



# **Follow the Leaders: Lessons from Today's Large Customer Self-Direct Programs**

**Energy Efficiency as a Resource**

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# Today's Presentation: Self-Direct

- Why study self-direct?
- New research
- Today's self-direct and opt-out programs
- Exemplary self-direct programs
- Opportunities and challenges

# Acquiring Industrial Efficiency

- 41 states have some sort of cost-recovery mechanism (CRM) in place
  - Public benefit fund
  - Cost-recovery embedded in full rates
  - Energy efficiency surcharge
- Historical arguments from industrial sector
  - EE programs not responsive to needs
  - Always have/always will invest in all cost-effective efficiency
  - Paying CRM fees subsidizes other rate classes

# The Self-Direct Option

Typical components:

- Define some type of eligible customer, via size threshold (MW, MWh, MCF)
- Offer some type of rebate against, personal escrow of, credit to or exemption from CRM fees
- Administered by utility, state regulatory authority or state agency
- Assume, request or require customer will use saved funds for energy efficiency projects

# The Opt-Out Provision

- Defines eligible customers
- Offers full exemption of CRM fees
- No measurement and verification of claimed investments or savings
- Never a reliable way to capture industrial energy savings

# Research

## Personal interviews

- 46 self-direct program administrators, state regulatory staff, state agency staff, regional energy efficiency advocates, industrial energy user representatives
- Conducted January – July 2011
- Guided interviews

Review of legislation, regulation and documents pertaining to relevant open and closed dockets



# Research

**Original thesis:** Self-direct and opt-out programs are not useful tools for maximizing industrial energy efficiency and they are ripe for waste, fraud and abuse.

**New conclusion:** Opt-out programs are very poor policy decisions, but well-structured and well-run self-direct programs can offer tremendous flexibility in capturing hard-to-reach energy efficiency savings.

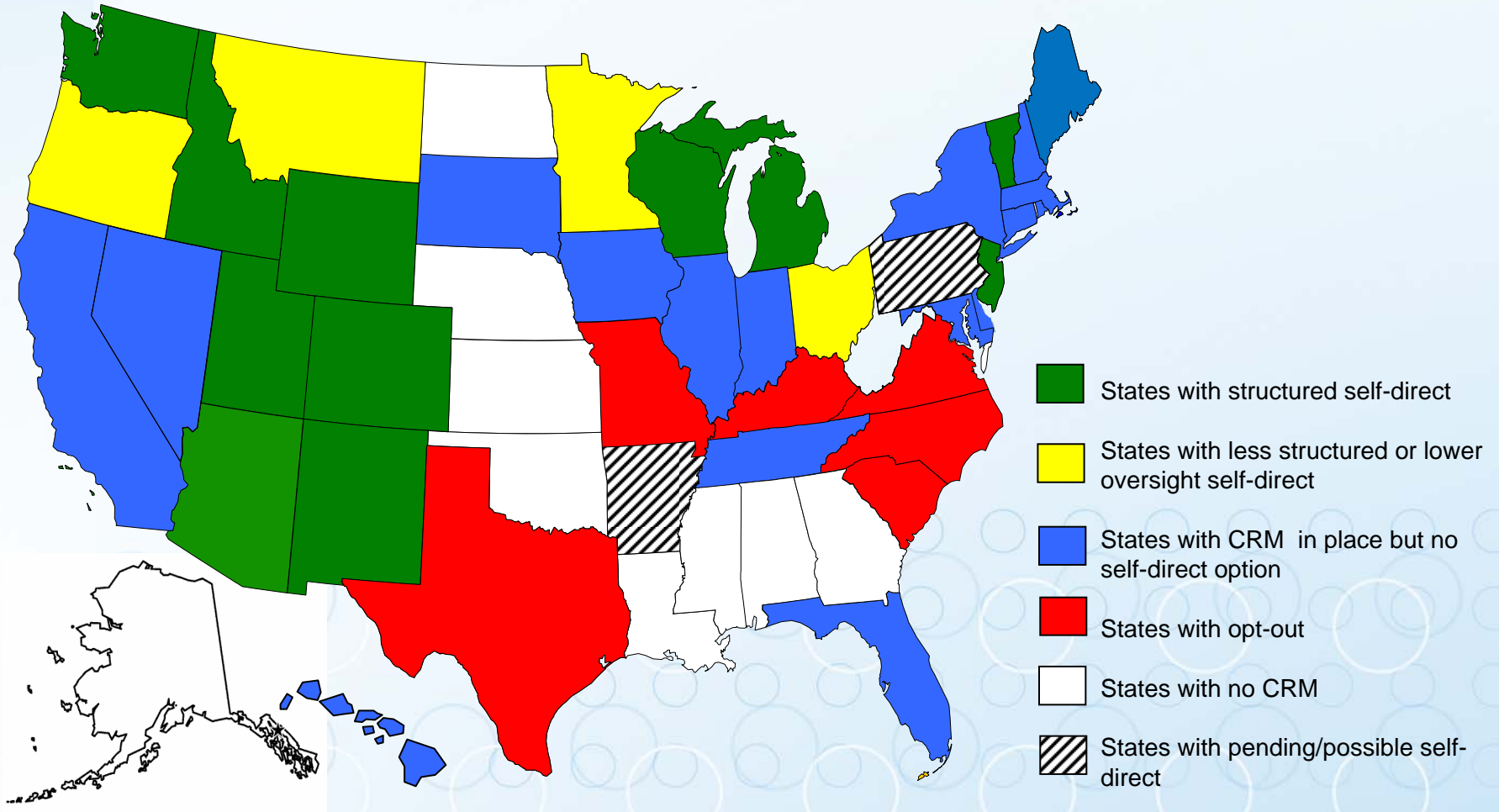
# Self-Direct & Opt-Out Continuum

Public Benefit Maximization

Program Type	CRM Payment	M&V of Savings	Use of Funds	Follow Up	Examples
Opt-out	None	None	Co. uses retained cash for EE	None	NC, KY
Less structured self-direct	None	Minimal; self-reported	Co. uses retained cash for EE	None to minimal	MN, OH
More structured, lower oversight self-direct	Fully or partially paid on bill	Minimal; self-reported	Rate credit or project rebate	Minimal	MT, OR
More structured, higher oversight self-direct	Fully or partially paid on bill	Robust; similar to CRM-funded programs	Personal escrow, rate credit or project rebate	Minimal to substantial	WA, CO



# Today's Self-Direct Programs



# Self-Direct Policy Goals

- Run it as a resource acquisition program
- Produce cost-effective energy savings equal to or greater than what *would have* been acquired in a CRM-funded program
- Leverage inherent flexibility
- Offer tools to entice C-suite
- Develop effective carrots and sticks
- Collect data

# *Exemplary Program #1:* Puget Sound Energy

## Creative use of two reimbursement options

- Four-year program
- 2010-2013: \$12 million, 42,000 MWh/yr

## Personal escrow account

- Up to 100% of project cost
- PSE verifies savings

## Competitive bid

- Projects generally more cost-effective
- Projects “go like gangbusters”

“Instills in customer class: ‘this is our money, we need to earn it back.’ We get greater participation than we otherwise would.”

# *Exemplary Program #2:* **Xcel Energy**

Administered within  
industrial energy  
efficiency portfolio

- Same cost-effectiveness tests
- “Must influence” savings; no credit for past action

Role of Xcel

- Reviews: project implementation and monitoring plans, TRC analyses

Role of customer

- Provide own engineering analysis

**“We are just as confident in our self-direct savings as we are in those acquired through our other energy efficiency programs.”**

# *Exemplary Program #3:* **Eugene Water and Electric Board**

**Personalized energy savings goals**

- Based on facility load, average industrial savings across sector in prior years

**Carrot**

- Rate credit towards 5% conservation rate
- Immediately discounted utility bill

**Stick**

- Lose credit, leave money on the table

**“Our goal is their goal: achieve energy efficiency projects at lowest cost, make products at lowest cost”**



# The Self-Direct Opportunity

Self-Direct can:

- Provide tools to take to CFO to get funding
- Offer long time-frames (1-5 years), cover larger % cost
- Leverage internal expertise: free up utility staff
- Artificially lower companies' hurdle rates
- Support variety of projects
  - Compliment O&M, SEM, CEI, SEP, ISO 500001...



# The Self-Direct Opportunity

**Task:** Move the CRM from a line item on a customer's utility bill to an amount of money that will be left on the table if unused.

**Reward:** Capture projects that would not have otherwise happened and engage customers that would otherwise not have participated.

# The Self-Direct Opportunity Cost

Typically *not* asked of all opt-out/some self-direct programs:

- Is financial parity the best goal?
- Are we collecting useful and meaningful data?
- Are other classes of customers being hurt?
- Are self-direct customers best served?
- Are the assumptions that predicated self-direct development well founded?

# The Self-Direct Opportunity Cost

Time is of the essence!

- Once legislation or regulation established, it is difficult to change
- Self-direct expanding into other sectors
- Once customers opt-out, they get pretty used to opting opt

# Forthcoming ACEEE Report

- Publication of ACEEE report October 2011
- Summary of all opt-out and self-direct provisions in the U.S.
- Detailed synopses of all known self-direct programs
- Suggestions for structuring ideal self-direct program

# Thank you!

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