

## ECONOMICS OF ENERGY

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Regardless of the topic being discussed during the Community Energy Workshop, the economic realities of energy planning, management, consumption and distribution were key themes woven through the discussions. Whether the focus was on costs to consumers and affordability, incentives, pricing or the balancing act/trade-offs that must be carefully considered to create a viable business model, dollars and cents were at the center of many conversations.

Participants seemed particularly interested in learning more about MGE's plan to maintain the fragile balance between profitability and investments in renewable energy sources while striving to reach the Energy 2030 goals. A bottom line for most participants was finding an equitable way to create and maintain a system that provides the safe, renewable and reliable energy that is required in today's – and tomorrow's – world, while paying close attention to making the costs of both producing and using that energy as affordable and fair as possible.

Below is a summary of the various themes that emerged during the Community Energy Workshop regarding the Economics of Energy:

### Affordability

The need to keep the low-income population's perspective in mind when it comes to pricing was a clear message shared during the Workshop. Many participants commented on the need to ensure the price of energy and energy services took customers' income into account. Some suggested subsidies would be needed to make energy more affordable while others talked about tiered rate structures or incentives as viable means of keeping prices affordable.

Participants, however, also acknowledged that the necessary investments in renewable energy sources and new technology could make affordability more challenging. The initial cost of investment for new products and services required to increase reliance on renewable energy sources was considered in light of the eventual savings that would be realized.

- *"Many communities are underserved, blighted and need help getting affordable energy."*
- *"Rate structures that hit folks disproportionately will be a problem."*
- *"The idea of you have to spend money to save money – how do you do it? A fund. Front-saving future. The more you conserve, the faster you can pay back."*
- *"The biggest issue we have is affordable housing. This should be part of the conversation with energy."*
- *"Point being, there is trickle-down effect for efficiency to be realized by the individual. Just having low rent is not enough. Must have low energy costs."*

### Business Model

As Workshop participants became more involved in the conversations about costs and the economics of energy, several began to ask questions related to MGE's business model behind the Energy 2030 framework. There were discussions regarding how the company would balance expenditures and investments, how it would meet shareholder demands and how the utility would remain viable while promoting energy efficiency. A consistent backdrop for the conversation was a desire for transparency in helping consumers understand the company's plans and expectations.

- *"How can MGE make money by conserving energy?"*
- *"What is the balancing point of the whole reduction question? We want transparency on the whole situation to make informed choices."*
- *"Our burden is to manage use effectively – conserve, but still have enough energy used to make a profit."*
- *"MGE needs to better serve customers in order to survive/thrive – both users and shareholders – this is an inherent conflict."*

- *"One of the concerns I have is that in trying to create a new business model and do the things they are talking about. They are restricted in the regulatory area which is preventing them from doing things they want to do. The technology will evolve and the ability to be more self-sustaining and they need to be able to overcome these barriers and they should be able to build into their plan how to navigate these barriers."*

### Trade-Offs: Managing the Balancing Act

Another economic sub-theme that surfaced was the need for both MGE and customers to perform a "balancing act" as they considered trade-offs that would need to be made in coming years. References were made to MGE's challenge of balancing the needs of shareholders, customers and the environment. Other comments pointed to the balancing act of increasing the reliance on renewable energy sources while maintaining reliability. Still other discussions focused on the trade-offs associated with moving from the current infrastructure to one that supports a more renewable-based structure.

Several comments focused on customers' challenge of balancing the need to invest money with the need to save money. As in most discussions, participants were quick to recognize that access to newer, energy-saving products and technologies could be a challenge for lower-income customers.

- *"Balance between affordable, access, being viable energy company, adapting to what the consumers are demanding, rather than shaping what they have access to."*
- *"Recognize energy and technology costs money, renewable costs money. Women experience poverty higher than men, how can we help people cover their bills? Help MGE do what it needs to do and still ensure people in the community can meet their budgets."*
- *"Cheap, affordable, reliable energy – price, quality and service, pick two. MGE is having a problem conveying to customers, 'as we save on energy, the price of running MGE doesn't decrease.'"*
- *"There is a difference between efficiency and conservation. How do you balance the two?"*
- *"Controlling cost is as important as the technology."*
- *"How does MGE deal with squeaky wheels & find that balance?"*
- *"Some people can't afford the newer technology. How [can you] help people, for example, to replace old ineffective appliances?"*

### Rate Structure and Costs

Several ideas were offered for pricing structures that would fit a wide range of unique situations and circumstances. Some suggested MGE consider customized, flexible pricing models while others pointed to the creation of an "equitable rate structure" that matched the economic situation of certain geographic areas. Some participants offered ideas about a tiered payment system based on energy consumption.

With the suggestions, however, there was also an acknowledgement of the realities of the current system.

Participants recognized that changes would have cost implications and those investments were important for long-term benefit. As in most discussions, an interest in finding a pricing model that was equitable was essential.

- *"How will it work from the economic equation? How can rates NOT go up when we're needing to develop technology to create sustainable energy sources and other options?"*
- *"Address false assumption that status quo has no additional costs."*
- *"Fairness issue with the current model of energy distribution. Because you have more money, you can buy solar panels, you get a reduction of rate, making the people who can afford it to get a reduction in price. It is a tax on the poor."*
- *"For a consumer, affordability is almost everything. If I am paying the same rate at peak time, versus non peak time, I have no incentive to use less energy during peak time. They need to offer incentives to reduce energy use, because it also reduces their price."*

- *"MGE needs to be in tune with the changing demographics. New preferences and uses for new generations, and what kind of energy different gadgets are taking. Might need to make adjustments and track energy uses and the reason they are using more to have effective rate structures."*
- *"May need to look into some customized, flexible pricing structures that are customized to [buildings with multiple tenants]."*

### Offering Incentives

Many suggestions were made throughout the Workshop about potential incentives to motivate consumers to help reach the goals outlined in Energy 2030. Some suggested incentives for landlords that would prompt them to invest in new energy-efficient technologies, while other comments revolved around incentives for how people use energy and how much energy they use.

The importance of having incentives for both residential and business consumers was also mentioned. Ideas included offerings such as rebates and tax credits for installing energy-efficient appliances or incentives for using various products. Some, however, specified their desire not to rely on the government for those incentives. Others acknowledged that they know MGE helps connect people to statewide Focus on Energy rebates, but many people are unaware of the programs. Other creative considerations included offering incentives for those who "volunteer to educate those in local community/neighborhood."

- *"Offer meaningful incentives that truly motivate people and are relevant."*
- *"MGE should give more incentives for best practices. Cost savers will seek out new practices. Long-term benefits could be relayed to these people."*
- *"How can they provide affordability (incentives for less energy use) for people who don't have time or ability to engage in discussion?"*
- *"At home we understand how to conserve, but what about businesses? Are there incentives to encourage businesses to conserve more or can MGE improve in this area? Please do more."*
- *"Customer wants to conserve energy, but people don't know how; give people tools to reduce energy use; affordability for people, people who can't afford the newer tech, how to help people for example to replace old ineffective appliances."*

Several of the suggestions regarding incentives were targeted at the housing market and, in particular, multifamily housing. Participants offered several ideas for engaging renters and other populations in efforts that would help meet the community energy goals.

- *"If MGE could work with property owners to help provide smart technology for their tenants, more affordable options could be provided to affect more people."*
- *"Major cost is overhead which comes from peak usage. We need to go for low-hanging fruit like getting apartments to provide CFL bulbs and getting people to use existing smart devices. How do we induce instead of coerce people to take the low hanging fruit?"*
- *"A renter has no incentive to buy a 30-year light bulb, nor does a senior, so we need to offer incentives."*