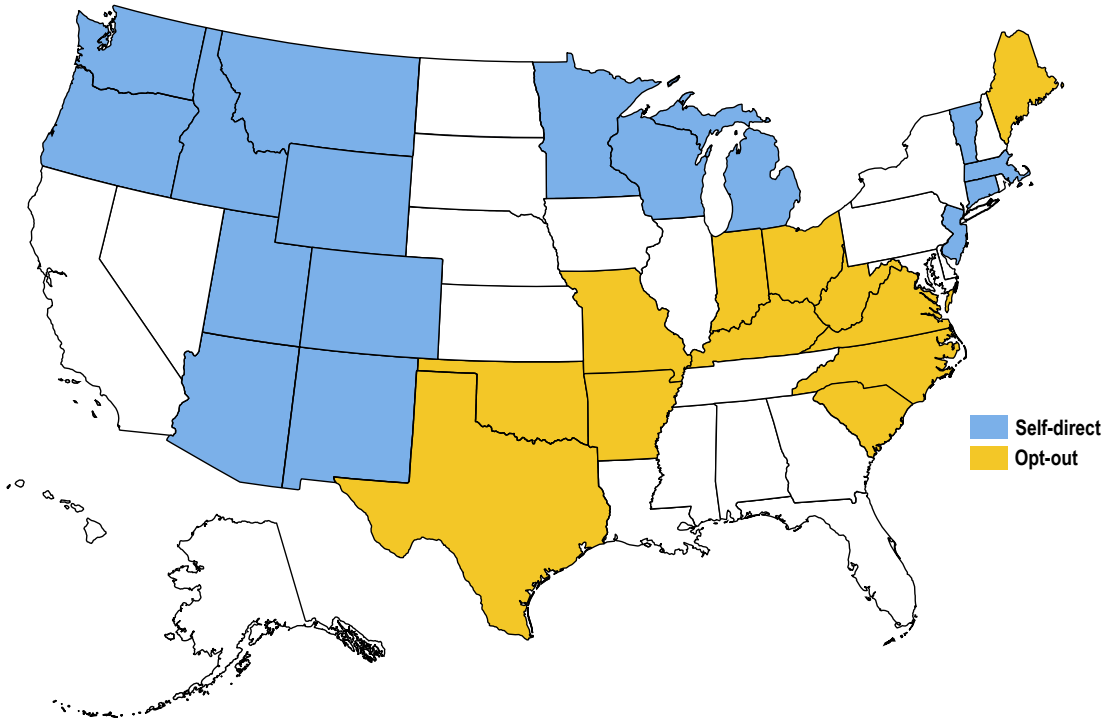
ACEEE
American Council for an Energy-Efficient Economy

Overview of Large-Customer Self-Direct Options for Energy Efficiency Programs



NOTES Status of large-customer self-direct and opt-out programs, by state. Status current as of August 1, 2015. Note that plans for self-direct programming are under way in New York. Earlier in 2015, the New York Public Service Commission directed electric utilities to offer a self-direct program for commercial and industrial customers by 2017.

Utilities and states are increasingly recognizing the value of energy efficiency programs as the cleanest and lowest-cost energy resource.[1] Energy savings opportunities are achievable in homes, businesses, and industrial plants, and benefit all customers by lowering energy waste, which can avoid the need for more costly investments in energy supply and distribution infrastructure. Large energy users, such as industrial facilities and institutional campuses, that invest in energy efficiency benefit doubly: waste reduction lowers their operating costs and utility bills, while also stabilizing their future rates.

Some of the most cost-effective efficiency programs are those designed for large energy users.[2] On a national level, the industrial sector saves more energy per program dollar than other customer classes, even though many states harness only a fraction of their industrial energy efficiency potential.[3] Low-cost efficiency opportunities can be found across the country at sites consuming large amounts of energy, and thus comprehensive energy efficiency program portfolios should include large energy users to minimize energy efficiency resource costs for all customers.

SELF-DIRECT AS AN ALTERNATIVE TO OPT-OUT

Unfortunately, some states allow large customers to opt out of energy efficiency program participation and funding. Letting large industrial, commercial, or institutional customers opt out eliminates a proven low-cost energy resource and additional power will be needed, ultimately increasing everyone's energy costs. Just as all customers pay for new generation assets, such as

1 Investments in customer energy efficiency programs by the utility sector climbed from $2 billion in 2006 to more than $7 billion in 2014. Savings from electric efficiency programs in 2014 totaled approximately 25.7 million MWh, a 5.8% increase over 2013 savings. Gas savings totaled 374 MMTherms, a 35% increase over 2013 savings.

2 A. Chittum and S. Nowak, Money Well Spent: 2010 Industrial Energy Efficiency Program Spending (Washington, DC: ACEEE, 2012).

3 SEE Action (State and Local Energy Efficiency Action Network). 2014. Industrial Energy Efficiency: Designing Effective State Programs for the Industrial Sector. Prepared by A. Goldberg, R.P. Taylor, and B. Hedman, Institute for Industrial Productivity.

the construction of a new power plant, so should all customers pay for energy efficiency resources. As a means of securing the benefits of energy efficiency that accrue to everyone, while also addressing the unique needs of large energy users, alternative options such as self-direct programs are preferable to opt-out provisions. Self-direct programs typically allow customers to control some or all of their energy efficiency fees.

Self-direct programs are preferred because eligible large customers still contribute funding toward energy efficiency programming (either on their bills or through some other mechanism) but they may then direct those funds toward the design, implementation, and verification of energy-saving projects in their own facilities. When administered effectively, a self–direct option provides more customer control over energy efficiency fees, overcoming concerns of some customers that the traditional program offerings are unresponsive to their needs or disproportionately benefit other rate classes. However, if administered poorly, self-direct programs can be a false alternative to energy efficiency program participation, either reducing or altogether eliminating customer obligations to contribute to energy resource planning.

If traditional program offerings cannot meet the needs of large customers, regulators and utilities should develop self-direct programs that respond to the needs of these customers while also ensuring energy savings are measured and verified. Self-direct options offer increased flexibility and allow large customers to direct most of their energy efficiency program fees back to their own facilities. Customers may also find these programs offer additional benefits. For example, in some cases customers may aggregate fees over multiple years, effectively generating a source of capital finance for energy efficiency improvements in their facilities. Additionally, self-direct programs are well suited to align with and support a facility's internal energy management activities. This is because a self-direct program often allows a customer to apply funds toward a wide variety of technologies and processes, some with multiyear time spans. These types of projects may be important to the facility's long-term energy management strategy, but may not have been well suited to more traditional energy efficiency programming.

Today, all 50 states and the District of Columbia implement ratepayer-funded energy efficiency programs. Of these, 16 states currently offer some kind of self-direct provision for large customers. Twelve other states allow some or all large customers to completely opt out of paying for the energy efficiency resource. In many of the remaining states, large customers are able to take advantage of robust and effective energy efficiency programs offered as part of established utility- or program administrator-run energy efficiency portfolios.

ENSURING A TRUE ENERGY EFFICIENCY RESOURCE

Utility planners and wholesale power markets rely on solid verification of energy efficiency resource measures to manage present and future energy markets. Therefore, savings from self-direct programs are recognized and useful for system planning only if they are adequately measured and verified. ACEEE research has identified the key elements of successful self-direct provisions.[4] These include

- Structuring self-direct programs as part of a larger portfolio of robust programs that are responsive to industrial and other large customers' needs
- Defining cost effectiveness at the customer level; that is, each individual project need not meet the cost-effectiveness criteria, but a customer's entire energy efficiency plan (perhaps stretched over multiple years) should yield cost-effective savings
- Engaging large customers in the development of self-direct programs to ensure they meet local needs
- Forbidding the counting of past actions toward self-direct program savings
- Allowing additional flexibility in eligible technologies and time lines in exchange for the contribution of low-cost energy efficiency savings to the grid
- Requiring routine progress reporting with robust approaches for measuring and verifying energy savings so that they can be included in resource planning
- Including both technical and financial needs in program assistance components
- Developing transparent mechanisms for customers to view their individual fee contributions and the amounts applied toward their projects. Examples include
    - Offering escrowlike accounts to structure a "use it or lose it" fund base that encourages greater participation
    - Providing customers with clear rate credits on their bills for satisfactory progress toward preestablished savings goals
    - Offering access to a special rate or tariff provided the customer proves continued progress on energy savings
    - Providing targeted enhanced incentives for projects that are self-directed and thus use less of a utility or energy efficiency program's internal resources

4 A. Chittum, Follow the Leaders: Improving Large Customer Self-Direct Programs. (Washington, DC: ACEEE, 2011).