

Energy Efficiency Resource Standard

Description and Key Details

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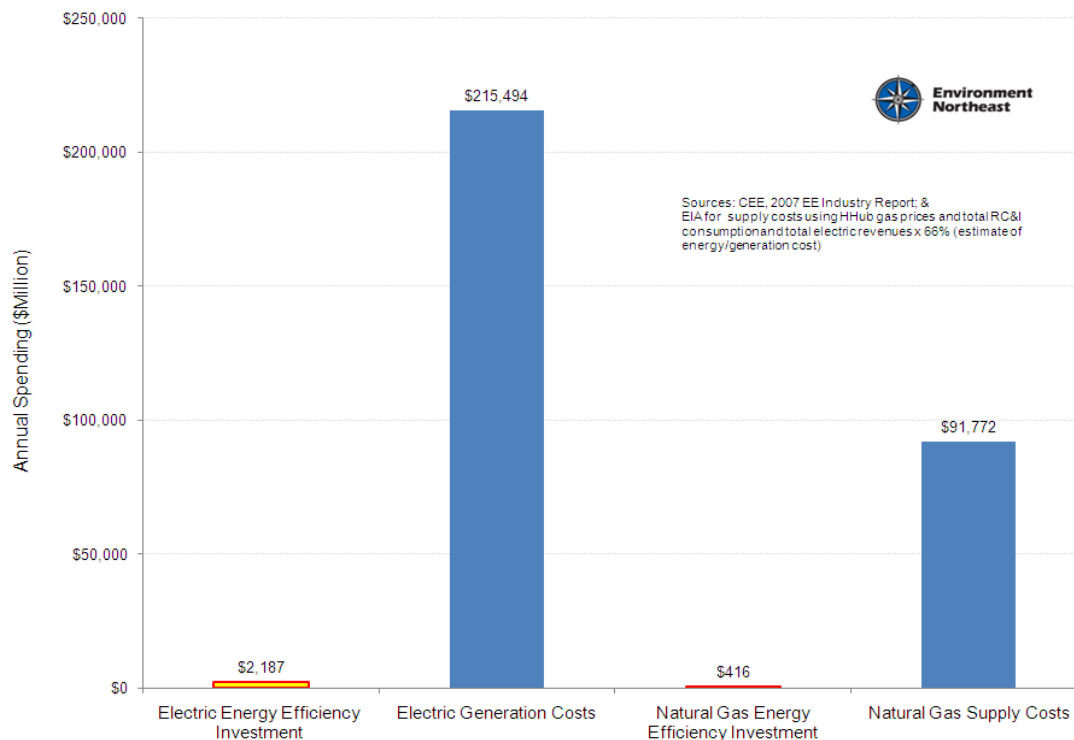


Summary

A federal Energy Efficiency Resource Standard (EERS) is designed to save money and reduce emissions by requiring utilities to meet a minimum percentage of energy demand through low-cost efficiency improvements. Saving energy through efficiency investments is cheaper than supplying energy through the grid, and efficiency investments also reduce emissions, create jobs, and promote energy security. Many states are already exploiting the abundant efficiency resource, and – with the help of an EERS – every state can harness efficiency to increase competitiveness and redirect money into local economies.

Current Electric and Natural Gas Efficiency vs. Supply Spending

Each year American consumers spend about \$307 billion on natural gas and electricity supply and only \$3.1 billion on efficiency. Electric efficiency programs cost around 3¢ per kilowatt hour (kWh) while supply costs 6¢ to 12¢ per kWh. Natural gas efficiency costs \$1 to \$2 per million cubic feet (Mcf) while supply costs \$6 to \$8 per Mcf. Currently we spend more than a hundred times more on the more expensive resource. Establishing an EERS is an important first step toward correcting this imbalance.



Mechanics

Electric and natural gas utilities would be required to reduce projected energy demand by a set amount each year in order to achieve cumulative savings targets over a given time period. For example, the *Save American Energy Act* proposed by Rep. Edward Markey (D-Ma) calls for saving a cumulative 15% of electricity demand and 10% of natural gas demand between 2012 and 2020. The average annual savings of 1.5% for electricity and 1% for natural gas are ambitious yet achievable targets, as shown by states such as Vermont and California that have exceeded these savings levels in recent years, and many other states that have adopted EERSs with more aggressive savings objectives. A federal EERS would

establish minimum savings targets, which are aggressive enough to prove the benefits and affordability of efficiency as well as further motivate states to procure all cost-effective efficiency, i.e. that which is cheaper than supply.

Utilities with annual sales greater than 750,000 MWh of electricity or 2.5 billion cubic feet of natural gas would be subject to the EERS, and savings could be achieved through a variety of means such as new equipment efficiency standards and building codes, distribution system improvements, and end-user efficiency programs run by states, utilities or third parties.¹ In order to reduce costs while ensuring local benefits, bilateral purchases of energy savings within a regional power pool would be allowed.

Utilities would be allowed to make alternative compliance payments of 5¢/kWh of electricity or 5\$/Mcf of natural gas in lieu of achieving the required energy savings, but the nationwide abundance of efficiency below these costs should preclude such payments. The Department of Energy would run the EERS program and establish protocols for measurement and verification to ensure program results.

Benefits

Despite the excitement surrounding clean technology and renewable fuels, efficiency is the best near-term energy investment for reducing consumer-energy bills, creating jobs, spurring economic growth, and increasing energy independence. New spending on efficiency creates direct employment and the money not spent on energy flows back into local economies to foster economic growth. Gains in energy efficiency also provide the most immediate and cost-effective way to reduce greenhouse-gas emissions. In a cap-and-trade system lower emissions reduce demand and, as a result, the prices for allowances (permits to emit), thus making efficiency the primary cost-containment mechanism in climate regulation.

A nationwide EERS would help overcome market barriers that have limited efficiency improvements to date. With utilities providing rebates, bulk cost buy-downs, and technical support, consumers can afford to upgrade to efficient machinery or appliances and retrofit buildings to save energy.

Importance of a Free-standing EERS

Energy efficiency is a unique resource with unique characteristics. In order to fully capture the benefits of efficiency, an EERS should remain distinct and separate from a renewable portfolio standard (RPS). While important, renewables are significantly (4 to 10 times) more expensive than efficiency, and mixing an EERS in with a renewable standard – especially one that includes trading – could mean that customers significantly overpay for efficiency.

Additionally, a renewable standard would apply to the entity supplying power – often a competitive load serving entity – which in some cases is not the local distribution company that would be regulated under an EERS. Attempting to include efficiency in a renewable energy standard would thus create regulatory complications in addition to the potential negative economic impacts. Both are avoided by establishing an independent EERS and a stand-alone RPS.



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¹ For examples see *State & Utility Administered Energy Efficiency Programs: Experience, Opportunities and Examples* by ENE and MJBBradley, available at: www.env-ne.org/resources/open/p/id/835