American Council for an Energy-Efficient Economy

Overview: Administrative Structures for Utility Customer Energy Efficiency Programs in the United States

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Today's energy efficiency programs serving utility customers:

- Trace back to utility programs of the 1980s (even 1970s) and early 1990s; from initial focus on "energy conservation" in response to crises to the era of demand-side management (DSM) and integrated resource planning (IRP) to employ *energy efficiency as a utility resource.*

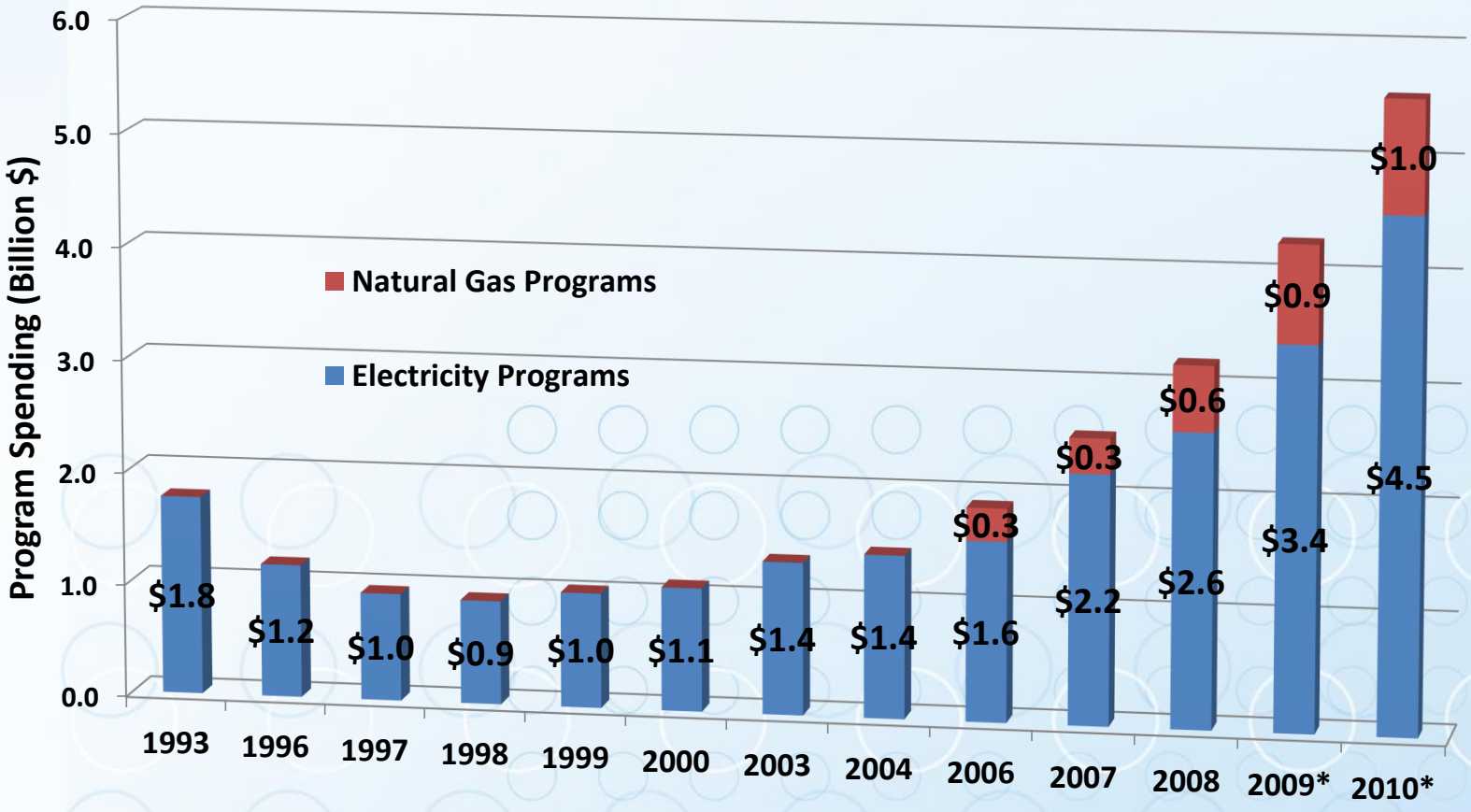
- Were significantly affected by electric industry "restructuring" (or "deregulation") of the mid- to late-1990s; funding dropped dramatically (~50% nation-wide—see next slide) while program requirements and structures changed fundamentally in many states.

- The "restructuring" upheaval left a much more varied landscape of program administrative structures than had existed. Programs from state to state vary considerably in funding levels, administration and implementation. Regional approaches and collaboration have emerged along with complementary federal/national initiatives (e.g., "ENERGY STAR").

Utility Customer Energy Efficiency Programs Spending and Budget Trends

(all programs funded by customers through rates or fees, whether administered by investor-owned utilities, publicly owned utilities or non-utility organizations)

State-Level Energy Efficiency Program Spending or Budgets by Year, 1993–2010



Sources: Current and past ACEEE Scorecards

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Two main administrative structures in place today for energy efficiency programs serving utility customers:

1. **Utility administration:** Utilities administer programs as required by regulation or legislation; are overseen by state regulatory authorities; program costs are covered via regulated rate setting processes or in some cases specific riders or public benefits fees.

2. **Third-party (non-utility) administration:** Non-utility organizations (state government, contractors, non-profit organizations) administer programs funded by public benefits fees (typically charged at the distribution level) or other targeted funds. Such structures generally were created in states with restructured electricity markets, but **Wisconsin** and **Vermont** are unique in having 3rd-party administration without having restructured utility markets.

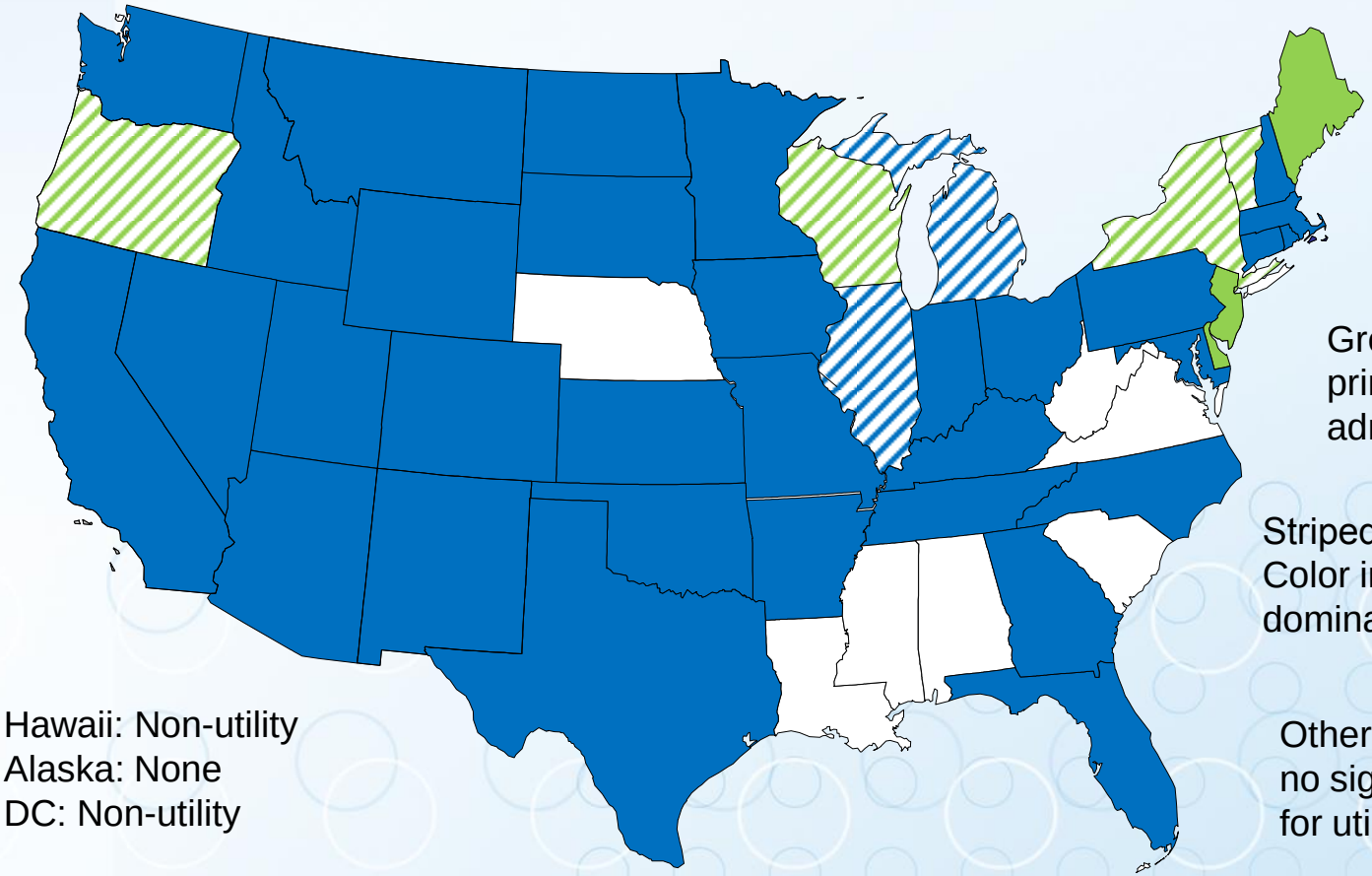
Third-Party (Non-Utility) Administration

- **Efficiency Vermont** ("energy efficiency utility" – program contractor to Vermont Public Service Board)
- **Energy Trust of Oregon** (public benefits organization created for energy efficiency and renewable energy programs)
- **New York Energy $mart Program** (existing state authority, NYSERDA, tasked with new, expanded mission)
- **Focus on Energy** (Wisconsin)(program contractor to Public Service Commission of Wisconsin; earlier to state energy office)
- **Efficiency Maine Trust** (independent organization created in 2009; replaced Efficiency Maine, predecessor non-utility program)
- **New Jersey Clean Energy Program** (contractor to Board of Public Utilities)
- **Delaware Sustainable Energy Utility** (contractor to State Energy Office, Department of Natural Resources and Environmental Control)
- **Washington, DC: Sustainable Energy Utility** (contractor to DC Energy Office, DC Department of Environment)

Utility administration of public benefits programs is the most common and is in place in both restructured and non-restructured states, including:

- California
- Massachusetts
- Connecticut
- Texas
- Illinois (hybrid)
- New Hampshire
- Rhode Island
- Pennsylvania
- Ohio
- Michigan (hybrid)
- Washington
- Arizona
- Colorado
- Utah
- Iowa
- Minnesota
- Arkansas
- Florida
- Missouri
- Idaho

The Landscape of Utility and Public Benefits Program Administration in the U.S.A.



Blue states have primarily utility administration of customer EE programs

Green states have primarily non-utility administration

Striped states are “hybrids” Color indicates which type is dominant (utility or non-utility)

Other states have limited or no significant EE programs for utility customers

Hawaii: Non-utility
Alaska: None
DC: Non-utility

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Administrative structures across states are more complicated than this map suggests – many states have administrative *hybrids* in place:

- Within states, there is rarely a true "statewide" program---in many cases there are mixed models, such as a "statewide" public benefits programs *and* separate or parallel utility programs (e.g. Wisconsin and New York), or primarily utility programs with some non-utility programs (e.g., Illinois and Michigan). Vermont has a state-wide non-utility program for electric customers and utility programs for natural gas customers (which are coordinated with the statewide electric programs).

- And then typically municipal and cooperative utilities (or other publicly owned utilities) may be exempt from energy efficiency program requirements---or may offer their own programs.

Advantages of utility administration

Utilities:

- Are well recognized, generally trusted by customers.
- Have direct, routine customer contact and established relationships.
- Are organizations structured to serve large numbers of customers and manage necessary resources.
- Are potentially a good fit for “energy services” that would include customer energy efficiency, which *can* clearly fit a utility business model *if* shareholder incentives are aligned with energy savings objectives of customer programs.
- Have easy, direct access to customer accounts (energy use history and characteristics).
- Generally have in-house expertise on customer energy use---along with other aspects of administering and delivering programs—marketing, accounting, field services, customer representatives, evaluation, etc.
- Are part of a well-established market—a structure for program administration and funding that may be more “stable” and less “political” than non-utility structures.

Disadvantages of utility administration

- Markets don’t stop at utility service territory boundaries.
- May miss economies of scale for marketing and working with major suppliers/other market actors.
- Can be confusing for customers regarding eligibility for programs.
- Can be internal business conflicts for utilities---saving energy through energy efficiency can erode revenues and corresponding profits (misalignment of shareholder incentives with energy savings objectives).
- Not a “core” business function or operation—may lack upper management support relative to other functions.
- Funding may be tied to rate cases, which generally are contentious. Also frequency may not be optimal (too short or too long cycles for effective planning and successful customer engagement and participation).

Advantages of non-utility administration

- Such programs generally have a single-purpose organizational objective: saving energy through improved customer energy efficiency (and possibly developing customer-sited renewable energy).
- Statewide programs can yield greater consistency and better coordination.
- Statewide programs provide better economies of scale for marketing and relationships with key stakeholders/market actors.
- Non-utility administration eliminates the potential internal business conflicts (energy savings reduce utility revenues) that can arise within utilities doing energy efficiency programs.
- Non-utility programs/administrators can become a trusted, independent authority---no mixed motives—”We’re here to serve you and save you energy. Period.”

Disadvantages of non-utility administration

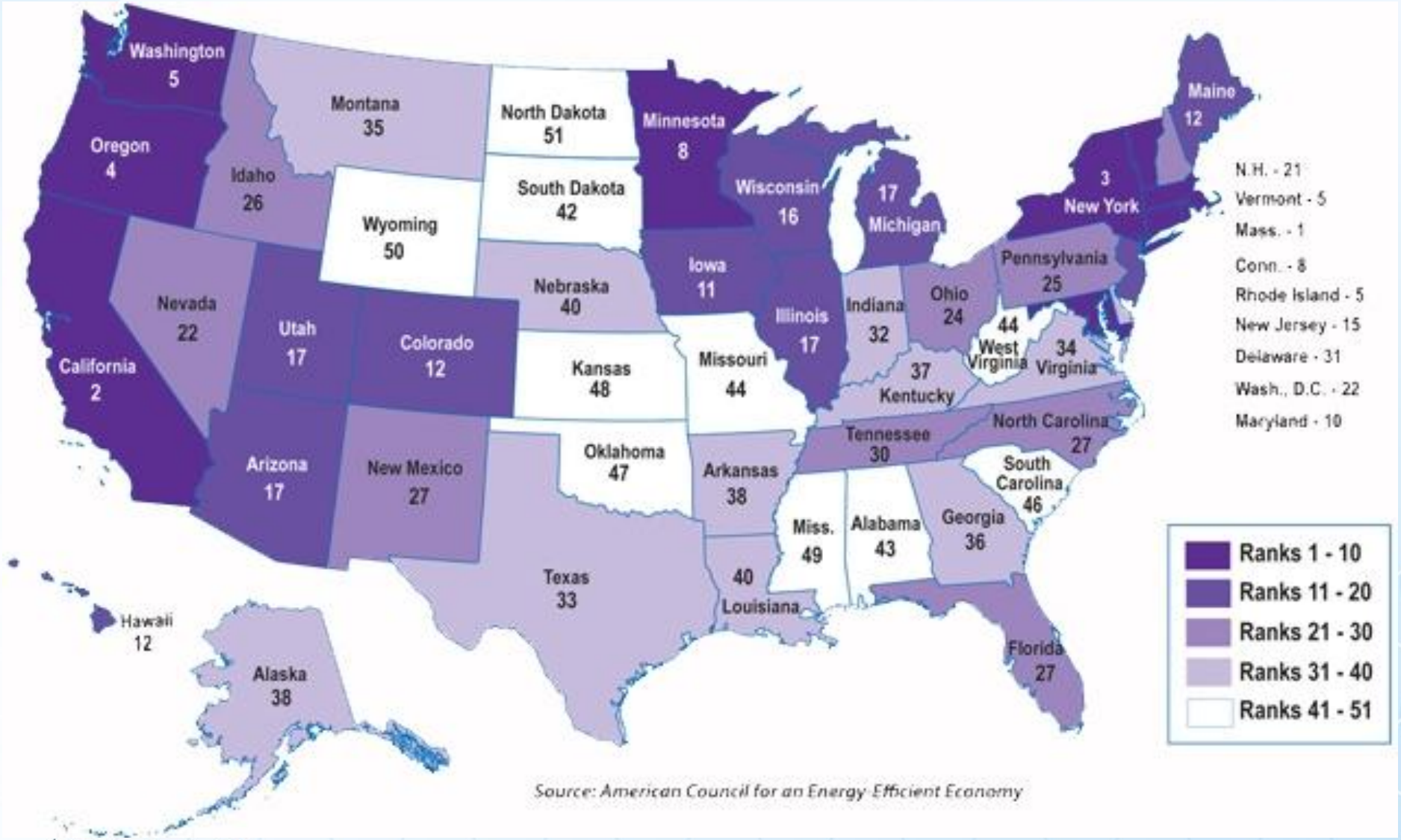
- Lack of customer recognition: Who are you?
- Lack of customer confidence/trust/credibility: Do you really know what you're doing—Will you be here tomorrow?
- It takes time to build infrastructure---can't create new organizations and corresponding capabilities to administer and implement programs overnight.
- Changes in contractors can be disruptive.
- Customer data/account information may not be as readily accessible/available.
- Structure and funding can be less stable, more subject to political winds.

And the winner is? The search for the best administrative model……

There is no “best” model from ACEEE’s perspective and experience.

- All models can work well.
- In ACEEE’s work identifying and reviewing exemplary programs, we have found exemplary programs operating under all different types of administrative models.
- Utility administration is still dominant model (if measured by program budgets and customers served).
- ACEEE’s Annual State Energy Efficiency Scorecards show that leading states employ a variety of administrative structures for EE programs (next slide):

The 2011 Scorecard Rankings



Source: American Council for an Energy-Efficient Economy

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