



Modernizing the utility regulatory framework: What's right for Minnesota

Presentation to the Minnesota Legislative Energy Commission
August 14, 2014

About the Citizens League

- **Multi-partisan, multi-issue** nonprofit for over 60 years.
- **Vision** is to create the common ground where “We the People” can achieve the common good.
- **Civic Policy Making:** We believe policy happens everywhere.

Electrical Energy Project Timeline

- **Phase 1:** Defining outcomes of an ideal electrical energy system. *(2010 – 2012)*
 - Deliverable: Agreement on vision and outcome definitions.
- **Phase 2:** Policy framework to optimize system-wide energy efficiency. *(2012 – 2014)*
 - Deliverable: Recommendations to improve efficiency.
- **Phase 3:** Developing & advancing a new regulatory model for Minnesota. *(2014 – 2015)*
 - Deliverable: New regulatory framework and roadmap for MN.

Phase 1: Outcomes of Ideal Electric System:

Affordability

Sustainability

Reliability / Quality

Safety and Security

Self-Reliance

Efficiency

Phase 2: Focus on Efficiency

Center for Energy and
Environment

City of Saint Paul

Cummins

District Energy

Eutectics LLC

Fresh Energy

Great Plains Institute

Izaak Walton League

MN Chamber of Commerce

MN Department of Commerce,
Division of Energy Resources

MN Municipal Utilities

MN Pollution Control Agency

Minnesota Power

MN Public Utilities Commission

MN Rural Electric Association

Ratepayers (households & business)

Sierra Club

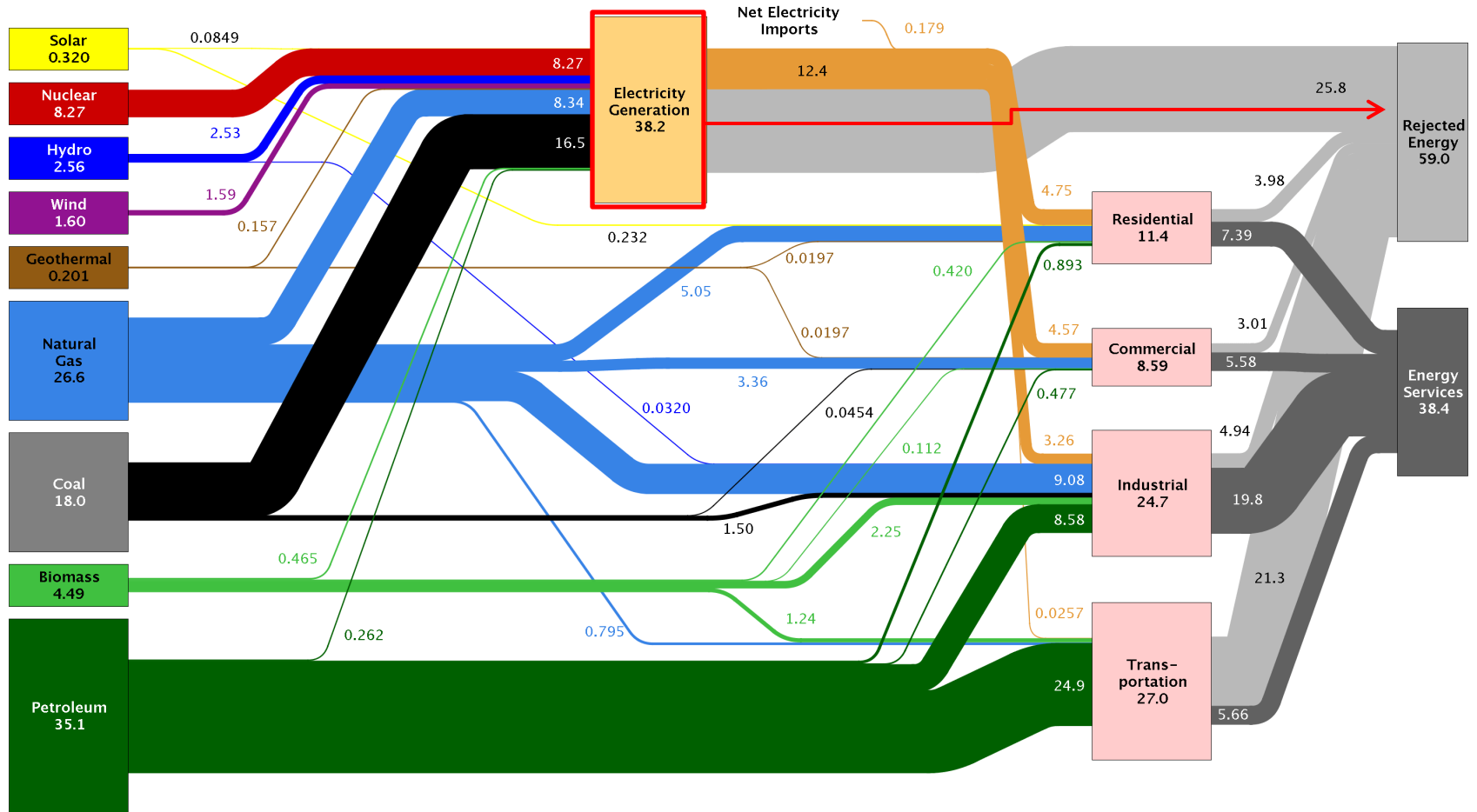
University of Minnesota

Xcel Energy

Efficiency is a good for everyone.

Our system is estimated to be 60%+ inefficient

Estimated U.S. Energy Use in 2013: ~97.4 Quads



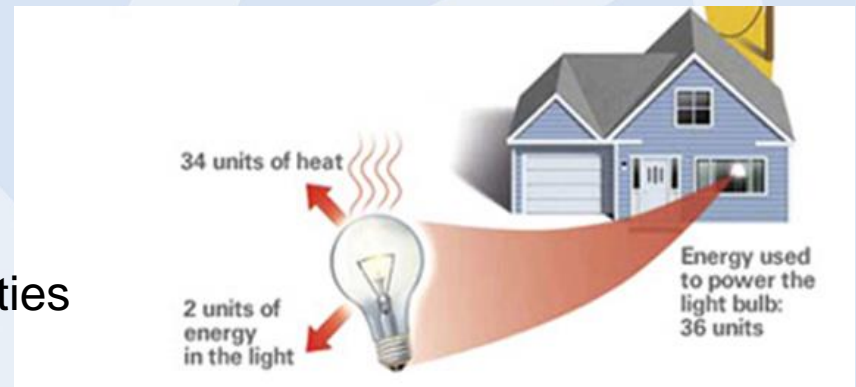
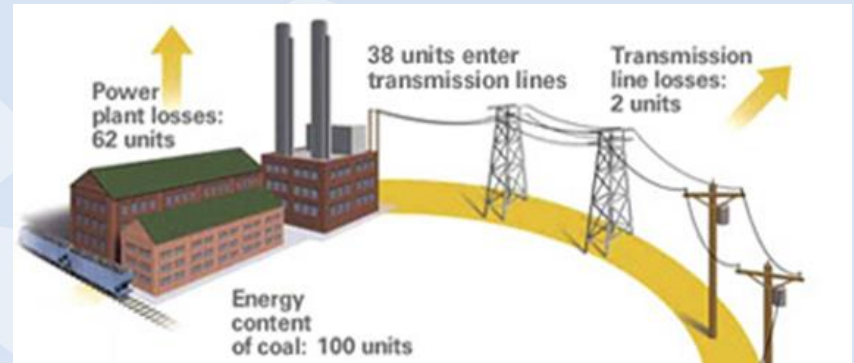
Policy is not producing desired outcomes

Utilities

- Regulated, revenue requirement based on cost-of-service
- Rewarded for selling more kWh

Customers

- Choice in consumption & efficiency activities
- Direct benefits to electric bill
- Additional support through utility-mandated CIP



Current Regulatory Model

Revenue Requirement: the total amount of money a utility must collect from customers to pay all costs including a reasonable return on investment

$$RR = (\text{Rate Base Investment}) \times (\text{Rate of Return}) + \text{Operating Expenses}$$

$$\text{Customer Rate} = RR / \text{Volume of Energy Sales}$$

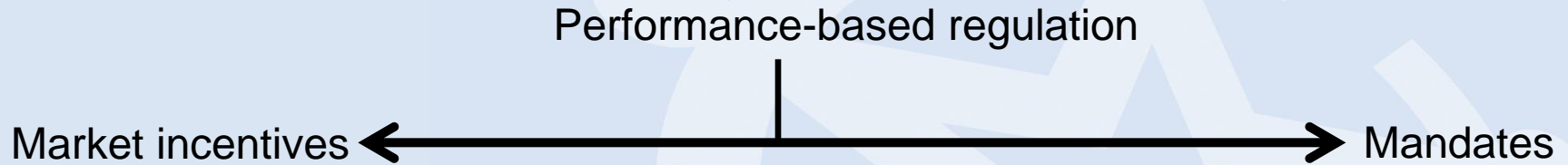
Utility Financial Dilemma:

- 1. To increase revenue, must increase the “rate base” (utility capital assets).*
- 2. Needs to maintain pre-determined volume of energy sales after rates are established.*



Investing in energy efficiency does not provide same ROI to utilities as investments in other capital assets.

A Solution For Minnesota



Evolve utility regulation by aligning financial incentives to optimize system-wide energy efficiency.

Phase 2 Recommendation:

Minnesota should transition to an electrical regulatory framework centered on rewarding utilities for achieving the efficient delivery of reliable, affordable and clean electricity.

Financial incentives for:

- Overall system efficiency
- Consistent control of rates and cost to customers
- Total environmental impact
- Customer-level reliability and quality of service
- Individual customer-level efficiency and reduced overall demand

Phase 2 Recommendation:

Transition to a performance-based system will be best achieved:

- by a transparent process that **maximizes public input and stakeholder engagement**
- methodically and conservatively, with a stepwise approach that **minimizes risk to Minnesota's electrical energy system, to ratepayers, and to the environment.**

Civic Guidelines

- 1. Defining a problem:** People who are impacted by a problem will help define the problem in keeping with our values.
- 2. Demonstrating transparency and good governance:** Leaders will establish transparent processes that expect all participants to engage in decision and policy making.
- 3. Contributing resources:** All participants will help to identify and contribute resources to address the problem.
- 4. Sustaining solutions:** All participants will help to advance and sustain recommended solutions in their institutions.

Phase 3: Scale up to Maximize Impact

1. Explore strategic partnerships (Great Plains Institute & E21 Initiative).
2. Convene stakeholders and partners to develop framework and initial roadmap.
 - Industry experts
 - Non-industry stakeholders
 - Consumers/ratepayers
3. Advance recommendations.



**GREAT PLAINS
INSTITUTE**

Better Energy. Better World.



Questions?