



TEXAS PUBLIC POLICY FOUNDATION
LEGISLATORS' GUIDE TO THE ISSUES

Energy Efficiency

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THE ISSUE

The Texas Legislature has mandated the state's current energy efficiency program that calls for "each electric utility [to] provide ... incentives sufficient for retail electric providers and competitive energy service providers to acquire additional cost-effective energy efficiency for residential and commercial customers equivalent to at least ... 20 percent of the electric utility's annual growth in demand of residential and commercial customers by December 31, 2009."

Energy efficiency has greatly benefitted society and has been a key part of America's and Texas' economic growth. Energy intensity, the amount of energy it takes to produce a unit of output—or a unit of GDP, has been decreasing steadily. Since at least the Industrial Revolution, the world has been increasingly energy efficient. Yet, at the same time, the world has used more energy.

Ultimately, energy efficiency makes energy less expensive so we can use more energy. The public benefit of energy efficiency is that we are able to use more energy that produces more economic growth that makes society wealthier and healthier.

However, government-mandated energy efficiency programs today are designed to *decrease* energy use. They generally do this by *increasing* the cost of energy which results in a decrease in energy use, and subsequently in economic growth.

Texas is almost alone among the states in using a Program Administrator Cost Test (PACT) to evaluate its efficiency programs. The PACT ignores the expenses

consumers incur in achieving the reduced energy consumption, understating the total costs of the programs and thus overstating the cost savings, i.e., efficiency, of the programs. For instance, the purchase of a refrigerator with an actual cost of \$450 might save future power costs of \$400, with the utility giving the consumer \$75 to make the purchase. The consumer happily pays the remaining \$75 to save \$400 on their power costs. The utility reports that its \$50 investment has passed a PACT test by saving \$400 of power. Society, however, has spent \$450 in order to buy only \$400 of power savings.

The claim that Texans benefit from a state-mandated "increase in energy efficiency services ... and a decrease in overall energy consumption" demonstrates a fundamental economic misunderstanding. An uncompensated decrease in a person's consumption of any economic good is a cost, not a benefit. The fact that the person has chosen not to purchase the "energy efficiency services" and chosen instead to consume electricity is an indication that a program to mandate this change makes them worse off, not better.

Because of the nature of the energy efficiency program, increased gains in efficiency come at progressively higher costs. In other words, each unit of decreased electrical use comes at a higher monetary cost. The PUC's own rules state that "An energy efficiency program is deemed to be cost-effective if the cost of the program to the utility is less than or equal to the benefits of the program." Yet, as noted above, the agency cannot accurately determine at this point whether or not the programs under this rule are actually cost effective. As the goals are increased, it will be increasingly difficult for utilities to implement programs that are not burdensome and in-

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consistent with the statute. This is particularly true when it comes to the reduced load served by the utilities as the result of the increased goals. While the utilities are mostly compensated for the expenses of these programs, they are necessarily reducing their overall demand, and thus their revenues. As regulated entities, they have no other means for increasing demand and the associated revenues except through the PUC.

THE FACTS

- ★ The state's energy efficiency program cost consumers approximately \$108.4 million in 2009.
- ★ Since 2002, the total cost of the program has been \$591 million, and the cost increases as the program expands.
- ★ One bill filed last session would have added as much as \$426 million in annual costs to the program.
- ★ The state's energy efficiency program cannot be justified through the cost-benefit method currently employed by the PUCT, since the method does not accurately measure the full costs of the program.
- ★ Increases in the goals of energy efficiency programs make them less efficient.

RECOMMENDATIONS

- ★ Eliminate the state energy efficiency program.
- ★ If the state's energy efficiency program remains in existence, change the way the state evaluates it to encompass all the costs (including those to the program, consumers, and the Texas economy) involved with energy efficiency.
- ★ Any future increases to the program's goals should be closely examined to ensure that they will reduce the cost of energy use.

RESOURCES

A Tale of Two Markets: Telecommunications and Electricity, A Sunset Report on the Texas Public Utility Commission by Bill Peacock, Texas Public Policy Foundation (May 2010) <http://www.texaspolicy.com/pdf/2010-05-RR06-PUCSunset-bp.pdf>.

Comments to the Public Utility Commission of Texas Regarding Rulemaking Proceeding to Amend Energy Efficiency Rules by Bill Peacock, Texas Public Policy Foundation (Mar. 2010) <http://www.texaspolicy.com/pdf/2010-PUC-EnergyEfficiencyFiling-final-bp.pdf>. ★

