

POLICYMAKER'S GUIDE TO CORPORATE WELFARE

The PUC Energy Efficiency Program

The Issue

In 1999, SB 7 introduced a landmark restructuring of Texas' electricity marketplace along free-market lines. Included as a part of this legislation, however, were mandated "Goals for Energy Efficiency" applying to all Transmission Distribution Utilities (TDUs) and overseen by the Public Utility Commission (PUC) of Texas. The goals call for a certain percentage reduction in electricity demand growth for residential and commercial customers each year, with the current requirement set at 30 percent.

Utilities achieve the PUC's percentage target through two types of programs, collectively known as the PUC Energy Efficiency Program. The first subset, consisting of Standard Offer Programs (SOPs), is designed for residential and small commercial customers. Utilities offer contractors rebates through SOPs to install energy-efficient appliances and provide other energy-saving services. The remaining type of programs, Market Transformation Programs (MTPs), instead address the marketplace overall, working to reduce alleged market barriers to energy efficiency.

As a whole, Texas utilities spent upwards of \$123 million in payments and administrative costs associated with the PUC Energy Efficiency Program during the 2015 calendar year. In theory, these expenditures translate increased energy efficiency into consumer savings, but the reality is that the program serves to increase energy costs for Texans while providing subsidies for businesses.

The Arguments

The PUC Energy Efficiency Program is touted as a cost-effective means of overcoming market failures and other inherent obstacles to energy-efficient technology. The intervention in the market under this program is justified, proponents claim, because electricity prices fail to take into account all the potential savings that could be achieved if certain energy efficiency technologies were adopted.

The Energy Efficiency Program's defenders claim that consumers operate under a lack of essential knowledge. Since the benefits of energy efficiency are spread out across the future, electricity customers might have difficulty comprehending their present value—and thus could underestimate the worth of energy-efficient investments. Government rebates are supposedly necessary to remedy this ignorance, or "knowledge problem," on the part of consumers.

However, the PUC's program actually turns the concept of energy efficiency upside down. Energy efficiency has traditionally been about making energy less expensive to use. The public benefit of energy efficiency is that we are able to use more, less-expensive energy that in turn produces greater economic growth. Instead, the PUC's program is actually designed to decrease energy use, generally by increasing the cost of energy.

These higher costs are hidden in Texas as the costs of the program are severely understated. Texas employs the Program Administrator Cost Test (PACT) to measure the financial viability of programs including the PUC Energy Efficiency Program, making it one of the only states to do so. However, the PACT method contains several flaws; most critically, it fails to take opportunity costs into account, instead focusing on administrative and customer incentive costs. It also ignores the funds consumers spend on subsidized technologies in its accounting. As a result, its total cost to consumers is much greater than stated, and offset its savings.

Furthermore, the Program faces a significant free rider problem. Studies of similar initiatives across the United States indicate that one can reasonably expect 33 percent of participants to take part in free riding. That is, approximately one-third of program beneficiaries would have purchased energy-efficient technology regardless of the incentives offered. A 2008 survey conducted by metering and consulting firm Itron suggests that in Texas, the number may be closer to one half. Energy efficiency, it seems, is popular enough without government prodding.

Taken as a whole, the evidence suggests that the PUC Energy Efficiency Program's costs are greater than its benefits and that the market, contrary to official doubts, provides ample incentive for consumers to adopt energy-saving measures. The laudable goal of energy efficiency is best served when left to the people.

Recommendations

Eliminate the PUC Energy Efficiency Program. ★

Resources

[*Energy Efficiency: Is Texas Getting Its Money's Worth?*](#) by Robert Michaels and Bill Peacock, Texas Public Policy Foundation (July 2010).

[*A Legislator's Guide to the Issues 2013-2014: Energy Efficiency*](#), Texas Public Policy Foundation (2012).

["Filings Search,"](#) Public Utility Commission of Texas.

