

The American Clean Energy and Security Act of 2009



Electric Energy Efficiency Recommendations

September, 2009

The *American Clean Energy and Security Act* (ACES), H.R. 2454, will put the country on a path towards ambitious and comprehensive reform of U.S. climate and energy policy. ACES offers the promise of building the foundation of a sustainable and efficient economy that meets our nation's future demands and creates millions of jobs in the energy efficiency and clean energy fields.

Energy Efficiency – The Primary Cost-Containment Tool

Investing cap and trade proceeds in energy efficiency is arguably the most important consumer protection tool in ACES because efficiency lowers energy consumption, which reduces GHG emissions and the demand for carbon allowances. The result is a lower carbon price and lower costs for cap and trade.

Energy efficiency programs run by utilities, states, and third parties under state PUC oversight constitute the bulk of the country's existing energy efficiency delivery infrastructure. In addition to producing lower prices for carbon allowances, investing cap and trade proceeds in existing efficiency programs reduces commercial, industrial, and residential energy bills by billions of dollars, replacing fossil fuel expenditures with energy service jobs retrofitting buildings and replacing old equipment.

ENE strongly supports ACES' investments in efficiency programs for natural gas and home heating oil consumers; the same investments need to be made in efficiency programs for electric consumers as well:

- **ACES Clearly Mandates Efficiency Funding for Natural Gas and Oil**
 - ACES requires that 1/3 of allowances for natural gas consumers shall be used for cost-effective efficiency programs, which will lower gas consumers' bills dramatically. Sec. 784(c)(5) states:
"The value of no less than one third of the emission allowances distributed to natural gas local distribution companies pursuant to this section in any calendar year shall be used for cost-effective energy efficiency programs for natural gas consumers."
 - ACES Sec. 785 requires that 1/2 of allowances dedicated for home heating oil, propane, and kerosene consumers shall be used for cost-effective energy efficiency programs to reduce such consumers' overall fuel costs.
- **ACES Should Require the Same Funding for Electric Efficiency**
 - ACES funds efficiency programs for natural gas, oil, propane, and kerosene customers through required allowance allocations. Similar mandatory funding for efficiency programs for electric consumers should be established to optimize this lowest cost, cleanest energy resource that cost-effectively reduces bills and emissions.
 - The same opportunity for dramatic cost savings exists for electric consumers – the bill should require that at least 1/3 of allowances for electric consumers be dedicated to cost-effective electric efficiency programs as it does for natural gas consumers.
 - However, utilities may invest less than the 1/3 requirement if they successfully demonstrate to the state commission they are capturing all cost-effective energy efficiency. This provides more flexibility to utilities and commissions and ensures the investments will be cost-effective.

- The best way to accomplish this is to apply the same requirement for efficiency funding in the “Sec.784 Natural Gas Consumers” allocation to the “Sec. 783 Electricity Consumers” allocation; see underlined addition below.

Sec. 783 (b)(5)(A) RATEPAYER BENEFIT.—Emission allowances distributed to an electricity local distribution company under this subsection shall be used exclusively for the benefit of retail ratepayers of such electricity local distribution company and may not be used to support electricity sales or deliveries to entities or persons other than such ratepayers. The value of no less than one third of the emission allowances distributed to electricity local distribution companies pursuant to this section in any calendar year shall be used for cost-effective energy efficiency programs for retail ratepayers.”

- A 1/3 electric efficiency allocation would support nationwide **funding of more than \$12 billion per year, investing at least \$103 billion in electric efficiency programs from 2012-2019.** These investments would deliver electric consumers savings of about \$309 billion, create approximately 917,000 jobs in the efficiency sector including energy auditors, contractors, and efficient equipment installers, and lower the price of carbon and overall cap and trade costs.
- **Budget Neutrality and Paying for CBO’s “Haircut” of Energy Efficiency Allocations**
 - The requirement to invest 1/3 of electric LDC allocation value in efficiency will trigger the so-called “CBO haircut,” a requirement by the Congressional Budget Office that 25% of the value of allocations with ‘strings attached’ (including efficiency) be provided to the Treasury to make up for an assumed reduction in tax revenue.
 - This haircut applies to the natural gas 1/3 efficiency allocation in ACES and was solved by setting aside a limited amount of revenue to Treasury. Efficiency investments typically save consumers \$3 for every \$1 invested, and directing allowance value equivalent to 25% of the efficiency allocation to Treasury is a worthwhile investment that will produce savings far greater than displaced allowance value.
 - Using CBO allowance price projections, the haircut for electric efficiency would cost less than \$3 billion per year while each year’s efficiency investment would generate more than \$30 billion in net savings for consumers. The CBO Haircut on a 1/3 electric efficiency can be paid for by using one or a combination of the following options:
 - **Option 1 – Use a portion of existing funding directed to the Treasury** under Sec. 782(q). Based on CBO allowance price projections, the Haircut imposed on a 1/3 electric LDC efficiency allocation¹ would total \$22 billion from 2012-2019, which could be drawn from surplus ACES revenue¹ of \$24.4 billion from 2010-2019.
 - **Option 2 – Auction more unallocated allowances from future years and direct proceeds to the Treasury.** Under Sec. 782(p), auctions conducted in years 2014 to 2030 SWAP include allowances from 12 to 17 years after the given auction year, with proceeds directed to the Treasury. As written, ACES would provide 13.4 billion allowances to electric LDCs from 2012-2019. A 1/3 electric efficiency allocation would receive 4.4 billion allowances. Treasury would need no more than *1.1 billion* allowances (25% of 4.4 billion) to compensate for lost tax revenue.² From 2026-2050 there are over *26 billion* unallocated allowances
 - **Option 3 – Reduce the allocation to electric LDCs and increase the allocation to the Treasury.** The existing allocation to the Treasury could be increased by 2.5% annually while

¹ Excluding allocations to merchant coal and long term contract generators, which receive 14.3% of the electric LDC allocation under Section 783(b)(1)

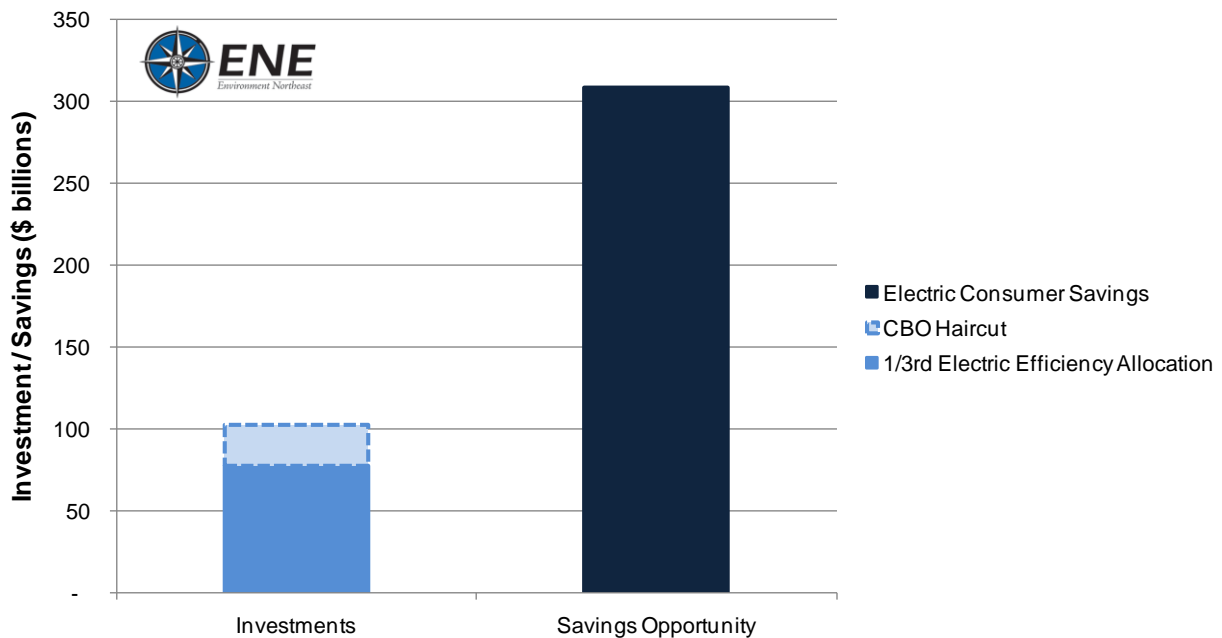
² Compensating Treasury may require fewer than 1.1 billion future year allowances, assuming that allowances from later years are more valuable than allowances from early years of the program

decreasing by 2.5% the annual allocation to electric LDCs, merchant coal generators, and/or long term contract generators under Section 782(a).

- The benefits of investing 1/3 of LDC allowances in electric efficiency programs are tremendous:
 - Electric efficiency investments would total \$103 billion from 2012-2019 and create 917,000 jobs in the energy efficiency sector.
 - Consumers receive \$3 for every \$1 invested in efficiency, so \$103 billion invested would generate roughly \$309 billion in consumer savings from 2012-2019.
 - Additionally, investments in efficiency drive down energy demand and demand for allowances, which reduces allowance prices and the total cost of the cap and trade program.

Figure 1: Electric Efficiency Investments and Savings

Investing 1/3rd of electric LDC allowance value in efficiency would deliver over \$300 billion in consumer savings over the 2012-2019 period.



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