

- SUBJECT:** Increasing energy efficiency goals and demand reduction targets
- COMMITTEE:** Energy Resources — committee substitute recommended
- VOTE:** 6 ayes — Keffer, Crabb, Farabee, Gonzalez Toureilles, Hardcastle, Strama
- 0 nays
- 3 absent — Crownover, Craddick, Rios Ybarra
- WITNESSES:** For — (*On original bill:*) Carol Biedrzycki, Texas Ratepayers Organization to Save Energy; (*Registered, but did not testify:* Jeffrey Guidry; Karen Hadden, Sustainable Energy and Economic Development Coalition; Greg Herzog, Texas Medical Association; Matthew Kresha; Luke Metzger, Environment Texas; Bee Moorhead, Texas Impact; William Van Dell, Smart Spark Energy Systems; Raymond Walker, Standard Renewable Energy, LP); (*On committee substitute:*) Carl Frankle, Texas Energy Service Companies; Margaret Keliher, Texas Business for Clean Air; Robert King, Efficiency Texas, ARLA, Climate Master, and Alaniz HVAC; Cyrus Reed, Lone Star Chapter, Sierra Club; Kate Robertson, Environmental Defense Fund; Tom “Smitty” Smith, Public Citizen
- Against — None
- On — (*On original version:*) Vanus Priestley, Alliance for Retail Markets; (*Registered, but did not testify:* Matt Valdez, Texas Is Hot Coalition); (*On committee substitute:*) John W. Fainter Jr., Association of Electric Companies of Texas, Inc.; Michael Jewell, Reliant Energy; Phillip Oldham, Texas Association of Manufacturers; Tony Thompson, Electric Utility Marketing Managers of Texas, Utility Energy Efficiency Program Managers; (*Registered, but did not testify:* Barry Smitherman, Public Utility Commission of Texas)
- BACKGROUND:** HB 3693 by Straus, enacted by the 80th Legislature in 2007, doubled the state’s energy efficiency goal, enhanced existing energy efficiency programs, and enabled more customer demand management. HB 3693 also required the Public Utility Commission (PUC) to study the feasibility

of further increasing the energy efficiency goals. The results of the PUC's study showed potential for savings from energy efficiency programs in the state and made policy recommendations for increasing the level of energy savings being achieved in Texas.

DIGEST: CSHB 280 would increase energy efficiency goals for electric utilities in Texas and would:

- encourage utilities to help build an infrastructure of efficiency professionals;
- provide for demand response and load management programs for electric utilities;
- continue the market transformation pilot program and provide for implementation of established programs;
- create an Office of Energy Efficiency Deployment within the Comptroller's State Energy Conservation Office (SECO); and
- require two studies addressing certain energy efficiency issues.

Infrastructure of efficiency professionals. CSHB 280 would require electric utilities to assist in building an infrastructure of trained and qualified energy service providers that would encourage the participation of retail electric providers (REPs) in the delivery of services and that would ensure that all customer classes had a choice of and access to energy efficiency alternatives and other choices from the market. Options would include demand-side renewable energy systems that allow each customer to reduce energy consumption, peak demand, or energy costs.

Increasing the state's energy efficiency goals and changing the metric to a percentage of peak demand rather than a percentage of load growth. CSHB 280 would establish annual efficiency goals of:

- 30 percent of annual growth in demand by January 1, 2012, rather than 10 percent by December 31, 2007;
- 0.5 percent of peak demand by January 1, 2013, rather than 15 percent of annual growth in demand by December 31, 2008;
- 1 percent of peak demand by January 1, 2016, rather than 20 percent of annual growth in demand by December 31, 2009.

Utilities would be allowed to offer a cost-effective portfolio of energy efficiency rather than requiring each individual program to pass a cost-effectiveness test.

Demand response and load management programs. The PUC, in coordination with the Electric Reliability Council of Texas (ERCOT), would be required to design new demand response and load management programs or expand existing programs. The programs would be designed to achieve cost savings for consumers, ensure that elderly, critical care, and low-income customers did not experience harmful health effects from the programs, and ensure that the benefits were passed through to participating customers.

The PUC would be required to provide oversight and adopt rules and procedures to ensure that the utilities could achieve the goals. The PUC would have to ensure that the program incentives were passed on to the end user through rebates and discounts, that standards for consumer disclosures were established, and that programs operated at a sufficient scale so that all customers had access.

The PUC would have the authority to increase or decrease a utility's demand reduction goals based on its capacity to implement efficiency measures and demand response programs.

The PUC would be required to develop different standards for program offerings in remote areas of the state and areas where demand for energy efficiency exceeded the local utility's capacity to provide them.

CSHB 280 would establish an incentive equal to 70 percent of the avoided costs that resulted from installing demand-side renewable energy systems.

CSHB 280 would provide a cost cap of \$0.0010 per kilowatt hour for the average of the aggregate cost for programs for individual utilities located in customer choice areas.

Continuation of market transformation pilot program. The market transformation pilot program could be extended for more than three years if the PUC determined that the pilot program was an appropriate means of addressing special market barriers that prevented or inhibited the behavior addressed by the pilot program.

The PUC could establish, and each utility could implement, market-transformation incentive programs that encouraged the use of new building technologies and construction practices.

Each electric utility would be required to administer an energy efficiency program designed to meet an energy savings goal calculated from its demand savings goal, using a capacity factor of 25 percent.

A utility could work with municipalities or other governmental entities to establish building energy codes that promoted greater energy efficiency than the standards required by law. If they chose to do so, they would not be able to count more than 50 percent of the savings in peak demand and energy savings that resulted in the first 12 months after the code was implemented toward the utility's goal for energy efficiency.

Office of Energy Efficiency Deployment. CSHB 280 would create an office of energy efficiency deployment in the State Energy Conservation Office (SECO) to design and implement a statewide campaign to educate customers, utilities, and public entities about energy efficiency.

Studies on decoupling and energy efficiency credit trading. The PUC would be required to conduct a study that would address the disincentives of promoting energy efficiency, including a utility's lost revenue from electricity sales and a utility's recovery of costs for programs promoting energy efficiency. The study would address the impact of decoupling of electric utility revenue and earnings from the amount of electricity consumed by customers, including the effect on low-income customers.

Study on effectiveness of energy efficiency and demand response programs. The PUC would be required to conduct a study that would address the effectiveness of demand response and load management programs and whether the cost caps should be revised, the feasibility of increasing existing energy efficiency efforts, the assessment of cost impact and the results of cost impact on peak demand, and the level of free-ridership.

Effective date. The bill would take effect September 1, 2009.

**SUPPORTERS
SAY:**

CSHB 280 would build on the foundation created by HB 3693 of the 80th Legislature by setting far-reaching goals for energy efficiency programs that would reduce peak electricity demand by 1 percent by 2016 and would implement recommendations set out by the PUC's 2009 energy efficiency report.

The PUC's report estimates that the implementation of its recommendations would result in a minimum of \$4.3 billion in net savings to Texas electric customers through the next decade. Also, the report found that a dramatic ramp-up in Texas' energy efficiency goals is achievable — up to 1 percent of peak demand by 2015. For every dollar spent on energy efficiency, the customer potentially saves \$2.70. Energy efficiency is one of the few tools available that both saves money and reduces air pollution.

CSHB 280 simply would be about being smart about the way energy is used in Texas. It is a critical time to act because Texas needs to be prepared to receive federal stimulus dollars and put them to maximum good use. These types of innovative energy efficiency measures are exactly the kind of one-time stimulus expenditures that lead to long-term savings, create jobs, and position Texas to be the nation's leader in creating the new, green economy.

**OPPONENTS
SAY:**

CSHB 280 would place an enormous administrative burden on the PUC with increased oversight and rulemaking responsibilities. The bill could have a significant impact on the PUC, with an estimated 2,500 staff hours needed to conduct a major rulemaking to change the energy-efficiency rules and the demand-response programs operated by ERCOT. The PUC also would be involved in increased oversight activities to assess whether goals were met and to oversee program implementation.

NOTES:

The committee substitute differs from the bill as filed by:

- revising the energy efficiency goals;
- including cost caps;
- providing the PUC with the authority to increase or decrease a utility's demand reduction goals;
- providing for additional load management and demand response programs;
- allowing utilities to offer a cost-effective portfolio of energy efficiency;
- providing incentives for demand-side renewable generation;
- continuing a market transformation pilot program for more than three years and requires the PUC to establish, and each utility to implement, market-transformation incentive programs;
- encouraging programs to operate at sufficient scale;

- ensuring the establishment of standards for consumer disclosures
- encourages utilities to help build an infrastructure of efficiency professionals;
- requiring the PUC to develop different standards for program offerings in remote areas of the state;
- creating an Office of Energy Efficiency Deployment; and
- providing for studies.

A similar bill, SB 546 by Fraser, passed the Senate by 30-0 on April 20 and was left pending in the House Energy Resources Committee on May 6.