Improving Energy Efficiency

DRA strongly supports enhancing accountability and oversight of Energy Efficiency (EE) Programs to reduce energy usage, lower consumer monthly energy bills and combat global warming

DRA Recommendations

- **Implement Non-Financially Interested Third Party Administration:** Authorize a new entity to administer the EE programs that has a broader range of competencies and can pursue a wider variety of strategies – without conflict of interest - that maximize energy savings by expanding the sources of efficiency potential. Independent Administration, with CPUC oversight, should be guided by a long-term strategic plan, within which the IOUs could be one strategic component.

- **Modify Existing Incentive Rewards:** Cap the amount and type of incentive rewards that can be given. Incentive rewards for program administrators should only be given after results are verified and no rewards should be based upon evaluation by program implementers.

- **Expand use of local government programs:** Enormous energy savings exist through such strategic tools as city ordinances; code enforcement; land use; and out-of-the-box solutions such as financing districts. Local Governments can be low cost portals that serve to cover the entire state.

Other Factors to Consider

- **Require Verification:** Ensure that program dollars are being spent appropriately and that no incentive bonus rewards are paid to program administrator without independent verification.

- **Incentive should only apply to EE reductions over and above California policies and regulations:** Policy requirements to achieve GHG goals and energy efficiency standards and regulations adopted by state and local ordinance should not qualify for incentives as they are required and should be included in the baseline.

- **Limit Administrative Costs:** Cap administrative costs through clear rules for criteria and transparency.

- **Pursue Only Targeted Energy Savings:** Ratepayer dollars should only be used to pursue efficiency that would not otherwise occur (net savings) in order to promote optimal program design and not stifle the free market. Ratepayers should subsidize EE programs to the tipping point of market adoption or code and then begin to prime the pump with new technologies and strategies.

- **Enhanced Oversight:** Require the CPUC to report to the Legislature at key Energy Efficiency milestones such as approval of EE portfolio funding, program evaluation, and payment of any fees/incentives to program administrator.

Background

- **Late 1990** - CPUC attempted to establish independent administration of Energy Efficiency (EE) Programs with the California Board for Energy Efficiency (CBEE), but it failed in the absence of legislation
- **In 2004**, the CPUC went through a contentious process to consider the appropriate administrative structure for EE, considering utility administration, energy division oversight, and third-party administration.

Existing Law

Established by Legislature

- **PU Code Section 381 and 399.8** requires the CPUC to oversee the collection and expenditure of funds for energy efficiency by the Utilities it regulates.
- **PU Code Section 454.5 (b)(9) (C)** requires that Commission-approved utility procurement plans first meet resource needs with energy efficiency.

Established by CPUC

- **New Administrative Structure (D.05-01-055):** Gives administration of EE programs to the investor owned utilities (IOU).
- **Energy Efficiency Program Rulemaking (R.06-04-010):** Umbrella proceeding under which $2.1 billion was funded for 2006-08 programs; and $3.7 billion is being considered for 2009-11 programs (currently in bridge funding due to non-compliance).
- **EE Incentive Mechanism (D.07-09-043):** Established ability for utilities to earn a profit based on a risk-reward mechanism with unrestricted true-up to independent performance evaluations.
  - **1st Modification (D.08-01-042):** Increased ratepayer risk by making interim payments non-refundable.
  - **2nd Modification (D.08-12-059):** Awarded $82 million based on self-reported, non-verified savings, despite independent report showing the correct payment should have been $3 million to only one utility.
- **Long-term Strategic Plan (D.08-09-040):** Describes how EE should evolve over various market sectors by working collaboratively statewide across jurisdictions / market players to achieve zero net energy by 2020 through market transformation – and to which IOU EE portfolios should conform.
- **New Incentive Rulemaking (R.09-01-019):** The CPUC has suspended the current Incentive mechanism and does not intend to use the verification reports for the balance of 2006-08 incentive payments. The CPUC then intends to fashion a new incentive mechanism for the 2009-11 EE funding cycle.

Scope of Problem

- **Administrative Structure:** The current energy efficiency strategy, which is limited to investor-owned utility programs, does not maximize energy savings.
    - IOU EE Programs focus on short-term strategies that serve to maximize utility shareholder incentive bonus payments, rather than energy savings. (e.g., CFLs)
    - Short-term goals can result in gaming and energy savings that erode quickly, leaving California efficiency reduction levels flat or even declining.
    - IOU programs pursue GROSS energy savings (savings that would have occurred anyway), instead of NET savings, resulting in poor program design that does not pursue all available energy savings.
    - IOUs lobby to use outdated market/technology assumptions that do not accurately reflect the market in order that savings goals are easier to achieve, creating only the *perception* of energy savings.
    - No actual demonstration that EE programs result in building fewer power plants.

- **Incentive Mechanism:** Under IOU management, shareholder incentives have become the end goal of EE programs, not the energy savings. Persistent utility lobbying to continually change EE policies in order to lower the bar of energy efficiency goals so that the utilities may more easily achieve bonuses results in phantom energy savings.
    - The use of a shareholder incentive mechanism pre-supposes that the IOUs are uniquely qualified to run EE programs.
    - There is no demonstrated correlation of incentives with energy savings.
    - IOUs view EE incentives as an entitlement that cannot be returned to ratepayers even if it is found upon verification that goals were not actually achieved.
    - IOU criticism of independent evaluation in order to earn bonuses has created a paradox that simultaneously decreases confidence that EE programs can actually reduce the need for additional procurement.
    - Self-reported energy savings by EE program implementers as basis for incentive rewards encourages gaming.