

November 18, 2008

Dear NARUC Commissioners,

We have represented the Edison Electric Institute and the Natural Resources Defense Council, respectively, for a total of more than five decades. Our constituencies are different, but as many of you know, we have found much common ground on utilities' resource planning and investment role generally and the vital importance of cost-effective energy efficiency in particular. Five years ago, following a lively debate at your Annual Meeting, we presented specific joint recommendations for your consideration on these issues. We return now, on behalf of our institutions, to reaffirm and expand upon those recommendations.

1. **We begin with the increasingly urgent mutual goal of helping energy users exploit all cost-effective energy efficiency opportunities, through an integrated combination of financial incentives to customers and minimum standards governing the performance of buildings and equipment.** We encourage utility regulators and others to join us in a nationwide energy efficiency campaign with the following key elements:
 - Continued cooperation on and participation in all elements of the National Action Plan for Energy Efficiency;
 - A jointly designed public education and outreach campaign;
 - Strengthening the nation's energy efficiency delivery infrastructure dedicated to helping utilities promote energy efficiency in all sectors of the economy, starting with the Edison Foundation's Institute for Electric Efficiency, the Consortium for Energy Efficiency, and regional efficiency alliances such as the Northwest Energy Efficiency Alliance, the Midwest Energy Efficiency Alliance, the Northeast Energy Efficiency Partnerships, and the Southeast Energy Efficiency Alliance
 - Aggressively expanding efficiency-related manpower training and technology development at the nation's colleges, universities and community colleges, building on worthy precedents established recently by the University of California at Davis's Energy Efficiency Center and Stanford University's Precourt Institute for Energy Efficiency (the nation's first two university centers dedicated specifically to energy efficiency).

- Working together at both federal and state levels to secure improved building and equipment efficiency standards and durable tax incentives that reward builders and equipment installers who substantially exceed existing standards.
2. **For most if not all utilities the goal of “all cost-effective energy efficiency” will mean significantly higher investment and savings targets over extended periods, which cannot be sustained without regulatory action to ensure (1) cost recovery for prudent investment, (2) an earnings opportunity tied to verified success in delivering cost-effective saving; and (3) being kept whole for authorized fixed costs as power sales volumes decline (relative to what they otherwise would have been).** In establishing these objectives, we acknowledge the need to allow initially approved fixed-cost revenue requirements to adjust upward between rate cases in ways that reasonably reflect utilities' prudently incurred cost increases, while reaffirming our mutual support for true-up mechanisms that ensure recovery of such appropriately adjusted, PUC-authorized fixed-cost revenue requirements, regardless of retail sales fluctuations. A durable business case for utility involvement in end-use energy efficiency rests on three interrelated elements: cost recovery, a performance-based earnings opportunity tied to verification of results, and being kept whole for authorized fixed costs as power sales volumes decline (relative to what they otherwise would have been) . This package is an urgent item of unfinished business in most states. Mere removal of disincentives is not enough to ensure the level of committed action needed; exemplary performance should be capable of yielding exemplary rewards. Idaho’s approach to these issues (per the IPUC’s approval of Idaho Power’s proposals in March 2007) is an example of a promising approach. These supportive regulatory structures and funding approvals must be sustained for extended periods and cannot be abandoned once utilities have made the necessary staffing changes and investment. These regulatory responsibilities also clearly suggest a need for investments in additional staff training at public utility commissions.
 3. **We urge utility regulators to support significantly enhanced utility investment in “smart meters” and a “smart grid” that focuses on delivering new energy management tools to customers, enabling increased energy efficiency, supporting efficient new technology such as plug-in hybrid electric vehicles (PHEVs), and reducing the cost of integrating renewable energy generation with variable output into resource portfolios.** The full value of these investments cannot be realized without changing rate structures to signal the actual cost of electricity to customers. And given the urgent need to encourage utilities to make the significant capital commitments required for grid enhancement, these costs should be recognized and recovered in rates as soon as possible once regulators have approved deployment (as opposed to deferring cost recovery until deployment is finished). As we noted in our 2003 statement, “uncertainty of cost recovery discourages investment in new infrastructure needed for security, reliability and environmentally sustainable service for all customers.”

- 4. Research, development and deployment (RD&D) investment is critical to securing the reliable and affordable energy services that will be needed to meet twenty- first century economic and environmental objectives.** We support the National Commission on Energy Policy's call for, within five years, "doubling annual direct federal expenditures on energy-technology research, development and demonstration, corrected for inflation." We will work to ensure significantly increased funding for such initiatives in future federal budgets, tax code reform, and legislation addressing energy and climate policy. In addition, we urge utility regulators to support substantially higher levels of utility investment in joint RD&D initiatives like the Electric Power Research Institute.

We look forward to working together with you on these issues in forums across the nation, as the nation confronts urgent energy and environmental challenges that will require the very best that all of us can give.

Yours sincerely,



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