

Position Paper III:
**Optimizing
Energy Efficiency
Programs**

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Together with investments in clean generation and the bulk transmission system, energy efficiency is often described as the “third leg” of an energy policy designed to meet the needs of New Yorkers and the state’s ambitious “15 by 15” energy reduction goals. However, in order for energy efficiency to make a substantial contribution toward achieving these goals, programs must be compelling, outreach efforts must be effective and participation by residents and businesses must be active and widespread. This Position Paper was produced as part of a series to extend Central Hudson’s views on the necessary components of the critically important State Energy Plan now in development in Albany; in this installment: allowing utilities a major role in delivering energy efficiency programs and permitting a reasonable rate of return on such programs.

Background

New York has set a challenging goal of reducing energy use in the state by 15 percent of the projected energy use in 2015; each utility has also been given an energy reduction goal for the service territories in which they operate. Without widespread participation by millions of residents and businesses, the state will fall short of this ambitious goal. While the New York State Energy Research and Development Authority (NYSERDA) has offered energy efficiency programs, paid for by customers and funded through the Systems Benefit Charge (SBC), participation in and general awareness of

these programs are very low, particularly among residents and small to mid-size businesses, resulting in underserved sectors, and inequalities of SBC disbursement. For example, approximately \$40 million in SBC funds has been collected from Central Hudson customers since the fund's inception in July 1998, which is wildly disproportionate to any benefits received or realized in Central Hudson's service territory.

To effectively encourage energy efficiency, each customer must realize that participation adds value to his or her particular circumstance, which requires individual transactions, with personalized attention in each and every case. Utilities are in a unique position to not only deliver energy efficiency programs, but also do so effectively and economically. Customers have indicated through a 2007 phone survey conducted by a Central Hudson consultant that they *prefer* efficiency programs to be offered through their utility instead of any government agency by a margin of five to one. Utilities conduct thousands of transactions with their customers each day, and have high name recognition. Many residents and businesses have taken advantage of energy efficiency programs offered by their utility in the past, and there is a natural inclination on the part of customers to expect that these programs should still be offered, especially with concerns over rising energy costs and environmental issues. As the final customer touch point in energy delivery, utilities are viewed, and in fact are, the most well positioned to understand specific customer needs and provide expertise to effect efficiency measures.

Utilities, as for-profit entities, reasonably expect some modest earnings contribution from these services, but that small amount need not materially impact the cost effectiveness seen by their customers. That modest return is more than justified given the utilities' prospects of actually convincing customers to implement energy efficiency, versus NYSERDA's dubious track record of success in the critical component of implementation.

NYSERDA is not the answer. Despite its massive budget -- made available through the Systems Benefit Charge -- it has yet to meaningfully change the energy habits of New Yorkers. Its proponents opine that it is a more effective conduit simply because it does not earn a return on investment, as would a for-profit (and heavily regulated) utility. However, given that it is largely ineffective, then is not its entire budget a waste? If New York State is truly committed to achieving energy efficiency, would it not be far more

effective to pay a reasonable rate of return to an entity that 1) is incented to succeed, 2) interacts with the customer multiple times per year, 3) has already earned the customer's trust, 4) works beneath the umbrella of regulation and 5) has a proven track record of obtaining meaningful results?

Results matter. New York State would be better served allowing utilities to be rewarded for operating effective energy efficiency programs with substantive, demonstrated penetration levels, in contrast to a statewide agency's scattershot, expensive and ineffective attempt to run programs.

What Must Be Done

Utilities must play a larger role in developing, marketing and delivering energy efficiency programs in New York if energy reduction goals are to be met. Public policy makers must acknowledge the value utilities bring in fostering widespread acceptance and participation of energy efficiency programs through an understanding of their customers, brought about, in many cases, by decades-old relationships and service. Utilities in New York also have had substantial experience in offering highly successful and cost-effective energy efficiency programs in the 1980s and 1990s, and will draw upon this experience to deliver programs today.

Action Plan

The Public Service Commission must permit each utility to develop programs that meet the needs of their unique customer base, recognizing the diverse backgrounds and needs within the regions they serve. Rural, suburban and urban businesses and residents have varying requirements, and utilities have a clear understanding of their customers needs through longstanding associations. Customers also recognize and trust their utility in delivering energy efficiency, and often look to their utility first when seeking assistance in lowering their energy use.



It is fundamental that utilities be allowed to earn a modest profit on delivering efficiency programs, recognizing energy efficiency as a core business and customer benefit to which the utility brand is key. Cost recovery, including a revenue decoupling mechanism in rate design, is necessary, but alone is insufficient considering the substantial resources, human and capital, that are necessary to effectively promote energy efficiency.

A National Perspective

With current trends, the Energy Information Administration estimates that electric supply would have to increase 32 percent over current levels by 2030 to meet the growing demand. Energy Efficiency in the broadest sense is a vehicle to address 1) fuel price increases, 2) growth in demand, 3) capital investment and 4) climate change. Utilities are best positioned to provide customized energy efficiency solutions that satisfy customer needs and wants, while providing the desired reduction in energy usage.

Across the United States, utilities have delivered energy efficiency and demand-side management programs to their customers for a generation. But that has not been the case in New York State in recent years. Without empowering utilities to deliver energy efficiency to their customers, unnecessary and burdensome side effects are being witnessed, such as: 1) higher overall energy bills due to “wasted” energy, 2) higher carbon emissions from power plants, and 3) higher capital investment in transmission and distribution facilities to mitigate reliability concerns, as systems are being built to serve peak demand.

Customer Impact

Effectively delivering energy efficiency programs designed to meet the individual needs of each utility’s customer base will bring about a high rate of participation at a lower cost, and help more customers lower their energy use. Targeted marketing approaches can be uniquely utilized by the utility stemming from proprietary customer data,



rather than a statewide blanket approach to marketing, which often results in less than desirable participation rates. Customers identify energy efficiency with their utility, and are more apt to participate with a name they recognize and have regular transactions with. The general lack of customer awareness with NYSERDA's programs have resulted in lower participation and energy reductions than hoped for or needed.

Summary

Using energy more efficiently is the fastest, most cost-effective way to reduce greenhouse gas emissions and combat global climate change. Utilities can deliver the necessary programs to overcome some of the most typical market barriers that exist for their customers, which include lack of knowledge about the latest technology, lack of financial resources to install energy saving measures and lack of trust or security that the investment will produce results.

Customers want to be more efficient; more than 90 percent of Central Hudson's customers have already taken steps, though typically those that require no financial investment, to reduce their energy use. They have indicated that they prefer their utility, rather than a state or federal agency, as their partner in energy efficiency.

Utilities offer technical and marketing expertise, and will invest substantial resources towards energy efficiency programs – and therefore should earn a modest profit on these activities. Energy efficiency, at the level needed to bring about significant change in energy-use, will not be a side-business for utilities, but rather a core function. Cost recovery alone is insufficient for such an initiative, and utilities should have the opportunity to earn a reasonable rate of return similar to that of other major investments, recover costs associated with efficiency programs, and offset lower sales through a revenue decoupling mechanism.