

# **Lessons Learned Coordinating Utility Demand Reduction and Statewide Public Benefit Program Efforts**

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## **ABSTRACT**

In 2001, Wisconsin transitioned from a kaleidoscope of utility-sponsored programs to one statewide energy efficiency program. One of the primary benefits of this approach was consistency: consistent messages for customers, consistent technical and financial assistance, and consistent work with market allies across Wisconsin. But by 2005, driven by regulatory orders related to the construction of new electric generating capacity, two of the state's utilities were again required to operate programs to capture additional savings, primarily targeting demand reduction measures.

Having individual utility programs operate side-by-side with a statewide program effort presented many opportunities and challenges. One very positive aspect of the 2005 utility efforts was the opportunity for increased investment in targeted demand-reduction programs, helping to trim Wisconsin's growth in demand and delay future generation or transmission. The challenge associated with the new utility efforts was how to achieve these goals through initiatives compatible with the statewide program.

As the implementer of the state's public benefits program Wisconsin Energy Conservation Corporation (WECC) was faced with the challenge to try and maintain the statewide effort's momentum, and work with utilities to assist with their regulated demand saving goals. This paper outlines some of the challenges and benefits from working in an environment with overlapping programs, and some of the operational changes made to allow these efforts to a) meet respective goals, and b) maximize savings.

## **Background: Transitioning to Statewide and Back Again**

Like most states, Wisconsin's utility infrastructure is complex. The state is served by six large investor-owned gas and electric combination utilities, four small investor-owned utilities, 95 municipal electric utilities, and 23 rural cooperative electric utilities. The map of Wisconsin's electric service territories looks like a jigsaw puzzle which becomes even more complex when we consider natural gas territories.<sup>1</sup>

From the mid 1980s to early 2001 Wisconsin's investor-owned utilities and large municipal electric utilities developed and implemented autonomous energy efficiency and load management programs amid this level of complexity, under the guidance of the Public Service Commission of Wisconsin (PSCW). While there was some informal coordination between utilities in terms of technologies targeted, each utility developed and fielded its own offerings, typically throughout its service territory. In some of the state's metropolitan areas it was not unusual to see promotions for energy efficiency offerings from two or even three utilities in a

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<sup>1</sup> All six large investor-owned utilities provide gas service to some customers who purchase their electricity from another utility company (e.g. Wisconsin Public Service serves electricity to a customer, and We Energies provide natural gas service). Therefore the customer may be eligible for an electric offering from WPS, but does not qualify for any gas promotions, thereby creating potential confusion that the statewide effort attempts to address

local newspaper. Utility spending on demand-side management programs peaked in 1993 at approximately \$82 million. These utility-specific efforts were fully integrated into the PSCW's "Advance Plan" integrated resource planning process through 1997.

Discussions about electric utility deregulation in Wisconsin, though, led to a different vision for energy efficiency programs in the new millennium. As part of the state's exploration of deregulation in the late 1990s, stakeholder groups began to talk about the advantages of one statewide program delivering energy efficiency that would replace individual utility programs, including a statewide approach to low income energy services. In 1999 the various stakeholders—utilities, consumer advocates, and policy makers—reached agreement and developed legislation that transferred responsibility for energy efficiency, renewable energy and low income energy services from utilities to the state. Funding for the statewide program would continue to come from utility ratepayers through charges embedded in electric and natural gas rates as well as a new system benefit fee for electric customers. Municipal and rural cooperative utilities were also required (for the first time) to fund and administer energy efficiency and low income energy programs. The provisions were passed into law as part of a state budget bill, creating Focus on Energy, Wisconsin's statewide energy efficiency and renewable energy program. The legislation assigned program oversight to the State's Energy Bureau, which is located in the Department of Administration (DOA).<sup>2</sup>

The DOA sought subcontractors to administer and implement the program and, beginning in 2001, Focus on Energy was operational. Utility programs were phased out over a multi-year transition while Focus on Energy's programs gained momentum. Focus on Energy was intended to promote energy efficiency and customer-sited renewable energy to all customer sectors and, according to the plan, Focus on Energy would be fully funded at \$62 million annually beginning in the 2004-05 fiscal year.

While Wisconsin policy makers institutionalized public benefits in the state, they did not couple this with electric deregulation; Wisconsin's utilities remain regulated. The tenor of that regulation was, though, in flux. One of the other important changes during the time Focus on Energy was formed was a revision to the Wisconsin's integrated resource planning efforts. In 1997 the PSCW replaced its "Advance Plan" long range integrated resource planning process with a more simplified, shorter-term (7 year) planning process termed the Strategic Energy Assessment, performed by PSCW staff rather than utility personnel. The Advance Plan was a formal planning process where efficiency was factored into a 20 year planning horizon for each utility. The Strategic Energy Assessment did not consider efficiency as a formal resource in the same manner and, with responsibility for efficiency shifting from utilities to Focus on Energy, the process lacked utility-specific data on efficiency gains.

In the initial years of Focus on Energy the new structure created both policy-level and operational challenges. On the policy level there was no clear protocol for integrating Focus on Energy's energy and demand savings—or even updated estimates of demand-side potential—into the PSCW's Strategic Energy Assessment. This meant efficiency and renewable energy had a diminished role in the first Strategic Energy Assessment report. Operationally Focus on Energy staff needed to build good working relations with utility personnel who were historically the prevailing energy efficiency resource for most Wisconsin customers. Focus on Energy's

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<sup>2</sup> Stakeholders had a variety of views about which state agency should oversee the program. While some argued for the PSCW, others advocated for DOA and even the Department of Commerce. DOA emerged as a strong candidate after the agency successfully managed a pilot version of the statewide program in one area of the state between 1998 and 2001.

residential program staff worked closely with utilities to ensure utility call centers were well-informed about Focus on Energy's offerings and ready to refer customers to this new resource. Similarly, Focus on Energy's business program staff collaborated with utility personnel to encourage two-way communications between utility field staff and Focus' field staff regarding commercial, agricultural, institutional and industrial offerings.

While the operational challenges consumed considerable resources in those early years, it would be the planning issues that had a longer term impact for all stakeholders.

### **The Unexpected: Funding Diversions and Such**

Several inter-related events complicated Focus on Energy's services beginning in 2002. These events contributed in part to the rationale for subsequent utility-based demand saving efforts.

The first and most important event was the diversion of Focus on Energy funds for other state budget purposes. According to the original legislation, Wisconsin utilities collected Public Benefits dollars from customers and then sent these funds to the Department of Administration (DOA), which oversaw both Focus on Energy and the low income energy service programs. These funds became part of DOA's budget and, as a result, hit the radar of state legislators, probably for the first time. Historically utility spending on efficiency programs was reported to the Public Service Commission in various proceedings; these dollars never caught the eye of legislators because these funds were not part of the state budget. In the first years of Focus, by contrast, a growing Focus on Energy budget line at DOA, coupled with record state budget shortfalls, drew considerable attention.

While trade allies and consumer advocates worked hard to ward off funding diversions, over \$70 million in Focus on Energy funding was diverted between 2002-06, which meant that the program was never fully funded. More importantly, these diversions meant that all parties had to recognize that funding was not secure and that future budget diversions were possible, if not likely.

At the same time that funds were being diverted, Focus on Energy's goals were becoming more politicized. The original legislative directive for Focus on Energy referred to economic development, reducing energy use and improving reliability. There was no particular emphasis placed on demand over energy savings, nor an emphasis on electric versus natural gas savings. Rather, there was much talk of a 'balanced portfolio' of benefits. This meant that, from the onset, Focus on Energy staff set energy goals based on budget available and often-conflicting ideas about what constituted a balanced approach. Over time, the goal setting became even less connected to resource planning issues as policy makers recognized that Focus on Energy could be used to achieve other policy objectives.

Also complicating the picture was Focus on Energy's lack of a formal role in resource planning proceedings at the PSCW. While the legislation referenced cooperation between DOA and the PSCW, in practice Focus on Energy's results did not feed into the PSCW's Strategic Energy Assessment planning efforts. This meant that the PSCW was planning for the state's future needs without good utility-specific information about what Focus on Energy was currently achieving or, perhaps even more importantly, what Focus on Energy could achieve if fully funded.

During this timeframe the resource planning issue was becoming increasingly important driven by growth in the state's electric use and an aging transmission system. Specifically,

Wisconsin's peak electric demand is expected to grow at approximately 2.5% per year from 2004 – 2010 (PSCW). The state currently does not have enough electric generation within the state to meet the PSCW's 18% reserve margin and must rely on out of state generation to meet this reliability requirement, which is further complicated by Wisconsin's transmission system, considered only marginally adequate at this time. The PSCW recently approved construction plans for approximately \$4.3 billion of new baseload and peaking plants. The plans already approved include over 3,600 MW of new generation in Wisconsin, an increase of almost one-third of Wisconsin's capacity in just eight years (PSCW). One state transmission company has outlined a 10 Year Plan which includes \$3.4 billion in transmission construction and upgrades that includes 70 transmission projects by 2010 (ATC).

As Wisconsin utilities began applying for construction permits for new generation plants and transmission lines, the PSCW recognized the need to address Focus on Energy's role in resource planning directly. Wisconsin law requires that utilities consider energy efficiency and renewable energy before fossil-fuel generation but, in reality, Focus on Energy was not equipped to deliver information about demand savings potential on a utility-specific basis to utility and PSCW staff. Further, given the diversion of Focus funds, there was no way anyone could guarantee that Focus on Energy would deliver the efficiency needed in future budget cycles.

As a result, when the PSCW determined that additional energy efficiency ought to be part of the utilities' future resource and ordered the two utilities involved to secure additional energy efficiency. The PSCW ordered We Energies to secure 55 MW via energy efficiency and load management programs while Wisconsin Public Service was ordered to secure 32 MW.

The PSCW encouraged both utilities to collaborate with Focus on Energy to minimize potential customer confusion. By January 2006 Wisconsin's statewide energy efficiency program with broader saving goals was operating amid two major utility initiatives aimed at securing electric demand savings.

## **Utility Programs and Focus Programs: Current Realities**

When the PSCW ordered We Energies and Wisconsin Public Service to achieve demand savings as a condition of their generation plans, both utilities had to make choices about the most effective way to meet Commission orders. One major consideration was how the utility would interact with Focus on Energy which was already offering efficiency services to We Energies and Wisconsin Public Service customers. This section discusses issues associated with those decisions.

As noted above, over its first few years of operation Focus on Energy's goals had evolved. There was some concern that Focus' goals were more based on "political" considerations—varying from issues of customer equity to economic development considerations—rather than goals that addressed the state's projected energy needs.

At the same time, though, there were some very positive aspects of the statewide program for utilities to consider. Focus on Energy had existing infrastructure and a level of technical expertise on efficiency issues that, by 2003, sometimes exceeded internal capabilities at most of the state's utilities. Focus on Energy provided cost efficiencies since the program operated across the state rather than incurring costs associated with similar programs operating in multiple markets. This is probably most true in the residential markets where programs rely on market channels (e.g. appliance retailers, heating contractors, remodeling contractors, etc.) to help deliver programs.

Focus on Energy had growing brand awareness—especially for its ENERGY STAR programs. Utility staff had some experience working on the ground with various Focus on Energy initiatives. Importantly, Focus on Energy had secured sizable savings across its residential, business and renewable program efforts as noted in Table 1.

**Table 1. Focus on Energy, All Programs: Tracked Energy Impacts Program to Date (June 1, 2001–December 31, 2005)**

|                          | Annual kWh Saved   |                    |                    | kW Reduction   |                |               | Annual Therms Saved |                   |                   |
|--------------------------|--------------------|--------------------|--------------------|----------------|----------------|---------------|---------------------|-------------------|-------------------|
|                          | Gross              | Verified Gross     | Verified Net       | Gross          | Verified Gross | Verified Net  | Gross               | Verified Gross    | Verified Net      |
| <b>Total</b>             | <b>923,812,054</b> | <b>811,893,599</b> | <b>559,406,891</b> | <b>159,084</b> | <b>140,284</b> | <b>95,406</b> | <b>43,004,810</b>   | <b>40,473,540</b> | <b>27,963,876</b> |
| Business Programs        | 518,108,249        | 460,926,485        | 244,789,338        | 98,695         | 83,966         | 44,551        | 33,305,157          | 31,194,487        | 20,127,269        |
| Residential Programs     | 377,498,892        | 323,031,012        | 306,568,057        | 55,716         | 51,853         | 49,041        | 7,633,944           | 7,583,051         | 7,362,357         |
| Renewable Energy Program | 28,204,914         | 27,936,103         | 8,049,496          | 4,674          | 4,465          | 1,814         | 2,065,709           | 1,696,001         | 474,251           |

Source: Focus on Energy Public Benefits Evaluation Team Tracking Research, 2001–2005

By 2004 Focus on Energy was fully operational across the state, and We Energies and Wisconsin Public Service had to decide *how* to work with Focus on Energy. That said, there were multiple options to consider. The remainder of this section discusses some of the specific collaborative approaches each utility pursued, because each approach has its own benefits and challenges.

### **Option A: Offering Services in Markets Focus Does Not Serve**

When the PSCW initially issued the first MW order to We Energies there was a sense that the utility could target demand savings opportunities that Focus on Energy was not currently pursuing. There was some logic for this approach; Focus was facing a reduced budget so the program was likely not capturing all cost-effective MW savings available. Also, given the emphasis on a more “balanced portfolio” of energy and demand savings, in reality, there were opportunities that deliver good demand savings where Focus on Energy was not active.

A good example of this kind of market is the residential appliance turn in program—an effort to collect old working refrigerators, freezers, room air conditioners and dehumidifiers. Focus on Energy offered an appliance pick up program during its initial years but had to eliminate the service in 2004 due to budget cuts. Past evaluation efforts indicated that the program can deliver cost effective energy and demand savings—exactly what utilities need under their PSCW orders. Too, this program tends to be very popular with consumers, which has added appeal for the utilities.

Wisconsin Public Service decided to include an appliance turn in program as part of their 32 MW order. The program is implemented by Focus on Energy staff, which means that the effort will utilize Focus’ retailer network. In addition, the Focus on Energy call center will refer customers to this service but the primary marketing will occur via Wisconsin Public Service bill stuffers, which ought to reduce queries from ineligible customers. Still, despite the limited marketing, we anticipate some customer and appliance retailer confusion over this program. The biggest challenge is likely to come from the turn in events, where retailers will need to carefully

screen customers for eligibility; this gets complicated since a number of the larger cities in Wisconsin Public Service's territory border other utility territories.

That said, there are no substantial challenges associated with the savings generated from this program. Insofar as only Wisconsin Public Service is sponsoring a turn in program, the utility receives all savings associated with the program. And, similarly, the utility pays for the incremental cost of Focus on Energy staff delivering this service (including time spent training participating retailers). So the math is relatively simple and, from an operational perspective, this kind of effort is probably most optimal. Unfortunately, there are few markets like this with cost-effective demand savings to fulfill the utility orders. As a result, utilities had to pursue other strategies.

### **Option B: Providing a New Service in Markets that Focus on Energy Also Serves**

The second most straightforward approach is where the utility sponsors a measure/service not included in Focus on Energy's offerings within a particular market. A good example is Wisconsin Public Service's promotion for early replacement of very inefficient central air conditioning units. Focus on Energy has an HVAC program that includes incentives for central air conditioners but there is no initiative targeting *early* replacement. The Wisconsin Public Service program works with the HVAC contractor network— assembled by Focus on Energy to promote efficient HVAC equipment statewide at the time of replacement—to identify households with working but highly inefficient units. The utility receives all the savings associated with these early replacements and pays for the incremental costs associated with running this program through Focus on Energy.

In this instance the Wisconsin Public Service program leverages existing Focus on Energy program activities. More, Focus staff believe that it is essential that Wisconsin Public Service' early replacement program is operated in conjunction with Focus' existing offering, which provides rebates for purchases at the time of normal replacement. This coordination better ensures that participating HVAC contractors can access rewards for failed equipment as well as the rewards for early replacement—thereby removing some of the incentive to “game” the system.

This approach has more challenges than the first, because program efforts are intertwined. Communications with HVAC providers typically cover both initiatives, which means staff need to develop reasonable means to allocate ongoing costs. Still, this approach effectively leverages Focus on Energy's multi-year investment in developing the HVAC network, thus providing Wisconsin Public Service with a cost effective platform to quickly launch its early replacement initiative. While there may be some controversy of precise cost allocations, allocating savings is somewhat more straightforward insofar as each program offers different measures.

### **Option C: Sharing Costs and Savings with Focus on Energy**

Rather than targeting different markets or technologies, some utilities chose to mirror the Focus offer, essentially splitting the incentive costs and the savings with Focus on Energy. Splits are based on the proportion of costs incurred by each entity—so that a utility contributing 50% of the program costs would get 50% of the savings. This approach has been applied widely with

both Wisconsin Public Service and We Energies to prescriptive incentives in the non-residential sectors.

We Energies pioneered this approach where each party contributes to staffing and incentives and savings are allocated based on funding provided. The advantage to this approach is a consistent message to customers and the high level of coordination. More, insofar as it increases the “boots on the ground” encouraging efficiency, the approach can effectively increase total savings achieved.

This high level of coordination also requires coordinated decision-making, regarding both technologies and incentive levels. This has been somewhat challenging insofar as utilities’ goals are clearly focused on MW savings whereas Focus on Energy seeks a balance of energy, demand and natural gas savings. In order for Focus on Energy and We Energies to agree on lighting incentives, as an example, the two parties had to find incentives that met cost-benefit tests for both of them. This explains, at least in part, why this approach has been used most often in non-residential markets: there the demand savings are more consistently coincident with energy savings than in the residential sector.

On an operational level, splitting the savings caused some consternation for both evaluators and implementers. The evaluators wanted to ensure that databases would track instances where savings had been split—so they could review whole projects even if some of the savings were credited to Focus on Energy and another portion to the utility.<sup>3</sup> And the field staff involved sometimes struggled to understand the attribution protocol—that credit is based on a set formula rather than which program “sold” the project to the customer.

While Wisconsin Public Service applies the formula split to all prescriptive and custom incentives, We Energies is applying a slightly different approach to custom incentives for large customers. In these instances We Energies and Focus on Energy negotiate the split on a case-by-case basis. A typical scenario; Focus on Energy has worked with a customer in the past and identified an efficiency opportunity but the customer was unwilling to install based on the available Focus incentive. If the project has substantial MW savings, We Energies offers a higher incentive, which could persuade the customer to implement. Then, Focus and We Energies staff discuss the level of past Focus involvement and the amount of the We Energies incentive to determine a fair allocation of the savings.

#### **Option D: Operating in Parallel to Focus on Energy**

Another option explored in Wisconsin is to have both Focus on Energy and a utility offer incentives in the same market for similar technologies via different incentive strategies and field staff. The best example of this occurred in the early months of the We Energies program where We Energies offered custom incentives to their large commercial and industrial customers and these same customers also had access to Focus on Energy’s custom incentives.

At the onset, both parties were most concerned about the potential for customers to “double-dip” and take incentives from both programs so both Focus on Energy and We Energies made it clear to customers and trade allies that customers could not access both programs for the

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<sup>3</sup> To facilitate evaluation and data tracking efforts, the split incentive records include a field with a split measure identification code, so that the two split measures can be matched up again later if necessary for evaluation purposes.

same project. Staff assumed that customers would either work with We Energies or Focus, depending on past relationships, perhaps. We were surprised, then, to discover that clever trade allies were encouraging customers to approach both Focus and We Energies with the same opportunity and to push the two programs to compete for the opportunity to provide incentives to the customer's project. Once the program managers at Focus and We Energies recognized what was happening the programs began to work more closely and to standardize their offers so that these competitions would be prevented going forward.

## **Lessons Learned from Current Realities**

In 2002 Focus on Energy was the primary driver of energy efficiency in Wisconsin but by 2005 there were multiple drivers. The benefit was additional funding available to secure more efficiency and demand savings in Wisconsin. This section explores some of the lessons learned from our experiences with overlapping programs.

### **Lesson: Goals Matter—A Lot**

In retrospect, greater initial clarity about goals would have made the issues of overlap much easier, especially for Focus on Energy staff. A utility ordered to achieve demand savings has a very specific orientation. When negotiating these kinds of overlapping programs it is critical that all parties are as clear as possible about their goals. This has been a particular challenge for the Focus on Energy staff insofar as Focus goals have been somewhat broad and open to change (e.g., Focus has no definitive policy on the balance between gas and electric or even energy and demand savings achieved). By contrast, the utilities have tended to have much more specific goals.

In addition to identifying the goals, of course, there is a need for all parties to understand that the other entity might have goals that vary from your own but these are still legitimate goals. This is no small challenge. The Focus on Energy team is staffed with a large number of individuals who believe deeply in energy efficiency and renewable energy and these are people who have poured their souls into a particular approach to achieving those ends.

One of our key lessons learned, then, is that it is vital to ensure all parties articulate their goals up front and then, as necessary, we need to ensure that staff understand and respect the goals of other parties, even if they differ.

### **Lesson: Confusion is Real But...**

As soon as there is more than one program available to customers or to trade allies, the potential for confusion—and mixed messages—increases. Customers become frustrated when they find that the offer that they heard about is not available to them. Trade allies who welcomed the consistency of a statewide approach are sometimes frustrated that Wisconsin may be returning to an environment with multiple utility offers. More, as multiple entities field program offers it is inevitable that there will be some mixed messages.

That said, there are also cases where the potential for confusion has been greatly overstated. If 10,000 customers participate in an appliance promotion offered through fifty retailers and one customer complains that the offer was confusing, we need to tend to that



complaint but it is probably not sufficient evidence of a problem to eliminate the entire promotion.

The reality is that the confusion and inconsistency are most problematic in the residential sector because there are few, if any, opportunities to clarify the messages we deliver to this customer class. Residential customers respond to messages they hear on the radio or in bill stuffers—we typically do not have an opportunity to clarify our message with these customers in a one-on-one situation. A bright spot in Wisconsin, then, is that much of the utility efforts to date have focused on commercial and industrial customers. In these sectors, especially when dealing with large customers, it is more feasible to explain program nuances. Too, confusion over eligibility is less likely to occur because offers are more targeted.

Besides, the whole world is a dynamic and confusing place. Banks change their interest rates, retailers run limited-time sales and, accordingly, our efficiency offers are dynamic as well. Obviously program implementers should collaborate to reduce the confusion but we also need to accept that some level of complexity is inevitable.

### **Lesson: Collaboration Beats Competition**

When the PSCW ordered We Energies and Wisconsin Public Service to secure more electric efficiency, the PSCW's view was that Focus on Energy was not capturing all the cost-effective efficiency out there. Given Focus on Energy's budget cuts, that was a reasonable opinion. That said, though, there is no magic way to divide opportunities between the local utility and Focus. Both Focus and the local utility face pressure to be as cost effective as possible so both entities are likely to be drawn to the same customers and technologies.

If the programs operate autonomously this is likely to lead to direct competition—even if both are committed to cooperation. In Wisconsin we saw this in the early months of We Energies' commercial and industrial efforts where trade allies played the two programs off of each other, trying to negotiate the best possible deal for their customers.

This would suggest, then, that parallel programs are more effective when they collaborate in some manner. Certainly that is the experience in Wisconsin where collaboration has enabled some efforts to reach far more customers than might have otherwise been possible. A good example here is Wisconsin Public Services' early replacement program. Focus notified the HVAC distributors participating in Focus' Efficient Heating & Cooling Initiative about this offer as part of our planning process. And, as a result, the program launched with considerable buzz, generating far more leads in the first month than anyone expected.

### **Lesson: Targeted Savings Are Possible**

While there is no statutory or institutional means to conduct targeted area saving efforts at the present time in Wisconsin, Wisconsin Energy Conservation staff believes that targeted area efforts are important. If Focus on Energy is going to be responsive to Wisconsin's electrical needs, the program must be able to deliver targeted savings. We presume that there will be a need for savings in specific geographic areas, utility territories or possibly areas of transmission constraints, for example. While targeting savings is a shift from the statewide program's general approach, which advocates equity in terms of both geography and customer classes, it is entirely consistent with responsive energy policy. More, we believe that our current partnerships with We Energies and Wisconsin Public Service demonstrate that targeted savings are possible.

Going forward, Focus on Energy needs to be ready to work with the PSCW to plan and deliver targeted savings as necessary.

### **Lesson: Resource Acquisition Can Support Market Transformation**

More aggressive resource acquisition goals do not have to contradict or upset longer term market transformation efforts. Statewide programs oriented to creating lasting change in specific markets can and should think about how that transformation can address the larger energy challenges in the state over next 5 – 10 years. The Focus on Energy residential programs are a terrific example of how programs can yield short-term energy savings while also affecting longer term market change. One good example is the ENERGY STAR Products' CFL effort. Over the past four years this initiative has partnered with retailers to sell millions of CFLs within Wisconsin. Those sales generated immediate savings for the program and also helped to increase the market share for CFLs. More, Wisconsin's retailers are willing to stock CFLs because they have seen that their customers will purchase these products. We have clearly achieved both market transformation and resource acquisition within one integrated program design.

### **Lesson: Allocating the Savings Is Art, Not Science**

As noted above, the savings allocation for residential efforts has been relatively straightforward. When it comes to the non-residential sectors, though, allocating savings is far more complicated, especially where Focus and utility efforts overlap. Several specific examples help to illustrate the range of strategies available.

We Energies and Focus on Energy split prescriptive incentives in half, with each entity taking 50% of the savings and contributing 50% of the cost. That means that both entities record the measure in their data systems and there is a notation indicating that this is a split measure. In some cases We Energies has chosen to offer a "bonus" incentive on certain technologies—typically in the form of a limited-term coupon that increases the incentive level. In these cases We Energies pays the entire cost of the bonus and the savings and base incentive are still split 50/50. And, as noted above, the split on custom incentives is negotiated on a case-by-case basis.

The Wisconsin Public Service approach to commercial and industrial incentives is slightly different. In this case Focus looked at historic spending levels to determine a baseline for "typical" Focus annual expenditures in Wisconsin Public Service territory and determined the incremental increase made possible through the utility's additional activities. Since Wisconsin Public Service increases available dollars by 13%, they receive 13% of all savings that Focus achieves in their territory.

None of these methodologies is perfect and most are, at least in some cases, messy to implement. But, in the end, the savings is the whole point of these efforts so it is critical that Focus on Energy work collaboratively with utilities to develop an allocation system that is reasonably fair and accurate. Ongoing communications in this area are also essential as these systems have (and will continue to) evolve over time.

## Where We Go From Here

The lessons Focus on Energy staff have learned working with We Energies and Wisconsin Public Service are important because Wisconsin is on the verge of another major shift in energy policy. In March the state legislature passed a bill that changes Focus on Energy operations in several ways that are relevant here. First, the legislation makes Focus on Energy funding secure from future budget raids. The legislation also sets the minimum funding level at 1.2% of utility electric and gas revenues instead of a fixed annual amount—thereby guaranteeing that budgets will grow over time. These two modifications will increase Focus on Energy’s capacity to capture cost-effective energy efficiency in the state, perhaps mitigating the need for additional efforts.

The legislation also transitions oversight responsibility for Focus on Energy from DOA to the PSCW and utility involvement—which means that the same people responsible for the state’s Strategic Energy Assessment are responsible for Focus activities. This change may help to clarify Focus’ energy goals in future years. On a related note, the legislation also requires the PSCW to conduct periodic potential studies—another strategy that will help to refine Focus’ goals.

Further, the legislation states that full and secure funding for Focus on Energy fulfills Wisconsin’s Energy Priorities Law as to customer-side energy efficiency and forbids the PSCW from ordering additional efforts from utilities.

Some of the outstanding issues where Wisconsin could see efforts outside a statewide effort involve commercial and industrial customers and transmission issues. The legislation also allows utilities to retain public benefits dollars to serve their larger commercial and industrial customers, and allows large customers to conduct their own, approved energy efficiency projects rather than funding the statewide program. More, it is not clear at this time how transmission issues will fit into the legislation. It is possible that there will be some localized efficiency efforts to delay or even offset transmission needs. Still, it seems likely that Focus on Energy will face fewer issues of overlap in the future—at least from a regulatory origin.

At the same time, it is possible that there will be ongoing issues of overlap outside of regulatory proceedings. During the winter of 2005-06 several Wisconsin utilities launched special natural gas efficiency programs in response to a call from the Governor to help customers control their natural gas bills. As energy prices remain high, these kinds of voluntary initiatives are likely to continue.<sup>4</sup>

Looking forward, then, it seems reasonable to presume that the statewide program is unlikely to operate in isolation in Wisconsin. Customer service priorities, potential transmission issues and even private market initiatives will dot our landscape for years to come. There are real advantages to these multiple initiatives. More energy efficiency providers means Wisconsin can secure more savings statewide. What is important is coordination across these efforts to maximize the benefits. The challenge for those involved, then, is to be clear about objectives and ready to think creatively so that Focus on Energy can approach other providers as potential partners, rather than competitors. After all, there is no doubt that Wisconsin offers plenty of cost-effective energy savings for everyone.

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<sup>4</sup> While the new legislation states that the PSCW cannot order utilities to conduct additional efficiency programs, there is also language permitting utilities to launch voluntary programs at their own initiative. The utilities would be able to petition the PSCW for cost recovery associated with these programs.

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