

**Can We Just “Rely on the Market”
to Provide Energy Efficiency?**

**AN EXAMINATION OF THE ROLE OF
PRIVATE MARKET ACTORS
IN AN ERA OF ELECTRIC UTILITY RESTRUCTURING**

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EXECUTIVE SUMMARY (used by permission)

With the movement toward restructuring the electric industry, some have argued that energy efficiency would be better accomplished by relying on market forces than by continuing government and regulatory requirements for energy efficiency programs. In response, others have argued that market barriers to energy efficiency are significant, with or without restructuring, and that energy efficiency programs should be continued. Underlying this debate is a key public policy question: To what extent can private market forces be relied upon to achieve energy efficiency in the absence of long-standing utility and government efforts? The purpose of this study was to gather data to help address that question.

This study focused on three key groups of private sector market actors expected to be involved in the provision of energy efficiency services in a restructured electricity market: energy efficiency service companies; electricity commodity providers; and distribution utilities. Furthermore, in order to review market activities that have emerged to their maximum extent, the study specifically focused on nine states that were early implementers of electric restructuring— Arizona, California, Connecticut, Illinois, Massachusetts, Michigan, New York, Pennsylvania, and Rhode Island.

Data collection methodologies included website content analysis, document review, and nearly one hundred detailed telephone interviews (with representatives of each of those three key market actor groups plus a number of “expert” observers of the energy efficiency service industry).

Briefly stated, the key conclusions of this study are as follows.

First, while the energy services company (ESCO) industry performs a very valuable role in delivering energy efficiency in the United States, there are at least two important reasons why this industry could not be expected to step in and replace the role of government/ regulatory policies and programs in providing energy efficiency.

- C There are major gaps in the market segments reached by this industry. In particular, ESCOs generally have demonstrated little or no ability (or interest) in serving the residential or small commercial customer markets. To a lesser extent, ESCOs have also had some difficulty reaching the industrial customer market.

- C Even in the market sectors where ESCOs perform the best (institutional and larger commercial markets), the ESCO industry is in fact intricately involved with, and supported by, existing government/regulatory policies and funding programs for energy efficiency. Indeed, these policies and programs in substantial part helped create the ESCO industry and continue to play a major role in sustaining its work today.

Second, for a variety of reasons, the retail electricity commodity supplier industry has not demonstrated itself to be an effective vehicle for achieving energy efficiency improvements. Significant challenges include a high failure rate among supplier firms, a mixed interest in energy efficiency among suppliers, a lack of commodity suppliers actually marketing tangible energy efficiency measures, and a lack of customer interest in obtaining energy efficiency from commodity suppliers (due to perceived conflict of interest and other reasons). Regardless of the specific causes, the vision of a robust supplier industry bundling the electricity commodity and energy efficiency to provide customers with lowest-cost energy solutions has simply not materialized.

Third, absent legislative or regulatory requirements (e.g., system benefit charge-funded programs, shareholder incentives for effective utility energy efficiency programs, etc.), there is strong evidence that in a restructured electric industry, utility companies will not choose to provide substantive energy efficiency programs. Rather, if they provide anything at all, they are much more likely to provide minimal "information" type programs, largely as a customer service and customer relations mechanism.

In summary, this study has found little evidence to support the premise that relying on private market actors to provide energy efficiency would be a superior approach and that government/regulatory policies and funding for energy efficiency can be phased out or eliminated. Indeed, after focusing on nine states that were early adopters of electric restructuring and gathering data from the three private market actors most prominently mentioned as entities that would "pick up the ball" and deliver energy efficiency in a restructured marketplace, this study supports conclusions contrary to that premise. Those private market actors each face significant limitations in their interest and ability to deliver energy efficiency and have thus far demonstrated no realistic capability to replace government/regulatory policies and programs to provide energy efficiency.

Ironically, continued government/regulatory policies and programs to support energy efficiency would actually play an important role in enhancing the ability of those entities to provide energy efficiency in the marketplace. Therefore, it appears that the proper question is not: Can private market actors replace government/regulatory policies and programs? but rather: How can government/regulatory policies and programs help maximize the energy efficiency provided by these market actors?

NOTE: The text of the report is available on line at <http://www.aceee.org/pubs/u011full.pdf> . The five appendices are available as part of the hard copy of this report for \$17.00 plus \$5.00 shipping and handling from ACEEE Publications, 202-429-0063 phone, ace3pubs@ix.netcom.com email, aceee.org website.

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