



Meeting Minutes: Industrial Work Group
February 6, 2012

Moderators:

Scott Smith, Smith Management Group
Samantha Williams, Midwest Energy Efficiency Alliance

DEDI Participants:

Lee Colten
Paul Brooks

Stakeholder Participants:

Brent Powell, TVA	Dwight Stoffel, Arkema
Greg Higdon, KAM	Gretchen Gillig, PSC
David Hamilton, Kenergy	Bob Miles, KPPC
Steve Wilkins, KFTC	Paul Ackerman, Lexmark
Mike Hornung, LGE-KU	

I. Welcome, Introductions:

1. Review of Dec. 2 industrial discussions
 - State and work group are not advocating any position. Self-direct industrial programs need more understanding as we try to increase EE in Kentucky.
 - Interviews across the State have indicated that industrial EE is important in keeping business in Kentucky.
 - These sessions are one means to find a way to capitalize on existing opportunities to make EE more accessible to Kentucky's significant industrial base.
2. Opportunities to provide feedback outside group forum - contact Scott and/or Samantha by email, phone
3. Designation of group leader/reporter
 - No leader designated at this time, will address during follow up meeting

II. Roundtable Comments - Opportunities for Industrial EE in Kentucky:

1. Industrials - From an EE standpoint, where could you use the most help?
 - TVA has many EE programs
 - Problems with implementation at the industry level are: (1) limited internal resources and time prevent EE program utilization, and (2) lack of support from the top after low-hanging fruit has been implemented
 - TVA recovers its EE-related program costs through the base rate, thereby giving no indication of how much customers are actually paying for these programs
 - a. This makes it hard to justify to upper management that they are already paying for EE, and if they don't take advantage of it, then they are subsidizing somebody else's projects
 - b. Customers would benefit if the electric bill related rates to EE program costs
 - *Question from facilitators* – Would low-interest loan fund or grant program help in capital allocation?
 - a. Industrials believe that it would help close the gap, possibly increase the priority for EE projects by the CFO and staff
2. Utilities – What is preventing you from assisting in industrial efficiency efforts?
 - Non-Regulated Utility:
 - a. Resources and funding are common problems across service area
 - b. There is competition for capital, coupled with a lack of knowledge of benefits of EE, as well as lack of manpower to ensure projects get done
 - c. Recommendation to consider an industrial program that partners with local engineering firms where their costs are supplemented to help manage in-house EE projects, processing paperwork, implementation, etc.
 - d. *Question from facilitators* – What do you offer your industrial customers that makes those programs worthwhile?
 - Energy assessments focusing on several specific industrial processes, keyed off DOE's "Save Energy Now" program
 - These assessments are done by experts in the field, the results of which provide incentives to justify EE projects to upper management
 - Also partners with U of Alabama, Huntsville to educate industrials on EE opportunities
 - Has talked about using this approach through UK-Paducah, to offer training programs to engineering students and industrials

- Regulated Utility - Large industrial customers don't come to them for EE help, primarily because the industrials tend to rely on their own expertise to develop EE projects in-house.
 - a. At the same time, just because the industrials opt out of DSM in Kentucky, doesn't mean utility does not communicate with them – to the contrary, they have good relationships with their industrials
 - b. Their large accounts reps communicate regularly with these customers, and gather data on their EE efforts in order to plan for capacity requirements
 - c. Their industrial customers simply feel they have better access to expert resources than what the utilities can provide to them

- *Question from facilitators* – What are the main obstacles to industrial EE programs in Kentucky from a utility perspective?
 - a. Response – The biggest obstacle is that to provide these services, the industrial customer base needs to pay for it.
 - The follow up questions are:
 - i. Does the customer base want to pay for this?
 - ii. Are they demanding it from their utility?
 - iii. Conversely, are they finding other ways to pay for these measures?

- Regulated Utility – Many of the large industrials, specifically the aluminum facilitates in West KY, have all the EE staff in-house that they need.
 - Either they are doing it in-house or seek expertise from a private firm
 - Thus, they don't need, or want, the utility's help

- *Question from facilitators* – Is the size of the industrial user an indicator of receptiveness to EE programs/services?
 - a. Possibly:
 - 5MW or above customers are considered “heavy industrial users” and typically will be implementing their own EE
 - Customers less than 5MW may be more amenable to assistance from utilities/State/universities, as they may lack in-house expertise and access to funding

3. Academic Institution

- a. Agrees that major problems are a lack of in-house expertise and awareness, as well as limited capital resources
- b. Even once top level management decide to pursue EE, they still lack a fundamental understanding of how EE works
- c. They try to help industrials with education, and allocating manpower

- d. However, they do not offer low interest loans, or RLFs to close the capital gap
4. Advocates – What areas do you think we should focus on in addressing industrial EE?
- Advocates tend to take a more big-picture view of these issues:
 - a. KY has historically attracted high energy users, because of low electric rates. It's in KY's best interest to help industrials remain competitive, and thus keep them from leaving the State
 - b. KY should not be a follower, but should be taking the lead to ensure that its energy-intensive industries stick around
 - c. Up until now, EE has not been treated as resource acquisition - until we do that, it will not be treated on-par with other energy sources
 - d. Toyota's efforts to continue to innovate to increase EE at their plants demonstrates that industries can continue to discover new EE possibilities. EE with long payback periods may not get CFO support unless there are outside funding opportunities.
 - e. Believes that we should start looking harder at the main point of the ACEEE Self Direct report – establishing clear, specific, target goals to encourage industrial users to cut their bottom line
 - f. Opt-out provision in DSM statute may have been a flawed decision. Since EE achievements in any one sector benefit all other sectors, exempting industrials from DSM provisions appears to be in conflict with regulatory fairness mandate.

5. Gretchen Gillig (PSC)

*** Note - These comments are preliminary in nature and unofficial at this stage.

- Interested in the discussion thus far, but decline to respond to individual comments at this time

III. Review of ACEEE Self-Direct Report and Model States

1. Participants were asked to look at the continuum of Self Direct programs listed (pages 7, 10).
 - There are many ways that States have approached using an industrial “Cost Recovery Mechanism” (CRM) to fund industrial programs, with varying success.
 - Programs range from little oversight (essentially just an opt-out), to robust programs that require payment into a CRM pool, and reimbursement only where utilities verify implementation of cost-effective EE projects that accomplish verified energy savings.

2. General Comments:

- Advocates – Suggested the group consider Washington State’s approach through Puget Sound Energy, which combines grants with a competitive bid process (p. 14-15 of ACEEE report)
 - a. Industrial customers in WA are not allowed an opt-out, have the option either to pay directly into the CRM, or do self-direct
 - b. Self direct starts out with a non-competitive phase, during which industrial customers are guaranteed access to portion of the CRM fees
 - c. At the end of the non-competitive phase, any remaining funds are aggregated and bid out to self-direct customers – which encourages highly cost-effective projects
 - d. Main thrust - Customers lose their CRM funds if they don’t take advantage of them up-front – this helps create motivation within the corporate structure to ramp up the project process so as not to lose access to the funds

- *Facilitator Comment* – Puget Sound’s program is similar to Montana’s approach of putting CRM funds in escrow to be used for industry EE projects

- Utility Response – In the example above, who enforces this program, the utility or the regulator?
 - Utilities are not interested in beating up customers for things that are not of their accord
 - As utilities work to grow their rate base, they are trying to keep rates low to attract new customers – providing rates in a way that treats customers fairly
 - They don’t want to start penalizing customers

- *Facilitator Comment* – States with robust industrial EE programs (such as WA) are likely to also have EERS to incent enforcement on the part of the utilities. EERs in these states were either passed by the legislature, or ordered by the utility commission.

- Industrial Response –Moderate to heavy industrial users want to maintain the opt-out
 - Company can manage its own money and doesn’t want oversight.
 - They will self-fund EE projects. They are completely aware of what it costs them to use energy, and they plan accordingly
 - A DSM-type surcharge might make sense, however, for < 5MW users
 - One of their commercial clients received DSM-related \$\$ for lighting upgrades, which cut their bottom line.

- They also leased some space from a company in Boulder, CO. That company took part in Xcel Energy's DSM program offerings, which saved them money.
- However, these were all < 5MW commercial users

3. Review of Self-Direct Continuum:

- Less structured approach – Customer is allowed to opt out, does so by providing simple form letter stating that it invests in efficiency, with no additional oversight (Ex: South Carolina (Duke Energy))
 - a. *Question from Facilitator* - Are utilities interested in knowing what their industrial customers are doing regarding EE? Would there be a benefit to adding an information-sharing element to Kentucky's existing opt-out provision?
 - b. Regulated Utility Response – They already work with their large industrial accounts to understand EE efforts for capacity planning purposes. Thus, there would be no added benefit to requiring additional information-sharing
 - c. Industry Response – Their utility account rep is already aware of what the company is doing in terms of EE
- Moderate structure – *The examples below were not specifically discussed during the session, though were highlighted in the agenda*
 - a. *Montana* – High participation rate
 - 1MW or larger customers pay surcharge, which is put into individual escrow accounts
 - Can pull funds quarterly by submitting paperwork of implemented EE project, have 2 years to use funds, or put back into CRM pool
 - Little oversight (no EM&V, little paperwork required)
 - b. *Ohio (AEP)* – Self-direct customers pay surcharge, then get reimbursement for implementing projects, as well as previously implemented measures
 - Large industrials offered time-limited opt out, as long as they report they plan to meet certain energy savings on their own
 - 62% participation in self-direct, opt-out discouraged
- Highly structured – *Example below brought up briefly, but not discussed at length during the session*
 - a. *Colorado (Xcel Energy)* –

- Customer pays surcharge, self-direct EE projects are then reimbursed through a rebate (up to 50% incremental project costs).
- Requires industrial to conduct own evaluation, measurement and verification, must clear cost-effectiveness tests, oversight by utility administrator
- Do not offer credit for previously administered projects

4. Closing Comments

- Non-Regulated Utility – Sees this project as an opportunity for Kentucky to be a leader in EE
 - a. Best case scenario at the end of project is for all industrial users to know the value of EE, and have the same drive to prioritize EE as companies like Toyota
 - b. If education and awareness were emphasized for all sizes of industrials, there would be little need for utility-run programs
 - c. *Facilitator Comment* - To build credibility for EE amongst the industrials – and all customer classes - we need reliable data. Housing data in a central place, such as a clearinghouse, would make this accessible to all energy users.
- Industrial – Most businesses focus on their own bottom line, and often don't see the larger picture, that EE is offsetting the need to build more capacity (and thus those associated charges on the customer bill)
- Regulated Utility – In responding to industrial comment: Customers are paying both to ensure capacity and reliability. Unfortunately, EE cannot be considered a 1:1 replacement on the supply side with other energy sources
 - a. To ensure reliability, utilities always need to provide sufficient capacity on the grid at all times to meet the needs of their customers. This is true regardless of how much customers are conserving.
 - b. Because there is uncertainty as to how much will be used on a given day, the utility can't simply rely on EE to make up the difference when demand goes up.
- Academic Institution - Agreed with utility assertions – Understanding how demand charges work is difficult.
 - a. They are working to educate their < 5MW customers that a utility has to make sure there is capacity on the grid at all times
 - b. The up side is there is growing interest to understand energy issues

- c. < 5MW participants in the Save Energy Now program get together quarterly to share information, which has turned out to be a very open forum
- Industry Rep – Echoes sentiment of utility and academic institution re demand charges
 - a. Only way demand from industrials would decrease or stay stagnant, is if they're going out of business
 - b. Demand continues to go up so long as businesses grow
 - c. The up side is that EE is a very important aspect of business, because it helps defray increasing energy costs
 - d. Manufacturers in KY have been getting the EE message loud and clear and have been working to find ways to incorporate EE into their models

IV. Next Steps

1. Clear message from today's session - Emphasize education to build credibility for EE amongst industrial users, particularly < 5MW customers
 - Plan to focus on this issue during the in-person collaborative on March 22
2. Sam/Scott will circulate poll to schedule follow up call in mid-late February
3. Follow up call will focus on these reference materials:
 - *Kentucky's Existing Industrial Incentives*
 - a. *Possible review of proposed legislation*
 - *Texas LoanSTAR Program-Revolving Loan Fund*