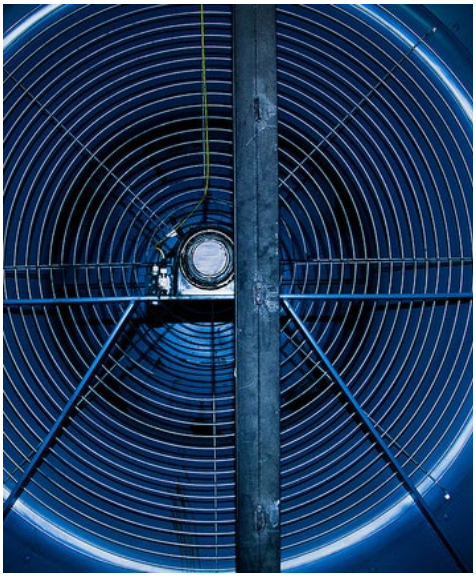
INDUSTRIAL POWER:

Unlocking the potential of utility energy efficiency programs



Industrial energy efficiency programs offer tremendous benefits – including energy savings, increased competitiveness, and reliability. Utilities pay for these programs through small fees on electric bills. But some states allow their largest customers to opt out of these payments. When large energy consumers stop participating, both the utility and their customers suffer the consequences of using – and paying for – more energy than necessary.

Why do opt-out policies matter?

State opt-out policies allow large energy users – as they're defined by each state – to "opt out" of paying into utility efficiency programs. Utility efficiency programs work because all customers invest in them, and benefit from them. Efficiency is an energy resource – just like coal, gas, wind, and solar. Customers need energy, which can be met by either purchasing electricity or making efficiency improvements that help them achieve the same output with less energy. Out of all resources, energy efficiency costs the least. In other words, it's a lot cheaper to invest in energy efficiency than it is to build a new power plant. In the same way that no customer (or group of customers) can refuse to pay for a new power plant, all customers should pay for energy efficiency.

What's the problem with opt-outs?

When some customers are allowed to opt out, all other customers have to pay more to achieve the same energy efficiency goals. Opt-out policies can cripple utility efficiency programs by prompting big energy users to leave and withdraw their fair share of investments in the program. In Indiana, for example, opt-out policies have resulted in about 70-80 percent of the industrial electricity market withdrawing from the state's utility efficiency programs.[1] This means that the state has less money to meet its energy efficiency goals.

How do utility efficiency programs help large customers?

On their own, most industrial and other large customers will only invest in projects with a two-year payback period.

Utility incentives can add more resources to a company's budget so that more projects meet the two-year payback requirement.

[1]Over one year, based on customers with at least one electric meter with more than 1 MW electricity demand for any billing period.

Key Terms

Large business customers often require that capital investments, including those in energy efficiency, realize a very short (one- to two-year) **payback requirement**. Sometimes that stops cost-effective projects from getting off the ground. Utility programs address this "payback gap" through **incentives** and **rebates**. For example, an industrial customer that wouldn't normally invest in an energy efficiency improvement project with a four-year payback could – with a utility program rebate to cover some of the costs – reduce the payback to two years. In this way, utility efficiency programs can allow more ambitious projects to pencil out.

Self-direct programs offer increased flexibility and allow large customers to direct most of their energy efficiency program fees back to their own facilities. Self-direct options can be proposed as alternatives to opt-out policies because they ensure that large customers will still invest in energy efficiency. When administered effectively, a self-direct option provides more customer control over energy efficiency fees, increasing confidence that the program will be responsive to their needs. However, if administered poorly, self-direct programs may not hold participants accountable for following through with their commitments. In that case, self-direct programs can be a false alternative to energy efficiency program participation, and may either reduce or completely eliminate customer obligations to contribute to energy resource planning. Therefore, it is important that program administrators design effective self-direct programs that achieve documented energy savings that are at least equivalent to what would have been saved through participating in a traditional utility program.

Effective **evaluation, measurement, and verification** (EM&V) is critical for program administrators to assess results and measure progress, and is also useful for industrial companies to verify results of their investments.

What can be done to improve large customer satisfaction with utility energy efficiency programs?

Utilities and public utility commissions should encourage all customers to participate in utility efficiency programs by designing good quality programs that serve the needs of all types of customers, including large commercial and industrial ratepayers. Utility programs should:

- Provide customized technical assistance and support;
- Assign dedicated program staff and/or contractors to provide technical assistance and develop a multi-year relationship with large customers;
- Offer a combination of prescriptive and custom options to best support diverse customer needs;
- Accommodate scheduling concerns and provide program flexibility (e.g., allow a two-year period to complete larger projects and receive the program incentives);
- Consider offering incentives to support a part- or full-time energy project manager at the site, and to provide training and coaching;
- Streamline and expedite application processes;
- Conduct continual and targeted program outreach; and
- Undertake proper project measurement and verification and complete program evaluations.

If large customers continue to raise concerns about participating in utility efficiency programs, the utility should also consider adopting a self-direct program. Self-direct programs allow large energy users to control how some or all of their energy efficiency fees are used, but do not allow them to opt out of fees and programs completely. Well-structured self-direct programs offer large energy users greater flexibility and control, while ensuring measurable, cost-effective energy savings are achieved for all customers in the utility system.

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