Energy Efficiency Action Plan

Draft Framework – October 2005

Goal Statement

The goal of the Energy Efficiency Action Plan is to cause an aggressive new national commitment to energy efficiency by electric and natural gas utilities and partner organizations in the United States.

Background

Energy efficiency is an important part of a clean, reliable, and low-cost energy system. Greater investment in cost-effective energy efficiency can reduce natural gas demand, stabilize energy prices, enhance electric system reliability, and reduce air emissions from power plants. States with significant investments in energy efficiency are showing that:

- There is significant cost-effective potential for energy efficiency to help meet electricity and natural gas demand;
- Significant savings are being achieved through well-designed programs and policies;
- Energy efficiency can be cost-competitive with new supply to meet growing electricity demand, often delivering savings at a cost of 2 to 4 cents per kilowatt-hour;
- Energy efficiency is a cost-effective strategy to reduce demand for the direct use of natural gas across key customer classes;
- Energy efficiency can be targeted to reduce peak demand, leading to significant cost savings and natural gas savings at a time when supply is constrained; and
- Energy efficiency can reduce electricity demand in transmission-constrained areas, deferring investments for transmission upgrades.

However, energy efficiency remains a critically underutilized resource in the nation's energy portfolio. Many hurdles prevent broader investments in cost-effective energy efficiency and the use of energy efficiency as a resource in energy system planning. Frequently identified barriers include:

- Utility incentive structures that link utilities' financial health to energy sales;
- Lack of standard methods for incorporating energy efficiency resources as part of resource planning efforts that allow efficiency to compete with new supply and transmission;
- Lack of information on the costs, benefits and effective approaches -- "best practice" programs -- for securing energy efficiency savings across key customer classes such as residential, commercial, industrial, low-income, and small business; and
- Energy rates that do not reflect the full costs of providing energy.

Development of the Energy Efficiency Action Plan

This effort will engage energy market leaders—including electric and gas utilities, state agencies, energy consumers, energy service providers, and environmental/energy efficiency advocates—in the development of an Energy Efficiency Action Plan. Through this Action Plan, leaders will identify key barriers limiting greater investment in energy efficiency and develop and document sound business practices for removing these barriers and improving the acceptance and use of energy efficiency relative to energy supply options. Upon completion of the Action Plan, leaders will pursue these business practices through their business channels, as appropriate, and will assist in the dissemination of these business practices to key audiences.

The Participants

Representatives from leading gas and electric utilities, state agencies, energy consumers, energy service providers, and environmental or energy efficiency organizations have joined with the U.S. Environmental Protection Agency (EPA) and the U.S. Department of Energy (DOE) to develop the Energy Efficiency Action Plan.

Roles and responsibilities for the participants include:

- Co-Chairs. The co-chairs are Diane Munns, Member, Iowa Public Utilities Board and President of the National Association of Regulatory Utility Commissioners (NARUC), and Jim Rogers, President and Chief Executive Officer of Cinergy. Their role is to attend and chair meetings, offer ideas and expertise, and provide overall leadership.
- Leadership Group Members. The Leadership Group includes representatives from gas and electric utilities, from public and private organizations, and from organizations participating in restructured and non-restructured markets. The Leadership Group also includes representatives from other key energy market participants as listed above (see attached list). The Leadership Group members' role is to attend meetings, offer ideas and expertise, volunteer to contribute to workgroups and work products, and, upon completion of the Action Plan, to implement the Plan to the best of their abilities.
- Observers. These are associations or other groups that that wish to monitor and provide input to the Action Plan. Observers will be invited to provide comments at specified times.
- Sponsors. These are DOE and EPA. Their role is to provide general guidance based on national energy and environmental policies and plans, and provide logistical, administrative, and analytical support and other resources to assist the Leadership Group.
- Facilitation Team. This is a group of experts hired by the sponsors to support the Leadership Group. Their role is to be neutral and provide administrative, logistical, and analytical support as directed by the sponsors, co-chairs, or members of the group.
- Working Groups. These are sub-groups to be comprised of members of the Leadership Group that will develop specific work plans and products that address key barriers to the expanded use of energy efficiency. Working Groups contribute their time, ideas, and expertise and provide guidance to members of the facilitation team.

The Process
This effort is a stakeholder process. Members in the Leadership Group will prioritize barriers, develop work plans designed to produce business cases for overcoming these barriers, and make recommendations for action. A facilitation team will be funded by EPA and DOE to provide administrative, logistical, and analytical support for the group. Some key rules for engagement include:

- DOE and EPA will not attempt to drive the group to pre-determined outcomes – outcomes will come from the group members;
- The Action Plan process will be focused on developing actions that can be taken at the state and utility levels, not on Federal remedies; and
- The process will not allow any members of the group to dominate the discussions or dictate the outcomes.

Expected Outcomes
The Energy Efficiency Action Plan will be a well-documented set of business cases, best practices, and recommendations that are designed to spur greater investment in energy efficiency by utilities and energy end-users within the next five years. Key anticipated products include:

- A report documenting best practices for overcoming barriers limiting utility investment in energy efficiency;
- A resource library of "best practice" model energy efficiency programs in a variety of end-use sectors;
- A communications strategy, including a series of regional/state workshops to share business cases and create additional leadership opportunities; and
- A network of experts and resource materials on energy efficiency practices

Proposed Working Groups
Working groups are expected to develop work plans for identifying and documenting best practices for overcoming key barriers currently limiting greater investment in energy efficiency. In developing work plans, it is anticipated that working groups will identify existing relevant studies or information, identify gaps, commission new research or analysis to fill these information gaps, and recommend approaches to address barriers. Currently envisioned working groups include:

1) Energy Efficiency Program "Best Practices" Documentation. One reason given for slow adoption of energy efficiency is a lack of knowledge about the most effective and cost-effective energy efficiency program options. However, many states and utilities are successfully operating energy efficiency programs across end-use sectors and customer classes including residential, commercial, industrial, low-income, and small business. These programs employ a variety of approaches, including: providing public information and training, offering financing and financial incentives, allowing energy savings bidding, and engaging performance contracting. This working group will:

    - Collect, review, and document best practices for operating successful energy efficiency programs at a portfolio level -- addressing issues such as assessing energy

efficiency potential, screening energy efficiency programs for cost-effectiveness, and developing a portfolio of approaches;
- Collect, review and document best practices for successful energy efficiency programs across end-use sectors, customer classes, and a broad set of approaches; and
- Document the political and administrative factors that lead to program success.

2) Utility Ratemaking and Revenue Requirements. Lost sales from the expanded use of energy efficiency have a negative effect on the financial performance of electric and natural gas utilities, particularly those that are investor-owned. Cost-recovery strategies have been used to successfully "decouple" utility financial health from electricity sales volumes to remove financial disincentives to energy efficiency and incentives have been used to make energy efficiency investments as financially rewarding as capital investments. This working group will assess current efforts in this area. It will:

   - Collect, review, and document the best ways to remove disincentives for utilities to consider energy efficiency;
   - Collect, review, and document the success of different strategies to reward utility energy efficiency performance, including the use of energy efficiency targets, shared savings approaches, and shareholder/company performance incentives;
   - Address various funding options for energy efficiency programs and appropriate rates of returns for energy efficiency programs; and
   - Develop business cases demonstrating how robust energy efficiency investments can integrated into the business strategies of financially healthy utilities.

3) Planning Processes. Energy efficiency, along with other customer-side resources, is not fully integrated into state and utility planning processes that identify and acquire electricity and natural gas resources. This group will:

   - Research and document state and regional planning approaches, including Portfolio Management and Integrated Resource Planning, that evaluate a broad array of supply and demand options on a level playing field in terms of their ability to meet projected energy demand;
   - Explore methods for assessing and communicating the sustainability of a utility's supply and demand portfolio to investors and other audiences; and
   - Research, document, and recommend methods to quantify and simplify the value streams that arise from energy efficiency investments—including reliability enhancement/congestion relief, peak demand reductions, and greenhouse gas emissions reductions—for direct comparison to supply-side options.

4) Rate Design. Some regions are successfully using rate designs such as time-of-use or seasonal rates to more accurately reflect the cost of providing electricity and to encourage customers to consume less energy. This group will:

   - Collect, review and document lessons learned from a variety of time-of-use and other time dependent pricing experiences;
   - Develop business cases for rate design strategies; and

- Recommend strategies that encourage greater use of energy efficiency.

Schedule/Next Steps

The next step in developing the Energy Efficiency Action Plan is to convene a Leadership Group meeting in Washington, DC on December 2, 2005. At this meeting the Leadership Group will:

- Discuss and confirm priorities;
- Review responsibilities;
- Review and agree to overall schedule and timing; and
- Develop and finalize specific work plans.

All Leadership Group members are strongly encouraged to attend this meeting. Two weeks prior to this meeting, members will receive a draft work plan which will outline proposed approaches for addressing key barriers.

The proposed Action Plan schedule is outlined below.

Activity	**Outcome(s)**	**Date**
Kick-off Meeting	▪ Agreement on goals ▪ Agreement on working groups ▪ Development of draft work plans	December 2, 2005
Fact Finding and Analysis	▪ Business case models ▪ Best practices ▪ Lessons learned	December 2005 – February 2006
Second Meeting	▪ Common understanding of models, best practices, lessons learned ▪ Proposed actions	March 2006
Draft Report, Review Process, Final Report, Initial Outreach	▪ Summary report of the results of the leadership group ▪ Agreed list of actions ▪ National Meeting	Summer 2006
Additional Outreach and Action Steps	▪ Regional and state workshops ▪ Action steps	Fall 2006 and Ongoing