Report 11-13
December 2011

An Evaluation

Focus on Energy

Public Service Commission

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State Auditor – Joe Chrisman

Audit Prepared by

Kate Wade, *Director and Contact Person*
Joe Fontaine
Bob Reed
Tim Reneau-Major

Report Design and Production – Susan Skowronski

CONTENTS

Appendices

Response

STATE OF WISCONSIN
Legislative Audit Bureau

22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410

www.legis.wisconsin.gov/lab

Toll-free hotline: 1-877-FRAUD-17

Joe Chrisman
State Auditor

December 7, 2011

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

At the request of the Joint Legislative Audit Committee, we have completed an evaluation of Focus on Energy, which provides energy-efficiency and renewable resource programs to utility customers statewide. Investor-owned electric and natural gas utilities, as well as municipal electric utilities and retail electric cooperatives, contributed $96.9 million in 2010 to fund Focus on Energy. Investor-owned utilities contract for the administration of Focus on Energy with the approval of the Public Service Commission (PSC).

By statute, utilities recover Focus on Energy contributions from their customers. In 2010, Focus on Energy contributions recovered from average residential customers of the largest investor-owned utilities generally ranged from $0.86 to $1.16 per month for electricity and from $0.56 to $0.69 per month for natural gas. However, payments made by non-residential customers of different utilities varied significantly. The PSC submitted a statutorily required plan in 2008 to ensure more equitable collection of funds, which has not been acted on by the Legislature.

In 2010, non-residential customers received more than $33.4 million in incentives for energy-efficient products and services, and residential customers received $16.2 million. An additional $9.0 million in incentives supported renewable energy projects. We estimate that incentives were paid to more than 78,000 unique customers in 2010, and that more than 385,000 customers benefitted from incentives paid to retailers to reduce the price of compact fluorescent light bulbs and other energy-efficient lighting products.

Analyses completed under contract with the PSC have concluded societal benefits generated by Focus on Energy are more than twice as great as the associated costs. We found that evaluators use analytical approaches that are consistent with national standards and analyses in other states, and apply relatively conservative methods to estimate the value of program benefits. Given concerns regarding Focus on Energy's cost-effectiveness and effects on customers, we include recommendations for the PSC to improve the quality of program information available to the Legislature and the public.

We appreciate the courtesy and cooperation extended to us by the PSC, utility representatives, and the private contractors involved in Focus on Energy. The PSC's response follows the appendices.

Respectfully submitted,

Joe Chrisman
State Auditor

JC/KW/ss

Report Highlights ▪

Focus on Energy is funded by utilities, administered by a private contractor, and overseen by the PSC.

Utilities recover their contributions to Focus on Energy from customers through utility rates.

Focus on Energy payments represent approximately 1.0 percent of an average residential utility bill and varied significantly for non-residential customers of different utilities.

$58.6 million was spent in 2010 to provide financial incentives for the purchase of energy-efficient and renewable energy products and services.

Contracted evaluators estimated Focus on Energy's benefits exceeded its costs by a ratio of 2.3 to 1.

Focus on Energy, Wisconsin's statewide energy-efficiency and renewable resource program, encourages utility customers to reduce fossil fuel consumption by providing incentives for customers to purchase products and services that are energy efficient or use renewable energy sources. Wisconsin's electric and natural gas utilities collectively fund Focus on Energy and recover their contributions from their customers through electricity and natural gas rates.

Because Focus on Energy funding affects rates paid by utility customers, and because Focus on Energy programs are designed to affect energy consumption statewide, concerns have been raised about the operation and cost-effectiveness of the program. Therefore, at the request of the Joint Legislative Audit Committee, we analyzed:

- the roles and responsibilities of the utilities, private contractors, and the Public Service Commission (PSC) in program administration and oversight;
- the effects of utility contributions on customers' electricity and natural gas rates;
- program revenues and expenditures, including the types and amounts of financial incentives provided by the program;
- trends in Focus on Energy participation by residential and non-residential customers; and
- existing cost-effectiveness evaluations of the program performed by outside contractors.

Program Administration and Oversight

Statutes require certain utilities to hire a private contractor to serve as the program administrator for Focus on Energy. The program administrator designs energy-savings programs that support the use of energy-efficient and renewable energy products and services. The program administrator also subcontracts with other private firms, which provide financial incentives for customers to participate in its energy-savings programs; help with customer training and education; and provide outreach and technical support to businesses developing and selling energy-efficient and renewable energy products.

To help ensure adequate program oversight, statutes require the PSC to conduct a review of Focus on Energy at least every four years and contract for independent program evaluations and financial audits of the program. The PSC also provides oversight by establishing the annual energy-savings goals to be achieved through Focus on Energy, approving the design of Focus on Energy programs, and monitoring program budgets.

In conducting our analyses of Focus on Energy, we reviewed documentation and data maintained by the utilities, private contractors, and the PSC. We also interviewed program staff, participants, and other stakeholders regarding program administration and oversight.

Focus on Energy Contributions

Statutes require investor-owned utilities to fund energy-efficiency and renewable resource programs, and municipal electric utilities and retail electric cooperatives to fund energy-efficiency programs. Although they may choose to fund their own programs, all investor-owned utilities, all municipal electric utilities, and 12 of 24 retail electric cooperatives currently contribute exclusively to Focus on Energy. Collectively, these utilities provided funding of $96.9 million for Focus on Energy in 2010.

From 2008 through 2010, at least 95.3 percent of annual contributions to Focus on Energy were made by the six largest investor-owned utilities. The residential customers of these utilities who used an average amount of electricity in 2010 paid from $0.86 to $1.16 per month for Focus on Energy. The residential customers of these utilities who used an average amount of natural gas generally paid from $0.56 to $0.69 per month. These Focus on Energy payments represented approximately 1.0 percent of residential customers’ utility bills.

Although variations in facility type and energy use limit efforts to define average energy consumption by non-residential customers, we found that the Focus on Energy payments from non-residential customers of different utilities varied significantly. In 2010, for example, non-residential customers of certain investor-owned utilities paid less than one-half as much as customers of other investor-owned utilities for using the same amount of natural gas.

In response to concerns about variation in the Focus on Energy payments by customers of different utilities, 2005 Wisconsin Act 141 froze at 2005 levels the Focus on Energy payments made by utility customers that use large amounts of energy. Subsequently, those payments have been adjusted for the lesser of inflation or increases in utility operating revenues, as required by the Act. The PSC estimated that in 2010 those provisions of Act 141 would collectively reduce the Focus on Energy payments of non-residential large energy customers at the six largest investor-owned utilities by $16.2 million and, consequently, necessitate that amount to be paid by other non-residential utility customers.

Expenditures and Participation

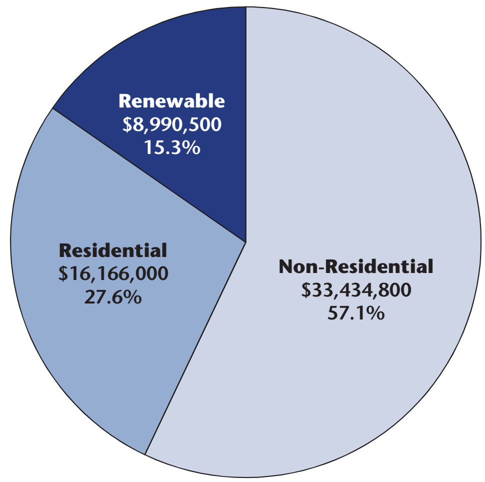
In 2010, Focus on Energy's program administrator spent $87.0 million, including $58.6 million for financial incentives that encourage customers to purchase energy-efficient and renewable energy products and services.

The majority of all 2010 energy-efficiency incentives were for non-residential customers. As shown in Figure 1, non-residential customers received more than $33.4 million in energy-efficiency incentives in 2010. Lighting products represented the largest proportion of non-residential incentive expenditures. Residential customers received energy-efficiency incentives of $16.2 million in 2010. Heating and cooling products and services, such as furnaces and central air conditioning, represented the largest proportion of residential incentive expenditures. Renewable incentives, which are provided to both residential and non-residential customers for solar, wind, and biofuel projects, totaled approximately $9.0 million in 2010.

We estimate that Focus on Energy paid financial incentives to more than 70,000 unique residential customers and 6,800 unique non-residential customers in 2010. Although we estimate that only 11.1 percent of residential participants in 2010 had received incentives in the previous two years, repeat participation was more common among non-residential customers. We also estimate that 385,626 customers benefited in 2010 from incentives paid to retailers to reduce the shelf price of energy-efficient lighting products, including 321,086 customers who purchased reduced-price compact fluorescent light bulbs.

Figure 1

Incentive Expenditures by Program Type
2010



In 2010, Focus on Energy expenditures totaling $21.4 million were directed to program delivery activities, which provide customer support and training and help customers identify, develop, and implement projects eligible for incentives. Concerns have been expressed that expenditures for program delivery activities limit Focus on Energy's effectiveness by reducing funds available for financial incentives. Although program delivery activities are designed to enhance energy savings, limited data have been collected to measure their effects.

Measuring Cost-Effectiveness

To measure overall cost-effectiveness, the PSC contracts for evaluations that compare the societal benefits of program activities to their associated costs. The PSC states that this societal approach is consistent with program goals, such as reduced energy use, reduced environmental impacts, and market development. We found this approach to be consistent with national standards for evaluating energy-savings programs and with practices in Minnesota, Iowa, and Indiana.

Focus on Energy's contracted evaluators estimated that statewide benefits of the energy savings achieved by Focus on Energy programs in 2010, including a reduced need for constructing new power plants and reduced emissions of pollutants, exceeded costs by a ratio of 2.3 to 1. While it is probable that Focus on Energy has additional effects, including on employment and business sales, the difficulty of accurately measuring such effects makes it reasonable for the PSC to limit annual estimates to include only those benefits most directly linked to program activities.

Enhancing Oversight

We found that the PSC has not fully complied with statutory requirements to report on Focus on Energy activities. To position the Legislature and the public for a more informed discussion of Focus on Energy funding levels, the PSC could use its existing reporting requirements to provide enhanced information about Focus on Energy's effects on utility customers, including payments made to fund Focus on Energy, and the cost-effectiveness of Focus on Energy and other energy-efficiency programs.

Recommendations

We recommend the PSC report to the Joint Legislative Audit Committee by July 2, 2012, on expanding the program's efforts to measure the effects of program delivery activities on Focus on Energy participation and energy savings *(p. 41)*.

Our report also includes recommendations for the PSC to enhance oversight of Focus on Energy by:

- ☑ complying with statutory requirements to report annually to the Legislature and to prepare annual statements of program costs and benefits for utility customers;
- ☑ conducting additional analyses of the program's effects among participants and non-participating utility customers;
- ☑ making information more readily available to utility customers on their payments to fund the programs; and
- ☑ including evaluation results from other utility-operated energy-efficiency and renewable resource programs in its reports to the Legislature *(p. 49)*.

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Introduction ■

Focus on Energy encourages the use of energy-efficient and renewable energy products and services.

Focus on Energy's statewide energy-efficiency and renewable resource programs are designed to help Wisconsin achieve environmentally sound and adequate supplies of energy at a reasonable cost by reducing utility customers' use of fossil fuels. To achieve those energy savings, Focus on Energy programs offer financial incentives and technical support for utility customers to purchase energy-efficient products and services that reduce their electricity and natural gas needs, and to generate energy from renewable sources such as solar and wind power. Those programs also provide outreach, training, and financial support for businesses involved in developing and selling those products and services. This advances Focus on Energy's additional statutory directives to develop energy-efficiency and renewable energy markets and help Wisconsin businesses become more competitive in those markets.

Wisconsin electric and natural gas utilities fund Focus on Energy.

Current statutory requirements for Focus on Energy were established by 2005 Wisconsin Act 141, which took effect in July 2007. Under Act 141, Focus on Energy is funded through contributions to a private, non-state account from three types of electric and natural gas utilities operating in Wisconsin: investor-owned utilities, municipal-owned electric utilities, and retail electric cooperatives. The private, non-state account was established after utility contributions in previous years were transferred from a state fund for other purposes. Act 141 also transferred state oversight of Focus on Energy from the Department of Administration to the PSC.

As required by Act 141, each investor-owned utility must spend 1.2 percent of its operating revenues to contribute to the statewide Focus on Energy program, or retain a portion of those funds to operate energy-efficiency programs for certain customers. In 2010, each of Wisconsin's 16 investor-owned utilities chose to contribute its required funds exclusively to Focus on Energy, providing more than $93.9 million in funding. Table 1 identifies each investor-owned utility and its service area. In December 2010, the Joint Committee on Finance increased investor-owned utilities' 2011 contribution requirement to $120.0 million and approved further increases for each year from 2012 through 2014. However, 2011 Wisconsin Act 32, the 2011-13 Biennial Budget Act, restored the 1.2 percent funding requirement beginning in 2012.

Table 1

Investor-Owned Electric and Natural Gas Utilities

Utility	Services	Service Area[1]
Wisconsin Electric Power Company (We Energies)[2]	Electricity, Gas	Southeast Wisconsin; Outagamie County and Surrounding Areas
Wisconsin Gas, LLC (We Energies)[2]	Gas	Various Areas Statewide
Wisconsin Power and Light (Alliant Energy)	Electricity, Gas	Central and South Central Wisconsin
Wisconsin Public Service Corporation	Electricity, Gas	Northeast and North Central Wisconsin
Northern States Power Company (Xcel Energy)	Electricity, Gas	Parts of Northwest Wisconsin; La Crosse Area
Madison Gas and Electric Company	Electricity, Gas	Madison Area; Parts of Southwest Wisconsin
Superior Water, Light and Power Co.	Electricity, Gas	Superior Area
Northwestern Wisconsin Electric Co.	Electricity	Parts of Burnett, Polk Counties
Dahlberg Light and Power Company	Electricity	Parts of Douglas, Bayfield, Washburn Counties
City Gas Company	Gas	Antigo Area
North Central Power Company, Inc.	Electricity	Parts of Sawyer, Rusk Counties
Pioneer Power and Light Company	Electricity	Parts of Marquette, Adams Counties
Consolidated Water Power Company	Electricity	Wisconsin Rapids Area
Midwest Natural Gas Incorporated	Gas	Parts of West Central Wisconsin
St. Croix Valley Natural Gas Company, Inc.	Gas	St. Croix Area
Westfield Milling and Electric Light Company	Electricity	Westfield Area

[1] Complete service area maps for both electric *(http://psc.wi.gov/utilityinfo/maps/documents/smallElectricMap2010.pdf)* and natural gas utilities *(http://psc.wi.gov/utilityinfo/maps/documents/smallGasMap09.pdf)* can be accessed at the PSC's website.

[2] Wisconsin Electric Power Company and Wisconsin Gas, LLC, are both owned by We Energies, and jointly operate under its brand. However, the PSC regulates them as separate utilities.

Municipal electric utilities and retail electric cooperatives are required under s. 196.374(7)(a)(1), Wis. Stats., to collect an annual fee equal to $8 per meter for energy-efficiency programs. These entities may use those fees to either fund their own energy-efficiency programs or contribute to Focus on Energy. In 2010, all 82 municipal electric utilities and 12 of 24 retail electric cooperatives chose to fund Focus on Energy and contributed a total of $3.0 million, as shown in Appendix 1.

Twelve retail electric cooperatives currently retain their funds to operate independent energy-efficiency programs. Investor-owned utilities have also funded and operated independent programs in addition to contributing to Focus on Energy. Appendix 2 describes the independent utility programs that operated between 2008 and 2010.

Program Administration and Oversight

Section 196.374(2)(a)1., Wis. Stats., requires investor-owned utilities to contract with a private program administrator to develop and administer Focus on Energy programs. Statutes also direct the PSC to oversee Focus on Energy and contract for independent evaluations and audits of its programs.

Investor-owned utilities contract with a private firm to administer Focus on Energy.

To execute their responsibilities for Focus on Energy, including the selection of a program administrator, Wisconsin's 16 investor-owned utilities formed the Statewide Energy Efficiency and Renewables Administration, Inc. (SEERA). From July 2007 through April 2011, SEERA contracted with the Wisconsin Energy Conservation Corporation (WECC) to serve as program administrator. In late 2010, SEERA conducted a competitive request for proposal process and selected Shaw Environmental and Infrastructure, Inc., to serve as program administrator from May 2011 through December 2014.

SEERA's contracts have required WECC and Shaw to develop energy-savings programs that employ financial incentives and support retailers and businesses in an effort to increase the use of energy-efficient and renewable energy products and services. Appendix 3 summarizes the 19 Focus on Energy programs WECC established for 2010, including separate programs targeting residential customers and non-residential customers such as agricultural producers, governments, and commercial and industrial businesses. Shaw has temporarily extended WECC's programs through 2011 while developing revised programs for 2012.

The program administrator subcontracts for the operation of Focus on Energy programs.

As required by contract with SEERA, the program administrator establishes and manages standardized administrative procedures for its programs, such as for data collection and financial management. However, the program administrator subcontracts for the operations of its programs, including the provision of incentives and business support, through performance-based contracts that require subcontractors to achieve minimum energy-savings targets. While WECC maintained those responsibilities for some programs, SEERA and the PSC require Shaw to subcontract for all programs to ensure Shaw's independence in monitoring program performance.

The Public Service Commission provides state oversight of Focus on Energy.

As required by Act 141, the PSC exercises primary responsibility for ongoing oversight of program activities. In this role, the PSC:

- sets annual goals for the amount of electricity and natural gas savings to be achieved by the program administrator;
- develops, approves, and monitors program budgets, including allocations between residential and non-residential programs;
- reviews and approves program designs developed by the program administrator;
- manages a policies and procedures manual that establishes practices for financial management, records management, customer service, and information reporting;
- verifies the appropriateness of expenditures reported by the program administrator and authorizes payments by a fiscal agent, which is contracted to collect contributions from utilities and process Focus on Energy program expenditures; and
- ensures coordination with investor-owned utilities by holding monthly meetings with SEERA representatives to consult on significant policy and budget decisions.

Act 141 also requires the PSC to review Focus on Energy programs at least once every four years and establish goals, priorities, and measurable targets for future operations. The PSC's first review was completed in 2010.

To meet other statutory requirements, the PSC contracts for the performance of two additional oversight duties. First, it contracts for the evaluation of the program's cost-effectiveness, which is defined as the achievement of measured benefits from program activities that are equal to or greater than their associated costs. Tetra Tech, Inc., the PSC's evaluation contractor through June 2011, analyzed program data collected by WECC to complete annual benefit-cost analyses. In 2010, Tetra Tech, Inc., also completed more than 85 additional evaluation reports under the terms of its contract, including analyses of energy savings. The PSC initiated a competitive selection process for a new evaluation contractor after its 2010 program review and established a contract with the Cadmus Group, Inc., to provide evaluation services through 2014.

The PSC contracts for independent performance evaluations and financial audits.

Second, the PSC has contracted with Baker Tilly Virchow Krause, LLP, to conduct annual financial audits of SEERA's Focus on Energy funds. In addition, Baker Tilly Virchow Krause, LLP, has conducted annual compliance audits of the program administrator, the program evaluator, and selected subcontractors to assess their conformity with contract requirements, program policies and procedures, and accounting standards.

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Focus on Energy Contributions ■

Statutes require investor-owned utilities to fund energy-efficiency and renewable resource programs, and municipal electric utilities and retail electric cooperatives to fund energy-efficiency programs. Although they may choose to fund their own programs, all investor-owned utilities, all municipal electric utilities, and 12 of 24 retail electric cooperatives currently contribute exclusively to Focus on Energy. Statutes require utilities to recover contributions from customers through electricity and natural gas rates. As a result, concerns have been expressed regarding the financial effects on customers. We reviewed PSC rate documents in order to estimate the 2010 Focus on Energy payments made by customers at the largest investor-owned utilities and analyze the effects of statutory requirements on those payments.

Utility Contributions

Because it may experience year-to-year revenue fluctuations, each investor-owned utility's contribution to Focus on Energy is based on a three-year historical average of its reported operating revenues. Each investor-owned utility is invoiced an amount equal to 1.2 percent of its average operating revenues, which is deposited into a private SEERA account managed by the fiscal agent. In addition, municipal electric utilities and retail electric cooperatives that choose to participate in Focus on Energy submit contributions based on their $8 per meter requirement, which the PSC monitors against estimates of the number of meters in operation. From 2008 through 2010, annual Focus on Energy funding increased from $71.2 million to $96.9 million, as shown in Table 2.

Table 2

Focus on Energy Operating Revenues

Source	2008	2009	2010	Percentage of Total 2010
Investor-Owned Utilities	$69,432,100	$84,645,000	$93,942,100	96.9%
Municipal Electric Utilities	1,404,200	1,708,400	1,822,500	1.9
Retail Electric Cooperatives	259,600	677,800	1,171,300	1.2
Other[1]	114,100	60,300	1,500	<0.1
Total	**$71,210,000**	**$87,091,500**	**$96,937,400**	**100.0%**

[1] Includes loan interest and program revenue generated from activities such as training and conference fees.

The six largest investor-owned utilities have contributed at least 95.3 percent of annual Focus on Energy funding.

As shown in Table 3, at least 95.3 percent of annual utility contributions from 2008 through 2010 were made by Wisconsin's six largest investor-owned utilities. The annual increases in program funding occurred in part because two of the largest utilities increased their contributions to Focus on Energy as they ceased operating independent energy-efficiency programs. Statutes permitted Wisconsin Electric Power Company and Wisconsin Public Service Corporation to reduce their contributions by the amount of their expenditures on other energy-efficiency programs that the PSC ordered them to operate prior to the enactment of 2005 Wisconsin Act 141. Those programs, which are described in Appendix 2, operated through 2008 and 2009, respectively.

As noted, investor-owned utilities' contribution requirement for 2011 was changed from 1.2 percent of operating revenues to a total of $120.0 million. Actual collections from investor-owned utilities will total $116.2 million because Wisconsin Public Service Corporation will reduce its contributions as it incurs expenditures for new independent energy-efficiency and renewable resource programs. However, total 2011 collections will reach approximately $120.0 million after including contributions from municipal utilities and retail cooperatives. The PSC currently projects that the requirement for investor-owned utilities to contribute 1.2 percent of their operating revenues will generate approximately $100.0 million annually in 2012 and 2013.

Table 3

Focus on Energy Contributions by Utility

	2008		2009		2010	
	Contributions	Percentage	Contributions	Percentage	Contributions	Percentage
Wisconsin Electric Power Company (We Energies)[1]	$19,877,800	28.0%	$31,136,000	35.8%	$34,802,000	35.9%
Wisconsin Public Service Corporation	11,967,100	16.8	14,439,300	16.6	17,151,700	17.7
Wisconsin Power and Light (Alliant Energy)	15,033,000	21.1	15,478,600	17.8	16,591,800	17.1
Wisconsin Gas, LLC (We Energies)[1]	9,064,000	12.7	9,531,300	10.9	10,092,600	10.4
Northern States Power Company (Xcel Energy)	6,475,700	9.1	6,524,100	7.5	7,284,900	7.5
Madison Gas and Electric Company	5,510,900	7.8	5,966,700	6.9	6,466,600	6.7
Subtotal	67,928,500	95.5	83,076,000	95.5	92,389,600	95.3
Other Investor-Owned Utilities[2]	1,503,600	2.1	1,569,000	1.8	1,552,500	1.6
Municipal Electric Utilities	1,404,200	2.0	1,708,400	1.9	1,822,500	1.9
Retail Electric Cooperatives	259,600	0.4	677,800	0.8	1,171,300	1.2
Total	**$71,095,900**	**100.0%**	**$87,031,200**	**100.0%**	**$96,935,900**	**100.0%**

[1] Wisconsin Electric Power Company and Wisconsin Gas, LLC, are both owned by We Energies, and jointly operate under its brand. However, the PSC regulates them as separate utilities.

[2] Includes contributions from ten investor-owned utilities. Also includes $150 in 2008 and $44,000 in 2009 that could not be attributed to a specific utility.

Effects on Customers

Section 196.374(5m)(a), Wis. Stats., requires the PSC to ensure that the Focus on Energy benefits made available to residential and non-residential customers of investor-owned utilities are consistent with the Focus on Energy funds recovered from each group. To achieve this goal, the PSC requires each investor-owned utility to recover 40 percent of its required Focus on Energy contribution from residential customers and 60 percent from non-residential customers, which is consistent with the historical distribution of energy-savings program expenditures between those customer classes.

Investor-owned utilities recover their Focus on Energy contributions from customers through electricity and natural gas rates.

Focus on Energy funds are recovered from individual customers through each utility's electricity and natural gas rates. The PSC uses projections of energy use to calculate residential and non-residential Focus on Energy payment rates, which are included as a component of electricity and natural gas rates in order to recover the amount of utility contributions assigned to each customer class.

The component of customers' electricity and natural gas rates designed to recover Focus on Energy contributions is not identified on utility bills or in Focus on Energy reports. We reviewed PSC rate calculation documents for the six largest investor-owned utilities and interviewed PSC staff to identify those utilities' 2010 residential and non-residential Focus on Energy payment rates and determine how much average customers paid on their utility bills.

Residential Rates

Electricity and natural gas rates are set separately for each utility. Most residential customers served by the same utility are charged the same standard rate, which is designed to recover costs that vary by consumption, such as the cost of fuel for generating electricity. In addition, monthly customer charges account for the utility's fixed costs that are not affected by the amount of energy consumed, such as the cost of customer billing. Appendix 4 shows monthly customer charges, standard rates, and Focus on Energy payment rates for residential customers at each of the six largest investor-owned utilities in 2010.

Residential customers' monthly Focus on Energy payments will vary based on the amount of electricity and natural gas used. As shown in Table 4, customers using the average amount of electricity for their utility paid between $0.86 and $1.16 per month for Focus on Energy in 2010, which accounted for 1.06 percent to 1.37 percent of their electricity bills.

Focus on Energy payments account for approximately 1.0 percent of an average residential utility bill.

As shown in Table 5, customers using the average amount of natural gas for their utility generally paid between $0.56 and $0.69 per month, which accounted for 0.89 percent to 1.13 percent of their natural gas bills. The PSC stated that the lower payment level for Xcel Energy customers resulted from a miscalculation of their Focus on Energy payment rate, and that the rate will be corrected as part of Xcel Energy's next rate review. We also note that some customers, primarily in rural areas, do not receive natural gas service from their utilities. Those customers would make Focus on Energy payments only for their electricity use.

Table 4

Average Residential Electricity Customer Monthly Focus on Energy Payment, by Utility[1]
2010

Utility	Focus on Energy Payment	Percentage of Bill
Wisconsin Power and Light (Alliant Energy)	$1.16	1.37%
Madison Gas and Electric Company	1.08	1.30
Wisconsin Electric Power Company (We Energies)	0.96	1.07
Northern States Power Company (Xcel Energy)	0.86	1.07
Wisconsin Public Service Corporation	0.86	1.06

[1] Based on average monthly electricity consumption for residential customers at each utility.

Table 5

Average Residential Natural Gas Customer Monthly Focus on Energy Payment, by Utility[1]
2010

Utility	Focus on Energy Payment	Percentage of Bill
Wisconsin Power and Light (Alliant Energy)	$0.69	1.13%
Madison Gas and Electric Company	0.64	1.07
Wisconsin Gas, LLC (We Energies)[2]	0.60	0.89
Wisconsin Public Service Corporation	0.59	0.90
Wisconsin Electric Power Company (We Energies)[2]	0.56	0.93
Northern States Power Company (Xcel Energy)	0.30	0.58

[1] Based on average monthly natural gas consumption for residential customers at each utility.

[2] Wisconsin Electric Power Company and Wisconsin Gas, LLC, are both owned by We Energies, and jointly operate under its brand. However, the PSC regulates them as separate utilities.

Non-Residential Rates

Wisconsin's largest investor-owned utilities do not charge standard electricity and natural gas rates for non-residential customers, as they do for residential customers. Rather, the PSC approves non-residential rates that vary among utilities. For example, some utilities' rates vary by type of non-residential customer, such as commercial, industrial, or agricultural, while other utilities charge rates based on the amount of energy used, regardless of customer type. This variation in rates and levels of energy use, as well as the range of facilities and functions among non-residential customers, limits the meaningfulness of defining "average" energy consumption by non-residential customers. Therefore, we centered our analysis on non-residential Focus on Energy payment rates, which are calculated for each utility's non-residential customers as a class.

Focus on Energy payment rates vary significantly for non-residential customers of different utilities.

As shown in Table 6, the 2010 Focus on Energy payment rates for non-residential customers of different utilities varied significantly. For example, non-residential customers of We Energies and Madison Gas and Electric Company paid 70.0 percent more than customers of Alliant Energy and Xcel Energy for using the same amount of electricity. In addition, Alliant Energy and Wisconsin Public Service Corporation customers paid less than one-half as much as customers of We Energies and Madison Gas and Electric Company for using the same amount of natural gas.

2005 Wisconsin Act 141 defined customers who are billed at least $60,000 per month and whose electricity or natural gas use exceeds specified statutory thresholds as large energy customers. In response to concerns about variation in the Focus on Energy payments by customers of different utilities, Act 141 froze payments of large energy customers at their 2005 levels. Legislative documents describe this as a "first step" towards addressing the variation. Act 141 also directed the PSC to propose to the Legislature calculation methods that would ensure equitable payments by customers of different utilities. The PSC submitted a proposal in 2008, on which the Legislature has taken no action. Absent action by the Legislature, Act 141 directs the PSC to annually adjust large energy customers' payment amounts by the lesser of inflation or increases in utility operating revenues.

Table 6

Non-Residential Focus on Energy Payment Rates, by Utility
2010

Utility	Electricity	Natural Gas
Wisconsin Electric Power Company (We Energies)[1]	\$0.0017/kWh[2]	\$0.0161/therm[3]
Wisconsin Gas, LLC (We Energies)[1]	N/A[4]	0.0150
Wisconsin Power and Light (Alliant Energy)	0.0010	0.0029
Wisconsin Public Service Corporation	0.0018	0.0064
Northern States Power Company (Xcel Energy)	0.0010	0.0112
Madison Gas and Electric Company	0.0017	0.0176

[1] Wisconsin Electric Power Company and Wisconsin Gas, LLC, are both owned by We Energies, and jointly operate under its brand. However, the PSC regulates them as separate utilities.

[2] Kilowatt-hours (kWh) are a measure of electricity consumption.

[3] Therms are a measure of natural gas consumption.

[4] All Wisconsin Gas, LLC, customers are served by other electric utilities.

Statutory requirements reduced Focus on Energy payments by large energy customers of the six largest utilities by an estimated \$16.2 million in 2010.

As shown in Table 7, the PSC estimated that the provisions of Act 141 would collectively reduce by \$16.2 million the 2010 Focus on Energy payments by non-residential large energy customers of the six largest utilities. The effects varied by utility. For example, the PSC estimated that the provisions of Act 141 would reduce payments by large energy customers of Wisconsin Electric Power Company by \$6.0 million. Conversely, the PSC estimated that large energy customers of Alliant Energy would collectively pay \$616,000 more, in part because several customers had significantly reduced their energy use from 2005 levels.

Table 7

Large Energy Customers' Estimated Focus on Energy Payments, by Utility[1,2]
2010

	Estimated Payments under Act 141	Estimated Payments without Act 141	Difference
Wisconsin Electric Power Company (We Energies)[3]	$2,265,858	$8,256,659	$ (5,990,801)
Wisconsin Public Service Corporation[4]	1,219,891	6,003,277	(4,783,386)
Wisconsin Gas, LLC (We Energies)[3]	0	3,471,319	(3,471,319)
Madison Gas and Electric Company	44,522	1,716,955	(1,672,433)
Northern States Power Company (Xcel Energy)	510,221	1,423,503	(913,282)
Wisconsin Power and Light (Alliant Energy)[4]	4,072,931	3,456,911	616,020
Total	**$8,113,423**	**$24,328,624**	**$(16,215,201)**

[1] As estimated by the PSC during its process for approving each utility's electricity and natural gas rates.

[2] Only includes large energy customers in the non-residential class.

[3] Wisconsin Electric Power Company and Wisconsin Gas, LLC, are both owned by We Energies, and jointly operate under its brand. However, the PSC regulates them as separate utilities.

[4] Estimates of natural gas contributions at these two utilities have been adjusted for consistency with the estimation procedures used at other utilities.

Reduced payments from large energy customers resulted in higher payments from other non-residential customers of the same utility.

Because statutes require each utility to contribute 1.2 percent of its total operating revenues, the PSC adjusts the Focus on Energy payment rates for other customers to compensate for the amount collected from large energy customers. Adjustments occur among customers within the same class in order to maintain a consistent allocation of payments between residential and non-residential customers. Those adjustments contributed to the variation in non-residential payment rates shown in Table 6. For example, the PSC reduced the natural gas payment rate for Alliant Energy's other non-residential customers by more than 60 percent from its originally calculated level because that utility's large energy customers were projected to pay more than they would have in the absence of Act 141. In contrast, the PSC more than doubled the originally calculated non-residential payment rate at Wisconsin Gas, LLC, in order to make up for its large energy customers' estimated exemption from payments. The PSC notes that electricity and natural gas rates must also be adjusted to account for the effect of large energy customer payments on utility revenues, which further increases costs to non-residential customers paying increased payment rates for Focus on Energy.

Act 141's requirements for payments from large energy customers also have affected smaller investor-owned utilities that provide either electricity or natural gas service. Before implementation of Act 141, those utilities did not recover Focus on Energy contributions through their rates. As a result, the four large energy customers of those utilities did not make any program payments in 2005 through their rates, and are exempt from the Focus on Energy payment requirements of Act 141. As shown in Table 8, those four customers were exempted from an estimated $881,700 in 2010 payments, although they may still have made payments as customers of a separate electric or natural gas utility. From 2008 through 2010, three of those customers claimed Focus on Energy incentives totaling $750,300. SEERA and the PSC consider the identities of individual customers to be confidential information.

Table 8

Focus on Energy Payments by Large Energy Customers of Smaller Investor-Owned Utilities

Year	Estimated Payments under Act 141	Estimated Payments without Act 141
2008	$0	$ 757,000
2009	0	815,300
2010	0	881,700
Total	**$0**	**$2,454,000**

[1] Because smaller investor-owned utilities provide either electricity or natural gas service, large energy customers may have made payments for receiving the other service from a different utility.

Absent legislative action on the PSC's 2008 proposal for equitable contribution methods, and to avoid increasing payment rates for other customers, 2007 Wisconsin Act 17 directed the PSC to exclude the total revenues received from large energy customers when calculating small investor-owned utilities' Focus on Energy contribution requirements. As the exclusion continues, it has effectively required the utilities serving those four customers to contribute less than 1.2 percent of their total operating revenues and reduced annual Focus on Energy revenues by the amounts shown in Table 8.

The PSC's 2008 proposal concluded a more equitable distribution of Focus on Energy payments among customers could be achieved by no longer tying large energy customer payments to 2005 levels. In making this conclusion, the PSC noted that current law preserves the historical variation in payments from non-residential customers of different utilities, enhances those differences by redistributing payments between large energy customers and other non-residential customers, and exempts some customers from making any payments through their electricity or natural gas rates. We found that these effects have continued through 2010. If the Legislature is concerned about this inequity, it may wish to further consider the current process for collecting Focus on Energy payments from utility customers.

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Expenditures and Participation

The relative allocation of Focus on Energy expenditures, the types of products and services supported by incentives, and the distribution of incentives among utility customers all affect Focus on Energy's ability to promote and achieve energy savings in the programs it supports. To address questions related to these issues, we analyzed program data documenting incentives and other expenditures from 2008 through 2010.

Program Expenditures

As shown in Table 9, at least 94.2 percent of annual Focus on Energy expenditures from 2008 through 2010 were made by the program administrator to support its energy-savings programs. Most remaining expenditures funded program oversight activities, which include state oversight by PSC staff and audits and program evaluations by independent contractors.

Table 9

Focus on Energy Expenditures

	2008		2009		2010	
	Expenditures	Percentage	Expenditures	Percentage	Expenditures	Percentage
Energy-Savings Programs	$73,044,700	95.3%	$91,307,600	94.2%	$86,979,200	94.4%
Program Oversight	2,560,200	3.3	3,856,100	3.9	2,431,200	2.6
Research and Development Program[1]	708,300	1.0	1,046,100	1.1	1,736,100	1.9
Fiscal Agent[2]	212,900	0.3	260,300	0.3	230,400	0.2
Other[3]	94,900	0.1	480,500	0.5	802,100	0.9
Total	**$76,621,000**	**100.0%**	**$96,950,600**	**100.0%**	**$92,179,000**	**100.0%**

[1] Operated separately from energy-savings programs under Focus on Energy's statutory requirement to support research on the environmental and economic impacts of energy use in Wisconsin.

[2] Focus on Energy's contracted fiscal agent provides services that include collecting contributions from utilities and processing and recording program expenditures.

[3] Includes payments for contractor performance bonuses, a study on potential energy savings, consulting services, computer service expenses, and depreciation.

Energy-savings programs primarily support financial incentives and program delivery activities such as customer support and training.

The energy-savings goals the PSC establishes for Focus on Energy, which are shown in Appendix 5, become performance standards in the contracts between SEERA and the program administrator. In turn, pursuit of these performance standards serves as the basis for energy-savings program expenditures. As shown in Table 10, two types of costs accounted for at least 91.5 percent of annual energy-savings program expenditures from 2008 through 2010, including:

- financial incentives for energy-efficient and renewable energy products and services; and
- program delivery activities, such as helping customers identify, develop, and implement projects eligible for financial incentives and providing customer support and training.

Table 10

Energy-Savings Program Expenditures[1]

	2008		2009		2010	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Incentives	$42,176,000	57.7%	$57,511,100	63.0%	$58,591,300	67.4%
Program Delivery	24,659,500	33.8	27,922,000	30.6	21,387,600	24.6
Subtotal	66,835,500	91.5	85,433,100	93.6	79,978,900	92.0
Administration	1,776,000	2.4	1,720,000	1.9	5,218,400	6.0
Marketing	4,433,200	6.1	4,154,500	4.5	1,781,900	2.0
Total	**$73,044,700**	**100.0%**	**$91,307,600**	**100.0%**	**$86,979,200**	**100.0%**

[1] Includes all program expenditures processed and documented by the fiscal agent. Does not include expenditures for Focus on Energy's research and development program.

Expenditures for administration of energy-savings programs increased from $1.7 million in 2009 to $5.2 million in 2010, largely due to a change in accounting policies. In 2008 and 2009, administration costs included standardized costs incurred by all Focus on Energy programs, such as database management, but excluded costs related to administering specific programs. However, the PSC directed WECC to expand its definition of administration in 2010 to include program-specific administrative costs, such as subcontractor monitoring. This change also explains a related decrease in program delivery expenditures, where these costs had previously been categorized. PSC staff report that the decrease in marketing expenditures from $4.2 million in 2009 to $1.8 million in 2010 was related to a budget decision to increase funding for incentives in response to increased demand.

To further analyze expenditures for incentives and program delivery, we reviewed transaction detail maintained by the fiscal agent, the distribution of incentives recorded in WECC's internal database, and WECC's financial records.

Incentives

To achieve Focus on Energy's statewide energy-savings goals, financial incentives are designed to encourage customers to purchase energy-efficient and renewable energy products or services they would not have chosen to purchase without financial assistance. WECC reported that it offered financial incentives for products and services that:

- used less energy than similar products or services, as verified by independent engineering research;
- were not already used by a large share of potential buyers; and
- carried a market price greater than the price of similar, less efficient products or services.

The value of each incentive is set to reduce the price difference between the energy-efficient or renewable energy product or service and its alternatives. For example, in 2010 WECC concluded that $100 incentives for certain energy-efficient water heaters would sufficiently reduce their prices to persuade customers to purchase those products instead of other less costly but less efficient water heaters.

The majority of incentive expenditures supported non-residential customers' purchases of energy-efficient products and services.

As noted, WECC established incentives as part of separate programs targeting residential and non-residential utility customers. In addition, incentives for renewable energy programs, regardless of customers served, have been tracked separately. As shown in Table 11, the majority of annual incentive expenditures were made through non-residential programs.

Table 11

Incentive Expenditures by Program Type[1]

	2008		2009		2010	
Program Type	Amount	Percentage	Amount	Percentage	Amount	Percentage
Non-Residential	$24,090,300	57.1%	$35,397,300	61.5%	$33,434,800	57.1%
Residential	14,012,200	33.2	15,690,800	27.3	16,166,000	27.6
Renewable[2]	4,073,500	9.7	6,423,000	11.2	8,990,500	15.3
Total	**$42,176,000**	**100.0%**	**$57,511,100**	**100.0%**	**$58,591,300**	**100.0%**

[1] Includes all program expenditures processed and documented by the fiscal agent. Does not include expenditures for Focus on Energy's research and development program.

[2] Renewable programs were integrated into residential and non-residential programs in 2010. Renewable expenditures are presented separately for purposes of comparison.

Residential Incentives

Residential incentives totaled $45.3 million from 2008 through 2010.

Residential programs provide incentives for multiple types of residential customers, including homeowners, renters, and managers of apartment buildings or condominiums. As shown in Table 12, 86.8 percent of residential incentives from 2008 through 2010 were paid to customers through cash-back rewards, which customers could claim by submitting an application documenting the purchase of an eligible product or service, such as a furnace, clothes washing machine, or the addition of building insulation. Nearly $6.0 million in additional residential incentives were paid to retailers as shelf-price mark-downs to reduce the price of compact fluorescent light bulbs, energy-efficient holiday lights, and energy-efficient lighting fixtures. We note that shelf-price mark-downs may not be made evident to the customers purchasing those products.

Table 12

Residential Incentives by Recipient
2008 through 2010

	Number	Amount[1]	Percentage of Amount
Customers			
Cash-Back Rewards	708,086	$39,324,700	86.8%
Retailers			
Shelf-Price Mark-Downs	102,519	5,959,600	13.2
Total	**810,605**	**$45,284,300**	**100.0%**

[1] Includes all incentive expenditures recorded in WECC's internal databases. We noted limited inconsistencies between the amount of incentive payments recorded by WECC and by the fiscal agent, possibly due to differences in data recording procedures.

As shown in Figure 2, residential incentives primarily supported three types of purchases:

- heating and cooling products and services, such as furnaces and central air conditioning;

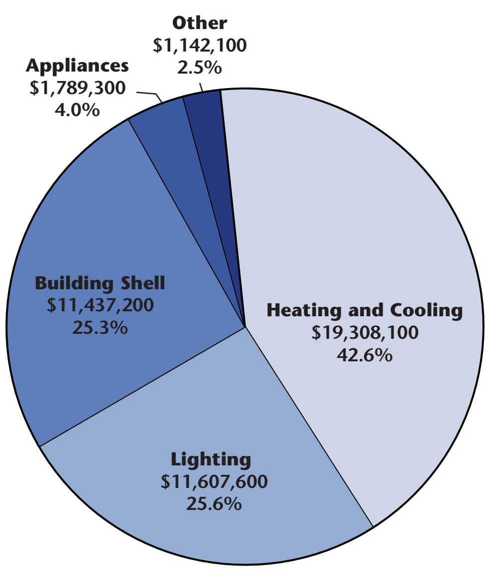
- lighting products, such as compact fluorescent light bulbs and efficient light fixtures; and

- building shell improvements, which are designed to reduce a residence's heating and cooling needs by adding insulation, sealing air leaks, or otherwise protecting against the effects of weather conditions.

Residential incentives were also provided for appliances, such as clothes washing machines, as well as water heaters and home energy-efficiency assessments.

Figure 2

Residential Incentive Amounts by Product or Service
2008 through 2010



Non-Residential Incentives

Non-residential incentives totaled $88.3 million from 2008 through 2010.

Like residential customers, non-residential customers may claim cash-back rewards for purchasing certain products and services. In addition, non-residential customers may apply for custom project incentives, which fund up to 30.0 percent of the costs of broader projects that address specific energy-efficiency opportunities in their facilities, such as installing controls that increase the efficiency of a production process. Program staff preapprove each custom project after reviewing documentation to substantiate that the project can cost-effectively achieve energy savings. Before approving payment, program staff also verify each approved project's completion. Custom project incentives were 9.5 percent of the 109,008 non-residential incentives awarded from 2008 through 2010. However, as shown in Table 13, they represented 50.3 percent of incentive amounts paid.

Table 13

Non-Residential Incentives by Recipient Type
2008 through 2010

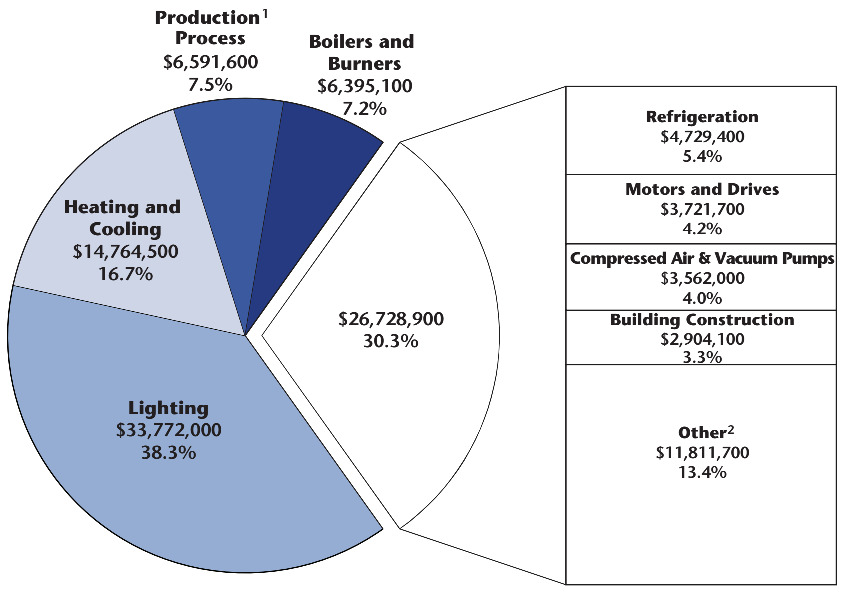
	Number	Amount[1]	Percentage of Amount
Customers			
Custom Projects	10,358	$44,410,500	50.3%
Cash-Back Rewards	62,373	43,414,000	49.2
Customer Subtotal	72,731	87,824,500	99.5
Retailers			
Shelf-Price Mark-Downs	36,277	427,600	0.5
Total	**109,008**	**$88,252,100**	**100.0%**

[1] Includes all incentive expenditures recorded in WECC's internal databases. We noted limited inconsistencies between the amount of incentive payments recorded by WECC and by the fiscal agent, possibly due to differences in data-recording procedures.

As shown in Figure 3, lighting products and heating and cooling products and services represented more than one-half of non-residential incentive amounts. Incentive payments for specialized products, such as boilers and burners, refrigeration units, and motors and drives, accounted for much of the remaining amount.

Figure 3

Non-Residential Incentive Amounts by Product or Service
2008 through 2010



[1] Includes custom incentives designed to address multiple aspects of an industrial production process.

[2] Includes incentives such as for specialized agricultural products, information technology products, and industrial ovens and furnaces.

Non-residential incentives are targeted to industrial and commercial businesses, agricultural producers, and schools and government.

To address the varying energy-efficiency needs of non-residential customers, Focus on Energy targets non-residential incentives to four sectors: agricultural producers, industrial businesses, commercial businesses, and schools and government. As shown in Table 14, commercial businesses received the largest number of incentives each year from 2008 through 2010. While industrial businesses received the largest amount of incentives during this time period, the amount received by the industrial sector as a percentage of all incentive amounts declined each year. In contrast, the share received by the schools and government sector increased from 11.2 percent in 2008 to 21.5 percent in 2010. Appendix 6 shows the incentives received by different types of customers within each sector, while Appendix 7 shows the distribution of non-residential incentive payments by county.

Table 14

Non-Residential Incentives by Sector[1]

	2008			2009			2010		
Sector	Number	Amount[2]	Percentage of Amount	Number	Amount[2]	Percentage of Amount	Number	Amount[2]	Percentage of Amount
Industrial	3,476	$12,017,100	60.1%	5,427	$15,413,800	44.3%	4,567	$12,751,500	38.1%
Commercial	15,249	4,590,600	22.9	18,279	11,579,600	33.2	21,904	11,384,600	34.1
Schools and Government	2,241	2,239,700	11.2	4,658	6,191,900	17.8	4,220	7,191,400	21.5
Agriculture	8,709	1,163,600	5.8	8,461	1,625,300	4.7	11,817	2,103,000	6.3
Total	**29,675**	**$20,011,000**	**100.0%**	**36,825**	**$34,810,600**	**100.0%**	**42,508**	**$33,430,500**	**100.0%**

[1] Includes shelf-price mark-downs for the commercial and agriculture sectors.

[2] Includes all incentive expenditures recorded in WECC's internal databases. We noted limited inconsistencies between the amount of incentive payments recorded by WECC and by the fiscal agent, possibly due to differences in data recording procedures.

Renewable Incentives

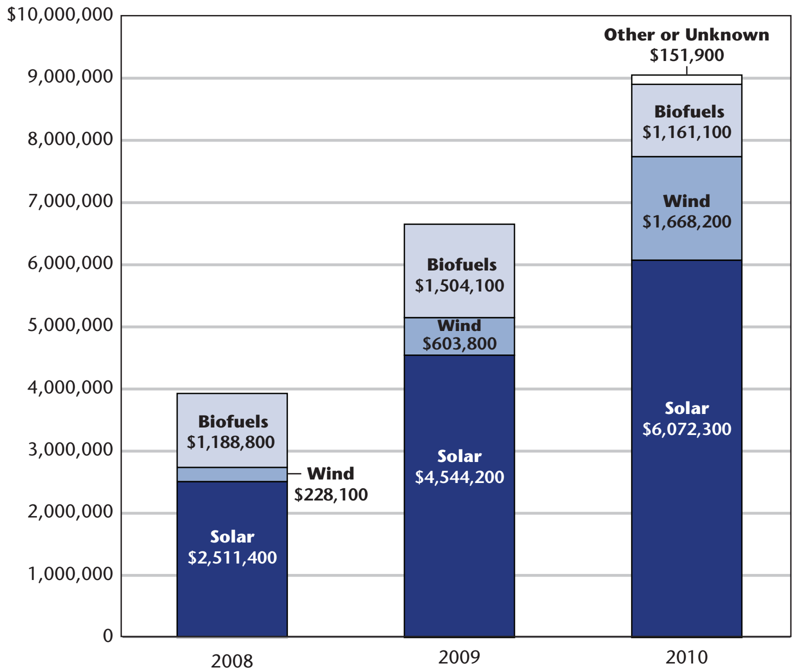
Incentives for renewable energy projects are provided to both residential and non-residential customers. Cash-back rewards are available for some renewable energy products and services, such as an assessment to determine a site's potential for wind or solar energy generation. Because of the expense and complexity, incentives for large renewable energy installations are typically provided through processes similar to those used for custom energy-efficiency project incentives, including preapproval of the project's energy-savings potential and verification of project completion before incentives are paid.

Expenditures on renewable energy incentives more than doubled from 2008 through 2010.

As shown in Figure 4, total spending on renewable energy incentives increased from $3.9 million in 2008 to $9.1 million in 2010, driven by increased spending on solar and wind projects. Solar projects received the largest share of renewable energy incentives in each year.

Figure 4

Renewable Incentive Amounts by Energy Type[1]
2008 through 2010



[1] Includes all incentive expenditures recorded in WECC's internal databases. We noted limited inconsistencies between the amount of incentive payments recorded by WECC and by the fiscal agent, possibly due to differences in data recording procedures.

Participation

We estimate more than 70,000 unique residential customers and 6,800 non-residential customers received incentives in 2010.

In addition to the number of incentives paid, participation in Focus on Energy can be measured based on the unduplicated number of customers receiving incentives. Based on available customer information reported on incentive applications, we estimate that in 2010 Focus on Energy provided custom project incentives and cash-back rewards to more than 70,000 unique residential customers and more than 6,800 unique non-residential customers, as shown in Table 15. Because a single residential customer would be assigned multiple identification codes if he or she changed addresses or used different variations of his or her name when claiming different incentives, our estimate of participation may slightly exceed the actual number of unique residential participants.

Table 15

Estimated Customer Participation in Focus on Energy

	2008	2009	2010
Customer Incentives[1]			
Residential	233,872	105,034	70,981
Non-Residential	14,553	9,927	6,863
Renewable[2]	946	759	531
Total	**249,371**	**115,720**	**78,375**
Retailer Shelf-Price Mark-Downs			
Residential	240,619	460,123	375,453
Non-Residential	7,825	10,369	10,173
Total	**248,444**	**470,492**	**385,626**

[1] Includes recipients of cash-back rewards and custom incentives.

[2] Only includes residential and non-residential customers who did not receive energy-efficiency incentives. Customers who received both efficiency and renewable incentives in a single year are counted as residential and non-residential participants.

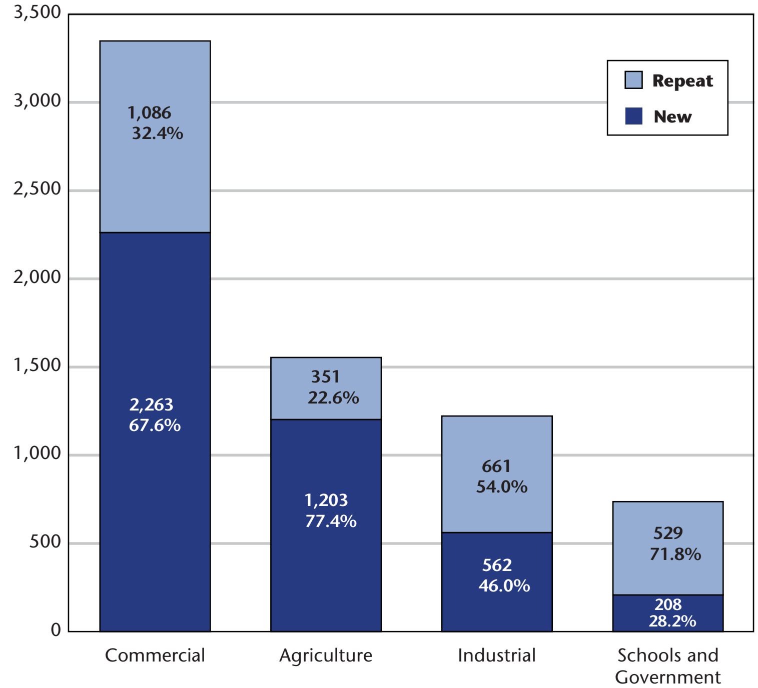
In 2010, an estimated 321,086 utility customers benefitted from price reductions for energy-efficient light bulbs.

Because shelf-price mark-downs are paid to retailers, program data also do not document either the number or identity of purchasing customers. However, program evaluators estimate the overall number of customers served by those mark-downs using data on cash-back rewards for similar products, although those estimates may include customers already identified as unique participants through their receipt of other incentives. As shown in Table 15, the estimated number of customers who received shelf-price mark-downs increased from 248,444 in 2008 to 385,626 in 2010. The 2010 estimate included 321,086 customers that received mark-downs for purchasing compact fluorescent light bulbs. Program staff report that the increase in estimated shelf-price mark-down participation corresponded with the decline in participation through other types of incentives shown in Table 15 because of a budgeting decision to reallocate funding from customer incentives to shelf-price mark-downs.

An estimated 88.9 percent of identified residential participants in 2010 had not received incentives in the previous two years, while the remaining 11.1 percent were repeat participants. In contrast, as shown in Figure 5, repeat participation was more frequent among non-residential customers, especially in the industrial sector and schools and government sector, where more than one-half of identified 2010 participants had also received incentives in 2008 or 2009.

Figure 5

Estimated Repeat and New Non-Residential Focus on Energy Participants[1, 2]
2010



[1] Repeat 2010 participants were also recorded as participants in 2008 or 2009.

[2] Does not include shelf-price mark-downs.

From 2008 through 2010, ten commercial and industrial businesses received more than $500,000 in incentives.

The amount of incentives received by individual participants varied greatly from 2008 through 2010. During that period, 103 participants each received at least $150,000 in incentives, including 45 that received more than $250,000 and ten that received more than $500,000. All 103 of these participants were non-residential customers, which can be eligible for large amounts of incentives in connection with large-scale operations. For example, commercial and industrial businesses may operate multiple sites statewide for which they may claim incentives. In addition, customers with complex and energy-intensive operations, such as industrial plants, may be eligible for numerous incentives to address various aspects of their energy use. As shown in Table 16, two commercial retail businesses received more than $850,000 in incentives, and eight industrial businesses each received incentive payments of more than $500,000.

Table 16

Focus on Energy Participants Receiving More than $500,000 in Incentives
2008 through 2010

Rank	Amount of Incentives	Sector	Business Type
1	$1,618,651	Commercial	Retail
2	894,596	Commercial	Retail
3	737,114	Industrial	Plastics
4	646,697	Industrial	Paper
5	641,423	Industrial	Paper
6	616,661	Industrial	Paper
7	540,699	Industrial	Food Processing
8	539,726	Industrial	Manufacturing
9	526,331	Industrial	Food Processing
10	519,643	Industrial	Manufacturing

Program Delivery

As noted, WECC spent $21.4 million in 2010 on program delivery activities such as helping customers claim incentives and providing customer support and training. Concerns have been raised that expenditures on program delivery limit Focus on Energy's effectiveness by reducing the availability of funding to provide incentives for the products and services that directly achieve energy savings. To address those concerns, we analyzed the distribution and effects of program delivery expenditures during 2010.

As shown in Table 17, 93.2 percent of 2010 program delivery expenditures, or $19.9 million, supported the operations of the 19 Focus on Energy programs listed in Appendix 3. The remaining $1.5 million covered such costs as:

- subcontracts with technology specialists to provide services such as training for retailers and installation firms and reviews to ensure incentivized products were properly installed;

- subcontracts to provide services to individual participants, such as installing incentivized products; and

- subcontracts for research and tracking services, such as testing to verify the energy savings achieved by completed projects.

Table 17

Program Delivery Expenditures[1]
2010

Purpose	Amount	Percentage
Program Operations	$19,932,600	93.2%
Technical Support	551,500	2.6
Participant Assistance	426,400	2.0
Research and Tracking	387,200	1.8
Other[2]	89,900	0.4
Total	**$21,387,600**	**100.0%**

[1] Includes all program delivery expenditures processed and documented by the fiscal agent.

[2] Includes matching funds contributed to help the State obtain federal stimulus funding for an energy-efficient appliance rebate program.

Most expenditures on program operations were also made by subcontractors. As shown in Table 18, WECC paid four subcontractors a total of $14.4 million in 2010 to operate the five largest Focus on Energy programs, including the four programs that targeted specific non-residential sectors and the largest residential program, which targeted apartments and condominiums. While WECC spent another $2.7 million to carry out its own program operations in 2010, SEERA and the PSC have required Shaw to subcontract for delivery of all programs.

Table 18

Program Operations Expenditures by Contractor and Program[1]
2010

Contractor	Program/Purpose	Amount	Percentage
Franklin Energy Services, LLC	Commercial Sector Program	$ 3,327,100	16.7%
	Apartment and Condo Efficiency Program	1,523,200	7.6
RW Beck, Inc.	Industrial Sector Program	4,363,000	21.9
Cooperative Educational Service Agency #10	Schools and Government Sector Program	3,436,300	17.2
GDS Associates, Inc.	Agriculture Sector Program	1,731,600	8.7
Subtotal		14,381,200	72.1
Other Subcontractors	Training, Technology Development, Information and Education, and Renewables Programs[2]	1,514,900	7.6
WECC	Operations for Residential Appliance, Heating and Cooling, Lighting, and Building Construction Programs	2,668,400	13.4
	Support for programs with subcontracted operations	1,368,100	6.9
Total		**$19,932,600**	**100.0%**

[1] Includes all program operations expenditures processed and documented by the fiscal agent.

[2] Also includes $19,100 in 2010 payments for 2009 operating activities.

Most program delivery expenditures are made to help utility customers claim incentives.

Focus on Energy has collected limited data on how subcontractors distribute program operations expenditures among different functions, such as customer assistance or outreach to retailers. However, we reviewed subcontractors' 2010 invoices for operation of the five largest Focus on Energy programs. These program operations expenditures are shown in Table 19. We found that $9.1 million, or 62.8 percent of the amount spent by those subcontractors, supported energy advising and engineering services. Program staff reported that both services typically helped customers claim incentives, such as by providing outreach on available incentives and helping customers develop custom projects.

Table 19

Program Operations Expenditures by the Five Largest Focus on Energy Programs
2010

Purpose	Invoiced Expenditures	Percentage
Energy Advising	$ 5,203,500	36.0%
Engineering	3,863,500	26.8
Project Review and Processing	1,420,600	9.8
Program Management	1,349,800	9.4
Operational Support[1]	344,500	2.4
Other[2]	2,257,400	15.6
Total[3]	**$14,439,300**	**100.0%**

[1] Includes marketing, analysis, and outreach activities.

[2] Includes expenditures for travel, supplies, and other operating costs, as well as payments to subcontractors for additional services.

[3] Expenditures recorded on subcontractor invoices exceeded expenditures documented by the fiscal agent by 0.4 percent, possibly due to differences in data recording procedures.

According to program staff, program delivery spending maximizes energy savings in two ways. First, program delivery activities are intended to increase program participation by helping customers claim incentives, since interested customers may not be aware of program incentives or may not have the technical knowledge to meet eligibility standards for custom incentives without assistance from energy advisors and engineers. However, neither WECC, the PSC, nor contracted program evaluation staff have collected data to measure the effects of program delivery activities on participation.

Second, program delivery activities can achieve additional, independent energy savings by encouraging customers to pursue energy savings without receiving incentives from Focus on Energy. For example, surveys of enrollees in Focus on Energy's training courses indicate that many enrollees applied the training content and achieved independent energy savings without receiving incentives from Focus on Energy. Multiple enrollees reported instituting more energy-efficient maintenance practices for their furnaces and air conditioners, for which program incentives are not offered. Evaluation staff calculated the energy savings from all reported independent practices and initiatives and concluded that they increased Focus on Energy's total 2010 electricity savings by 4.0 percent and increased 2010 natural gas savings by 54.4 percent, largely due to the significant savings customers could achieve through efficient furnace maintenance.

Although program staff suggest that program delivery activities other than training courses may also result in independent energy savings, data have not been collected to directly measure their effects. For example, program staff reported that energy advisors encourage customers to complete low-cost energy-saving projects on their own, in addition to applying for Focus on Energy incentives. They also suggested that subcontractors' outreach and training for retailers and installation firms may increase energy savings by making more energy-saving products available to customers.

Data on the effects of program delivery activities are limited.

To date, program administrators, the PSC, and contracted program evaluation staff have collected only limited data to measure the effects of program delivery activities. Enhanced tracking and analysis of those effects might further help ensure that program delivery expenditures are balanced with incentive expenditures to maximize overall energy savings.

☑ Recommendation

We recommend that the Public Service Commission report to the Joint Legislative Audit Committee by July 2, 2012, on the feasibility of expanding Focus on Energy's practices for measuring the effects of program delivery activities on program participation and the achievement of energy savings.

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Measuring Cost-Effectiveness ■

As required by statute, the PSC contracts with independent evaluators to assess Focus on Energy's performance. The evaluators compare the benefits and costs of program activities in order to assess Focus on Energy's overall cost-effectiveness. Concerns have been expressed that these cost-effectiveness analyses are difficult to understand and interpret. To address those concerns, we reviewed recent evaluation reports and interviewed PSC and evaluation staff to assess how cost-effectiveness is determined and the reasonableness of their approach.

Calculating Energy Savings

A key component of cost-effectiveness analyses is the energy savings that incentivized products or services are projected to achieve. Program staff calculate these energy savings and provide estimates to evaluators who interview participants and review these calculations to verify that projects have been completed and are achieving the projected savings. For 2010, evaluators reduced the electricity savings reported by program staff by 1.4 percent and gas savings by 8.9 percent to reflect, in part, projects for which participants did not install or operate incentivized products as expected. Evaluators reported that in 2010, lighting products accounted for the largest proportion of verified electricity savings, while heating products and services accounted for the largest proportion of verified natural gas savings.

Cost-effectiveness analyses only include energy savings that evaluators conclude are directly attributable to Focus on Energy's influence.

Section PSC 137.01(7), Wis. Adm. Code, requires cost-effectiveness analyses to include only energy savings that are directly attributable to the influence of Focus on Energy. To make that "attribution" determination, evaluators use two primary methods. First, they conduct surveys asking participants and vendors whether Focus on Energy influenced their decisions to buy or sell an incentivized product or service. Second, evaluators analyze market data to compare sales of incentivized products in Wisconsin to sales in states without comparable programs. As a result of these analyses, evaluators reduced verified electricity savings in 2010 by 39.8 percent and verified natural gas savings by 50.8 percent. Most adjustments eliminated the energy savings generated by participants who evaluators concluded likely would have purchased their product or service without assistance from Focus on Energy.

Evaluators note that determining the energy savings directly attributable to Focus on Energy is one of the most challenging aspects of assessing program cost-effectiveness. This is due, in part, to the many potential influences on a participant's decision to purchase an incentivized product or service. The PSC notes that because of this difficulty, energy-savings programs in different states use varying estimation methods. For example, programs in some states, such as Iowa and Texas, do not reduce energy savings for attribution while other states, including Minnesota, exclude a proportion of the energy savings reported by their programs. To address the ongoing challenges of attribution measurement and other evaluation issues, the PSC has established an evaluation working group including representatives from the PSC, SEERA, the evaluation contractor, the program administrator, and an independent evaluation professional. During 2012, the working group plans to review the estimation methods used in other states to develop updated guidelines and recommendations for the methods to be used in future Focus on Energy evaluations.

Benefit-Cost Analyses

Section PSC 137.05(12), Wis. Adm. Code, requires that Focus on Energy programs collectively pass an annual cost-effectiveness test, which is defined in program administration contracts as a requirement to ensure residential and non-residential programs each achieve benefits equal to or greater than their costs.

Methods for analyzing cost-effectiveness are consistent with national standards and approaches used in other states.

To determine whether programs meet cost-effectiveness requirements, evaluators conduct annual analyses of program activities that took place during the previous year. These analyses compare program benefits and costs on a statewide basis, without regard to who receives the benefits and who incurs the costs. This approach is considered a societal perspective. PSC staff direct evaluators to use this approach because the program goals set by statute and administrative code, such as reduced energy use, reduced environmental impacts, and market development, are societal in nature. We found Wisconsin's approach is consistent with national standards that were developed as part of the National Action Plan for Energy Efficiency, a public-private initiative including utility and governmental organizations. We also note that programs in a number of other states, including Minnesota, Iowa, and Indiana, conduct analyses from a societal perspective. Based on those findings, we concluded that the PSC's societal approach to analyzing Focus on Energy's cost-effectiveness appears reasonable.

Measured benefits include a reduced need to construct new power plants and reduced emissions of pollutants.

To measure societal benefits, evaluation staff estimate the dollar value of two energy-savings benefits, including:

- the costs utilities avoid by supplying less energy, such as reduced costs for power plant operation and maintenance, and a reduced need for constructing new power plants and energy distribution systems; and

- the environmental costs avoided by reducing emissions of regulated pollutants.

Because incentivized products and services can be expected to generate energy savings for multiple years, evaluators estimate the value of all benefits expected over the standard life of a technology. For example, compact fluorescent light bulbs are typically expected to generate energy savings and corresponding benefits for a period of 4 to 7 years, while residential attic insulation is assumed to generate savings for 25 years.

To measure total societal costs associated with Focus on Energy, evaluators estimate:

- the incremental costs to participants of purchasing an energy-efficient product instead of a less costly, less efficient alternative; and

- Focus on Energy's program delivery, administration, and marketing costs.

Cost estimates do not include the value of Focus on Energy incentives because incentives can be considered costs to utility customers and benefits to program participants, with no net cost for society as a whole.

Evaluators estimated Focus on Energy's 2010 benefit-cost ratio at 2.3 to 1.

As shown in Table 20, evaluators estimated that Focus on Energy's 2010 program activities resulted in societal benefits of $281.8 million and societal costs of $122.7 million. Based on those estimates, benefits were reported to exceed costs by an overall ratio of 2.3 to 1. We note that this ratio was consistent with Focus on Energy's estimated ratios for the 18-month period beginning July 2007 and for 2009, which were each reported at 2.2 to 1.

Table 20

Estimated Focus on Energy Benefits and Costs[1]
2010

	Non-Residential	Residential	Total
Benefits			
Avoided Energy Costs	$203,855,253	$60,359,719	$264,214,972
Reduced Emissions	13,573,262	4,029,864	17,603,126
Total Benefits	217,428,515	64,389,583	281,818,098
Costs			
Incremental Participant Costs	60,943,557	33,350,003	94,293,560
Focus on Energy Program Delivery, Administration and Marketing Costs[2]	19,862,294	8,524,168	28,386,462
Total Costs	80,805,851	41,874,171	122,680,022
Net Benefits	**$136,622,664**	**$22,515,412**	**$159,138,076**
Benefit-Cost Ratio	2.7	1.5	2.3

[1] Based on evaluator analysis of the program administrator's compliance with its contract requirement to achieve program benefits equal to or greater than program costs.

[2] Does not include incentive costs, which are considered costs for utility customers and benefits for program participants, with no net effect on society.

In addition to annual cost-effectiveness analyses, the PSC has directed evaluation staff to biennially conduct alternative analyses that include estimates of a wider range of program benefits, including the creation of jobs and the increased sales of energy-saving products by Wisconsin businesses. The PSC indicated that those economic benefits are not included in its annual analysis because they are indirect results of program activities that are difficult to accurately measure and link to Focus on Energy. However, in 2009, evaluators estimated that ten years of program activities would result in benefits in excess of costs by a ratio of 7.2 to 1. While it is probable that Focus on Energy has effects on job creation, business sales, and other outcomes, it is reasonable for the PSC to limit its annual estimation of benefits to those more directly linked to program activities.

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Enhancing Oversight ■

Although utilities contribute to Focus on Energy and contract for its administration, statutes assign the PSC responsibility for program oversight. Given that customers pay for Focus on Energy through their electricity and natural gas rates, and that the program's energy savings and environmental outcomes are intended to affect citizens statewide, the PSC needs to ensure that it provides clear and sufficient information to the Legislature and the general public about Focus on Energy's benefits, costs, and outcomes.

As noted, the PSC follows statutory requirements to contract for financial audits and program evaluations that are used to inform management decisions. In addition, s. 196.374(6), Wis. Stats., is designed to inform the general public about Focus on Energy by requiring an annual statement of Focus on Energy "cost and benefit information" for distribution to utility customers. To inform the Legislature, s. 196.374(3)(e), Wis. Stats., further requires the PSC to provide an annual summary report on Focus on Energy activities. We found the PSC has never prepared the statement for customers, nor has it reported to the Legislature on either 2009 or 2010 program activities.

The PSC could better inform the Legislature and the public about Focus on Energy.

By complying with those reporting requirements, the PSC could provide the Legislature and the public with timely information on Focus on Energy's outcomes. In addition, we believe the PSC could use those statutory requirements as a platform to enhance the quality and clarity of program information available from existing sources. We identified four approaches to reporting on Focus on

Energy's cost-effectiveness and effects on utility rates that could better inform the Legislature and the public on those issues.

First, the PSC should seek to present findings from Focus on Energy cost-effectiveness analyses in formats designed for a general audience. As noted, concerns have been expressed that existing cost-effectiveness reports are difficult to understand and interpret. Both statutory reporting requirements provide opportunities for the PSC to develop concise explanations of the methods Focus on Energy evaluators use to analyze cost-effectiveness and the interpretation of their results.

Second, the PSC could analyze and present program cost-effectiveness from a wider range of perspectives. The PSC's use of a societal perspective reflects statutory program goals, provides the most comprehensive measurement of program effects, and is consistent with practices in other states. However, energy-savings programs in a number of states, including Minnesota, Iowa, and Indiana, also publish the results of cost-effectiveness analyses that measure how benefits and costs are distributed among participants and non-participating utility customers. While it is reasonable for the PSC to continue using the societal perspective as its primary measure of cost-effectiveness, conducting additional analyses could clarify how Focus on Energy expenditures affect those distinct groups.

Third, the PSC could build public understanding of Focus on Energy's effects on utility customers by distributing information about customers' Focus on Energy payments. Although most customers' payments are made at standardized rates, those rates are embedded in technical PSC documentation. Making Focus on Energy payment rates more readily accessible to customers could help them identify their total program payments, and in doing so, enhance their ability to assess the value of the program and its benefits. The PSC could include this information in the annual statement of cost and benefit information to be distributed to utility customers.

Fourth, the PSC has included in its contracts with program evaluators both the cost-effectiveness and verification of energy savings achieved by other utility-operated programs. The stipulation programs that the Wisconsin Public Service Corporation currently funds for its customers, which are identified in Appendix 2, are designed to pilot new energy-efficiency and renewable energy program designs that operate at higher funding levels than current Focus on Energy programs. After these stipulation programs conclude in 2012, evaluation results can inform a discussion of whether similar programs could be cost-effectively operated on a statewide basis. The PSC could include a summary of these evaluation results in its annual report to the Legislature.

Finally, we note that Focus on Energy's cost-effectiveness and effects on customers have also been questions of ongoing concern in public discussion over appropriate funding levels for Focus on Energy. The PSC plans to complete its next four-year review of Focus on Energy programs in 2014. Consistent with the PSC's standard practices, its review process will include requests for public comment, and decisions will be made and documented publicly. By annually providing enhanced information on program operations, performance goals, and cost-effectiveness through its statutory reporting requirements, the PSC could position the Legislature and the public for an informed discussion of program funding levels upon completion of its policy review.

☑ Recommendation

We recommend the Public Service Commission provide information that will enhance oversight of Focus on Energy by:

- *complying with sections 196.374(3)(e) and (6), Wis. Stats., which require, respectively, an annual report to the Legislature on energy-efficiency programs and an annual preparation of program cost and benefit information for utility customers;*

- *conducting additional analyses of the distribution of the program's benefits and costs among program participants and non-participating utility customers;*

- *making information more readily available to both residential and non-residential customers regarding the amount they pay to fund Focus on Energy; and*

- *including evaluation results from Wisconsin Public Service Corporation's current utility-operated programs in its annual report to the Legislature after those programs conclude in 2012.*

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Appendix 1

Focus on Energy Contributions by Municipal Electric Utilities and Retail Electric Cooperatives
2010

Utility/Cooperative	Contributions	Percentage
Municipal Electric Utilities		
WPPI Energy[1]	$ 942,500	31.5%
Wisconsin Rapids Water Works and Lighting Commission	168,300	5.6
Manitowoc Public Utilities	157,200	5.2
Marshfield Utilities	105,500	3.5
Shawano Municipal Utilities	44,200	1.5
Rice Lake Utilities	42,700	1.4
City of Elkhorn Electric Department	36,100	1.2
Medford Electric Utility	25,700	0.9
Clintonville Water and Electric Utility	22,300	0.7
Wisconsin Dells Water and Light Utility	19,200	0.6
Kiel Electric Utility	18,700	0.6
Sheboygan Falls Utilities	17,600	0.6
Bloomer Electric Utility	15,800	0.5
Spooner Municipal Electric Utility	14,300	0.5
Bangor Municipal Utility	12,700	0.4
Barron Light and Water	12,200	0.4
Arcadia Electric Utility	11,500	0.4
Gresham Municipal Water and Electric Plant	11,300	0.4
Fennimore Municipal Utilities	11,200	0.4
Cumberland Municipal Utility	11,000	0.4
Sauk City Utilities	10,900	0.4
Pardeeville Electric Commission	10,200	0.3
Trempealeau Municipal Electric Department	9,300	0.3
Mazomanie Electric Utility	7,300	0.2
Belmont Municipal Light and Water Utility	7,300	0.2
Stratford Water and Electric Department	7,200	0.2
Elroy Electric and Water Utility	6,900	0.2
Cornell Municipal Electric Utility	6,700	0.2
Princeton Light and Water Department	6,400	0.2
Cadott Light and Water Department	6,300	0.2
Shullsburg Electric Utility	5,900	0.2
New Lisbon Municipal Light and Water Department	5,800	0.2
Cashton Municipal Light and Water Plant	4,500	0.2
Benton Electric and Water Utility	4,100	0.1

Utility/Cooperative	Contributions	Percentage
Municipal Electric Utilities *(continued)*		
Argyle Utility	$ 3,900	0.1%
La Farge Municipal Utilities	3,700	0.1
Centuria Municipal Electric Utility	3,600	0.1
Viola Municipal Electric Utility	3,200	0.1
Wonewoc Municipal Water and Light Department	3,100	0.1
Hazel Green Light and Water Utility	2,500	0.1
Black Earth Electric Utilities	2,300	0.1
Merrillan Municipal Electric Light and Water Department	1,300	<0.1
Subtotal	1,822,400	60.9
Retail Electric Cooperatives		
Adams-Columbia Electric Cooperative	320,300	10.7
Oakdale Electric Cooperative	125,000	4.2
Polk-Burnett Electric Cooperative	118,500	4.0
Vernon Electric Cooperative	87,000	2.9
Scenic Rivers Electric Cooperative	86,400	2.9
Eau Claire Electric Cooperative	81,900	2.7
Oconto Electric Cooperative	76,800	2.6
Clark Electric Cooperative	71,100	2.4
Price Electric Cooperative, Inc.	70,800	2.4
Pierce Pepin Cooperative Services	58,200	1.9
Rock Energy Cooperative	51,300	1.7
Richland Electric Cooperative	24,000	0.8
Barron Electric Cooperative	These cooperatives exercised their statutory option to retain their energy-efficiency funds to implement independent programs, instead of contributing those funds to Focus on Energy.	
Bayfield Electric Cooperative, Inc.		
Central Wisconsin Electric Cooperative, Inc.		
Chippewa Valley Electric Cooperative		
Dunn County Electric Cooperative		
East Central Energy		
Jackson Electric Cooperative		
Jump River Electric Cooperative		
Riverland Energy Cooperative		
St. Croix Electric Cooperative		
Taylor Electric Cooperative		
Washington Island Electric Cooperative		
Subtotal	1,171,300	39.1
Total	**$2,993,700**	**100.0%**

[1] Members include 41 Wisconsin municipal electric utilities.

Appendix 2

Summary of Utility-Operated Energy-Efficiency and Renewable Resource Programs

2005 Wisconsin Act 141 authorizes individual utilities to operate energy-efficiency and renewable resource programs for their customers. The PSC is responsible for overseeing all independent programs and coordinating their operations with Focus on Energy to maximize energy savings and avoid duplication or confusion.

Under s. 196.374(7)(b), Wis. Stats., municipal electric utilities and retail electric cooperatives may choose to use fees they collect from their customers to operate independent "commitment to community" programs. Although commitment to community programs offer some comparable benefits, such as incentives for energy-efficient lighting products and air conditioners, customers served by those programs are not eligible to participate in Focus on Energy. As shown in the following table, expenditures on these programs decreased from 2008 through 2010 as more utilities chose to contribute their collected fees to Focus on Energy.

Commitment to Community Program Expenditures

	July 2007 through December 2008[1]		2009		2010	
	Number of Programs[2]	Amount	Number of Programs[2]	Amount	Number of Programs[2]	Amount
Retail Electric Cooperatives	20	$6,535,600	15	$3,723,900	12	$2,776,200
Municipal Electric Utilities	56	2,711,800	49	1,107,100	43	1,633,200
Total	**76**	**$9,247,400**	**64**	**$4,831,000**	**55**	**$4,409,400**

[1] Program outcomes were reported for an 18-month period in order to transition Focus on Energy from a fiscal year reporting cycle to a calendar year reporting cycle.

[2] Includes all municipal electric utilities and retail electric cooperatives that operated a commitment to community program at any point during the period. In some cases, municipal electric utilities and retail electric cooperatives ended their programs during the period and began contributing to Focus on Energy.

Some large investor-owned utilities have also funded and operated energy-efficiency and renewable resource programs in addition to contributing to Focus on Energy:

- four utilities have obtained the PSC's approval to operate self-designed voluntary programs;
- two utilities operated ordered programs required by the PSC as a condition of rate approval; and
- one utility began operating updated stipulation programs as a condition of the rate approval made after its ordered program ended in 2009.

The PSC approves plans submitted by each investor-owned utility to ensure its programs are coordinated with Focus on Energy. Our review of those plans indicated that programs used common coordination strategies, such as:

- marketing benefits to sectors that are not targeted by Focus on Energy programs;
- funding "bonus incentives" to encourage applications for existing Focus on Energy incentives; and
- offering loan opportunities as an alternative to Focus on Energy's provision of upfront financial incentives.

Investor-owned utilities spent slightly more than $32.0 million per year on independent programs in 2009 and 2010, as shown in the following table. Expenditures for ordered programs were subtracted from the utilities' required contribution to Focus on Energy, while expenditures for voluntary and stipulation programs were made in addition to required Focus on Energy contributions. All programs active in 2010 have continued operating in 2011 with aggregate budgets of $47.8 million, including $16.0 million for increased activities under Wisconsin Public Service Corporation's stipulation programs.

Expenditures for Energy-Efficiency and Renewable Resource Programs Operated by Investor-Owned Utilities

Utility	2008	2009	2010
Wisconsin Public Service Corporation			
Ordered Program	$ 2,902,600	$ 572,500	–
Stipulation	–	1,696,400	$ 7,772,900
Subtotal	2,902,600	2,268,900	7,772,900
Wisconsin Electric Power Company/Wisconsin Gas, LLC (We Energies)			
Ordered Program	11,600,900	–	–
Voluntary Programs	–	12,571,400	15,982,400
Subtotal	11,600,900	12,571,400	15,982,400
Wisconsin Power and Light (Alliant Energy)			
Voluntary Programs	–	16,334,900	7,580,200
Northern States Power Company (Xcel Energy)			
Voluntary Programs	–	1,169,700	795,100
Total	**$14,503,500**	**$32,344,900**	**$32,130,600**

Appendix 3

2010 Focus on Energy Programs

Program	Target Population	Objective
Non-Residential		
Commercial	Commercial businesses, including hospitality, grocery, and health care.	Identify and implement energy-saving projects through incentives for the target population.
Industrial	Industrial businesses, including paper, food products, and plastics.	
Agriculture	Farms and rural agricultural businesses.	
Schools and Government	School and government buildings, including public and private schools, colleges, and universities.	
Rotary Channel	Businesses that use specified motors, drives, pumps, or other products.	Promote energy-efficient rotary products that are related to business operations.
HVAC Channel	Businesses that use heating, ventilation, or air conditioning.	Increase the market share of energy-efficient heating and cooling equipment and ensure effective maintenance practices.
Lighting Channel	Businesses that use common or specialized lighting products.	Increase the installation rates of energy-efficient lighting technologies for non-residential facilities.
New Construction	Architects, contractors, and other building construction firms.	Enhance the energy efficiency of new buildings by providing assistance to construction contractors and other firms.
Data Center Channel	Businesses that use computing equipment and software products.	Promote the use of energy-efficient equipment and enhance the energy efficiency of data and telecommunications industries.
Residential		
Apartment and Condo	Managers or owners of residential buildings with four or more units.	Make buildings more energy efficient, including by disseminating best practices for constructing new buildings.
Appliance and Plug Load	Existing homes with appliances that are older or have failed.	Promote the sale of energy-efficient appliances, including Energy Star products.
Efficient Heating and Cooling	Residents and managers or owners of one- to three-unit homes.	Increase the market share of energy-efficient heating and cooling equipment and ensure effective maintenance practices.
Information and Education	All state residents.	Educate the public on energy conservation and renewable energy.
Home Performance with Energy Star	Residents and managers or owners of one- to three-unit homes.	Increase the energy efficiency of existing homes by educating contractors on efficient products and practices.
Energy Star Lighting	All residents located within participating utility service areas.	Promote the sale of Energy Star lighting products, including fluorescent light bulbs and LED lighting.
Target Home Performance with Energy Star	One- to four-unit buildings with low-income residents.	Provide weatherization services to low-income households.
WI Energy Star Homes	Builders and residents of one- to three-unit, newly constructed homes.	Enhance the energy efficiency of new homes by establishing construction standards and educating construction contractors.
Head Start Lighting	Low-income families participating through Head Start agencies.	Install energy-efficient lighting products in low-income households.
Renewable	All residents and businesses within participating utility service areas.	Encourage the installation of solar, wind, and biofuel projects through incentives and customer education.

Appendix 4

Residential Electricity and Natural Gas Rates Charged by the Largest Investor-Owned Utilities

2010

Utility	Monthly Customer Charge	Standard Rate[1, 2]	Focus on Energy Payment Rate (included as part of standard rate)
Electricity			
Wisconsin Electric Power Company (We Energies)[3]	$7.60	$0.120/kWh[4]	$0.0014/kWh
Wisconsin Public Service Corporation	5.70	0.118	0.0013
Wisconsin Power and Light (Alliant Energy)	7.67	0.113	0.0017
Northern States Power Company (Xcel Energy)	8.00	0.099	0.0012
Madison Gas and Electric Company	8.70	0.131	0.0019
Natural Gas			
Wisconsin Electric Power Company (We Energies)[3]	$8.82	$0.818/therm[5]	$0.0089/therm
Wisconsin Public Service Corporation	7.00	0.911	0.0092
Wisconsin Power and Light (Alliant Energy)	9.20	0.883	0.0117
Wisconsin Gas, LLC (We Energies)[3]	9.43	0.905	0.0093
Northern States Power Company (Xcel Energy)	10.25	0.757	0.0055
Madison Gas and Electric Company	10.25	0.867	0.0112

[1] Each listed utility has single residential electricity and natural gas rates that are charged to the majority of its residential customers.

[2] Natural gas rates vary on a monthly basis based on changes in market prices. The standard rates reflect the average monthly natural gas rates recorded during calendar year 2010, weighted by average use levels during each month.

[3] Wisconsin Electric Power Company and Wisconsin Gas, LLC, are both owned by We Energies, and jointly operate under its brand. However, the PSC regulates them as separate utilities.

[4] Kilowatt-hours (kWh) are a measure of electricity consumption.

[5] Therms are a measure of natural gas consumption.

Appendix 5

Energy-Savings Goals and Program Performance

	Savings Goal[1]	Savings Achieved[1]	Percentage of Goal
July 2007 through December 2008[2]			
Kilowatt-hours (kWh)[3]	408,750,000	402,390,636	98.4%
Kilowatts (kW)[4]	66,525	67,313	101.2
Therms[5]	15,027,000	18,577,941	123.6
2009			
kWh	284,973,338	476,924,171	167.4
kW	46,292	87,520	189.1
Therms	10,959,251	21,681,244	197.8
2010			
kWh	306,209,320	405,055,122	132.3
kW	49,488	72,192	145.9
Therms	9,780,969	18,688,512	191.1

[1] Only includes energy savings that evaluators conclude are directly attributable to Focus on Energy's influence.

[2] Energy savings were reported for an 18-month period in order to transition Focus on Energy from a fiscal year reporting cycle to a calendar year reporting cycle.

[3] Kilowatt-hours (kWh) are a measure of electricity consumption.

[4] Kilowatts (kW) are a measure of the amount of electricity that can potentially be generated at a given point in time by a power plant or electric system.

[5] Therms are a measure of natural gas consumption.

Appendix 6

Non-Residential Incentives within Sectors

2008 through 2010

	Number	Amount	Percentage of Statewide Amount
Industrial Sector			
Paper	2,510	$7,944,600	9.0%
Food Processing	2,126	7,758,600	8.8
Metal Casting	1,277	3,094,700	3.5
Plastics	744	2,054,300	2.3
Printing	486	1,102,100	1.2
Water Treatment	169	1,044,800	1.2
Other or Unknown[1]	6,158	17,183,300	19.5
Industrial Subtotal	13,470	40,182,400	45.5
Commercial Sector			
Retail	7,606	8,354,600	9.5
Warehouses	1,716	4,545,700	5.1
Health Care	1,601	4,117,600	4.7
Banks and Offices	3,314	3,950,600	4.5
Hospitality	3,272	1,903,800	2.2
Other or Unknown[2, 3]	37,923	4,682,500	5.3
Commercial Subtotal	55,432	27,554,800	31.3
Schools and Government Sector			
Public and Private Schools	6,115	7,787,900	8.8
State and Local Government	3,370	4,483,300	5.1
Colleges and Universities	1,147	2,731,000	3.1
Federal and Other Government	486	619,600	0.7
Other or Unknown[4]	1	1,200	<0.1
Schools and Government Subtotal	11,119	15,623,000	17.7
Agriculture Sector			
Dairy Farms	3,951	3,382,900	3.8
Crop Farms	269	546,400	0.6
Greenhouses	144	300,300	0.3
Agriculture Processing	109	223,700	0.3
Livestock Farms	199	90,800	0.1
Other or Unknown[2]	24,315	347,800	0.4
Agriculture Subtotal	28,987	4,891,900	5.5
Total	**109,008**	**$88,252,100**	**100.0%**

[1] Includes incentives for manufacturing businesses and industrial warehouses and incentives that do not specify business type.

[2] Includes shelf-price mark-downs that do not specify business type.

[3] Includes athletic services, new construction, and incentives that do not specify business type.

[4] Includes one incentive for a health care business.

Appendix 7

Non-Residential Incentive Amounts by Sector and County[1]

2008 through 2010

County	Agriculture	Commercial	Industrial	Schools and Government	County Total[2]	Percentage of Statewide Total
Milwaukee	$ 5,800	$ 3,348,200	$ 3,109,400	$ 1,963,700	$ 8,427,100	9.5%
Dane	400,300	3,681,400	1,932,300	1,748,300	7,762,200	8.8
Brown	175,200	1,943,500	3,078,300	1,103,000	6,300,000	7.1
Waukesha	7,900	2,056,900	1,652,500	1,124,700	4,841,900	5.5
Marathon	175,400	758,900	2,954,700	458,200	4,347,200	4.9
Winnebago	67,800	737,300	2,559,500	409,700	3,774,200	4.3
Outagamie	67,300	957,900	1,396,400	581,200	3,002,800	3.4
Rock	107,400	693,900	1,460,300	422,300	2,684,000	3.0
Eau Claire	48,900	1,270,300	873,900	453,500	2,646,500	3.0
Portage	115,500	592,300	1,285,200	147,900	2,140,900	2.4
La Crosse	9,700	1,090,700	482,400	458,100	2,040,900	2.3
Manitowoc	274,300	441,600	1,098,300	179,800	1,994,000	2.3
Kenosha	19,400	1,094,900	484,500	333,400	1,932,200	2.2
Racine	12,400	654,300	912,100	273,100	1,851,800	2.1
Chippewa	59,700	363,700	1,045,200	268,900	1,737,500	2.0
Sheboygan	77,100	363,300	1,110,800	161,400	1,712,600	1.9
Fond du Lac	304,500	342,300	801,400	165,500	1,613,700	1.8
Dodge	150,900	303,400	1,000,200	109,700	1,564,200	1.8
Wood	74,300	597,000	683,900	173,400	1,528,600	1.7
Jefferson	79,200	282,000	844,800	182,300	1,388,200	1.6
Washington	62,800	411,300	669,100	230,600	1,373,800	1.6
Columbia	80,200	183,300	974,500	92,100	1,330,200	1.5
Waupaca	63,800	153,300	910,800	179,300	1,307,000	1.5
Sauk	89,000	292,700	741,000	84,300	1,207,100	1.4
Ozaukee	10,300	582,800	288,300	150,900	1,032,300	1.2
Price	19,200	21,600	933,200	39,900	1,014,000	1.1
Oneida	8,200	264,800	645,500	90,100	1,008,600	1.1
Walworth	99,100	167,000	453,200	238,800	958,100	1.1
Marinette	44,400	142,400	596,300	96,300	879,500	1.0
Calumet	108,500	255,700	386,500	88,300	839,000	1.0
Monroe	51,500	135,600	231,300	388,000	806,400	0.9
Dunn	90,300	127,900	287,500	255,400	761,100	0.9
St. Croix	4,700	235,400	231,200	240,800	712,100	0.8
Kewaunee	302,200	55,900	280,700	30,200	669,000	0.8
Grant	206,900	93,300	174,600	159,300	634,000	0.7
Douglas	500	181,900	128,900	282,100	593,400	0.7

County	Agriculture	Commercial	Industrial	Schools and Government	County Total[2]	Percentage of Statewide Total
Barron	$ 89,200	$ 127,400	$ 217,900	$ 130,100	$ 564,700	0.6%
Shawano	77,400	100,900	256,000	129,800	564,200	0.6
Clark	103,100	94,300	236,200	125,500	559,200	0.6
Langlade	65,800	81,800	345,500	60,400	553,500	0.6
Green	143,300	159,900	179,200	48,600	531,000	0.6
Lincoln	17,500	98,000	197,800	137,000	450,200	0.5
Polk	48,500	41,500	197,900	136,800	424,600	0.5
Juneau	28,100	60,000	140,400	169,300	397,800	0.5
Iowa	69,400	141,000	160,000	23,400	393,800	0.4
Trempealeau	8,700	45,600	254,600	52,900	361,700	0.4
Door	44,800	168,300	100,300	43,000	356,300	0.4
Oconto	43,200	87,300	155,400	55,700	341,600	0.4
Pierce	35,800	39,300	63,300	171,900	310,300	0.4
Crawford	24,500	159,000	24,900	49,300	257,700	0.3
Vernon	19,800	43,800	71,300	98,300	233,300	0.3
Washburn	–	27,700	51,200	149,800	228,700	0.3
Taylor	1,000	34,900	169,500	18,300	223,800	0.3
Green Lake	40,600	47,100	91,700	40,800	220,200	0.2
Ashland	18,700	67,900	48,500	72,600	207,700	0.2
Lafayette	128,400	17,700	38,000	20,500	204,600	0.2
Richland	71,500	36,600	67,700	26,000	201,800	0.2
Rusk	10,000	37,200	101,400	39,900	188,500	0.2
Vilas	3,900	57,200	19,600	89,200	169,900	0.2
Sawyer	28,800	100,600	100	38,700	168,200	0.2
Waushara	70,900	24,100	26,500	45,700	167,300	0.2
Jackson	34,500	27,500	46,600	37,600	146,200	0.2
Marquette	4,200	5,900	95,500	13,600	119,300	0.1
Burnett	400	35,500	32,800	31,700	100,400	0.1
Bayfield	700	24,400	11,800	56,400	93,400	0.1
Adams	20,500	30,400	9,600	14,900	75,300	0.1
Pepin	27,200	9,200	23,600	10,500	70,500	0.1
Buffalo	800	25,800	19,000	13,800	59,400	0.1
Menominee	–	100	3,200	51,400	54,700	0.1
Forest	400	7,600	5,300	32,400	45,800	0.1
Iron	–	5,900	15,600	16,900	38,400	<0.1
Florence	–	1,200	5,800	5,800	12,800	<0.1
Unassigned[1]	135,700	603,500	–	–	739,200	0.8
Total	**$4,891,900**	**$27,554,800**	**$40,182,400**	**$15,623,000**	**$88,252,100**	**100.0%**

[1] Includes shelf-price mark-downs for the commercial and agriculture sectors.

[2] Totals by county may not sum due to rounding.

Public Service Commission of Wisconsin

Phil Montgomery, Chairperson
Eric Callisto, Commissioner
Ellen Nowak, Commissioner

610 North Whitney Way
P.O. Box 7854
Madison, WI 53707-7854

November 30, 2011

VIA ELECTRONIC MAIL

Mr. Joe Chrisman, State Auditor
Legislative Audit Bureau
22 East Mifflin Street, Suite 500
Madison, WI 53703

Dear Mr. Chrisman:

Thank you for the opportunity to respond to your evaluation of the Focus on Energy program. Our comments relate to several recommendations outlined in the report and represent a joint response by the Public Service Commission (Commission) and the Statewide Energy Efficiency and Renewables Administration (SEERA.)

In the Program Delivery section, the report states: *"we recommend that the Public Service Commission report to the Joint Legislative Audit Committee by July 2, 2012, on the feasibility of expanding Focus on Energy's practices for measuring the effects of program delivery activities on program participation and the achievement of energy savings."* Commission staff will work with the new Program Evaluator and the Commission-established Evaluation Work Group to explore the feasibility of measuring the effects of program delivery activities on program participation and the achievement of energy savings. If it is possible to measure the effects, the timeline for such a study will be included in the Program Evaluator's detailed evaluation plan.

The following section addresses the recommendations at the end of the Enhancing Oversight section of the report.

We recommend the PSC provide information that will enhance oversight of Focus on Energy by:

- ***Complying with sections 196.374(3)(e) and (6). Wis. Stats., which require respectively, an annual report to the Legislature on energy efficiency programs and the annual preparation of program cost and benefit information for utility customers.***

  Response: The 2009 annual report to the legislature was delayed due to missed timelines by the Compliance Agent (the contractor performing the financial audit). The 2009 report will be finalized and sent to the legislature before the end of the year. The Commission has addressed the issue of contractor delays by including a liquidated damages provision in the contract between the Commission and the Compliance Agent going forward. The 2010 financial audit has been delayed because the Commission was in the process of selecting a new contractor to perform the financial audit and the compliance audits for the Focus on Energy Program Administrator and contractors. The new contract will be final within the next week and work on the 2010 and 2011 financial audits will begin thereafter. Year-end program information is not finalized, and thus not available for submission, until approximately seven months following the end of the program year. Therefore, the annual report to the legislature will be submitted approximately seven months after the end of the program year. For example, the annual financial statement is not final until the end of February, the annual energy savings impact report (performance evaluation) is not finalized until April, and the municipals and electric cooperatives have until May 1 to file their annual reports.

Due to an oversight, a statement describing the programs and presenting program cost and benefit information has not been annually provided to the utilities. This requirement was discussed in the middle of the 18-month contract period, but not at any time thereafter by the utilities or the Commission. We would note that a press release was sent out at the end of each contract period which discussed the Focus on Energy benefit cost ratio. Also, all program evaluations are placed on the Focus on Energy website for public viewing. The Commission will prepare this statement in the future and provide it to the utilities who are then responsible for distribution to each of their customers.

- ***Conducting additional analyses of the distribution of the program's benefits and costs among program participants and non-participating utility customers.***

  Response: The report lists the states that provide information regarding the distribution of benefits and costs among participants and non-participating customers. These states all have utility administered programs. This makes it easier for these states to obtain specific customer information on non-participants and to conduct such analyses. Focus on Energy has information on participants in the program, but not non-participants. As noted in the September 17, 2010, Commission memorandum in Phase Two of the Quadrennial Planning Process, prior research suggests that participants benefit from the program while non-participants generally do not. The Focus on Energy programs are designed to provide the greatest opportunity for participation to maximize the number of customers that benefit from the programs.

- ***Making information more readily available to both residential and non-residential customers regarding the amount they pay to fund Focus on Energy.***

  Response: Act 141 required the Commission to investigate whether any component of an energy utility's revenue requirement should be itemized on ratepayer bills. Commission staff examined bills of Wisconsin utilities and utilities in other states and sought stakeholder input. In the final report that was issued to the governor and legislature in August 2008, the Commission recommended no further itemization of the utility bill. Given that the monies to fund Focus on Energy are collected in utility rates and not itemized separately on the bill, it is difficult to provide accurate information to individual customers. This is particularly so with non-residential customers, due to the varying rate structures across utilities. However, it may be possible to provide this information to investor-owned utility residential customers based on average customers on the standard flat rate. The Commission will explore the feasibility of providing this information on the annual statement with the utilities.

- ***Including evaluation results from Wisconsin Public Service Corporation's current utility operated programs in its annual report to the legislature after those programs conclude in 2012.***

  Response: The Commission's order in docket 6690-UR-120 will approve extension of the Wisconsin Public Service Corporation's utility operated programs through either June 30, 2013, or through December 31, 2012. The Commission will include the evaluation results from Wisconsin Public Service Corporation's current utility operated programs in its annual report to the legislature after conclusion of the programs.

Again, thank you for the opportunity to provide responses to the Legislative Audit Bureau's report on the Focus on Energy program. Should you have any questions, please contact Carol Stemrich at (608) 266-8174.

Sincerely,

/s/ Robert Norcross

Robert Norcross, Administrator
Gas and Energy Division
Public Service Commission of Wisconsin

Jean A. Derfus, Acting Chair
SEERA

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cc: Ellen Nowak, Commissioner
Delanie Breuer, Executive Assistant