

NRECA 2009 LEGISLATIVE CONFERENCE

# ENERGY EFFICIENCY

Policies Should Encourage Efficiency Increases  
and Keep Consumer Bills Affordable

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## ELECTRIC COOPERATIVES ARE LEADERS IN ENERGY EFFICIENCY

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Energy efficiency comes naturally to electric cooperatives. The not-for-profit business model encourages cooperatives to use all cost-effective methods of distributing electricity efficiently as possible. One out of seven people served by cooperatives lives below the federal poverty line. These consumers often can see striking reductions in energy usage when aggressive efficiency measures are applied. Conversely, their incomes often do not allow them to make the needed investments even in simple efficiency tools and techniques.

Cooperatives know that rising costs of new generation resources mean that efficiency is often the “least-cost” generation resource. Cooperatives are recognized as industry leaders in deployment of advanced meters and demand response.<sup>1</sup> Cooperatives have also made a dramatic contribution to efficient electric system operation through developing MultiSpeak, a software standard that lets meters, consumer databases and utility plant data “talk” to one another, helping boost service reliability and reducing waste.

Electric cooperatives therefore boast a strong commitment to efficiency, as illustrated by these statistics:

- 92 percent of co-ops communicate directly with consumers about efficiency.
- 77 percent of co-ops offer energy audits for free or minimal costs.
- 49 percent of co-ops offer financial incentives to consumers to increase efficiency.
- 40 percent of co-ops provide weatherization and efficiency services to consumers.
- 50 percent offer advanced meters to some consumers.

## COOPERATIVES SUPPORT FEDERAL POLICIES THAT ENCOURAGE EFFICIENCY

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NRECA advocates for extensions of consumer efficiency tax credits, increased federal investment in advanced energy technologies and strengthened efficiency of hydropower projects and other existing generation. In the Energy Investment and Security Act of 2007, NRECA supported a national efficiency model building code. In 2008, NRECA called for a massive investment in weatherization for the poorest fifth of households. Cooperatives in many states are working with their state energy offices to develop effective efficiency programs using resources deployed by the American Recovery and Reinvestment Act of 2009.

## HOUSE LEGISLATION PROPOSES AN ENERGY EFFICIENCY RESOURCE STANDARD (EERS)

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The draft American Clean Energy and Security Act of 2009 contains an energy efficiency resource standard (EERS). The EERS requires electric distribution companies, starting in 2012 to annually certify electricity savings equal to a specified percentage of their retail sales. Only utilities selling less than 1.5 million megawatt hours (MWh) in a two-year period would be exempt. The U.S. Department of Energy (DOE) would oversee the EERS, verifying utility compliance.

Whether a mandate to reduce CO<sub>2</sub> emissions comes from Congress or the Environmental Protection Agency (EPA), another mandate on energy efficiency is not needed. Under either alternative, utility investments in energy efficiency will expand. By telling utilities how to achieve these savings and creating a complex new federal program, the additional EERS mandate will reduce a utility’s flexibility and raise costs for consumers.

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<sup>1</sup> A 2008 Federal Energy Regulatory Commission (FERC) study showed cooperatives leading the industry in advanced meter infrastructure penetration at 16.4 percent as compared to 4.7 percent for the industry as a whole.

## THE EERS MANDATE IN-DEPTH

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**Baseline and Required Reductions**—Each year, a covered utility calculates its baseline amount of power sold by averaging the amount of power it sold in the prior two years. It then tells DOE whether it was able to reduce the mandated amount from the baseline. In 2012, the mandate’s first year, a utility would have to certify to DOE that it achieved savings of one percent from its baseline – or make payments for the savings it did not achieve.

Each year, the EERS would require another calculation of the baseline and certification of savings achievements. Utilities would have to show that they maintained previous years’ savings while meeting an increasing annual goal. By 2015, 4.5 percent savings are required. By 2020, the utility would have to show that overall, it had reduced its usage by 15 percent below its baseline – and then continue to maintain that level of savings or possibly even increase it. In 2014, DOE can issue, by rule-making, an increase in the EERS requirements through 2020. Then, from 2021 to 2030, DOE is responsible for setting the mandate at or above the 2020 levels.

**Eligible and Ineligible Resources**—A utility could only count some savings from the following measures toward its required reductions:

- Customer facility savings
- Reductions in distribution system losses
- “Combined Heat and Power” savings
- Savings resulting from building codes and appliance standards

There are significant open questions about what these definitions mean and how DOE would measure and verify these savings. Moreover, it appears that cooperatives which have already made significant efforts toward increasing efficiency could not count those efforts toward this new mandate.

**Paying for Savings not Achieved** – If a utility can’t meet all or part of its EERS requirements, it has an extremely limited opportunity to purchase savings credits from other utilities, states or third-party efficiency providers (including financial institutions) and certify the purchase to DOE. DOE can decide how much of the EERS can be met with these types of purchases. If a utility can’t meet the EERS requirements or purchase enough savings, it must make a compliance payment of \$50 per MWh to DOE. This amount will be adjusted for inflation.

## THE EERS HAS SIGNIFICANT PROBLEMS AND WON’T ENCOURAGE EFFICIENCY

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- **Taxes consumers.** The EERS mandate forces utilities to make un-economic investments in efficiency measures or purchases of savings, imposing costs on consumers. Consumers paying artificially higher electricity costs will have less disposable income to make more efficient choices in operating their homes and businesses.
- **Fails to recognize achievements utilities have already made in energy efficiency.** Electric cooperatives have worked with residential and commercial consumers for decades to improve energy efficiency. Responsible utilities with long-standing efficiency programs will have to pay more to obtain additional efficiency improvements.

- **Makes utilities financially responsible for customer choices and behaviors.** Ultimately, usage decisions are made behind the meter by the consumer. If some consumers don't conserve or can't afford to make efficiency improvements, the utility will be unfairly penalized and forced to purchase efficiency savings or make compliance payments.
- **Electricity experts say this EERS is not achievable.** The Electric Power Research Institute (EPRI) has assessed the achievable potential from energy efficiency and demand response programs. Given projected growth rates and technology, EPRI states that by 2020, realistic achievable savings are under five percent and the maximum achievable potential of both energy efficiency and demand response programs combined is just over ten percent.
- **Ignores the huge difference in the ability of different utilities and regions to achieve efficiency savings.** Every utility has a different potential to make cost-effective energy efficiency investments, determined by climate, customer base and historical efforts to promote energy efficiency. Utilities with more industrial and commercial load can more easily make efficiency improvements, with the "lowest-hanging fruit" being commercial lighting.

## THE EERS DUPLICATES AND POTENTIALLY UNDERMINES THE GOALS OF CO<sub>2</sub> REGULATION

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If Congress enacts CO<sub>2</sub> regulation, utilities are likely to expand their investments in energy efficiency because in many cases, those investments will be the lowest cost means of reducing CO<sub>2</sub> emissions. As the cost of emissions credits required to use fossil generation rises, more utilities will make the economic decision to invest in energy efficiency.

Second, the EERS undermines the flexibility that is the cornerstone of a cap-and-trade program. The stated goal of a cap-and-trade program is to allow utilities the flexibility they need to reduce emissions in the most efficient and cost-effective manner possible. By adding an EERS on top of the cap-and-trade program, Congress denies utilities the flexibility to find the best balance of resources to meet climate goals. The EERS could force utilities to over-invest in energy efficiency when another approach, such as renewable resources, nuclear energy or carbon capture and sequestration might better reduce carbon emissions while also keeping electricity costs down for consumers.

## INSTEAD OF A MANDATE, ENCOURAGE NEW TECHNOLOGIES AND INCENTIVES

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Instead of forcing a one-size-fits-all solution on the nation's diverse utilities and regional economies, Congress should encourage the development of new energy efficiency technologies and design incentives that match the actions utilities and their consumers can take, alone or in concert, to increase efficiency. Better approaches are to help utilities increase education, efficiency auditing and weatherization activities and give consumers at all income levels incentives to install efficient technologies and change usage patterns.

## THEREFORE, NRECA URGES MEMBERS OF CONGRESS TO:

- **Oppose an Energy Efficiency Resource Standard (EERS).**