569
Program Revenues (at 90% of Avoided Costs)	\$1,551,235	\$ 59,035	\$ 131,773	\$224,162	\$296,301	\$320,695	\$352,146	\$313,794	\$273,672	\$275,495	\$190,412
Cash Flow	\$ 685,287	\$(160,606)	\$(111,292)	\$(27,400)	\$ 6,893	\$320,695	\$352,146	\$313,794	\$273,672	\$275,495	\$190,412

PV Benefits (10% discount)	\$1,723,595
Present Value Cost	\$1,551,235
Utility Cost Test	1.11
Internal Rate of Return	39%

- Save-A-Watt recovery mechanism reduces DSM cost-effectiveness. Generally, UCT for all DSM will be 1.11 or less [= Avoided Cost/ (.9 * Avoided Cost)] .
- Save-A-Watt recovery mechanism reduces risk to utility of non-performance especially for most cost-effective programs.
- Save-A-Watt has potential to provide significant incentives in excess of that which may be required to promote investment in energy efficiency (IRR = 39%).



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Implementing the Plan: Evaluating Save-A-Watt

An Additional Incentive: Amortization and Return on Balances

Return of and Return On Avoided Costs

Year	Beginning Balance	(A) Amortization	Unamortized Balance	(B) Carry	(A) + (B) Revenue
1	\$1,551,235.08	\$155,123.51	\$1,396,111.58	\$139,611.16	\$294,734.67
2	\$1,396,111.58	\$155,123.51	\$1,240,988.07	\$124,098.81	\$279,222.32
3	\$1,240,988.07	\$155,123.51	\$1,085,864.56	\$108,586.46	\$263,709.96
4	\$1,085,864.56	\$155,123.51	\$930,741.05	\$93,074.11	\$248,197.61
5	\$930,741.05	\$155,123.51	\$775,617.54	\$77,561.75	\$232,685.26
6	\$775,617.54	\$155,123.51	\$620,494.03	\$62,049.40	\$217,172.91
7	\$620,494.03	\$155,123.51	\$465,370.53	\$46,537.05	\$201,660.56
8	\$465,370.53	\$155,123.51	\$310,247.02	\$31,024.70	\$186,148.21
9	\$310,247.02	\$155,123.51	\$155,123.51	\$15,512.35	\$170,635.86
10	\$155,123.51	\$155,123.51	\$0.00	\$0.00	\$155,123.51

NPV 90% Avoided Costs	\$ 1,551,235.08
Amortization of Avoided Costs	\$155,123.51
Return (on unamortized balance)	10%



Implementing the Plan: Evaluating Save-A-Watt

An Additional Incentive: Amortization and Return on Balances

Year	Program Costs	Revenue Stream w/o Return. & Amort.	Cash Flow	Revenue Stream w/Return. and Amort.	Cash Flow
1	\$ 219,641.95	\$ 59,035.48	\$ (160,606.47)	\$ 294,734.67	\$ 75,092.71
2	\$ 243,064.42	\$ 131,772.88	\$ (111,291.54)	\$ 279,222.32	\$ 36,157.89
3	\$ 251,561.75	\$ 224,162.08	\$ (27,399.67)	\$ 263,709.96	\$ 12,148.21
4	\$ 289,407.90	\$ 296,300.80	\$ 6,892.90	\$ 248,197.61	\$ (41,210.29)
5		\$ 320,694.73	\$ 320,694.73	\$ 232,685.26	\$ 232,685.26
6		\$ 352,145.78	\$ 352,145.78	\$ 217,172.91	\$ 217,172.91
7		\$ 313,794.00	\$ 313,794.00	\$ 201,660.56	\$ 201,660.56
8		\$ 273,672.21	\$ 273,672.21	\$ 186,148.21	\$ 186,148.21
9		\$ 275,495.06	\$ 275,495.06	\$ 170,635.86	\$ 170,635.86
10		\$ 190,411.89	\$ 190,411.89	\$ 155,123.51	\$ 155,123.51

Internal Rate of Return 39%

- Amortization of and return on balances “front loads” cost recovery. Utility investment costs are offset by future savings brought into the present. The utility enjoys a positive cash flow that requires no outlay of funds.



Implementing the Plan: Evaluating Save-A-Watt

Incorporating Lost Revenues

	YEAR									
	1	2	3	4	5	6	7	8	9	10
Program Costs	\$219,642	\$243,064	\$251,562	\$ 289,408	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Lost Revenues	\$ 24,598	\$ 54,905	\$ 93,401	\$ 123,459	\$133,623	\$146,727	\$130,748	\$114,030	\$114,790	\$ 79,338
Program Revenues (Amortized with Return)	\$294,735	\$279,222	\$263,710	\$ 248,198	\$232,685	\$217,173	\$201,661	\$186,148	\$170,636	\$155,124
Cash Flow (Net of Lost Revenue)	\$ 50,495	\$ (18,747)	\$ (81,253)	\$(164,669)	\$ 99,062	\$ 70,446	\$ 70,913	\$ 72,118	\$ 55,846	\$ 75,785

Internal Rate of Return	37%
Utility (Adminstrator) Cost Test	1.08

- Estimates based on representative data from various Indiana utility studies. Assumes utility recaptures some portion of lost revenues. Recent IURC orders do not provide for recovery of either lost revenues or shareholder incentives.



Implementing the Plan: Evaluating Save-A-Watt

- Save-A-Watt avoided cost comparison directs attention away from competitive market standard.
- Magnitude of Save-A-Watt shareholder incentives reduces cost-effectiveness of DSM programs.
- Save-A-Watt proposal has potential to return supra-normal return on actual investments.
- Save-A-Watt may benefit ratepayers by only providing cost recovery for actual, cost-effective savings. This benefit may be offset by magnitude of incentives and the complexity of proposal.



Summary and Conclusion

- Indiana recognizes driving EE may require new solutions and regulatory paradigms.
- New approaches should embody basic protections that ensure consumers receive majority of benefit of EE.
- Indiana currently implements sales revenue decoupling for gas utilities and is exploring new decoupling and rate design alternatives.
- Indiana is very open to new and balanced alternatives and will collaborate with utilities to develop and refine solutions.



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