

# The Business Case for DSM

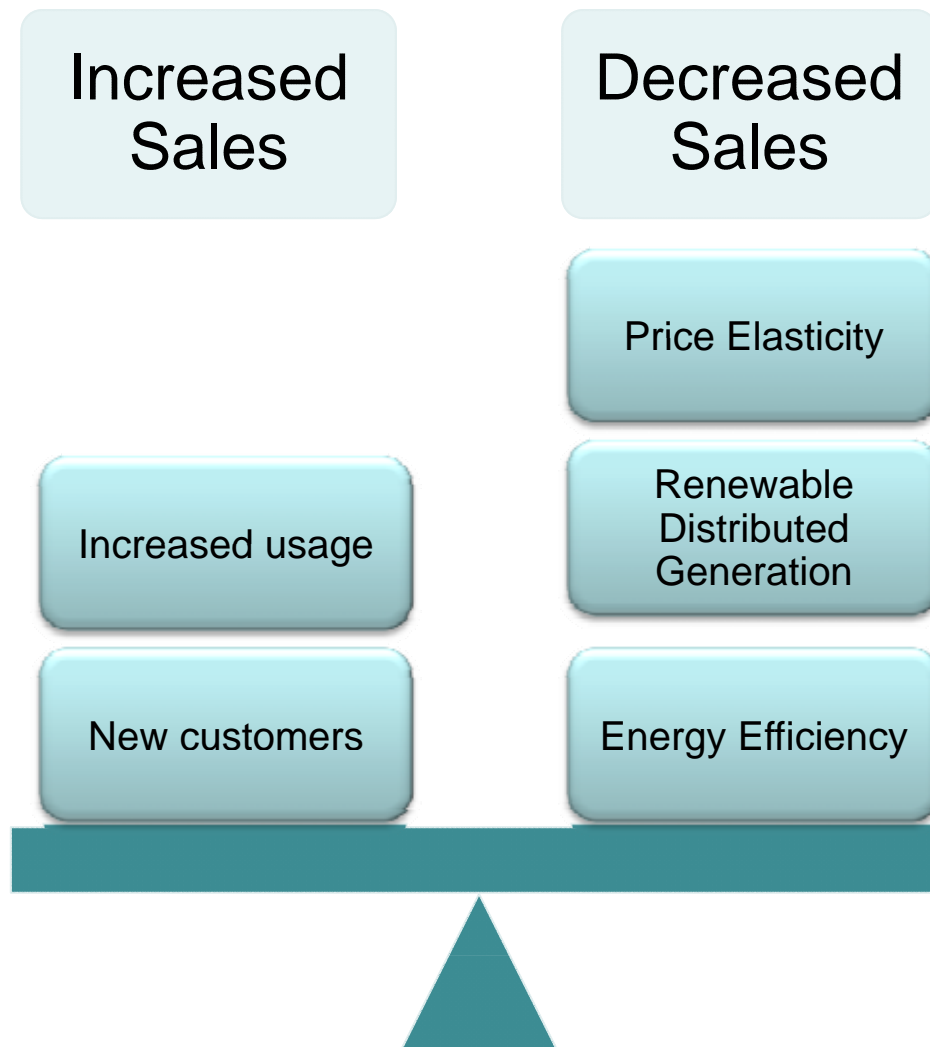
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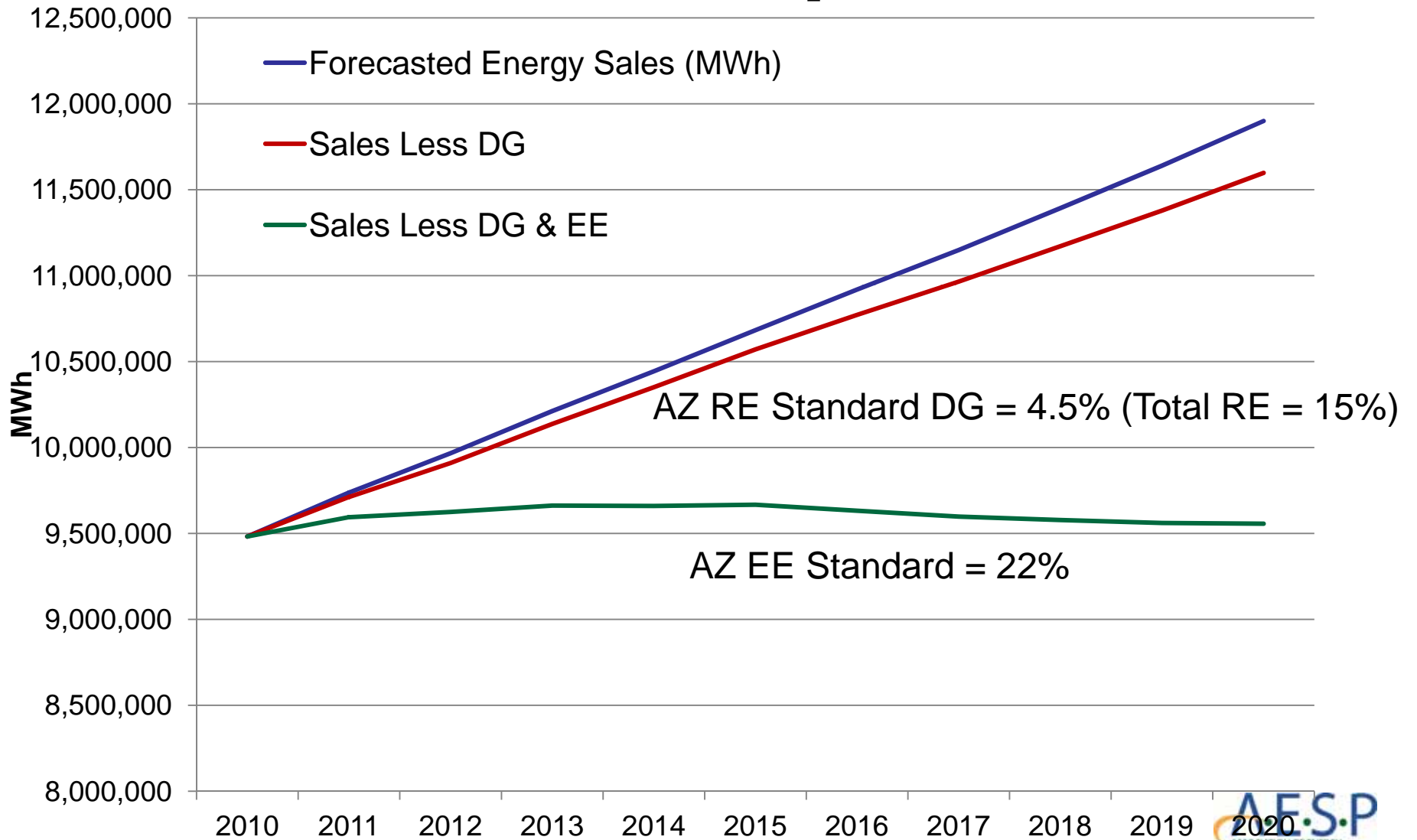
# Topics

- Introduction
- Business Models
- Arizona Decoupling
- Shareholder Returns
- Key Takeaways

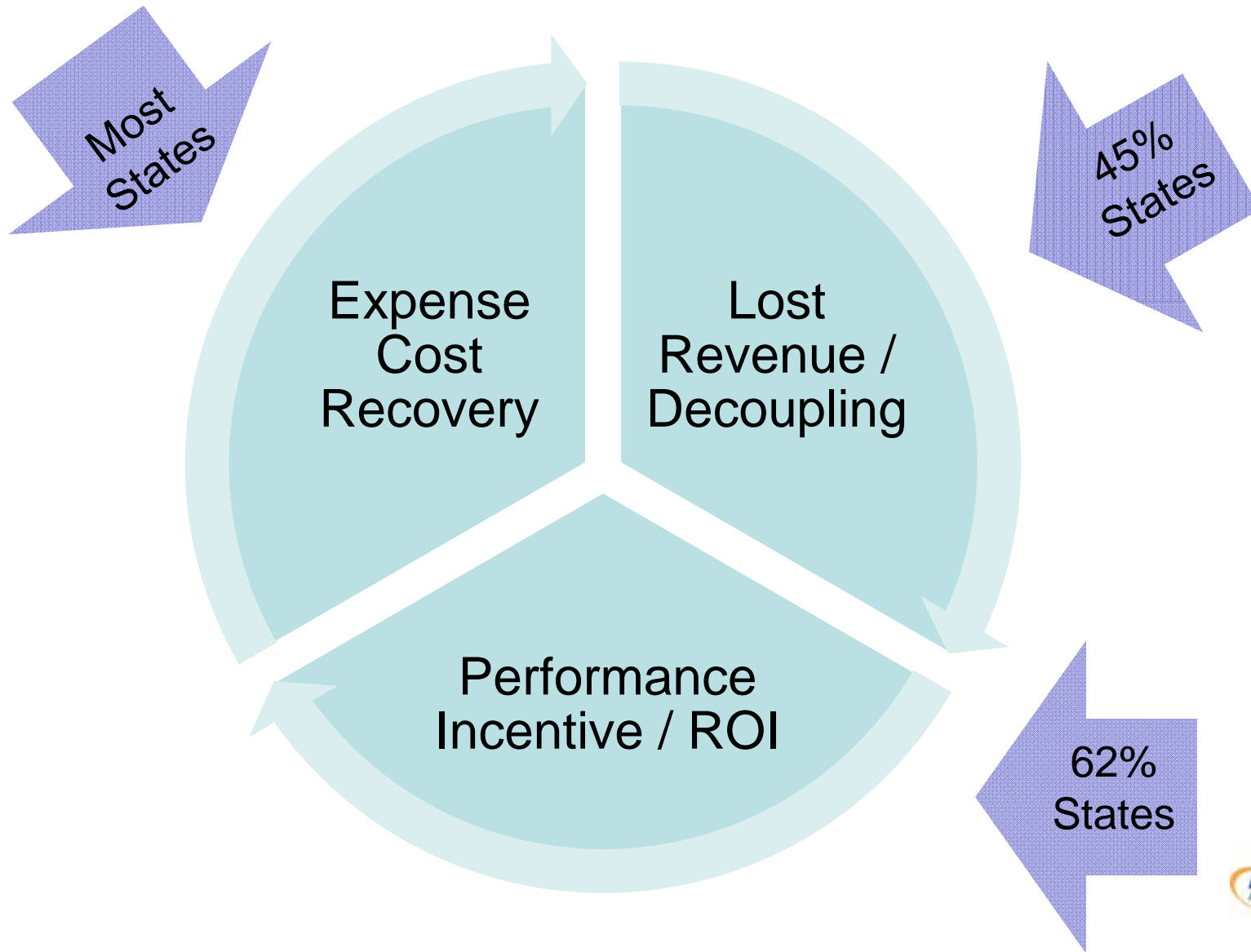
# The Utility Business Model




# An Example



# DSM Business Models



# DSM Return / Incentives ?s

- Should DSM Programs have a return? **Yes!**  

- What is a fair return? (the REAL question)
- Should it be more, less or equal compared to traditional supply options?

# DSM Return / Incentive Models

- Performance Incentive Options
  - Percent of net benefits or shared savings
  - Management Fee (% of costs)
  - Performance Contracting (\$ per kWh or kW)
- Capitalization
  - Utility earns a return on the EE asset (reg asset)
  - Bonus ROE
- Or Both!
  - Capitalization as the financing mechanism and performance incentive for meeting goals

# Capitalization

- Pros:
  - Known financial model to utility management
  - A bonus ROE would make EE the most profitable investment to a utility
  - Mitigates rate impacts
- Cons:
  - Increases a utility's imputed debt
  - Competes with other capital needs

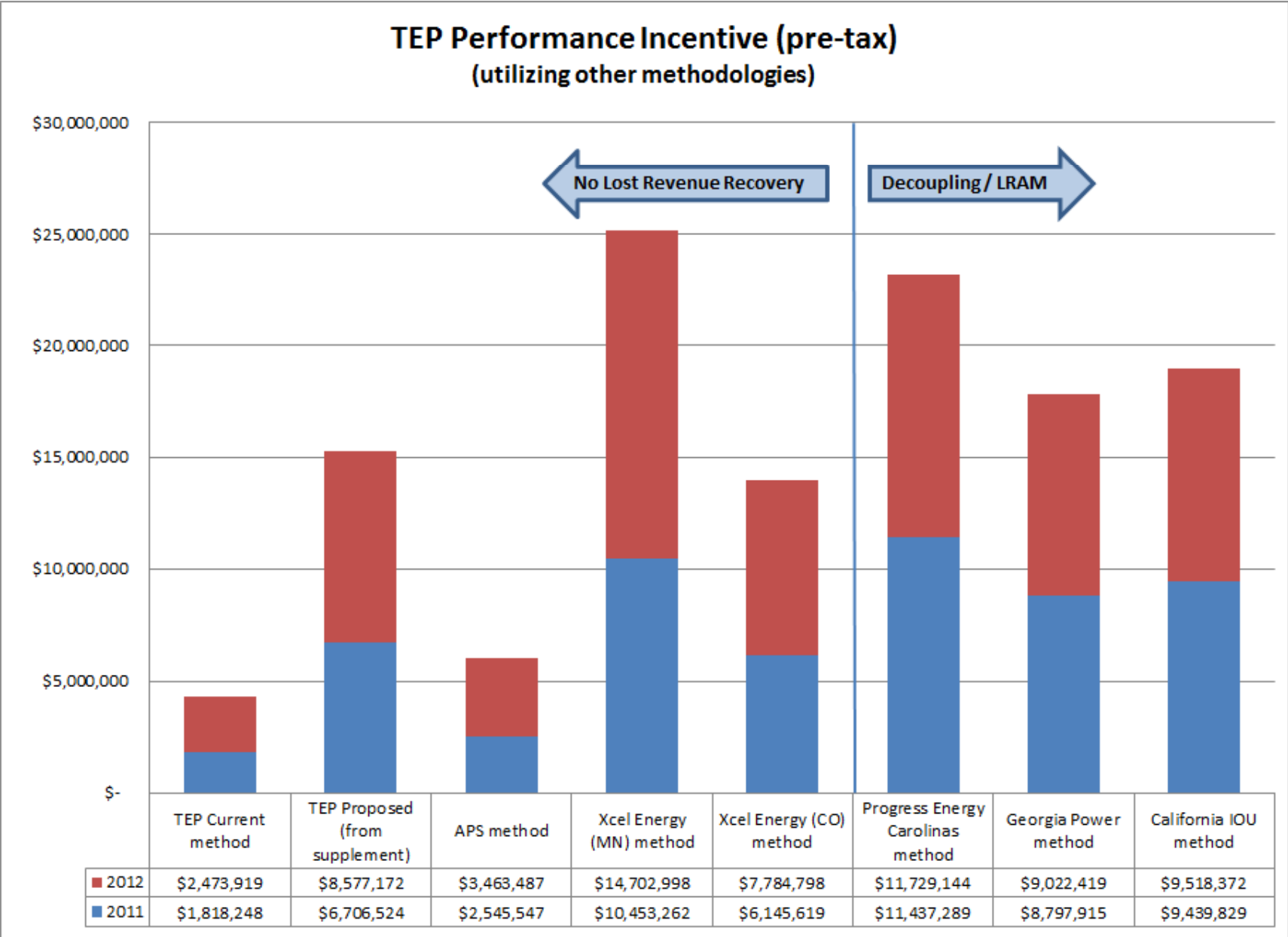


# Case Study

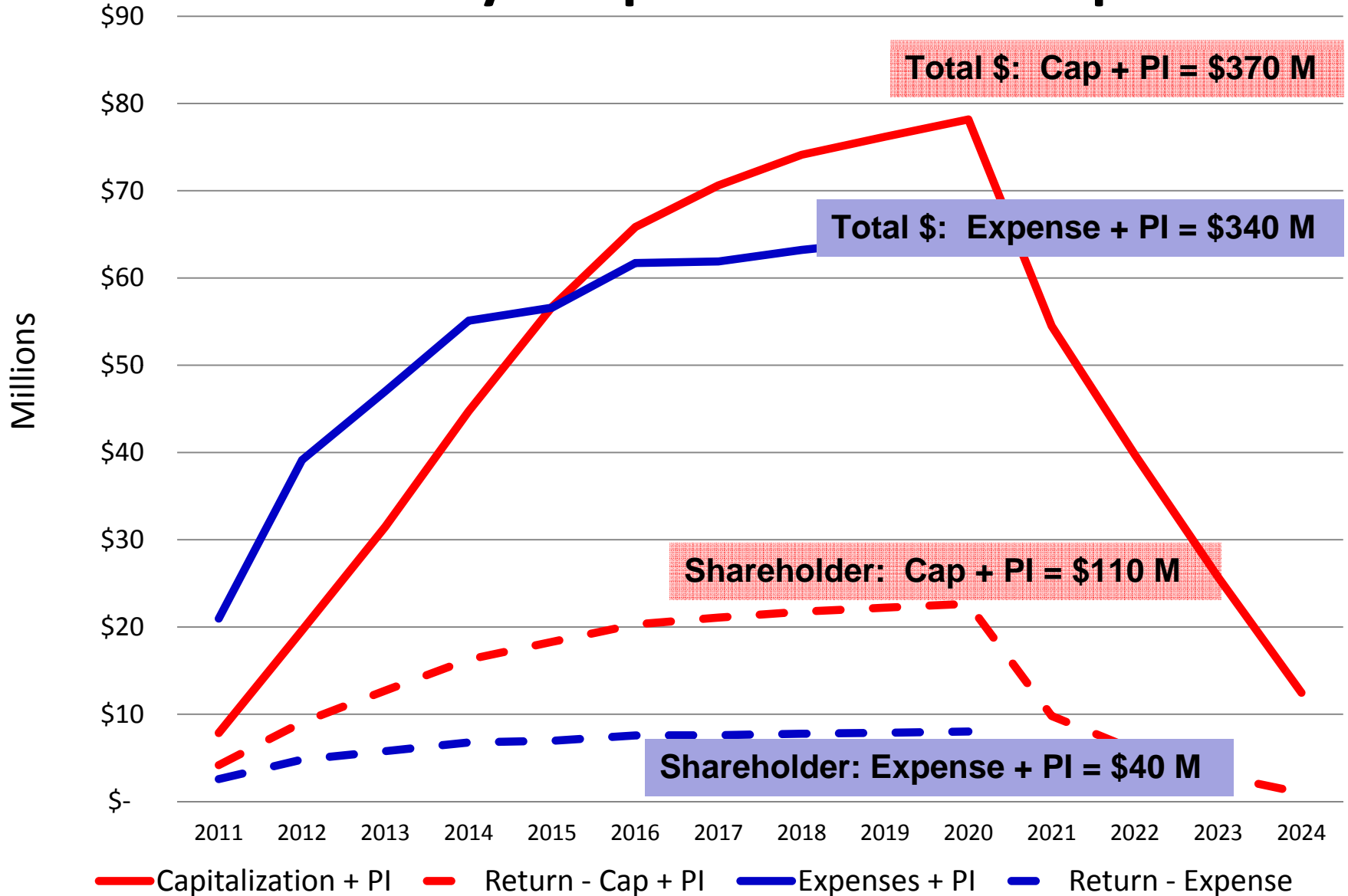
- 1) Performance Incentive Comparisons
- 2) Cost recovery: Three Model Runs\*
  - 1) Capitalized 100% of EE expenses
  - 2) Capitalized incentives (50% of expenses)
  - 3) 100% expense method

\*All run with a Performance Incentive at 14% of expenses

# Case Study – Performance Incentive



# Case Study: Capitalization vs. Expenses



# Key Takeaways

- Present a justification to Management in \$\$
  - PR is good but not enough for a substantial EE portfolio
- Work with the Stakeholders (Regulators)
  - Several attempts and education



## Save the Date

**May 15-17, 2012**

**AESP's Spring Conference  
Baltimore, MD**

**Oct. 15-17, 2012**

**AESP's Fall Conference  
Long Beach, CA**

**Jan. 28-31, 2013**

**AESP's 23<sup>rd</sup> National Conference  
Orlando, FL**

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