Wisconsin Moves into Top Ten on 2008 State Energy Efficiency Scorecard

'Decoupling' and Significant Increases in Energy Efficiency Spending Planned

By Stephen Heins, Orion Energy Systems

In a recently issued October 2008 Report by the American Council for an Energy Efficient Economy (ACEEE), the State of Wisconsin moved into the Top Ten of the "2008 State Energy Efficiency Scorecard." In addition, Wisconsin should further improve its ranking now that the Citizens Utility Board (CUB) and Wisconsin Public Service Corporation (WPSC) have reached a milestone Stipulated Agreement, which begins in 2009 and ends in 2012, that creates a pilot program which includes decoupling and major increases in energy efficiency program spending. Accordingly, this is an opportune time to discuss the implications of this major change in energy policy in Wisconsin.

The Stipulated Agreement has included two of the most important recommendations of the Governor's Task Force on Global Warming: (1) The agreement ends the inherent disincentives for publicly traded utilities to help their customers save energy; and (2) it increases WPSC's spending for energy efficiency above the amount currently being spent from 1.2% to 2.0% next year and then rising incrementally to 3.5% over the next four years. CUB's executive director Charlie Higley stated that they would like to see similar deals with WE Energies and other state utilities.

First, it is worth mentioning that Investor Owned Utilities are regulated monopolies, which are guaranteed a return on investment and the extra money they make by selling more electricity. In fact, this antiquated rate structure is still used in 42 states, excluding California, Idaho, New York, Delaware, Massachusetts, New Jersey, Maryland and likely Minnesota.

In the past, both CUB and WPSC have been reluctant to experiment with decoupling, each for their own reasons. CUB worried about higher rates without sufficient benefits for customers; and, on the other hand, WPSC worried about the effect of lower sales on profits and its stock price.

Obviously, this disincentive has impaired utilities willingness and ability to promote energy efficiency, despite its benefits to consumers' bills, Wisconsin economic development, electrical reliability, national security and the environment. Thanks to the two provisions in the new agreement, the two parties have broken the link between electricity sales and utility profits

In order to overcome both party's objections, they negotiated a compromise between the parties that reduced the basic monthly customer charge from $8.40 to nearly $3.00 less for the average residential bill. In exchange, WPSC will get stable revenue and an increase in usage rate charges that reward energy consumers for being more energy efficient.

This idea was supported by a US study conducted by Paul Waide of the International Energy Agency as it determined that states that have funded efficiency programs used 31% less energy per capita than those states that don't. Hence, by rewarding energy efficiency, the Stipulated Agreement will significantly increase funding for Focus on Energy and allow customers to profit from doing the right thing, while not penalizing WPSC. Most advocates of decoupling expect a sizable benefit because energy efficiency can have the same effect as building new power plants at 25% to 33% the cost, according to the American Council for an Energy Efficient Economy.

Moreover, decoupling and more money for energy efficiency programs can significantly slow new energy demand growth and the need for more new power plants in Wisconsin.

Finally, the utilities (Alliant's "shared savings" program) and third-party run energy efficiency programs like Focus on Energy will be able to receive a performance reward for their measured and verified energy efficiency successes.

By bringing together these three approaches (remove disincentives, recover utility costs and establish performance rewards), state regulators will be able to create an energy market where all major stakeholders are on the same side.

As proof, California has been so successful with its decoupling and energy reward program that it has essentially the same per capita usage of electricity as it did thirty years ago, while the rest of the US has had 50% increases in consumption. In fact, California recently doubled its energy efficiency targets and budgets in anticipation of meeting the majority of the need for new power by investing in energy efficiency. Based on today's dollars and electric rates, the net benefit to California rate-payers in energy savings is expected to be $10 billion over the next decade.

By combining decoupling and energy efficiency incentives, Wisconsin can expect the same results with billions of dollars in energy savings, and at the same time, it can reduce tens of millions of tons of carbon emissions over the next decade.

The Stipulated Agreement awaits WI Public Service Commission approval.