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Energy Efficiency and Renewable Resource Programs (Public Service Commission)

[LFB 2017-19 Budget Summary: Page 379, #7]

CURRENT LAW

The statewide energy efficiency and renewable resource programs are known as Focus on Energy. State law requires the programs to be administered collectively by the state's energy utilities through competitively bid contracts with one or more individuals or organizations. The state's investor-owned energy utilities formed a nonprofit organization called the Statewide Energy Efficiency and Renewable Administration (SEERA) to create and fund the statewide programs, and SEERA has contracted with Chicago Bridge and Iron Company (CB&I), formerly Shaw Environmental and Infrastructure, Inc., to manage the programs. SEERA's current contract with CB&I has been extended through 2018. Focus on Energy is funded through a statutory provision requiring investor-owned utilities to spend 1.2% of their annual operating revenues derived from retail sales on energy efficiency and renewable resource activities. Through the rate-making process, the Public Service Commission (PSC) adjusts utility rates to ensure that the required contributions are produced.

GOVERNOR

Increase the programs required to be included under the statewide energy efficiency and renewable resource programs, also known as Focus on Energy, to include incentives for projects for improving efficiency at elementary, secondary, and postsecondary schools. Require the PSC to ensure that the amount spent annually on such incentives is at least $10 million more than the amount spent on such incentives in 2016-17 and that public elementary and secondary schools are given priority in the spending.

DISCUSSION POINTS

1. The statewide energy efficiency and renewable resource programs are funded entirely outside the state budget process with contributions from the state's investor-owned utilities. However, the PSC provides program oversight, which includes: setting annual targets and four-year goals for electricity and natural gas savings; developing, approving, and monitoring program budgets; and reviewing and approving program designs developed by the program administrator. In addition, the statutes require the Commission to contract for financial and performance audits.

2. Focus on Energy consists of two portfolios. The residential portfolio includes a variety of programs that offer technical and financial assistance for energy-efficient appliance and lighting purchases, new home construction, appliance recycling, and renewable energy installations. The business (non-residential) portfolio includes programs for small businesses and large energy users and programs offering design assistance for new facilities and renovations. The business portfolio also includes the agriculture, school, and government program. Approximately 40% of the Focus funding is allocated to the residential portfolio, and 60% is allocated to the business portfolio to reflect the division of ratepayer contributions. The core programs in the two portfolios typically include of two types of funding. Incentives funding is used to buy down the cost of energy efficiency improvements and accounts for about two-thirds of program expenditures, while implementation costs account for the remainder of program expenditures. For 2017, Focus has budgeted expenditures of $95.9 million, which includes $87.9 million for core programs. Of that amount, $53.5 million is budgeted for business programs (61%), and $34.5 million is budgeted for residential programs (39%). Funding for the various programs is designated through the quadrennial planning process.

3. At least once every four years, the Commission must conduct a formal evaluation of the energy efficiency and renewable resource programs and set or revise goals, priorities, and measurable targets for the programs. On August 2, 2013, the Commission opened a docket on its second quadrennial planning process, as required by statute. Based on that process, the Commission promulgated its decision as an order, adopted unanimously on September 5, 2014, setting the structure and goals for the program during the 2015 through 2018 period. Through several decisions adopted in 2015 and 2016, the Commission has modified the goals, priorities, and targets established in the 2014 order. The current goals seek to achieve annual savings over the four-year period of over 2.1 billion kWh, 300,000 kW, and 84 million therms.

4. The agriculture, school, and government program was created in 2015 as part of the current quadrennial plan. Focus incentives for school energy efficiency projects typically provide 10% to 30% of total project costs. The incentives include funding for lighting, HVAC (heating, ventilation, and air conditioning), boilers, food service, and other miscellaneous improvements. The Governor's proposal would require the PSC to ensure that an additional $10 million in incentives funding would be provided to elementary, secondary, and postsecondary schools in 2016-17, with priority given to public elementary and secondary schools.

5. The Department of Administration (DOA) indicates that there is demand for energy efficiency projects in schools, as evidenced by revenue limit adjustments claimed by school districts. DOA indicates that $327 million was authorized for such projects in 2016 alone. While the

Governor proposes eliminating this revenue limit adjustment for projects authorized after the bill's effective date, DOA notes that school districts may use the referendum process, if needed, to undertake future projects. The proposed Focus allocation is intended to help meet the demand for those projects and encourage school districts to undertake projects. Data supplied by the PSC confirms the demand for energy efficiency projects, as the number of school energy efficiency projects receiving Focus funding increased from 645 in 2015 to 753 in 2016. However, the amount of Focus incentives totaled $2.6 million in 2015 and $3.3 million in 2016. An additional $10 million in incentives represents a 303% increase over the 2016 expenditure level.

6. For 2017, the agriculture, school, and government program has a budget of almost $10 million, so an additional $10 million in incentives funding for schools would double the program's funding level, and the percentage of business portfolio funding dedicated to the agriculture, school, and government program would increase from 18% to 37%. The Governor's proposal does not specify any implementation funding, but additional funding may also be needed in the program's implementation budget to ensure that the incentive funding is properly allocated. Consequently, the PSC may find it necessary to reopen its quadrennial planning docket to allocate any needed implementation funding. Funding for incentives and implementation would need to be reallocated from another program. Assuming the PSC would choose to maintain the current 40/60 split between the residential and business portfolios, funding for other business programs would need to be reduced. The most likely choices for reductions would be the large energy users program and the business incentive program, serving medium-sized businesses, because they are the two largest business portfolio programs.

7. DOA indicates that the PSC could use amounts from program balances to fund the school earmark, noting that the PSC reallocated funding at the end of 2016. The PSC's quadrennial planning docket indicates that $56.0 million was reallocated for 2017 and 2018, the two final years in the current quadrennial planning period. This amount is in addition to the 2017 budgeted funding reported above (#2). The reallocation included $7.1 million in "carryover" funding from 2015, but the largest source of funds was a required reduction in the program's reserve fund. The reallocation included $27.2 million for rural broadband, $20.0 million for anaerobic digesters, and $8.8 million for renewable incentives. Commission staff indicate that the year-end balance for 2016 will be less than $2 million.

8. As noted above, the quadrennial planning process establishes annual energy savings goals for Focus. The energy savings goals and the energy efficiency programs are developed in tandem under a PSC docket, and there is an expectation for the program manager (CB&I) to administer the programs in ways that meet the goals. A performance contract between SEERA and CB&I contains a penalty provision that may be enforced if savings goals are not met. Therefore, CB&I has a strong incentive to expend the available funding intended to produce the required energy savings. However, given that only $2.6 million and $3.2 million in incentives were awarded to schools in the first two years of the current quadrennial planning period, there may not be enough demand for cost-effective school projects to further Focus energy savings goals using the additional $10 million that would be expended under the bill. If the PSC relaxes the program's current requirements so that the additional funding can be expended as required under the bill, the energy savings anticipated under the quadrennial plan may not be realized.

9. The current law authorization for Focus on Energy contains a provision requiring 10% of total funding to be spent on projects of local governments and agricultural producers. However, if that full amount cannot be spent on "cost-effective" programs, the PSC is directed to reallocate such funding to commercial, institutional, and industrial customers. There are no other earmarks included in the Focus statute, so the proposed provision would be unique. The PSC's quasi-judicial approach to decision making provides a unique forum for resolving complex issues and balancing competing interests. The quadrennial planning process is designed to establish realistic energy saving goals, evaluate a variety of mechanisms for meeting those goals, while balancing the wishes of various customer classes.

ALTERNATIVES

1. Approve the Governor's recommendation to modify the funding allocation for energy efficiency and renewable resource programs.

2. Delete the Governor's recommendation and maintain current law provisions regarding the allocation of funding for energy efficiency and renewable resources programs.

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