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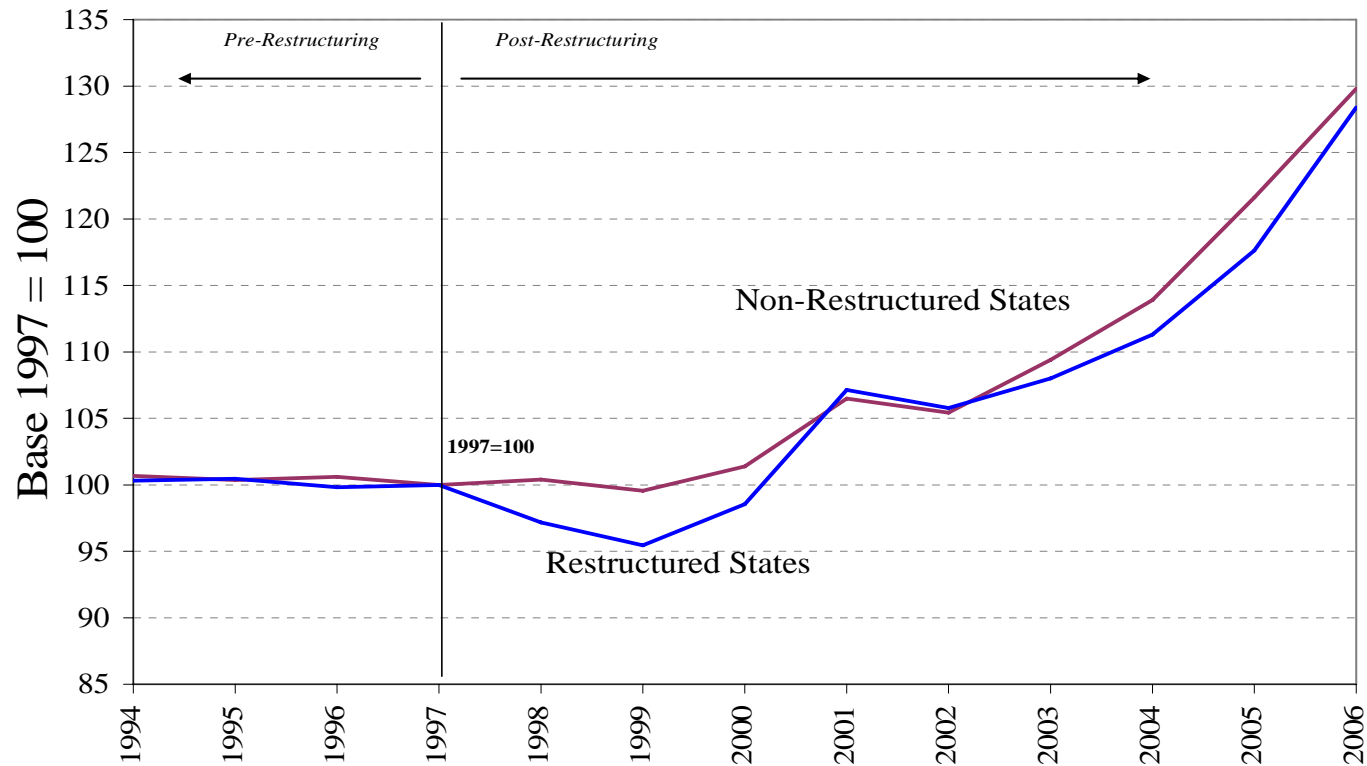
Some questions consumer advocates should consider in utility versus third-party administration of energy efficiency programs

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The Brattle Group

Energy efficiency is a vital part of future electricity supply – “the fifth fuel”



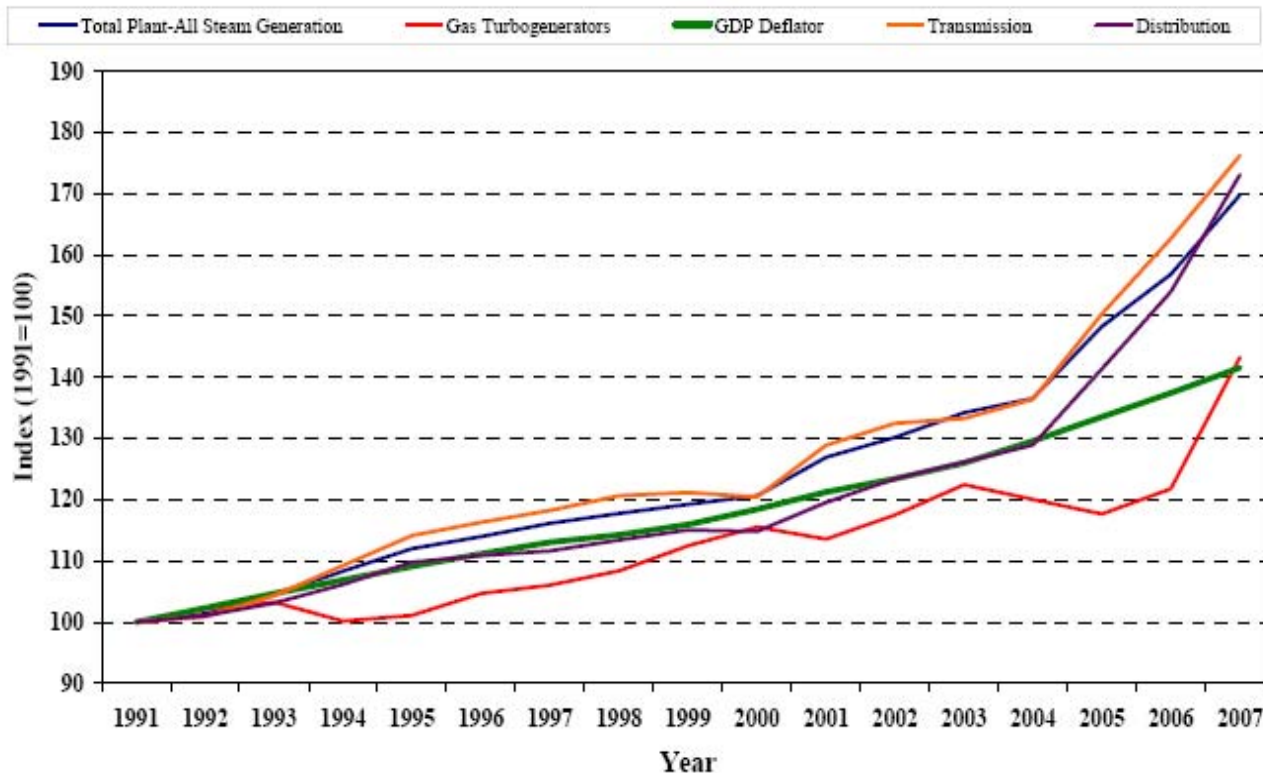
Sources and Notes:

EIA Data: SEDS, Form 861, Monthly Energy Review, and Form 826.

2006 reflects January 2006 - July 2006 monthly data.

Increasing infrastructure costs will continue to drive increases

National Average Utility Infrastructure Cost Indices

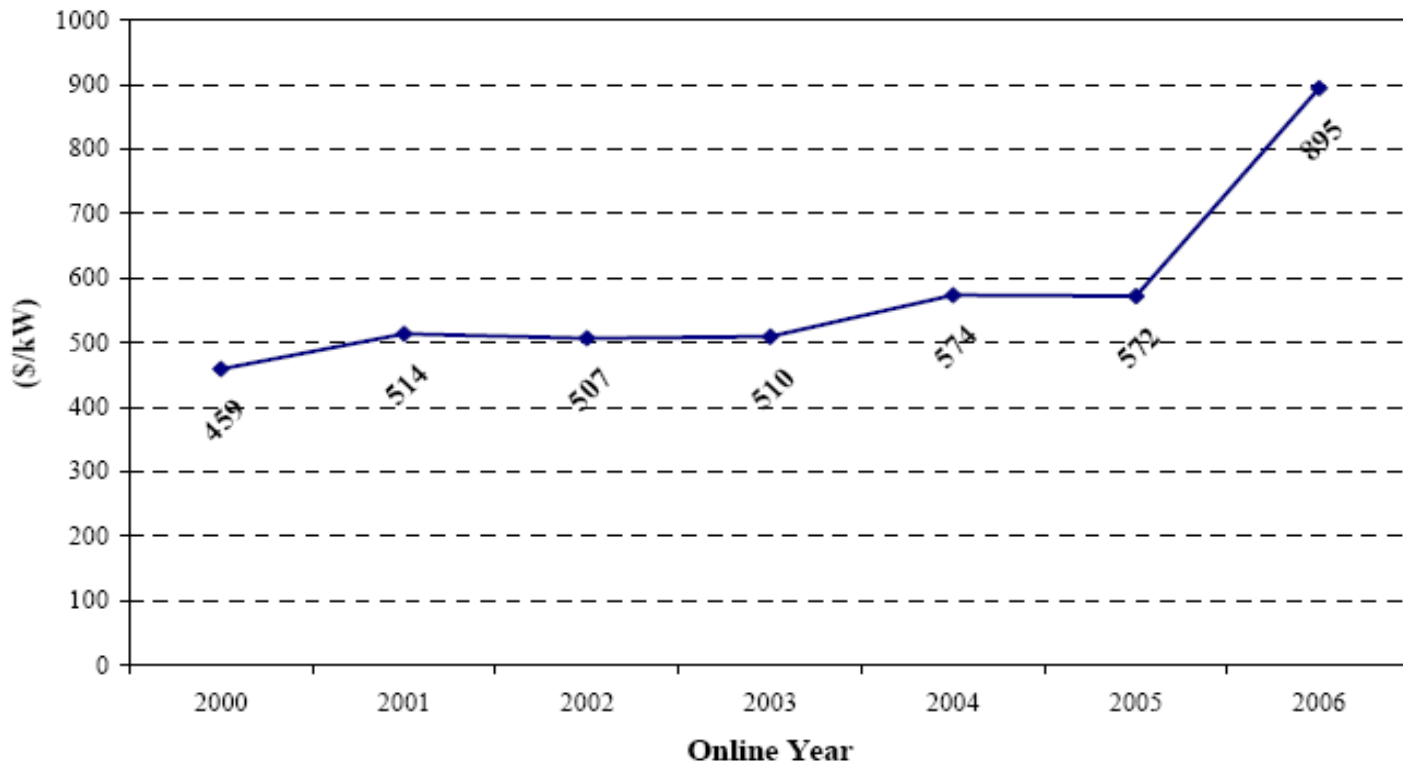


Sources: The Handy-Whitman® Bulletin, No. 165 and the U.S. Bureau of Economic Analysis.
Simple average of all regional construction and equipment cost indexes for the specified components.

From: *Rising Utility Construction Costs: Sources and Impacts*, Marc Chupka and Greg Basheda,
The Edison Foundation, September 2007

These translate into increased costs for new installation

Average Nominal Installation Costs (\$/kW)



Source: *Rising Utility Construction Costs: Sources and Impacts*, Marc Chupka and Greg Basheda, The Edison Foundation, September 2007

And, the preceding slides don't take into

- **Rising fuel costs**
- **Action on climate change**
- **Renewables mandates that will likely drive up the cost of electricity supply**
- **Clearly, action is needed in energy efficiency**
- **But who should do it?**

There are different parts to the energy efficiency puzzle with appropriate roles for different parties

- **Building codes and standards, appliance standards**
 - ▶ Clearly, this is a role for government
- **Creation of rate structures that would likely result in energy efficiency**
 - ▶ Inclining block rates vs. declining or flat blocks
 - ▶ Utilities or energy retailers should be leading the way
 - ▶ Regulators should encourage rate innovation to achieve energy efficiency
- **Program specific activities such as CFLs, weatherization, etc.**
 - ▶ There's not one right answer that always works
 - ▶ These slides suggest some things that consumer advocates should consider when thinking about who should administer energy efficiency programs:
 - Governments?
 - Utilities?
 - Third-party administrators?
 - ▶ These remarks focus on utilities vs. third-party administrators
 - ▶ There are more issues, but I've tried to boil it down to four questions

1. Will third-party administration mean loss of regulatory oversight?

- **In some jurisdictions, third-party administration has resulted in, or is contemplated to be, outside the jurisdiction of the regulator of the electric power utilities**
- **As a result, the usual levers of due process and oversight may be lost**
- **It is difficult within contracts to duplicate the regulatory process**
 - ▶ Difficult and expensive to get the same level of oversight in a duplicate system or through the courts

2. How do the incentives work?

- **Energy efficiency can result in revenue erosion for utilities**
 - ▶ This provides a disincentive for utilities
 - Decoupling
 - Lost revenue recovery
- **Does the utility have positive incentives so that management attention and company resources will be focused on energy efficiency?**
 - ▶ Shareholder incentives
 - Shared savings
 - Bonus RoE
- **Can a contract with the third-party administrator appropriately incent it to perform?**
 - ▶ End-of-contract issues
 - ▶ Are they incented on cost-effective performance as a utility should be looking at the TRC test?
 - ▶ Lifetime of some energy efficiency measures reach far beyond contract life

3. Does the utility have economies of scope and scale not available to a third-party administrator?

- **Resource planning**
 - ▶ Generation
 - ▶ Transmission
 - ▶ Distribution
 - ▶ Targeted energy efficiency
- **Does the utility have systems in place that the third-party administrator will have to (expensively) duplicate?**
 - ▶ Billing
 - ▶ Customer service
 - ▶ Energy efficiency contracting

4. Does the utility relationship with the customer give it a key advantage?

- **Need to link the administrator with the provision of power?**
- **The utility is the logical point of contact for customers**
- **The utility has the more information about its customers than other entities**