

# INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

To: Chair Vega Pederson  
Members of the House Energy & Environment Committee

Date: March 19, 2015

Re: HB 2946 – Repeal of 3% Public Purpose Charge Cap for Industrial Energy Users

## Background

All electricity and natural gas customers in Oregon are subject to a 3% public purpose charge on their energy bill. The public purpose charge has been in effect since 1999. The charge applies to all residential, commercial, and industrial customers and goes primarily to fund the Energy Trust of Oregon (ETO) to pursue energy efficiency. The public purpose charge is an additional 3% charge on a customer's energy bill.

In 2007, the Oregon Legislature passed SB 838 that resulted in additional energy efficiency programs for residential and commercial customers, but not industrial customers. SB 838 allowed for additional charges, on top of the 3% public purpose charge, for residential and commercial customers to pay for these projects. The 3% public purpose charge cap was maintained for industrial customers.

In order to assure that industrial customers did not benefit from additional funds paid by residential customers, the ETO capped the amount of public purpose charge funding it can provide for conservation programs for industrial customers at the average amount it provided before SB 838 was passed. PacifiCorp's cap is 27% and PGE's cap is 18%. These limits have not been reached yet, which means the ETO is spending *less* as a percentage on industrial customers today than it did before SB 838 was passed.

*ICNU opposes HB 2946* which seeks to eliminate the 3% public purpose charge cap for industrial energy users without providing them any additional benefit.

## Impacts on Industry

- ICNU members have over 160 facilities and employ more than 170,000 employees throughout Oregon. Members represent such industries as agriculture, aeronautics, paper processing, timber and forest products, food processing, information technology, mineral development, building supplies, and heavy manufacturing.
- The proposed increases in the public purpose charge would result in significant rate increases for industrial customers who are already making large investments across the board to become more energy efficient and comply with new federal carbon standards.

- Industrial customers are already faced with increased energy costs at the federal level. According to studies done by NERA Economic Consulting, Inc. the new EPA proposal will cause a 12% to 17% average increase in electricity prices.
- Because the ETO is acquiring all cost-effective energy efficiency from large customers with its current caps in place, increasing the public purpose charge would require large customers to pay more for energy efficiency without receiving any additional benefits. This is likely to prevent these customers from pursuing incremental energy efficiency on their own.

### **Energy Efficiency Investments Are Already Being Made to Keep up With Consumer Demand and the Global Market**

- Large customers are some of the strongest proponents of energy efficiency, and back their support up with action. The ETO spent \$25 million on incentives to large customers in 2013. Because these incentives cover, at most, 50% of the project cost, large customers matched that, and likely spent more than \$25 million pursuing conservation projects in Oregon. Large customers spent nearly as much on their own energy efficiency projects as the ETO spent on all residential conservation projects in 2013.
- The \$25 million spent by large customers on energy efficiency in 2013 only covers conservation projects large customers pursued in partnership with the ETO. It does not count projects they pursued entirely on their own.

### **Industrial Investments are More Effective**

- The Energy Trust of Oregon recognizes that large customer conservation projects are, on average, 2.5 times more cost-effective than residential projects.
- “Mega-projects,” the largest projects the ETO helps incentivize, can be over three times as cost-effective as residential projects – with a levelized cost as low as 1 cent per kilowatt-hour.
- These low-cost projects not only allow the ETO to acquire the most conservation for the money spent, but may also help give it the ability to pursue harder to reach energy efficiency in emerging or underutilized markets.

### **Public Purpose Charge Funding Doesn't All Go to Energy Efficiency or Conservation**

- Industrial investments are more effective when they make direct investments in energy efficiency projects, without going through the ETO, as the entire dollar is used to fund energy efficiency projects.
  - Funds under the Oregon Public Purpose charge don't all go to further energy efficiency efforts. Currently, 56.7 percent goes directly to conservation projects (which are later matched generally \$1 for \$1 by industry). 17.1 percent goes for renewable resources, and 11.7 percent goes to weatherization for low-income households.
  - 14.5 percent of the public purpose charge dollars are spent on schools (10 percent) and low-income housing (4.5 percent) and not toward increased energy efficiency.

### **The Current System Works**

- The ETO is acquiring all cost-effective energy efficiency from all customer groups.
- Current laws give the ETO flexibility to acquire the most cost-effective energy efficiency each year.
  - CUB has complained that the current system is unfair, but ETO data shows that annual incentives to large customers fluctuate and that in many years these customers receive incentive funding significantly below the ETO's caps, despite paying the same amount each year.
  - The issue should not be about which customer group gets more or less incentive funding in any given year, but about whether the ETO has the ability to acquire all cost-effective energy efficiency. Over time, variations in annual funding levels average out.
- The ETO has a surplus of revenue stemming from robust collection in 2013 and 2014, and plans to use these surpluses to cover a portion of its 2015 budget.

### **Docket Pending at the PUC to Address the Same Issue**

- Currently, the very same issue contemplated by HB 2946 is pending before the PUC (UM 1713).

## **Conclusion**

- HB 2946 represents a simplistic understanding of how energy efficiency is funded in Oregon because it assumes that all funding for energy efficiency comes from the ETO when, in fact, the Energy Trust funds only a portion of the State's conservation.
- ICNU opposes HB 2946 because large customers already independently fund more than their share of energy efficiency – at a higher level of cost-effectiveness – than other classes of ratepayers.
- HB 2946 would divert funds already being used for energy efficiency and will reduce the funding large customers have available to pursue their own highly cost-effective projects, and therefore, diminish their ability to pursue these projects.
- Current law allows for full funding of all cost-effective energy efficiency for the foreseeable future. There is no compelling reason to change the current system.