RESPONSE OF CHARLES HIGLEY
CITIZENS' UTILITY BOARD

December 10, 2003

To: Lee Cullen, Chair, Governor's Task Force on Energy Efficiency and Renewable Energy

From: Charlie Higley, Executive Director, Citizens' Utility Board

Subject: Proposed agenda items for the Task Force

Thank you for this opportunity to provide you with suggestions for the agenda for the Governor's Task Force on Energy Efficiency and Renewable Energy.

In summary, the Citizens' Utility Board recommends that the Task Force concentrate on preparing legislative recommendations that could be acted on in Spring '04 legislative session. Specifically, the Task Force should first discuss and recommend ways to restore the budget cuts to the Focus on Energy program; develop recommendations for a better way to administer the Focus program so that its funding is more secure and its results are better integrated with energy efforts at the Public Service Commission; and review and support existing or soon-to-be-introduced bills that provide tax incentives for renewable energy or energy efficiency products. After doing all it can to take advantage of the Spring '04 legislative session, the Task Force could then develop other recommendations to make it easier to acquire energy efficiency and renewable energy.

Focus on Energy: Restoring its Budget and Improving its Administration

As a top priority, the Task Force should make recommendations that build on the effectiveness of the Focus on Energy program, rather than "recreating the wheel."

First, the Task Force should recommend the restoration of the cuts to the Focus on Energy budget. The cuts to the Focus budget passed by the Governor and the Legislature are greatly threatening the progress Focus has made in providing energy benefits, job creation, and environmental improvements. Further, these cuts are threatening the strategic relationships established between the Focus program and private-sector manufacturers, distributors, and retailers of energy efficient and renewable energy equipment. The Task Force should quickly discuss and recommend ways for these cuts to be restored.

Next, the Task Force should develop legislative recommendations that ensure a consistent and adequately funded Focus on Energy program that is not subject to quick or sharp budget reductions or diversions. For example, a "third party administrator" could manage the contracts of the Focus on Energy contractors; the third party administrator would administer the Focus program, instead of the Department of Administration, which would

help protect the funding of the Focus program by moving it away from the most political of departments of the executive branch.

The third party administrator would be overseen by an advisory council made up of interested stakeholders, which would help establish the goals of the Focus on Energy program. Once the goals are set, the Focus on Energy subcontractors would do their best to achieve these goals by continuing to offer the portfolio of energy efficiency and renewable energy programs that have led to the success of the Focus program to date.

If designed properly, the third party administrator would ensure consistent and adequate funding for Focus on Energy as well as the integration of the goals and results of the Focus on Energy programs in the state's energy planning process. Importantly, a well designed third party administrator would allow for diverse but coordinated efforts by a variety of participants, and would continue producing the significant economic development, environmental, and customer benefits that are being provide by Focus on Energy.

The creation of a third party administrator should be straightforward; it could be modeled after other organizations, such as the Wisconsin Housing and Economic Development Authority, or could follow along the lines of the recently reorganized Wisconsin State Historical Society. The existing contracts between the Department of Administration and the Focus on Energy contractors could be transferred to the third party administrator, allowing the Focus program to continue without interruption.

As a next priority, the Task Force should recommend additional legislation regarding energy efficiency or renewable energy that could be dealt with in the Spring '04 legislative session. In particular, the Task Force should support legislation that may be introduced shortly by Rep. Frank Lasee (R-Green Bay), that would provide an exemption to the state sales tax for purchases of renewable energy systems, including wind, solar, and bioenergy systems.

After doing all it can to take advantage of the Spring '04 legislative session, the Task Force could then develop other recommendations to make it easier to acquire energy efficiency and renewable energy. Regarding energy efficiency, the Task Force could explore (1) the use of state appliance and equipment standards to augment federal standards; (2) the improvement of energy efficiency standards in current building codes; (3) the strengthening of energy efficiency requirements in state facility and procurement activities; and (4) the use of income tax credits or deductions, sales tax exemptions and other tax-related incentives for energy efficient products and practices.

Regarding renewable energy, the Task Force should consider supporting the recommendations made by Michael Vickerman of RENEW Wisconsin, including: (1) requiring Wisconsin utilities to commit to a renewable electricity target of 5 percent by 2010; (2) encouraging utilities to sell green power through fixed-term rates instead of premiums; (3) directing state government to purchase at least 10 percent of its electricity by 2010 and 15 percent by 2015; (4) requiring utilities to pay (in 2003 dollars) a blended

4.5 cents/kWh rates for existing hydro and a blended 6 cents/kWh rate for new, distributed (under 15 MW) sources of renewable electricity generated in Wisconsin; (5) amending the section of the public benefits legislation regarding renewable energy (16.957(2)(b)1.b) so that Focus funds can be spent on thermal renewable energy systems, renewable business development opportunities, and the reduction of any barriers that impede renewable energy development.

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RESPONSE OF MICHAEL VICKERMAN
RENEW WISCONSIN

Memorandum

To: Lee Cullen, Chair, Energy Efficiency and Renewables Task Force

From: Michael Vickerman, RENEW Wisconsin

Date: December 4, 2003

Re: Policy Proposals for Sustaining a Growing Renewable Energy Marketplace in Wisconsin

Background

Wisconsin has twice adopted laws to increase the amount of renewable generation serving electricity customers around the state. The first of these, 1997 WI Act 204, imposed on four WI utilities a 50 megawatt (MW) renewable capacity set-aside. This mandate ushered in the first wave of windpower projects in Wisconsin, including the 30 MW Montfort project serving We Energies and Alliant, a 9 MW facility near Gregorville serving WPS, and a 3 MW share of an 11 MW installation near Rosiere serving MGE. Alliant also purchases power from a Neenah plant that generates electricity from paper mill sludge. Compliance with this mandate is now complete.

The state's Renewable Portfolio Standard (RPS) was conceived as a successor policy tool to Act 204's renewable set-aside. Unlike the earlier mandate, all Wisconsin utilities are subject to the RPS. The RPS requires incremental increases in the amount of renewable electricity sold to electricity customers, rising from 0.5% in 2001 to 2.2% in 2011. Under the RPS hydroelectric units placed in service before January 1998 are capped at 0.6%.

The largest project built in response to the RPS is an 80 MW windpower installation in north central Iowa. This facility, which serves Alliant and We Energies, started operating in December 2001.

According to the Public Service Commission's web site on the RPS (www.wirrc.com), the utilities in 2002 achieved a high enough renewable percentage to meet the law's targets through 2008. Furthermore, when they reach 2008, they will have created and banked enough credits to carry them through 2011 **without having to add another source of renewable electricity**. The conclusion is inescapable: the state's current RPS is no longer a viable tool for leveraging new renewable electricity sources.

Several renewable installations in Wisconsin generate power for utility green pricing programs. These programs sell a mix of renewable power sources--wind, landfill gas,

small hydro, and digester gas from dairy farms and wastewater treatment plants—to self-selecting customers who pay premiums ranging from 2 cents/kWh on the low side to 3.3 cents/kWh on the high end. About 33 MW of renewable generating capacity owe their existence to customer purchasing decisions.

Of the 53 MW of wind turbines operating in Wisconsin, 42 MW were built in response to 1997 Act 204 and 11 MW are supplying utility green pricing programs. It's worth mentioning that **thus far the RPS has not yielded so much as a single kilowatt of wind generating capacity in Wisconsin**.

What's Happened in 2003

While 2003 will pass without a single utility-scale turbine being erected and interconnected in Wisconsin, 2004 and 2005 shape up to be extremely active years for the windpower industry here due to decisions made this year. Among the developments that occurred this year are:

- We Energies signs contracts with two developers to purchase the energy from 214 MW of windpower to be installed in Wisconsin in 2004 and/or 2005;
- Madison Gas & Electric and Wisconsin Public Power Inc. are jointly soliciting to acquire (or purchase the output from) 40 MW to 80 MW of dedicated wind generating capacity in 2004 and/or 2005;
- The state of Wisconsin adopts a new utility local aids formula that contains a special incentive for renewable electric installations larger than 50 MW;
- A Random Lake developer is seeking to install locally owned and financed wind installations at various locations in eastern Wisconsin, and has secured a siting permit for one of the projects, a 3 MW installation in the Town of Eden (Fond du Lac County).

It would be a mistake to attribute this spate of windpower commitments to an existing policy mandates. What's behind this sudden embrace of renewable power is a convergence of factors consisting of the following:

- The perceived need for new utility-scale generating units, including new coal-fired and plants, driven by demand forecasts;
- Declining costs of large-scale windpower development, which have now become (with federal tax credits) directly competitive with new coal and gas-fired plants (about 5 cents/kWh); and
- A growing appreciation of energy resource diversity (at least among farsighted utilities), coupled with the widespread recognition that natural gas prices will remain high for the foreseeable future.

This is a significant departure from the prevailing orthodoxy of four years ago, when natural gas was firmly ensconced as the default resource for new generation, utilities

were busy shedding costs, and integrated resource planning became a casualty of Dereg fever.

The most dramatic expression of this growing commitment/support for renewable power is We Energies' commitment to source, by 2011, at least 5% of the electricity it sells from renewable power sources. At the same time the utility agreed to set aside $60 million over a 10-year period to achieve this target, and to map out a resource acquisition and outreach plan with the cooperation of citizen groups, clean energy advocates, and the renewable energy industry. It is anticipated that We Energies, as a result of this commitment, will increase sales of renewable electricity by at least one billion more kWh a year by 2011. About half of that additional renewable electricity will be acquired from three projects in eastern Wisconsin that will be up and operating before the end of 2005. We Energies has also circulated a Request for Proposals to add 25 MW of distributed biomass and biogas energy sources.

By committing to a 5% goal and contracting for a large increment of new wind generating capacity, We Energies has attracted the attention of both nationally prominent developers and overseas wind turbine manufacturers looking to establish final assembly shops in the United States. A combination of a falling dollar (20% reduction vs. the Euro since mid-2002) and the extraordinary potential for growth in domestic markets makes it possible to justify a U.S. manufacturing presence now. During the mid-1990s Wisconsin was a leading producer of windpower components ($100 million/year in orders). Current market conditions, coupled with additional commitments from other utilities, could put Wisconsin at the center of U.S. windpower manufacturing activity.

Leaving aside the cuts to Focus on Energy's 2003-2005 budget, the decisions made in 2003 have been favorable to renewable energy development, and all but assure a upsurge in facility construction and related activity in 2004 and 2005. What happens afterward will hinge upon a combination of individual utility commitments, regulatory policy changes, customer purchasing decisions, and, perhaps, legislative changes.

How to Sustain A Growing Renewable Energy Industry

1) Encourage or Require Utilities to Commit to a Renewable Electricity Target of at Least 5% by 2010.

A 5% target by 2011 would essentially double the amount of renewable electricity that the current RPS would leverage. A target allows a utility some flexibility in pricing the renewable electricity, whereas under a RPS the renewable output must be rolled into the rate base. The flexibility in pricing would encourage Wisconsin utilities to look within our borders for the renewable electricity, something the RPS is not set up to do.
A 5% target looming in eight years provides utilities with sufficient time to map out acquisition strategies that can result in lower-cost purchases or investments.

Other details of this proposal

- If a utility wishes to purchase renewable electricity from another Wisconsin utility, a Wisconsin-based generator, or a source outside Wisconsin, it must establish a contract path to its own system.
- This would not apply to utilities that can document a renewable electricity content that is greater than 5%. However, the output from renewable generating units serving those particular utilities cannot be sold to other Wisconsin utilities for the purposes of achieving this 5% goal.
- Utilities adopting the 5% target can apply their existing hydro facilities to meeting this threshold. Utilities can purchase existing hydro from other utilities that have adopted the 5% target, or from independent hydro owners. These transactions must be carefully tracked to prevent double-counting.
- Utilities that adopt a 5% target should allow for annual audits to verify their progress. This audit function could be provided by the PSC or an independent third party with experience in this area.

2) Encourage or Require Utilities to Sell Green Power Through a Fixed-Term Rate, Not a Premium.

The premise of green pricing is to mobilize customer dollars not captured through rates to support a renewable generator that would otherwise not be built, because of high costs. Most Wisconsin utilities have a green pricing program out in the field. The vast majority of green power subscribers are residential customers; few business or institutional customers have shown interest in paying a premium for electricity, superior environmental attributes notwithstanding. This dynamic would change immediately if the green power could be purchased through a rate based on contract prices, which are fixed over a certain term, rather than through a premium which goes up when the standard rate goes up.

Consider the example of Austin Energy, a municipal utility in Texas that has a renewable energy goal of 5% by 2005. All of the renewable power acquired by Austin Energy was leveraged through a green pricing program called GreenChoice, which was established in 2000. It has already breached the 3% level and is climbing rapidly, with 2003 sales projected to reach 320 million kWh. Recently, the city's school district joined the program, and will purchase 45 million renewable kWh/year. GreenChoice may be the only voluntary renewable electricity program in the country that sells more power to commercial customers (60%) than to residential customers (40%).

Businesses participate in GreenChoice because they're buying renewable electricity at a fixed rate, which protects them from the effects of rising natural gas prices. While Austin Energy has to raise its standard fuel rate next month, GreenChoice customers will not see that increase. And when Austin Energy phases in another fuel rate increase next January, the difference between the green power rate and the standard fuel rate diminishes to one mill a kilowatt-hour.

It is the responsibility of utilities under Wisconsin's energy policy statutes to add renewable electricity sources to their systems whenever they are feasible and cost-effective. Renewable generation source serving a green pricing program meets the test for cost-effectiveness. If the utilities wish to sell renewable electricity through a green pricing program, they should be encouraged or required to use a program design that maximizes program participation and sales. A fixed-term green power rate appears to be a necessary component of that program design.

3) Direct state government to purchase at least 10% of its electricity consumption by 2010 and 15% by 2015.

The state of Wisconsin can become a driver for local production of green power through its own electricity procurement policies. The directive can take the form of legislation or an Executive Order. In 2002 Illinois Governor Ryan issued an Executive Order directing that 5% of the annual electricity requirements of buildings owned or operated by state agencies will be met through renewable power sources by 2010. The Illinois directive increases that requirement to 15% by 2020. These percentages match the state's overall renewable electricity goals.

Renewable electricity purchases should be pursued through the local utility. For example if the UW-Green Bay campus wishes to purchase renewable electricity, it should do so through Wisconsin Public Service's green power program, ditto UW-Platteville and Alliant's program. It is critically important that the state organize its purchasing procedures so that the renewable power being procured by a particular utility matches the amount reserved for state facilities within its territory.

As of this moment, the only state facility that purchases renewable power is UW-Oshkosh, which derives 3% of its electricity from renewable energy sources under an agreement with WPS. The added cost of UW-Oshkosh's renewable power is offset by dollar savings achieved through energy conservation measures. College campuses have been leading the way in retail purchases of renewable power; indeed, a significant portion of Pennsylvania's wind generation capacity is dedicated to serving the electrical needs of these institutions. University of Pennsylvania, an institution similar to UW-Madison in terms of size and reputation, has signed a 10-year contract to buy 10% of its power, or 40 million kWh per year from in-state wind farms. An aggressive energy conservation program that reduced peak demand by 18% created a pool of savings that funds the cost difference between standard power and windpower.

State willingness to procure renewable power above state mandated minimums would depend heavily on the attractiveness of individual utility programs. Certainly the state would benefit greatly from utility decisions to provide green power through a fixed-term rate.

4) Require utilities to pay (in 2003 dollars) a blended 4.5 cents/kWh rate for existing hydro and a blended 6 cents/kWh rate for new, distributed (under 15 MW) sources of renewable electricity generated in Wisconsin.

The utilities' real avoided cost, which I define as the cost of adding a new power plant on their system, is between 4.5 cents and 5.5 cents per kWh. Yet the utilities' published tariffs for electricity produced by a renewable generator larger than 20 kW amounts to a less-than- whopping 3 cents/kWh. Not only is this rate insufficient to attract new renewable distributed generation projects, it is in some instances too low to warrant continued operation of an existing generator.

Buyback rates for renewable generators ought to be raised to reflect their true value to a utility. Until recently, utilities purchasing renewable power from independent generators assumed that all the attributes of that electricity source, including its renewable-"ness," flowed directly to them. But in a recent decision, FERC ruled that a utility is not entitled to claim the renewable attributes of a particular power source if the electricity is purchased strictly at avoided cost. If the utilities wish to apply the renewable energy they purchase to a renewable standard or target, they should pay for that benefit in the form of a higher buyback rate.

For existing hydro operations whose contracts will expire soon, a blended 4.5 cent/kWh rate (higher on-peak/lower off-peak) rate is recommended (in 2003 dollars). For new renewable, distributed generation installations, a blended rate of 6 cents/kWh is recommended. All renewable resources as defined in 196.378 should be eligible for the 6 cent rate, with the exception of landfill gas operations greater than 500 kW.

Note: Alliant has an experimental tariff which offers a blended 6 cent rate for certain biogas facilities. In its current rate case, MGE is proposing an experimental 6.1 cent tariff for windpower, solar, biomass and biogas derived from livestock manure.

5) The renewable set-aside of the public benefits law (16.957(2)(b)1.b) should be amended to explicitly allow Focus on Energy dollars to be spent on encouraging business development opportunities (e.g., equipment manufacturing, installation contracting) that benefit the entire renewable energy marketplace, as well as reducing barriers that impede overall renewable energy development (e.g., distribution and transmission constraints).

The existing law is not as clear on this point as it needs to be. There are many instances where working to change a particular business practice or facilitating a large-scale manufacturing opportunity would improve Wisconsin's renewable energy business climate as a whole. In these instances, the beneficiaries of this work would include customer-generators, but are not limited to them. There is confusion as to whether Focus on Energy monies should be spent on these activities, because this part of the Focus on Energy program is oriented to "customer applications of renewable resources."

One example that comes to mind is green pricing, which is seen as being outside the scope of a customer-oriented renewable program. That is true as far as customer purchases are concerned, but what about the supply side of the equation? If, by improving a particular

program design, a utility agrees to serve its subscribers with renewable power from several customer-generators in its service territory, then there is a benefit to customer-generators which is consistent with this law, even though the utility is reselling that electricity to other customers.

It would help the Department of Administration, which oversees how Focus on Energy moneys are spent, to have language in the public benefits law that clarifies this point. An overly restrictive interpretation of the "customer applications" language can prevent Focus on Energy dollars from being applied to encourage business development activities and change utility practices to benefit several multiple constituencies, among them renewable customer-generators.

6) Exempt small-scale renewable energy installations from the state sales tax.
The cost-effectiveness of renewable energy collection and use by customers depends in part on system size. Economies of scale allow for unit cost reductions as system size increases. The front-loaded nature of renewable energy equipment places a premium on the number of kWh or therms that can be produced or displaced. As a general rule, decreases in customer size results in a disproportionately larger reduction in the revenue stream need to recover equipment costs. This puts customer-sited systems at a disadvantage relative to larger, more centralized systems.

Subjecting customer-owned systems to sales or use taxes adds another reason to forego the expense of investing in on-site renewable energy. Under most circumstances customer-owners of renewable energy systems are not able to depreciate their equipment as aggressively as larger commercial enterprises are permitted to.

In the previous biennium legislation was introduced to exempt certain renewable energy technologies from the sales tax, and a hearing was held on the bill. The bill was widely supported. The author of that bill, Rep. Frank Lasee, intends to reintroduce that bill shortly.

RESPONSE OF GEORGE EDGAR
WISCONSIN ENERGY CONSERVATION CORP.

December 8, 2003

To: Lee Cullen, Chair of Governor's Task Force on Energy Efficiency and Renewables

From: George R. Edgar, Director of Policy for Wisconsin Energy Conservation Corp.

I appreciate the opportunity to submit some thoughts on a potential agenda for the Governor's Task Force. The potential range and scope of issues that might be addressed by Task Force is daunting. These issues could include desirable improvements to the current Public Benefits effort to the potential for improved state energy codes and standards or the potential use of targeted tax incentives to help businesses increase the efficiency and competitiveness of their firms and homeowners to improve the comfort, affordability and value of their homes. As a result, I believe that the Task Force would benefit from prioritizing the issues which it will address.

Given the charge by the Governor for the Task Force, it would seem that the first priority would be to focus on potential improvements and additions that would build on the effectiveness of the current energy efficiency and renewables framework rather than attempt to "recreate the wheel" or initiate a series of uncoordinated initiatives. If the other members of the Task Force were to find this approach desirable, I believe that the immediate focus of the Task Force should be on considering two primary areas: (1) desirable modifications or adjustments to the existing Public Benefits framework and (2)

how to better effectively integrate and foster energy efficiency and renewable activities among state agencies that have mandates which affect such efforts.

The existing Public Benefits efforts, in my opinion, has been very successful, especially given the difficult environment that it had to be developed and implemented within. This is evidenced both by quantitative savings results and the working relationships that have been created with market providers in this state. However, unless several lingering problems that threaten this continued success are appropriately addressed in a timely manner, they are likely to continue to undermine more effective efforts as well as limit the success of new initiatives.

As Commissioner Bridge of the Public Service Commission noted in a recent statement, it is the accumulated effect of consistent and well designed energy efficiency efforts over time that yield the substantial public and private benefits that energy efficiency efforts can provide. Thus, there is great benefit in insuring that the base framework for energy efficiency efforts is secure and functioning well before adding on to that framework.

Specifically, there have been a few key issues that I believe have become evident despite the success of the existing Public Benefits effort. These issues include: (1) how to insure a consistent and adequately funded energy efficiency and renewable effort; (2) how best to maximize the effectiveness of Public Benefits efforts as a part of an overall integrated energy supply approach which is currently lodged mainly in the Public Service Commission, but also in other agencies such as DOA, the Department of Commerce and

the DNR; and (3) what is the best on-going overall administrative and institutional structure to achieve the maximum, cost-effective results in energy efficiency and renewable efforts. The success of current and on-going efforts, especially in creating working relationships with market providers and being able to maximize effective activities, depends on a stable and consistent effort, which itself depends on adequate and consistent funding.

Included in the considerations of the above issues should be a discussion of how best to insure adequate and consistent funding; the importance of consistent evaluation of results among diverse efforts; the best means (when appropriate) to allow diverse but coordinated efforts by a variety of participants; and how to most effectively minimize funds spent on administration instead of on producing the economic development, environmental, and customer benefits that justify these efforts.

Thus, while I look forward to the Task Force over its life addressing the broad range of options to improve energy efficiency and renewable efforts in Wisconsin, I hope that we can focus first on making near-term improvements that build on and improve current successful efforts. It is important in my view that the Task Force attempt to identify appropriate improvements and provide such recommendations to the Governor and legislative bodies so that they could be considered in the upcoming legislative session, if that is the joint will of the Governor and the legislature. I also believe that this near-term process will help the Task Force consider the range or scope of areas in which it may

ultimately wish to offer other recommendations to improve the effectiveness of energy efficiency and renewable energy efforts in Wisconsin.

Additional items that I believe would be of great value for the Task Force to consider after the initial, near term improvements suggested above have been addressed include: (1) the use of state appliance and equipment standards to augment federal standards; (2) the ability to approve the level of energy efficiency standards in current building codes; (3) the ability to improve the level of energy efficiency requirements in state facility and procurement activities; and (4) the use of income tax credits or deductions, sales tax exemptions and other tax-related incentives for energy efficient products and practices.

RESPONSE OF LARRY SALUSTRO
WISCONSIN ENERGY CORPORATION

GOVERNOR'S TASK FORCE
ENERGY EFFICIENCY

1. WHAT IS THE APPROPRIATE MODEL FOR DELIVERING EFFICIENCY PROGRAMS?

The appropriate model is one which assigns primary responsibility for efficiency programs to utilities in their service areas, subject to Public Service Commission oversight. This model has funding/sustainability advantages over competing models (see Response 2), and can be administered by utility-designated vendors in a way that avoids concerns from small business that utilities are unfairly leveraging their monopoly status into other areas. Utilities can also integrate these programs with related customer issues, such as low income bill payment assistance programs.

Alternative models, such as state agency efforts, are more subject to changing political circumstances and state financial status volatility, and overlap or duplicate what should be a single state agency (PSCW) policy function.

Whatever model is used, it is essential that the programs be approved and evaluated using specific cost/benefit criteria, established in advance and empirically measurable. Customer funds should be used only where explicit customer benefit can be realized in a relatively short time frame. Further, the annual effect of the program spending on customer bills should be estimated over the planning period.

2. HOW CAN A SUSTAINABLE PUBLIC BENEFITS PROGRAM BE CREATED?

A PSCW-authorized funding system can be established that commits funding through customer bills over an appropriate planning horizon, five years for example. This would levelize the customer charge, and not force spending of a certain amount each year merely because funds are available for programs. The funds could be monitored and escrowed if necessary from year to year as utilities implement different programs with different effectiveness results, or discontinue ineffective programs.

Alternate models, such as those relying on general fund appropriations, are unpredictable and cannot be relied upon for an appropriate planning/program horizon.

3. SHOULD THE BUILDING CODE DISCUSSIONS BE EXTENDED TO A STATEWIDE DISCUSSION?

We Energies and CFC launched the Energy Building Code Collaborative in 2002 to seek ways to enhance energy efficiency in Wisconsin. The Collaborative has a broad spectrum of over 25 statewide members, including those from the construction industry, DOE, Division of Safety and Buildings, energy service organizations, the International Code Council, ASHRAE,

university advisors, trade groups (e.g., MBA, WBA, WGBA, IES, WSA, CARW, WMC), and others. The collaborative has established its own guidelines—technical feasibility, economically justified, environmentally beneficial—and has amassed data and formulated initial recommendations. Rather than enlarge this group, however, the collaborative should be encouraged to provide an interim report of its findings and recommendations which would become the basis of a reconstituted effort with participation by others under the auspices of the Task Force.

RESPONSE OF LARRY SALUSTRO
WISCONSIN ENERGY CORPORATION

GOVERNOR'S TASK FORCE
RENEWABLE ENERGY

1. WHAT ROLE SHOULD THE STATE PLAY IN CREATING OR EXPANDING POLICY INITIATIVES THAT PROMOTE THE USE OF RENEWABLE ENERGY IN WISCONSIN?

The state can play an important role in a number of areas.

Policy Initiatives. The state can play an important role in encouraging the analysis of the economics of specific renewable technologies, and of promoting the appropriate use of them through utility and customer programs. Care must be taken to insure that these policies do not displace the natural evolution of the market and the development of technologies.

Green Pricing Programs. The PSCW can encourage utilities to establish and appropriately promote tariffed green pricing programs for businesses and residential customers. The state can promote deployment of renewables in state facilities.

Facility Siting. The PSCW has an essential role to play in establishing uniform interconnection standards, transmission policies and planning, and safety guidelines for renewable service providers and for customers installing their own equipment. The state can encourage local governments to establish uniform guidelines and siting criteria for locating facilities within their areas, and provide general objective information concerning the benefits of these facilities.

2. RENEWABLE PORTFOLIO STANDARDS

Based on information generally available from other states and the experience of Wisconsin utilities, it appears that a renewable portfolio standard in excess of the current requirement is feasible and beneficial. A standard of five percent appears to be achievable by 2012, but should not be established until the PSCW has analyzed the state's renewable energy capacity (along with the ability to transmit energy into Wisconsin from other states).

Any higher standard should provide for PSCW oversight to assure that customer rates are not unreasonably increased if achieving higher standards proves uneconomic, and should accommodate providers which have already exceeded the current requirement by crediting their early implementation.

Finally, the PSCW should analyze and rationalize the relationship between mandatory renewable standards and voluntary green pricing programs.

3 RESEARCH AND DEVELOPMENT

The state does not have a significant role in this area. R&D should be performed by market participants, by providers working through national organizations and trade associations (e.g., EPRI), and by groups with national affiliations interested in promoting renewables.

RESPONSE OF THOMAS MEINZ
WISCONSIN PUBLIC SERVICE CORPORATION

WPSC Position Paper for Wisconsin Governor's Task Force

WPSC thanks the task force the opportunity to share thoughts and comments how to proceed with important energy policy issues for the State of Wisconsin.

This position paper will address the following areas:
1. The Planning Process
2. Energy Efficiency (administrative model, funding, and standards)
3. Renewables (policy, renewable portfolio standards, R&D)

1. The Planning Process

As recent history has demonstrated, centralized prescriptive decisions by the Commission have hampered or deterred participants from committing to necessary investments in infrastructure. An effective process is one that separates energy policy, which may include such issues as to energy efficiency, conservation, renewables, building codes and appliance standards, from solutions to address need and reliability. WPSC believes there should be a clear separation of policy from assessing the state's energy infrastructure needs. Effective energy policy should be descriptive that allows participants to react to policy directions and to craft proposals, which satisfy both the policy direction and the need.

The results of the State's policy will be then be reflected in the Strategic Energy Assessment (SEA), which is intended to be an informational report. WPSC agrees with the majority view that the current SEA is too limited in its current form. The PSC's proposed extension of the period from the current three years to a longer time frame is a needed change and will add value to the report.

WPSC recommends that every five years the PSC assess the changes in the marketplace regarding the acceptance of conservation, energy efficiency, renewables and advancements in technology, and based on the assessment and input from all interested stakeholders, establish goals and objectives for the coming five-year period. This assessment may include an update of the *achievable* potential for energy efficiency and renewables for the state. In the past, estimates were developed for technical and economic potential that had no relationship to the customer's willingness and ability to implement any particular measure or the market's ability to achieve the potential. The assessment would take into account the achievements of the State's Focus on Energy program and progress in the marketplace regarding renewables. The PSC could also direct what areas of appliance standards and building codes need to be developed during the five year and establish task forces or collaboratives for that purpose.

Setting energy policy for a five-year period would accomplish several things. As Chairperson Bridge stated in her dissent from the Madison Gas and Electric CPCN order: "As a practical matter, the use of conservation and renewable resources is foregone indefinitely because the timing and magnitude of the savings do not coincide perfectly with the need for additional generation capacity." [1]

The benefits of an alternate process are as follows:

(1) It would place energy efficiency and renewables on a higher priority before any consideration of any additions to energy infrastructure that directly addresses the requirements of the state's Energy Priorities Law.
(2) By removing energy efficiency and renewables as an issue in case by case construction dockets, it eliminates lost opportunities by allowing deployment of whatever achievable energy efficiency and renewable is projected to be available. This creates continuity and sustainability for at least the 5-year policy period.
(3) It would streamline the CPCN process by removing less germane issues from the process and focusing on them in another process specifically for those issues.

The PSC would continue to have approval authority over significant additions to the State's energy infrastructure based on issues of need and reliability. In reaction to energy policy, suppliers can make decisions about technology, fuel type and size need to be made by the participants who must ultimately shoulder the obligation to serve and must accept the financial risk and consequences of their decisions.

When viewed in conjunction with a five year energy policy, the current planning and decision making environment, which is perceived by many as lacking form and in fact, as "chaos", would not be chaos at all, but in actuality robust as independent actors make sound investment decisions consistent with state energy policy.

Since the end of the Advanced Planning process, utilities and other parties have announced and, in some cases built, major new projects. The announced units include four new coal units requiring over $3 billion in investment. In addition, the American Transmission Company LLC (ATC LLC) is taking on its role in planning for transmission projects. There has been particular criticism that generation and transmission planning needs to be integrated. The expanded SEA timeframe can fill this coordination need by a change in the process as simple as requiring alternate filing years for supplier participants and ATC LLC. In this way, parties can communicate needs and react to changes.

It should be noted that neither the utilities nor the PSCW control the development of the transmission infrastructure, the drivers for that infrastructure, or the pricing associated with the delivery system. As the MISO and FERC further develop methods, which will impact both the transmission and generation cost, it may become clearer on an approach.

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[1] WPSC's agrees with the Chairperson's concerns. However, WPSC does not agree that the PSC's interpretation of the Energy Priorities Law is incorrect. WPSC believes in an alternate process would be more effective in addressing the concerns expressed by Chairperson Bridge.

In the interim, WPS believes the PSCW must approve generation on a case-by-case basis in comparison to other supply alternatives and coordinate transmission planning with information supplied by the alternate filing of the SEA by suppliers and the ATC LLC.

Transmission investment must be addressed before much else can be done to significantly promote renewables within the state or to even import renewables outside of the state because of the constrained transmission system.

2. Energy Efficiency (administrative model, funding, and standards)

WPSC does not believe Reliability Act 2000 should be discarded but only amended in certain key aspects. WSPC recommends the delivery of public benefits continue to be a state obligation. It is precisely the role of government, not investor owned utilities, to address and deliver public benefits. The Reliability Act gives direction as to funding issues, who pays, the funding level and any necessary changes to the funding level. At issue, however, is the lack of sustainability and continuity. WPSC had a very successful relationship with the pilot Focus on Energy program that was established by a private contract with DOA. Private contracts between utilities and the DOA may be the most effective way to create sustainability and continuity for public benefits in the State. Funds would be deposited into a trust, much like the current Department of Transportation's Registration Fee Trust, whose assets cannot be redirected to other purposes.

As mentioned in the planning process portion of this paper, conservation, energy efficiency, renewables, appliance standards and building codes can be established at the direction of the PSC in the five-year planning process described above.

3. Renewables (policy, renewable portfolio standards, R&D)

WPSC does not oppose a renewables portfolio standard that is based on reasonable assumptions and facts regarding higher levels of renewables in the State. The undesirable outcome of an unrealistically high RPS is higher electric retail rates for customers, which directly affect the state's economic development efforts and the retention of existing businesses.

WPSC recommends exploring the feasibility of renewable rate options that are customer driven. This approach allows customers and businesses to opt for a cost-based renewables rate, which at this time would likely be somewhat higher than traditional supply-based rates. However, in the event that the renewable rate offering results in significant participation as a result of environmental stewardship or economic-based factors (e.g. escalating natural gas prices), costs for renewable energy should decrease as a result of higher demand and increased competition and innovation. In this manner, customers unable to participate for economic reasons are not burdened with higher electric retail rates and unnecessary deterrents to economic development and business retention are minimized. The PSC and the State Legislature can assist in this adoption process by formulating energy policies in the suggested planning process above that

encourage suppliers to invest in renewable technologies and customers to choose the renewables rate. This would also help to decrease technology costs.

As noted above, however, the State's transmission issues must be addressed in order to significantly to move ahead in the renewables area.

RESPONSE OF ROY THILLY
WISCONSIN PUBLIC POWER INC.

WPPI's top priority for the Task Force is to assure that Public Benefits has secure and adequate funding going forward. WPPI is not proposing reconsideration by the Task Force of the budget cuts that have already been made for 2003 and 2004. However, if additional funds can be found for 2004 without increasing rates, we would be pleased. Most importantly, in subsequent years, funding should be fully restored and protected.

WPPI's second priority for the task force is to determine the most appropriate administrative structure for implementing Public Benefits and integrating the work done under public benefits with other state agencies and utilities whose activities impact the overall success of energy efficiency initiatives. This effort should address ways for the PSC to deal with energy conservation and efficiency outside the context of alternative reviews in each CPCN proceeding.

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mge.

MEMORANDUM

RESPONSE OF KRISTINE EUCLIDE
MADISON GAS and ELECTRIC CO.

DATE: December 8, 2003

TO: Lee Cullen, Chair, Governor's Energy Efficiency & Renewables Task Force

FROM: Kristine A. Euclide, Vice President and General Counsel
Madison Gas and Electric Co.

SUBJECT: Task Force Agenda and Work Plan

At the November 25, 2003 kickoff meeting of the Governor's Energy Efficiency & Renewables Task Force, you invited people to submit comments regarding, among other things, a suggested work plan for the Task Force. Thank you for the opportunity to provide input prior to our next meeting.

There is a very limited period of time available to the Task Force to consider any actions that would seek legislative approval during the pending session. Thus, it will be crucial for the Task Force to agree upon a work plan which prioritizes efforts from a timing perspective. I believe it makes the most sense to begin where we are. At least initially, the Task Force should focus its efforts on the Public Benefits program. It is apparent that a lot of good things have been and are continuing to be accomplished through this program. Not only has this field already been plowed, but it has also been seeded and watered. Wisconsin is just now starting to see the fruits of the many hours of labor and dollars that have gone into designing and implementing the Public Benefits program.

Accordingly, MGE suggests that the Task Force pursue its work in the following phases with priority given to phases one and two before moving on to phase three:

PHASE 1 Recommend ways to preserve Public Benefits funding prospectively so that the dollars will be reliably available to promote long-term energy efficiency and renewable energy programs to serve the people of Wisconsin as originally intended.

PHASE 2 Identify any significant administrative or structural shortcomings of the existing Public Benefits program and develop suggestions for addressing the shortcomings. This work should include, among other things, ways to better integrate the Public Benefits program with overall State energy policy.

PHASE 3 Consider other potential means to advance energy efficiency and renewable resource investments in Wisconsin in a sustained manner while promoting reliable and affordable energy to Wisconsin residents and businesses and protecting our environment. I look forward to working with you and the Task Force Members on these important issues.

RESPONSE OF FORREST CEEL
IBEW LOCAL 2150

The funding of the programs is where the problems reside regarding any future success of the programs. It not only the amount, but the 'security' of the funding. The funding, whether $100.00 per year or $100,000,000.00 must be secure from being diverted to unintended purposes. It is understood that the Governor and Legislature have been confronted with unprecedented budget problems. So what's been done is done.

But I would like to suggest that the task force explore how funding of Demand Side Management and Low Income programs were funded, administered, and the methods of oversight during the 1980's and 90's through the Public Service Commission. There may not be the answer there, but a review of that time period might lead us to addressing funding ideas for low income, DSM, and renewables going forward.

Thank you,

Forrest Ceel
Task Force Member

RESPONSE OF DONALD RECK
XCEL ENERGY

Northern States Power Company - Wisconsin Energy Efficiency Issue Paper

Introduction

Northern States Power Company, a Wisconsin corporation d/b/a Xcel Energy (NSPW), has a long history of strongly supporting energy efficiency. By the year 2000, when the responsibility for providing energy efficiency programs was transferred to the Department of Administration (DOA) via Act 9, NSPW's customers had saved over 500,000 MWh and approximately 13 million therms by participating in NSPW's energy efficiency programs. With the advent of "public benefits," the roles of utilities, the PSCW, and the DOA in offering energy efficiency programs and services changed dramatically. NSPW continues to support energy efficiency programs being offered through the existing public benefits program. However, there are opportunities to improve upon the success of the existing program and the roles and responsibilities of the various organizations should be re-examined.

Suggested Improvements and Role/Responsibility Changes

1. While we understood the need to address the current state fiscal crisis, on a going forward basis, the funds collected for public benefits should be placed in a segregated account and should not be used for purposes other than energy conservation and low income energy assistance.
2. Current laws governing public benefits should be streamlined to allow the DOA more flexibility in administering the programs, including, but not limited to, the elimination of the non-profit administrator requirement.
3. The current public benefits law and statutory formula is very detailed and complex. The law and the formula should be significantly simplified. The policy intent of having a public benefits fund should remain in statute, with the details of the fund outlined in administrative rule.
4. Energy efficiency policies should be applied uniformly across the state. The funding amounts and eligibility for public benefits programs should apply to customers of investor owned utilities, cooperatives and municipal utilities alike.
5. Wis. Stats. 1.12(4) (the "priorities law") should be modified to recognize the fact that utilities are no longer directly responsible for achieving energy conservation and efficiency. Where appropriate, the DOA should be responsible for meeting measurable goals and be held accountable for achieving goals and reporting results.
6. Utilities should be required to clearly identify the total amount of charges collected for public benefits programs on customers' bills.
7. The definition of public benefits should be limited to energy efficiency (conservation) and customer owned renewable generation. Uncollectibles and arrearages of all customer classes are the responsibility of the utility and should be addressed by utilities in their rate cases. Customer payment issues will not be completely resolved regardless of the amount of energy efficiency activity.

8. The utilities' current relationships with their customers should be fully utilized to maximize the potential for energy efficiency savings in the state, and funding for these activities should remain with the utilities. Since customers continue to rely on utilities as their energy experts, utilities cannot divorce themselves from their role in encouraging conservation and load management.
9. State building codes should be reviewed with the goal of increasing the incorporation of energy efficiency design and technology in building practices.

Future Consideration

If it is decided that more significant modifications to the current public benefits model are desirable, NSPW suggests the following framework for discussion:

- The DOA should retain the responsibility for providing energy assistance payments, weatherization services and conservation services to low income households.
- The DOA should continue to provide energy efficiency education and services to the "mass markets" including residential and small commercial and industrial customers. This will provide economies of scale and synergies in statewide advertising and reduce confusion in "border" areas of utilities.
- The responsibility for large commercial and industrial energy efficiency programs could be returned to the utilities. Utilities have field staff that work closely with this customer class, have longstanding relationships with their customers and thus understand their customer specific processes and business needs.

In addressing the future of energy efficiency in this state, NSPW believes it is important to distinguish between the promotion of energy efficiency as a public policy and its promotion as a means of deferring or delaying utility acquisition of supply-side resources. If the primary objective is public policy, then the evaluation criteria should not focus necessarily on kWh and therms saved, but rather on factors such as the percentage increase in efficient motors sales, furnace sales, etc. However, if the objective is the pursuit of energy efficiency as a means of resource acquisition, then quantitative reporting of kWh and therms may be appropriate. In either case, spending guidelines are necessary. However, measurement and evaluation of numeric goals should not become overly costly or burdensome. In addition, the priorities law must be synchronized with the reason for pursuing energy efficiency (public policy or resource acquisition) and the entity(s) responsible for pursuing it.

Conclusion

The effort to address the future of energy efficiency in Wisconsin should focus on improving the current public benefits model. If changes are to be made, mass market and low income customers may be better served by a continued statewide effort, with utilities concentrating on the large commercial and industrial market. Either way, funds collected for energy efficiency should be used for their intended purpose; there should be statewide uniformity in funding; the funding of energy efficiency services should be transparent on the customers' bills; spending guidelines and appropriate performance metrics need to be determined; as well as the "priorities law" should be modified to reflect the change in responsibility for offering the energy efficiency programs.

RESPONSE OF DONALD RECK
XCEL ENERGY

Northern States Power Company - Wisconsin Renewable-Based Generation Issue Paper

Introduction

Northern States Power Company, a Wisconsin corporation d/b/a Xcel Energy (NSPW), strongly supports the use of renewable-based generation as a part of a balanced electric supply portfolio, and has a long history of utilizing renewable-based generation to meet our electric customers energy needs. In fact, NSPW currently owns and operates more than 300 MW of renewable-based generation, including approximately 250 MW of hydropower and 55 MW of biomass generation. Under the existing Wisconsin Renewable Portfolio Standard (Wis. Stats. 196.378), NSPW has documented it can satisfy more than ten percent of its peak summer demand with renewable-based generation located in Wisconsin. The development and maintenance of these renewable-based generation facilities has been accomplished without the use of government mandates, production tax credits or any other subsidies, i.e., the investments were made because they made economic sense for the company and its customers, and helped diversify the company's generation portfolio.

In addition, because NSPW is part of the integrated Xcel Energy north system, our customers also receive the benefits of wind, hydropower, and biomass generation owned or purchased by Northern States Power Company-Minnesota from facilities located in Minnesota and other regions of the upper Midwest. Currently, renewable facilities provide more than 13 percent of the electric energy consumed by customers in the Xcel Energy north system. Because more than 80 percent of the energy consumed by NSPW customers is provided by generating facilities located outside of Wisconsin, our customers are currently paying for, and receiving the benefits of renewable-based electricity produced by these facilities.

Future Considerations

NSPW believes any future policy recommendations for renewable-based generation should consider the efforts made to date by utilities, and the incremental costs and benefits to customers and utilities. Additionally, NSPW does not believe that state policies on renewable energy must include additional mandates for renewable-based generation. However, if policies supporting additional mandates are recommended, NSPW believes the following principles should be followed:

- Renewable-based policies should be applicable to all utilities, including municipal utilities and cooperatives. In addition, all state utility customers should be required to bear a portion of the costs of any state renewables policy.
- All costs, e.g., generation, transmission, delivery, and ancillary services, related to the implementation of renewable-based policies should be recoverable in utility rates.

- Renewable-based policies should be achievable in terms of timing, quantity, and technology. Poorly designed polices could result in the utilities and their customers having to compete in a bidding war for limited renewable output.
- Any policy mandating a renewable portfolio standard (RPS) should be consistent or reconciled with any subsequent national RPS so as not to put the state at an economic disadvantage.
- The definition of renewables should be broad enough to include all types and vintages of renewable generation. Utilities and their customers should not be penalized for early adoption or purchase of renewable-based generation.
- Renewable-based generation, regardless of its geographic location, should qualify for compliance with any state renewable policy. For example, the upper Midwest is a regional electric energy market, and any renewable-based generation located in that market should qualify for satisfying a renewable policy.
- Successful implementation of renewable-based policies will be influenced by a number of variables including: 1) land use, environmental, and local control; 2) transmission availability, system operation, and new construction; 3) dispatchability and capacity characteristics of the generation technology; and 4) ancillary services necessary to support the renewable-based generation. These issues should be carefully analyzed before new policies are implemented. Methods to address some of these issues may include the development of a carefully designed longer range planning process and assessing renewables in MW versus MWh.
- The potential for developing a hybrid of mandates and voluntary participation in the purchase of renewable-based generation should be investigated. Requiring all utilities in the state to implement a green pricing program with a voluntary participation goal of 2 to 5 percent of retail customers or energy consumption might be a workable solution to increasing renewable generation in the state.
- Utilities should not be the mechanism to collect additional fees for implementing other renewable policies such as research and development of new technologies. These efforts are better promoted by using industry-supported organizations (e.g., Electric Power Research Institute or the Edison Electric Institute) or through various government departments and agencies.

Conclusion

NSPW has a well-documented history of implementing renewable-based generation to meet our customers' energy needs. These generation facilities were developed voluntarily when the investments were beneficial to both our customers and the company. Based on this history, NSPW does not believe there is a need for additional statewide mandates to promote the development of renewable-based generation. However, if policies are proposed that recommend mandates for additional renewable-based generation, NSPW believes these policies should be based on the principles highlighted above.