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Trend Analysis: Administration of Energy Efficiency Programs

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September 2008

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Published by:
Edison Electric Institute
701 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-2696
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Web site: www.eei.org

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As interest in energy efficiency is renewed as a means to mitigate rising costs, meet increasing demand and address climate challenges, the threshold issue of how energy efficiency programs should be delivered is being debated again. Three main models have emerged: utility-delivered programs, independent third party administrators, and state-administered programs. While these models are not mutually exclusive, the majority of money spent is usually deployed through one primary model. Most of the consideration falls between utility and third-party administrator programs. A hybrid approach which allocates resources based on function is seeing some traction. Some argue that consumer education and low-income programs should be administered by a third party administrator or the state and individualized programs, dependent on service territory and customer class should be left to the utilities.

We have seen increasing scrutiny of the models for delivery of efficiency programs. These reviews come in a variety of forms, including legislative, but seem to be most often discussed in informal dockets, workshops and inquiries designed to review a host of efficiency issues. We have found varying levels of inquiry into the issue of who should deliver efficiency programs in the following states: California, Colorado, District of Columbia, Delaware, Hawaii, Idaho, Indiana, Iowa, Kansas, Maine, New Jersey, New York, Pennsylvania and Virginia. While most have not changed from the utility-delivered model they have stated they will continue to monitor to assure they are getting best value.

The attractiveness of third-party administration is due in large part to the reported successes of two longstanding programs, Efficiency Vermont (est. 2000) and the Energy Trust of Oregon (est. 2001). Proponents of these programs have been vocal about their successes. In fact, in 2003 Efficiency Vermont received the Innovations in American Government award from Harvard University and used the $100,000 cash award to inform and advise other states. In Vermont, energy efficiency programs are designed and delivered through an independent third-party 'energy efficiency utility.' The approach in Vermont is somewhat distinguishable in that prior to its creation twenty two utilities bore the responsibility for administering energy efficiency programs in a state with a population of roughly 600,000. Inefficiencies that arose from the multitude of mostly small service territories were seen as costly barriers. The approach was created under the premise that statewide, coordinated delivery of cost-effective energy efficiency programs would be more efficient and effective than delivery by twenty-two distribution utilities. There appears to be an understanding that the success of a program is not inherent in the model. A well-designed and administered program can attain success under any of the models. Conversely, poorly designed or implemented programs without proper oversight and monitoring and verification of results will fail. The arguments go to strengths and weaknesses within each model and their effectiveness within the state. Efficiency Vermont provides the example of where efficiencies in a state-wide approach outweighed individual utility approaches. The National Action Plan for Energy Efficiency does not endorse a particular model.

Arguments advanced for and against each model appear consistently in dockets across the United States. In support of utility-administered administration it is argued

that utilities generally understand their customers and the unique infrastructure aspects in their service area. The utilities have data on their customers and a long-standing relationship which is usually perceived to be positive. People turn to their utilities when they have questions. Utilities already have the staffing and contracting capabilities and back-office systems necessary to administer the programs. Only the utilities will be able to use energy efficiency to address system needs and to optimize system resources. If energy efficiency is to be viewed as a means to meet growing demand, it must be a part of any resource planning process, which is difficult to do if it is removed from the utility. Finally, utilities have an obligation to serve. If ability and authority to meet customer needs through efficiency is removed and efficiency goals are not realized, how will responsibility be allocated? Does the utility retain the ultimate obligation to serve? Finally, they argue regulators have a clearly defined oversight role and well-understood authority over the utilities to ensure only cost-effective programs are pursued and only savings achieved are compensated.

Those in favor of third party administration argue that energy efficiency is its only focus. It has no regulatory incentive to increase sales and does not have a bias towards supply-build options that increase rate base. Advocates of third party administration argue the costs of implementing energy efficiency measures may be lower because recovery of lost margins is not an issue and additional monies in the form of incentives are not necessary. They also argue having one statewide program run by a third-party reduces inefficiencies due to the confusion of multiple programs run by different utilities.

Several recent debates and decisions bear watching. First is the decision by the Delaware legislature to create the Delaware Sustainable Energy Utility (SEU). The SEU is a competitively selected nonprofit under contract to the Delaware Energy Office to coordinate and promote the sustainable use of energy in Delaware. What is different about this decision is that the SEU goes beyond energy efficiency programs and targets residential, commercial, industrial and transportation energy end-users in all energy markets, including electricity, heating fuels, green buildings, clean vehicles, customer-sited renewable energy, and affordable energy. The District of Columbia followed Delaware's lead. As energy issues become front and center it bears watching the enticement to link these issues and wrap responsibility into one agency.

Second is the decision in New York. New York has used a single provider model since 1999. The New York State Energy Research and Development Authority, or NYSERDA, is a state chartered corporation which administers energy efficiency programs for the state. The corporation was created by the state legislature and NYSERDA's Board of Directors and Executive Officer are appointed by the governor. NYSERDA's administration of programs is based on an inter-agency memorandum of understanding with the New York Public Service Commission, which receives guidance from an independent advisory group. In a recent 'straw proposal' the Commission proposed a significant reshuffling of responsibilities. It proposed to include utilities as significant players in the field and suggested a cooperative hybrid model in which both the utilities and NYDERDA play significant roles. The reasons cited for an expanded role of utilities included their access to customers, ability to leverage outside funding, and the potential to integrate energy efficiency with overall resource planning. The Commission was particularly interested in the potential value in 'on-bill' financing. It

claimed “[i]t can eliminate a major barrier to participation in efficiency programs for customers that lack ready access to capital; and it can, in the long run, reduce reliance on ratepayer-funded programs to achieve the State’s efficiency goals, thereby mitigating any disparities between total bills of participants and non-participants.”

If you presently administer energy efficiency programs you stand in a better position than those who do not have significant programs in place. There are valid arguments about the time and money necessary to disengage from the utility and start the program anew, including building expertise in the efficiency arena. The start-up issues should be compelling even where programs are new in that the utilities maintain many of the necessary functions and personnel. Each model has advantages, strengths and weaknesses. If you wish to administer efficiency programs or maintain the programs you have in effect, the most effective advocacy will play on the inherent strengths of the utility. An additional step reviewing coordination between utility programs offered in the state as well as promotion of cooperative relationships will assist in maintaining control over efficiency programs.