

Accountability: The Third Rail of Energy-Efficiency Goals

Groundbreaking energy-efficiency savings goals recently adopted by the California Public Utilities Commission could be undermined by a flawed evaluation process along with bloated utility administrative costs. Meanwhile, conservation, credited with dramatic load reductions during the energy crisis, has been pushed to the sidelines.

Regulators allow utilities and independent, or “third-party,” program implementers to select the consultants who conduct program evaluations. Because these consultants report to staff who run programs, and depend on program implementers for paychecks, conditions are ripe for them to play down unfavorable results, according to Christine Tam, Office of Ratepayer Advocates regulatory analyst.

There is often “no clear independence between program implementers and the evaluations of the consultant,” Tam said. The ORA analyst noted anecdotal reports that staff running nonutility programs pressured consultants to throw out unfavorable data, leading to “tainted study results.”

The public-goods charge on customer bills earmarks \$400 million annually for efficiency programs.

Commissioner Susan Kennedy is floating a plan that would put a firewall between program implementers and evaluators by tapping the Energy Division to review program accomplishments. Barbara George, Women’s Energy Matters executive director, applauded the move, saying it is “absolutely essential to making energy efficiency a real resource.” If adopted, Kennedy’s plan would start in 2006.

But the proposal faces stiff opposition from investor-owned utilities, the Natural Resources Defense Council (NRDC), and others. Opponents recommended that program implementers in some instances continue to play a part in measuring efficiency efforts at oral arguments on efficiency administration September 30.

Investor-owned utilities maintain that they should hold the energy-efficiency administrative reins since they are responsible for meeting commission-mandated energy-efficiency goals and carrying out integrated resource planning.

Further clouding clarity on energy efficiency’s efficacy is the slow pace of evaluations. Program reviews are just now trickling in for the 2002-03 cycle, meaning that data on energy savings come to light long after funding has

gone out the door. Delays in starting some programs, as well as certain programs’ long duration, contribute to the lag in evaluation.

In addition, only about 10 percent of efficiency installations are measured for savings while programs are running, according to WEM’s George. Even utilities have decry the paltry number of field assessments, she noted.

Utility administrative costs pose another problem for efficiency programs, partly because they reduce the amount of program funding. According to a July CPUC Energy Division audit, administrative costs ranged between 12 percent for a San

Diego Gas & Electric program and 88 percent for a Pacific Gas & Electric program between 1998 and 2002.

For 2002, Edison’s administrative costs ranged from 3 percent to 44 percent, while PG&E’s costs in this arena ranged from 5 percent to 88 percent.

Looking at statewide education and training programs across utilities, costs amounted to 26 percent for PG&E, 45 percent for Edison, 66 percent for SDG&E, and 62 percent for SoCal Gas. The numbers vary because of varying audit methodologies.

Despite CPUC oversight, the audit revealed that utilities don’t need to adhere to uniform reporting standards for administrative costs, so that types of costs reported and charges to utilities’ rate base varied considerably. Reporting and accounting requirements have been “too broad to allow meaningful comparison of administrative cost levels,” the audit charged.

Moreover, all investor-owned utilities stalled turning over data to the financial and management audit of efficiency programs, hampering the review. In fact, SDG&E and SoCal Gas failed to provide all information requested by auditors.

In addition to energy efficiency, there are two other relevant modes of “negawatts”—that is, saving energy to replace supplies—that have raised concern. For shaving peak use, there is demand response, which calls on larger customers to drop load through abrupt manufacturing changes or turning off lights and equipment, in exchange for a bill credit or some other economic incentive. There’s also conservation. That avenue is an unpaid, socially responsible, and untrackable type of consumer behavior.

The California Energy Commission in its *Integrated Energy Policy Report* update found that California’s

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Conservation can “step into the breach.”

CPUC Reverses Course on No-Bid Wind Contract

Continuing to flip-flop on its commitment to open, competitive bidding, the California Public Utilities Commission on a split vote October 7 approved a 51 MW no-bid wind contract between San Diego Gas & Electric and developer Superior Renewable Energy. Commissioner Geoffrey Brown reversed his vote, while commissioners Carl Wood and Loretta Lynch continued to object to the contract.

Approving the deal “undermines the commission’s credibility,” Lynch warned. She noted that the agency had expended significant resources to establish rules and then failed to follow them. Picking this deal may have displaced a better one available through a competitive solicitation, she added. Under the renewables portfolio standard (RPS), utilities must obtain 20 percent of their supplies from renewable resources.

In August, Brown was part of a narrow majority that voted down the deal because it was seen as compromising the RPS requirement that bids be competitive and transparent.

Brown told *Circuit* after the meeting that he changed

his mind because the bid’s price tag was favorable. He added he would have “preferred competitive procurement, but it’s wrong to retroactively apply that policy to a vendor.” SDG&E filed an advice letter for approval of the agreement in June, one month before the green solicitation began. The deal with Superior, based in Houston, Texas, was kept under wraps because it was struck outside the RPS process.

Although the commission has endorsed transparent, competitive procurement policies, it has backed a number of no-bid deals. To date, there have been seven noncompetitive contracts approved, the most controversial being the Mountainview power plant acquired by Southern California Edison (*Circuit*, August 27, 2004).

Output from the newly approved wind deal is expected to be on line next year. The Campo and Ewiiapaay tribes in the region agreed to allow the turbines on their land.

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demand-response performance lags behind that of some other states, including Florida (*Circuit*, October 1, 2004). The CEC report recommends a more aggressive push to achieve demand-response goals.

While energy efficiency enjoys the spotlight, conservation is now largely in the shadows. A case in point is the Flex Your Power conservation campaign, which became ubiquitous through television spots during the energy crisis. During that time, the organization was directly responsible to, and funded by, the state. On its Web site, Flex touts its success in prodding customers to reduce peak energy consumption by as much as 14 percent in 2001. One-third of the state’s commercial customers and 33 percent of residents cut energy usage by at least 20 percent, according to Flex.

Yet the CPUC Energy Division’s 2001 policy manual specified that programs must focus on permanent replacement of energy equipment in order to be eligible for public-goods-charge funding—thereby excluding conservation. In 2002, the commission determined that funds for the Flex Your Power marketing campaign needed to switch from promotion of conservation to statewide energy-efficiency programs. Since then, Flex has promoted utility energy-efficiency programs under Southern California Edison’s administrative wing.

Though careful not to dismiss Flex’s conservation theme, the commission said in a 2002 decision, “the mes-

sage we prefer is focused not on making these behavioral changes, but rather on persuading customers to make permanent changes to their homes” so energy savings are not subject to customers changing their minds.

In the face of surging consumption, Governor Arnold Schwarzenegger in July ordered state agencies to step up conservation. In response, Flex Your Power began a new media campaign, Flex Your Power Now! The Flex organization, along with the California Independent System Operator, has run a series of media alerts, urging customers in energy-strapped regions to reduce peak demand through party-themed advertisements such as “Bust-A-Move.”

With peak demand on several days exceeding 45,000 MW, load growth has certainly eclipsed conservation this summer, said Gregg Fishman, CAISO spokesperson. Yet he stressed that taking actions that put any dent in the state’s voracious consumption are worthwhile, even if those reductions are hard to quantify.

WEM’s George cautions that policy makers adopt a narrow definition of energy efficiency at the state’s peril. Conservation’s promotion of “changes in behavior can be more effective than any appliance,” said George. “Moreover, conservation can step into the breach in emergencies such as the energy crisis or reduce energy consumption in the long term.”

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