# BILL ANALYSIS

Senate Research Center
82R11510 ALL-F

S.B. 1125
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Business & Commerce
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## AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Energy efficiency goals are measured by annual growth and demand, but this metric does not account for increased consumption or demand for energy. Furthermore, electric utilities administer many energy efficiency (EE) programs, but are currently prohibited from interacting with customers to provide education for these programs. Lastly, the Load Resource program, a program that allows demand or load to participate in the energy market, is currently limited to industrial classes, prohibiting participation by residential and commercial class customers. S.B. 1125 seeks to change the energy efficiency goal metric from annual growth in demand to peak demand. It also allows residential and commercial class participation in demand response programs and codifies utility interaction with customers for educational and incentive purposes.

Section 39.905 (Goal for Energy Efficiency), Utilities Code, established goals for electric companies to administer EE programs. Substantive Rule 25.181 updates these goals to raise an electric utility's energy efficiency goal from 20 percent to 25 percent of annual growth in electric utility's demand of residential and commercial customers by program year 2012, and 30 percent of the electric utility's annual growth in demand by program year 2013. While Section 39.105 (Limitation On Sale of Electricity) prohibits electric utilities from interacting with customers, Substantive Rule 25.181 clarifies that TDU's can interact for standard offer or market transformation program purposes.

So that energy efficiency goals are applied every year for the goal of reducing overall consumption, S.B. 1125 amends 39.905, Utilities Code, and changes energy efficiency metrics from annual growth in demand to peak demand. The bill also statutorily allows utilities to communicate directly with their customers to promote and assist with performing their EE programs. Furthermore, to assure program quality and better estimate program cost savings and energy reduction benefits for long term energy planning, S.B. 1125 requires consistent evaluation, measurement, and verification on all EE programs. The bill also expands demand-side management programs, like Load Resource, to residential and commercial classes. Lastly, S.B. 1125 directs the Public Utility of Commission to study current cost-benefit tests including all avoided cost of capacity and energy.

As proposed, S.B. 1125 amends current law relating to energy efficiency goals and programs and the participation of loads in certain energy markets.

## RULEMAKING AUTHORITY

Rulemaking authority previously granted to the Public Utility Commission of Texas is modified in SECTION 1 (Section 39.905, Utilities Code) of this bill.

## SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 39.905, Utilities Code, by amending Subsections (a) and (b) and adding Subsection (h), as follows:

(a) Provides that it is the goal of the legislature that:

(1)-(2) Makes no changes to these subdivisions;

(3) each electric utility annually will provide through a cost-effective portfolio of market-based standard offer programs or through limited, targeted, market-transformation programs, incentives sufficient for retail electric providers and competitive energy service providers to acquire additional energy efficiency for the utility's customers, other than customers who operate a transmission-level voltage facility, equivalent to at least one-half of one percent of the electric utility's peak demand, not including demand from transmission level industrial facilities, by January 1, 2013, rather than each electric utility will provide incentives for providers to acquire additional cost-effective energy efficiency for residential and commercial customers equivalent to of at least 10 percent of the electric utility's annual growth in demand of residential and commercial customers by December 31, 2007. Deletes existing designation of Paragraph (A). Deletes existing Paragraph (B) relating to electric and energy service providers acquiring 15 percent of the electric utility's annual growth in demand of residential and commercial customers by December 31, 2008, provided that the electric utility's program expenditures for 2008 funding may not be greater than 75 percent above the utility's program budget for 2007 for residential and commercial customers, as included in the April 1, 2006, filing. Deletes existing Paragraph (C) relating to electric and energy service providers acquiring a 20 percent of the electric utility's annual growth in demand of residential and commercial customers by December 31, 2009, provided that the electric utility's program expenditures for 2009 funding may not be greater than 150 percent above the utility's program budget for 2007 for residential and commercial customers, as included in the April 1, 2006, filing;

(4) Makes no changes to this subdivision;

(5) Makes a nonsubstantive change;

(6) not withstanding Subsection (a)(3), electric utilities shall continue to make available, at 2007 funding and participation levels, any load management standard offer programs developed for industrial customers and implemented prior to May 1, 2007; and

(7) electric utilities may communicate with and provide rebate or incentive funds to their customers to promote or facilitate the success of programs implemented under this section.

(b) Requires the Public Utility Commission of Texas (PUC) to provide oversight and adopt rules and procedures to ensure that the utilities can achieve the goal of this section, including, among certain goals, ensuring that programs are evaluated, measured, and verified using a framework established by PUC that promotes effective program design and consistent and streamlined reporting; and ensuring that an independent organization certified under Section 39.151 (Essential Organizations) allows load participation in all energy markets for residential, commercial, and industrial customer classes, either directly or through aggregators of retail customers, to increase market efficiency, competition, and customer benefits.

(h) Requires PUC to develop a standard disclosure form and require an energy efficiency provider to use the form to help consumers make better informed decisions regarding energy efficiency investments. Requires that the form include disclosures regarding:

(1) the full scope of incentives that are available to the consumer for the energy efficiency measure the consumer is considering, including all utility, city, county, state, and national incentives;

(2) the value of any incentives used to reduce the costs of products or services offered passed on to the energy service provider marketing its energy efficiency program;

(3) other related energy efficiency incentives that are available to the consumer; and

(4) the consumer's estimated energy savings and payback period.

SECTION 2. Repealer: Section 39.905(b-2) (relating to establishing an incentive under Section 36.204 to reward utilities administering programs under this section that exceed the minimum goals established by this section), Utilities Code.

SECTION 3. (a) Requires PUC to conduct a study to determine:

(1) the effect of including avoided transmission and distribution capacity costs as a factor included in an analysis used to determine whether programs are cost-effective;

(2) the appropriate cost of energy to be included as a factor included in an analysis used to determine whether programs are cost-effective;

(3) how the reductions in energy demand and energy consumption provided by energy efficiency programs affect the market clearing price in Electric Reliability Council of Texas for the balancing energy market during peak and nonpeak periods; and

(4) ways to include the associated changes in energy prices due to the effect of energy efficiency programs, as found under Subdivision (3) of this subsection, as a factor included in an analysis used to determine whether a program is cost-effective.

(b) Requires PUC to report its findings from the study conducted under this section to the legislature not later than September 1, 2012.

SECTION 4. Effective date: September 1, 2011.