Legislative Services Agency

MINUTES

Energy Efficiency Plans and Programs Study Committee

December 3, 2008

MEMBERS PRESENT:

Senator Joe Bolkcom, Co-chairperson
Senator William Heckroth
Senator David Johnson
Senator Pat Ward

Representative Nathan Reichert, Co-chairperson
Representative Paul Bell
Representative Bob Kressig
Representative Chuck Soderberg
Representative Ralph Watts

MEETING IN BRIEF

Organizational staffing provided by: Rick Nelson, Senior Legal Counsel, (515) 282-5822

Minutes prepared by: Tim McDermott, Senior Legal Counsel, (515) 281-8090

I. Procedural Business
II. Decoupling and Third-Party Administration
III. Iowa Propane Gas Association
IV. Department of Public Safety
V. Load Management
VI. Energy and Building Codes
VII. Black Hills Energy
VIII. Climate Change Advisory Council
IX. ENERGY STAR Program
X. Potential Recommendations
XI. Materials Filed With the Legislative Services Agency

I. Procedural Business

Call to Order. The second meeting of the Energy Efficiency Plans and Programs Study Committee was called to order at 9:20 p.m., Wednesday, December 3, 2008, in Room 103 of the State Capitol Building.

Adjournment. The Committee recessed for lunch at 12:01 p.m., reconvened at 12:55 p.m., and adjourned at 4:12 p.m.

II. Decoupling and Third-Party Administration

Mr. Richard Sedano, Director, Regulatory Assistance Project, Montpelier, Vermont, testified regarding the issue of decoupling and third-party administration of energy efficiency programs.

A. Third-Party Administration

Mr. Sedano stated that energy efficiency programs can be administered by utilities, by the state, by a third-party administration, or through a hybrid or divided structure. Mr. Sedano opined that no administrative system is better than the other; rather, one system may be better suited for a state due to the factors and circumstances existing in the state. Experience has suggested that state administration can be the most cumbersome and least nimble of the administrative structures. When a change is made from one administrative structure to another, the state must pay particular attention to transitional issues; otherwise, the transition may fail as happened in New Jersey. A state may want to change the administrative structure for energy efficiency programs if a statewide energy efficiency branding is sought, if energy efficiency programs are too difficult to regulate or viewed as incompatible with a utility's mission, or if there is a demonstrated problem with administration by a utility.

Mr. Sedano stated that a third-party administrator can be an independent organization, as is the case in Oregon, or part of a larger organization, as is the case in Vermont. The relationship between a state regulatory agency and a third-party administrator can take any form, including a franchise relationship or a contractual relationship. Oregon uses a permanent contractual relationship and Vermont uses a contractual relationship where the regulatory agency has authority to terminate a contract and replace the third-party administrator.

In response to questions and comments by committee members, Mr. Sedano stated that the corporate structure of the third-party administrator could take any form, that contract terms may allow for the sharing of customer account records, and that currently only two states, Oregon and Vermont, use a third-party administrator while a third state, Hawaii, is beginning the process of transitioning to a third-party administrator.

B. Decoupling

Mr. Sedano explained that decoupling is the removal of the link between revenue levels and sales volumes for a utility. Decoupling can remove a possible disincentive on the part of the utility to promote energy efficiency concepts, which result in lower energy usage. In the effort to maintain

or increase revenues, traditional regulation, as opposed to decoupling, drives a utility to favor consumption over energy efficiency. For a decoupling plan, a new cost of service is established in a rate case which is based on allowed costs and assumed sales, which the utility is entitled to recover. The actual sales will be above or below the level of sales assumed in the rate case and the rate is adjusted periodically as a result. Mr. Sedano stated that the reasonable duration for a decoupling plan is three to five years. Decoupling plans should include an updated cost of service, a plan duration, and performance indicators.

III. Iowa Propane Gas Association

Ms. Debra Grooms, Executive Director, Iowa Propane Gas Association, and Mr. Terry Davis, President, Iowa Propane Gas Association, described the propane gas industry in the state.

Ms. Grooms stated that Iowa is considered a highly competitive, low-margin state for the propane gas industry. Propane gas is not regulated as a utility in Iowa. The federal Department of Energy's ENERGY STAR Program promotes energy-efficient propane appliances including boilers, furnaces, water heaters, and cooking appliances. Ms. Grooms also identified tax credits available for high-efficiency appliances. National and state Propane Education and Research Councils have been created to promote training, education, and public awareness of safety issues for propane gas use. Ms. Grooms opined that current energy efficiency programs conducted by electric utilities do not give credit to electricity providers which conduct energy efficiency programs that result in the more efficient use of other forms of energy.

IV. Department of Public Safety

Mr. Stuart Crine, State Building Code Commissioner; Mr. Mike Coveyou, Planning and Research Administrator, Department of Public Safety; and Ms. Monica Stone, Iowa Department of Natural Resources, testified regarding the requirements and implementation of legislation enacted in 2008 regarding energy efficiency aspects of the state building code and the state energy code. The state energy code, which is part of the state building code, applies to any new commercial construction and new construction of one- and two-family residences, and lighting efficiency standards apply to all construction and to new and replacement lighting in existing buildings. The state has adopted, by reference, the 2006 edition of the International Energy Efficiency Code (IECC) published by the International Code Council (ICC) as the state energy code.

Mr. Coveyou noted that the federal Department of Energy has the authority to adopt a national energy code although it has not yet done so. If the 2009 edition of the IECC is not deemed efficient enough, the department may adopt a national energy code.

Mr. Coveyou stated that sustainable design standards in the state building code will not be applicable to construction projects unless another provision of law requires the application. Mr. Coveyou discussed the process for the development and adoption of sustainable design standards, which included a target date for notice of intended action of January 2009.

Mr. Crine discussed the Commission on Energy Efficiency Standards and Practices, which recently began work and is scheduled to develop a final report by January 1, 2011. Tthe commission's goals include compliance requirements for the energy code, the development of compliance tools, inspection alternatives, education and incentives for consumers, a determination of the benefits of energy codes, a determination of the obstacles preventing enforcement of the energy code, a determination of the current state of compliance with the energy code, and a determination of how to encourage compliance.

In response to questions and comments by the Committee, Mr. Coveyou and Mr. Crine stated that training and staffing issues appear to be the most significant obstacles to energy code enforcement.

V. Load Management

Mr. John Norris, Chairperson, Iowa Utilities Board, and Mr. John Perkins, Consumer Advocate, Office of Consumer Advocate, offered their perspectives on the practice of load management by utilities. Load management is a system where electricity use is reduced at critical times from certain customers agreeing to be part of the program. In return for participating in the program, customers receive incentives in the form of rate discounts or direct payments. Some programs have a buy-through option which allows the customer to buy through an interruption at a higher rate. Mr. Norris stated that investor-owned utilities expanded load management plans in the 1990s to address the need for peak-load electric capacity. Some rural electric cooperatives implement a load management program, but such programs are difficult due to the continuous nature of agricultural processing.

Mr. Norris stated that Alliant Energy intends to continue a residential direct-load control program and a nonresidential interruptible rate program with the desire to increase enrollment in the programs. MidAmerican Energy conducts a residential program providing financial incentives to customers in exchange for allowing MidAmerican to control their central air conditioning and a nonresidential program providing large nonresidential customers with financial incentives to reduce demand during system peak hours.

Mr. Perkins opined that load management programs may not properly be viewed as an energy efficiency program and when characterized as such could give a false impression regarding the amount being spent by utilities on energy efficiency efforts.

Co-chairperson Bolkcom questioned why the use of load management programs and the associated costs are considered energy efficiency expenditures.

VI. Energy and Building Codes

A. Iowa State Association of Counties

Mr. Nathan Bonnett, Public Policy Specialist, Iowa State Association of Counties, discussed administration and enforcement efforts relating to the building code at the county level. The counties of Pottawattamie, Polk, Dallas, Wapello, Bremer, Linn, Johnson, Scott, Black Hawk, and Muscatine all have adopted a building code; however, the administration and enforcement of the

building codes varies. Some counties hire a consulting firm to provide personnel with the counties, splitting permit fees with the contractor. The counties with building codes did not encounter significant enforcement issues. The barriers to code adoption by counties include cost concerns, slow development rate under current conditions, lack of consideration by county boards of supervisors, and a perception of invasiveness in primarily rural counties. Mr. Bonnett opined that counties could be encouraged to adopt building codes through increased education efforts, the use of partnerships with cities, and encouraging the idea of maintaining local control.

B. Iowa League of Cities

Ms. Shannon Paseka, Research and Fiscal Analyst, Iowa League of Cities, distributed a draft copy of a survey intended to elicit information from cities regarding how they are currently handling building and energy codes in their communities, including the extent to which they employ enforcement mechanisms for noncompliance.

C. City of Des Moines

Mr. Phil Delafield, Chief Building Inspector, Community Development Department, City of Des Moines, described the building inspections process in Des Moines. Energy code enforcement is ideally conducted through a separate inspection during the period between regular building code inspections. Des Moines does not conduct separate inspections for compliance with the energy code. Rather, inspectors enforce the energy code through regular building code inspections. Mr. Delafield advocated standardization to level the playing field between urban and rural areas regarding implementation of the building code. The inspections process could be improved through ongoing inspector training and education efforts for both builders and consumers regarding the energy code and the building code.

VII. Black Hills Energy

Ms. Susan Walter, Manager, Government Affairs, Black Hills Energy, provided an overview of the company and customer profile. Current energy efficiency programs result in lower natural gas usage per customer and reductions in natural gas usage have a significant impact on natural gas utilities, especially utilities that do not supply electricity. Ms. Walter expressed support for natural gas revenue decoupling and that a third-party administrator was not needed in Iowa.

VIII. Climate Change Advisory Council

Mr. Frank Cownie, Mayor, City of Des Moines, and Vice President, Climate Change Advisory Council, addressed efforts by the council to develop scenarios to reduce statewide greenhouse gas emissions by specified statutory levels. The council has heeded the numerous indicators that current environmental practices need to be changed, and encouraged putting mutually supportive incentives in place that are consistently administered to facilitate an improved partnership between the state and local governments.

IX. ENERGY STAR Program

A draft letter to be sent to Iowa's congressional delegation requesting reform regarding the ratings accuracy, accountability for inaccurate ratings, and independent testing of manufacturing energy savings claims with regard to the federal ENERGY STAR Program was distributed to members of the Committee by the co-chairpersons. Co-chairperson Bolkcom stated that the letter would be available for all members of the Committee to sign.

X. Potential Recommendations

The following potential recommendations were contributed by Committee members, pending additional consideration and final determination prior to the start of the 2009 legislative session:

1. Focus on educating consumers regarding the value of energy efficiency.

2. Enhance efforts to enforce the state building and energy codes by providing financial incentives to facilitate compliance in new and existing homes, such as forgivable loans and low-interest loans.

3. Position state government to lead by example through the lowering of thermostats, reducing air conditioning, using lower wattage lighting and turning off lights when not in use, and making sure construction of state buildings maximizes energy efficiency.

4. Require 100 percent participation by public utilities in energy efficiency plans and programs, either individually or by partnering, to ensure that all citizens of the state have access to energy efficiency programs that are proven successful.

5. Allow utilities to complete required assessments and implement energy efficiency plans to expand their energy efficiency efforts, and analyze the results of these assessments and efforts, prior to instituting additional energy efficiency policy requirements or mandates.

6. Allocate 10 percent of amounts contained within the Iowa Power Fund for consumer education in Iowa regarding consumers' energy usage, purchasing decisions, and energy efficiency product/appliance alternatives.

7. Base all future energy efficiency programs or requirements on the economic impact to Iowa taxpayers, utility rate-payers, and energy users, and do not require utilities to increase rates or fees to consumers or increase taxes to pay for mandated energy efficiency activities or required investments.

8. Recognize the value of energy efficiency planning in reducing customer energy usage, thereby assisting Iowa citizens financially and stimulating the economy.

9. Educate consumers on the cost of energy efficiency programs, and disclose the portion of their utility bill attributable to these programs on each monthly statement received from their utility provider. Also require utility disclosure, if not currently being provided, of a customer's annual energy consumption.

10. Reinforce that compliance with the state building and energy codes is a consumer protection issue that promotes safety.

11. Encourage consumer education by utility companies of the cost-benefit ratio resulting from the purchase and installation of energy-efficient products, appliances, and heating/cooling systems.

12. Create incentives to facilitate energy efficiency investment such as a sales tax holiday or other tax incentives. Consider instituting a state income tax credit for energy efficiency, which would parallel the recently extended federal income tax credit.

13. Adjust how property is assessed to include the value of energy efficiency improvements such as geothermal systems, and consider tax credits for the installation of such systems.

14. Evaluate state regulation of the rate-making structure and create regulatory options to increase efficiencies in the system without impacting utility rates or increasing taxes.

XI. Materials Filed With the Legislative Services Agency

The following materials listed were distributed at or in connection with the meeting and are filed with the Legislative Services Agency. The materials may be accessed from the <Additional Information> link on the Committee's Internet Webpage:

http://www.legis.state.ia.us/aspx/Committees/Committee.aspx?id=153

1. "Energy Efficiency Administration and Business Incentives" PowerPoint slides submitted by Mr. Sedano.

2. Policy paper on policy options and approaches for the administration and implementation of rate-payer-funded electric utility energy efficiency programs submitted by Mr. Sedano.

3. "Revenue Decoupling Standards and Criteria: A report to the Minnesota Public Utilities Commission" submitted by Mr. Sedano.

4. "Testimony Before Energy Efficiency Plans and Programs Study Committee" submitted by Ms. Grooms.

5. "Cold Weather Can Push Energy Costs into Overdrive" submitted by Ms. Grooms.

6. "State Energy Code: Requirements for Energy Efficiency in Construction" PowerPoint slides submitted by Mr. Cline and Mr. Coveyou.

7. "Load Management" PowerPoint slides submitted by Mr. Norris.

8. "Iowa 2007 Spending on Electric Load Management Programs" submitted by Mr. Perkins.

9. "State Energy/Building Code Perspectives" PowerPoint slides submitted by Mr. Bonnett.

10. Letter to the Energy Efficiency Plans and Programs Study Committee from the Iowa League of Cities submitted by Ms. Paseka.

11. "State of Iowa Interim Legislative Committee Presentation" submitted by Ms. Walter.

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