

# Study finds disincentives to energy efficiency can be fixed

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A new study finds that utilities aren't rewarded for adopting energy efficiency programs, and that reforms are needed to make energy efficiency as attractive as renewables.

The article, just published in the current issue of *Environmental Law*, examines key differences between energy efficiency projects and [renewable resources](#). Author Inara Scott, an assistant professor at Oregon State University, outlines ways to increase the amount of energy utilities save each year through efficiency programs.

"Right now, the system actually discourages utilities from building programs to increase efficiency," she said. "We need to start addressing efficiency as we do [renewable energy](#) – by looking at it systemically and removing the barriers."

Scott spent a decade as a lawyer specializing in energy and regulatory law. Her research in the College of Business centers on the transformation of utility systems, [clean energy](#), energy efficiency, and utility regulation.

Her study makes four key recommendations: redesigning rate structures, setting hard targets, streamlining cost-effective tests and addressing market barriers.

Cost-recovery systems for many investor-owned utilities in the United States are based on an old **rate structure model** – the more energy that

is produced, the higher return for shareholders. "You don't want to penalize utilities for selling less energy," Scott said.

Instead, she said, states can use ratemaking mechanisms to decouple the link between utility sales and revenues and establish [performance incentives](#) for the adoption of efficiency programs.

"Decoupling mechanisms may add complexity to utility rate structures, but they are essential to eliminating environmentally nonsensical ratemaking models that reward utilities for higher sales and penalize them for efficiency."

**Setting hard targets is doable**, she said. The state of Oregon has set a goal for 25 percent of its energy to be consumed through renewables by 2025. Scott said other states also could set aspirational goals for energy efficiency.

"If states are committed to reducing the strain on the electric grid, diversifying utility resource portfolios, reducing dependence on foreign markets, and reducing carbon emissions through the adoption of renewable resources, they should be just as willing to do so through the adoption of energy efficiency as they are through the purchase of renewable resources."

**Streamlining cost-effectiveness tests will be difficult**, Scott said, because a simple, accurate way to measure energy efficiency does not exist. "The difficulty is that you're trying to measure energy you didn't use. So really, you're measuring something that doesn't exist."

Many of the tests that do exist are so complicated that they may discourage utilities from adopting energy efficiency. Issues with cost-effectiveness testing will be difficult to fully remedy, Scott said, but these steps —conducting assessments at a programmatic level,

streamlining the precision of tests, and considering the development of national standards—will move the bar forward.

**Market barriers**, Scott said, can be addressed through incentives. Some states, including Colorado and Michigan, have increased the size of incentives for consumers to take on energy efficiency programs (including, in some cases, reimbursing consumers 100 percent of their investment) and finding ways to make incentives more attractive to customers through advertising and education.

"There needs to be better marketing around efficiency," Scott said. "We need to make increasing [energy efficiency](#) as attractive as opting for 'green' or 'salmon-friendly' renewables."

**More information:** [law.lclark.edu/live/files/14248-432scott](http://law.lclark.edu/live/files/14248-432scott)

Provided by Oregon State University

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