The Costs of Inefficiency: Ignoring Ohio’s Energy Efficiency Potential

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Scope of the Problem

In Ohio today, substantial energy efficiency resources, although available, are not being used. Based on the current technological capacity, there is significant potential to increase energy efficiency to a degree that would substantially and cost effectively reduce the state’s energy use.

The state’s current retail electricity market design is worsening this energy efficiency use weakness, causing consumers to spend more for energy while receiving fewer economic benefits. In 1999, Ohio established electric deregulation (in SB 3), changing from a regulatory price setting system into one where prices were established through wholesale market auctions. In 2008 (in SB 221) and in recent decisions by the Public Utilities Commission of Ohio (PUCO), the marketing process was expanded to include retail competitors along with wholesale marketers. Now, third party retailers can compete with regional utilities to deliver energy to residential, commercial and industrial customers. That means that retail default energy prices provided by monopoly electric utilities are set by utility-managed auctions that include energy but do not include energy efficiency.

Retail energy-only auctions do not permit energy-saving services to compete, forcing ratepayers to pay for an excess supply of electricity. That, in turn, creates a drag on Ohio’s economy. The nation has made huge strides in developing energy efficient technology in the past 40 years. Nonetheless, efficiency gains are falling short of their full potential in the U.S. and in Ohio.

After adoption of SB 221, PUCO directed Ohio’s utilities to adopt procedures to capture a portion of this economically available energy efficiency. The utilities select measures through a process called “Assessment of Potential,” which first surveys all the achievable efficiency available today and then screens for cost-effectiveness and market availability.

The results of those studies show:

- Reaching near-term efficiency benchmarks is achievable 4
- By 2019, 17 percent of expected energy use could be met with cost-effective energy efficiency measures 5
- By 2028, 29 percent of expected energy demand could be met 6
- With little change in current market, regulatory or program operations systems, between 11.1 and 16.8 percent of expected energy use could be met by 2026 7

Independent analysis by PUCO indicated that all utilities complied with statutory savings benchmarks in 2009 and 2010.

Nonetheless, the electricity service provided by customer-chosen providers is geared toward furnishing energy, not efficiency, limiting consumers in choosing the resource that best meets their needs.

The current structure of Ohio’s retail electricity market is creating these problems. It favors the large incumbent electricity generators that run auctions in a way that restricts competition from energy efficiency resources.

But energy efficiency can be improved, consistent with the market principles of deregulation, by precisely identifying barriers to competition and by implementing specific and focused regulatory interventions.

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6 2009 to 2029 Energy Efficiency/Peak Demand Reduction Potential Study (November 5, 2009), Prepared by Summit Blue Consulting, LLC and Midwest Energy Efficiency Alliance, at Table 17, Filed November 12, 2009, In re: Applications of Columbus Southern Power and Ohio Power for Approval of Program Portfolio Plan, Case Nos. 09-1089-POR et al., Testimony of Jon F. Williams (“Summit Blue Report”) https://dis.puc.state.oh.us

Recommendations

Perfect competition is not possible, but policymakers can take simple and direct action in the following two areas to close the gap between available cost-effective energy efficiency and improve market access to energy efficiency.

1) Align utilities’ business model with market principles to ensure that the model supports market access for customers to both supply and demand-side choices. Aspects to consider:

- Utilities must reliably recover energy efficiency program expenses on a timely basis
- Decoupling rates so utilities are not forced to recover costs which remain the same, no matter how much energy is used
- Allowing utilities to profit on successful energy efficiency programs commensurate with their earning potential on equivalent capital investments
- Separating utility ownership from energy generation business – corporate officers answering to shareholders have an inherent conflict of interest that may only be resolved through structural corporate separation

2) Level the competitive field between energy efficiency providers and energy providers with a parallel procurement process for energy efficiency products and services. There are advantages and disadvantages to each of these alternatives but in absence of adoption of at least one, Ohio’s retail electricity services market will remain functionally noncompetitive. Consider:

- Continuing the statutory energy efficiency benchmark mandates as designed
- Requiring utilities to procure energy efficient services competitively on behalf of their customers in quantities linked to the volume of available cost-effective energy efficiency
- Establishing a separate utility for competitive procurement of default energy efficiency services

Finally, adoption of “on-bill” financing programs should be considered. These programs provide a mechanism for consumers to delay paying for energy efficiency investments until they enjoy the benefits of the investment. This allows competitors to profitably package products and spur market innovation and it has been a proven success.

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