

20 REASONS TO END UTILITY CONTROL OF ENERGY EFFICIENCY

Talking Points for the March 17-18, 2004 CPUC Workshop in R0108028
Criteria for Evaluating Administrators of Energy Efficiency Programs

1. Investor-owned-utilities (IOUs)¹ have a conflict of interest with energy efficiency (EE). They insist they want to run energy efficiency programs, but that's not out of devotion.² They don't want conservation getting out of hand and cutting too deeply into their profits. Selling energy is their core mission, and they are required by law to maximize shareholder profits by increasing energy sales. In spite of CPUC efforts to coax and bribe utilities to run good EE programs, utilities have continued to waste EE funds on ineffective, overpriced programs.³ *An administrator who had no such a conflict of interest would be able to focus clearly on the goal of saving energy, and could take these programs to a much higher level. The key is program effectiveness monitoring — to make sure consumers get maximum Return On Investment for their energy efficiency dollars.*

2. IOUs were forced to compete against non-utility program providers since late 2003. Almost all the non-utility residential programs performed better than the utility programs; most of the IOU residential programs were not even "cost-effective" (meaning ratepayers get a least \$1 of bill reductions for \$1 of EE work).⁴ Utilities tried harder with business programs, but even there, utility programs they had 30 years to perfect were in a dead heat with non-utility programs in their first year. *A fair administrator would eliminate programs that are not cost-effective.*

3. IOUs do not include all marketing, information and training as part of the cost of each program,⁵ while non-utility providers do include these costs. This means IOU

¹ California's large IOUs are Pacific Gas & Electric (PG&E), Southern California Edison (SCE), San Diego Gas & Electric (SDG&E) and Southern California Gas (SCG). These IOUs controlled all energy efficiency program funds in their territories until recently.

² Plus, EE props up IOUs' corporate image. They get to hand out rebate checks to customers for new air conditioners, washing machines and business equipment. The checks have utility logos and signatures, even though the money comes directly from ratepayers — it's not the utility's money..

³ The CPUC tried many ways to get around this conflict, including setting up complicated mechanisms to "decouple" energy sales from profits, however this could not change the basic fact that stock value depends on utilities selling more energy. The CPUC tried to bribe utilities to do a better job on EE by giving them "Shareholders Incentives" to reward them for saving energy or providing information on how to save energy. The notion was that energy saving would provide profits, just like energy selling, but these returns were tiny compared to the billions they made selling energy. Incentives ate up a quarter of the budget but produced no visible transformation in IOU behavior or the "market" for energy efficiency.

⁴ In 1993, Commissioner Loretta Lynch gave non-utility EE providers (cities, nonprofits and small businesses) a chance to show what they could do with 20% (\$50m) of the \$250m statewide EE funds. SESCO compared 2003 quarterly reports and ranked all programs. Using the cost-effectiveness methodology required by the CPUC, the first round of "Third Party" programs in the residential sector produced 18 of the 20 highest-ranked programs, while the IOUs produced 15 of the 17 lowest-ranked programs. This did not even consider the marketing, information and training costs that the IOU programs off-loaded to other programs.

⁵ IOUs are allowed to run separate information and training programs which are not required to save energy. They also benefit from the "Efficiency Partnership" which provides additional marketing for IOU programs.

energy savings programs are much less cost-effective than they appear. *An administrator who cared about the bottom line would look at the total cost of each program.*

4. IOUs charge extremely high overheads and administrative fees for energy efficiency programs — as much as 50% for some programs.⁶ *A competitive administrator would provide better administrative services for much less money, and would choose program providers that do not charge excessive overheads.*

5. IOUs currently administer and implement their own energy efficiency programs and also administer contracts for non-utility programs with which they compete.⁷ Utilities have done nothing but complain about non-utility programs and resist providing any useful oversight. *An impartial administrator would treat all programs fairly, would not run competing programs, and would manage toward the goal of maximizing energy savings, which was put forth by three California energy agencies in the Energy Action Plan.*

6. IOUs short-change residential customers. They complain that they just can't get much traction out of doing EE work in homes; and insist that there are more opportunities to save energy in businesses. This is not accurate.⁸ *An unbiased administrator would provide energy efficiency services to residential customers as well as businesses, in proportion to their contributions to Public Goods Funds.*

7. IOUs refuse to target savings where it really counts. Residential air conditioners use nearly 7000 MW at “peak” times in California, when energy use increases from around 36,000 to around 50,000 MW.⁹ IOUs do little to address this demand. *A fiscally and environmentally responsible administrator would target peak demand first, to reduce the need to build new power plants (and liquefied Natural Gas (LNG) facilities to fuel those plants).*

8. IOUs discriminate against low and middle-income apartment-dwellers. For example, they only provided rebates on large refrigerators that would not fit into apartment kitchens. A legislator from South Central Los Angeles found this so annoying that he got a bill passed to ban refrigerator rebates altogether.¹⁰ *An administrator concerned with equity would focus more attention on energy efficiency to reduce bills for apartment dwellers.*

⁶ TURN analysis of utility reports, per conversation with Marcel Hawiger.

⁷ “The IOUs are responsible for oversight and evaluation of their programs, as well as oversight of Commission-approved non-IOU programs.” (Assigned Commissioner’s Ruling, 2/6/04, Attachment 1, p. 2)

⁸ For example, PG&E’s current “partnership” program with San Francisco, which is supposed to concentrate on reducing peak load in order to close an ancient power plant, is spending almost all its funds on businesses, providing them with several hundred thousand CFLs. However, businesses typically keep their lights on all day. If the bulbs were installed in residences instead, they would generally be used only in the evenings, and would last up to eight years. That means they would provide “winter peak” savings (4-8 pm during the winter) for many years, while the same bulbs installed in businesses will burn out in little more than a year — no help for closing the power plant.

⁹ TURN Post-workshop statement on Customer Needs, 3/5/04, p. 5.

¹⁰ Most of the time this legislator — who was Chair of the Assembly Utilities & Commerce Committee — worked closely with utilities, who handsomely fund his campaigns.

9. IOUs never solved the problem of “split incentives” between landlords — who control the property and major appliances for apartments and small businesses — and tenants, who pay utility bills for their units. Landlords have little reason to buy energy efficient appliances or insulation that would reduce bills for the tenants. *An innovative administrator would adopt solution such as the one a non-utility program provider¹¹ demonstrated very successfully in 2003: since landlords DO want to reduce their own utility bills, require them to have work done in all the tenants’ units as a condition for getting rebates for efficient lighting, laundry facilities, etc. for common areas where the landlord pays the bills.*

10. IOUs refuse to offer the most cost-effective programs. For the past decade two of the IOUs have made every effort to avoid offering a refrigerator-recycling program¹² that the Commission wanted them to offer because it was the most cost-effective EE program wherever it was allowed to operate. It not only saves energy, it also keeps toxic materials out of landfills, provides good jobs for low-skilled workers, and prevents resale of money-eating refrigerators to unsuspecting low-income consumers. *An administrator who worked on behalf of ratepayers would expand rather than shrink the most cost-effective programs.*

11. IOUs don’t offer “on-bill financing,” which enables customers to buy energy efficiency services and appliances by paying a small amount each month on their utility bills. (The energy savings covers the cost of the appliance, over time.) Many low and middle-income customers can’t take advantage of rebates because they don’t have the cash or credit to pay the rest of the cost of the appliances. *An administrator who cared about the needs of cash-strapped families would take the steps needed to implement on-bill financing.*

12. IOUs fail to provide reports that reveal precisely how they plan to save energy and where they succeed and fail. Instead, they lump data together and provide averages, instead of separating data by customer type, end use, and specific measure — making it difficult or impossible to see which products or services are most successful, and which ones aren’t helping. *A competent, business-like administrator working on behalf of the public would demand to know what works and what doesn’t, and would pay attention to details, as any viable organization must do.*

13. IOUs have an overly close relationship with contractors who measure their energy savings. They even wined and dined their measurement contractors at resorts (at public expense), and gave them lucrative consulting contracts for “studies” that would make utility programs look pretty. Utilities awarded all but one of the contracts for Statewide Studies in 2003 to their sweethearts — although a proposal by a highly qualified consultant offered more services for 2/3 the cost of the winning bid for one of

¹¹ SESCO’s program in SoCal Gas territory, 2003

¹² Appliance Recycling Corporation of America (ARCA)

the studies.¹³ *An honest administrator would require competitive bidding for statewide studies, and prevent measurement contractors from being compromised.*

14. IOUs pretend that energy savings labels can be trusted, although field tests show that a substantial percentage of Energy Star appliances — refrigerators, hot water heaters, air conditioners, washing machines, etc. — use up to twice as much energy as they say on the yellow label, even when they're new. *A responsible administrator would make sure newly installed appliances were tested with data loggers to make sure they work properly. This would benefit the customer and ensure that savings figures are accurate.*

15. Utilities ignore the shortcomings of appliance manufacturers who do not guarantee their products will comply with their Energy Star labels. Some appliance manufacturers, such as GE, have a conflict of interest similar to utilities because they make power plant machinery as well as dishwashers and refrigerators. *An administrator who put ratepayers interests first would require manufacturers to guarantee that their products only use the amount of energy they advertise. Utilities don't make this demand although they give "upstream" rebates to manufacturers to bribe them to build a certain quantity of supposedly efficient appliances.*

16. Utilities offer few maintenance programs, although these could save vastly more energy than rebates for new equipment.¹⁴ For example, air conditioners use more energy when they have too little or too much refrigerant. Field tests show that half of the brand-new air conditioners have the wrong amounts. *An administrator who wanted to get the most conservation for the money (and greatly benefit lower income customers) would prioritize maintenance programs to make sure old and new air conditioners have the proper amount of refrigerant. A non-utility provider recently submitted a proposal to service 36,000 units — for the same price as 3000 utility rebates for new air conditioners.*

17. Utilities classify most of their EE employees as "management" so they lack union protection and the utilities can fire them whenever upper management feels like slashing EE budgets. *An administrator who cared about developing a trained, experienced workforce would not tolerate capricious treatment of workers.*

18. IOUs and their stockholders make money when energy is wasted, but California residents, businesses, schools, hospitals and other public institutions lose money. Our utility bills are far higher than anywhere else in the country. Saving more energy would reduce our bills and free up money that we could spend on other things we need, providing much more benefit to the economy and generating revenue for schools and other government services. *An administrator who had no conflict with the public interest would see to it that Public Goods funds produced the maximum possible energy savings and the greatest benefit to the economy.*

¹³ Utilities charged 28% (\$2.3m out of a budget of \$7.7m) to "administer" the statewide studies that their sweetheart contractors performed.

¹⁴ Utility rebate programs have extremely high administrative costs. In some cases, it would be cheaper for the utility to give products away rather than process rebates for them.

19. IOUs received a quarter of EE budgets for a decade for “shareholders incentives” for energy efficiency, as rewards for conducting public-funded programs (see footnote 3). The CPUC is considering reinstating incentives for energy efficiency and is giving IOUs incentives for such things as “customer satisfaction.” However, the L.A. Times reports 3/16/04: “At least a dozen employees of Southern California Edison Co. manipulated customer satisfaction surveys by tricking a polling firm into calling people who would give glowing reviews — namely, the employees themselves. Edison, which disclosed the scam Monday, said the surveys helped persuade state regulators to grant the utility \$28 million in special service awards between 1997 and 2000. Edison said it was looking into whether the employees were aiming to inflate their own bonuses.” *A sensible administrator would choose program providers whose core mission is energy efficiency, and don’t need to be bribed to do good programs.*

20. (We invite readers to add your own reasons here. Please send them to wem@igc.org, and we’ll forward them to policymakers.)