

INDIEC

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POSITION STATEMENT ON SCOPE OF ELECTRIC ENERGY EFFICIENCY PROGRAMS

Presently there is a debate as to whether the scope of electric utility energy efficiency programs should include industrial customers. It is INDIEC's position that large manufacturing customers should not be mandated to participate and fund such electric utility Demand Side Management ("DSM") programs. Instead, Indiana should encourage manufacturers to continue their existing self-help programs.

In order to compete in the global economy, Indiana's manufacturers continually look for ways to lower costs, including lowering energy costs through cost-effective energy efficiency investments. These market forces and new technology drive investment in energy efficiency measures. Unlike smaller customers, industrial customers are sophisticated consumers of energy, whose energy investments must be specifically tailored to their operations. Furthermore, industrial customers are capable of identifying and implementing their own cost-effective energy efficiency options.

If Indiana wants to encourage more energy efficiency, the focus should be on how to achieve that goal in the least-cost manner. Encouraging voluntary, customer directed and funded options ("self-help" programs) is the most cost-effective way to achieve energy efficiency investment, since these programs cost less than utility-sponsored efforts due to the absence of administrative costs and incentives. If additional resources are needed in the industrial sector, a properly structured program administered by a government or educational institution could be a win for manufacturers as well as win for energy efficiency.

Utility sponsored energy efficiency programs are problematic in the industrial sector for many reasons, including:

- Utilities have inherent conflicts of interest in generating electricity and being the provider of energy efficiency services.
- Manufacturing processes are sophisticated and unique. Successful energy efficiency projects have to be designed by personnel familiar with the manufacturing process.
- Energy savings should be examined on a combined basis for larger customers (i.e. gas, electricity, steam, wastewater). A focus only in reducing electric usage may not result in the greatest efficiency if it increases other sources of energy.
- Self-directed programs naturally cost less than utility-sponsored programs because utilities have administrative costs, measurement costs, and frequently seek incentives and/or lost revenues.

- The provision of energy efficiency services is not a monopoly. Unregulated energy service companies (ESCOs) already provide service to large consumers of energy. To the extent utility-sponsored programs for large customers involve providing financing options, ESCOs already provide this service. The Department of Energy also provides a variety of programs for large consumers such as the Save Energy Now and Energy Star programs.
- Many manufacturers have already implemented energy efficiency projects and programs using their own resources and capital. To the extent others have not invested in the same efficiencies, requiring manufacturers to pay to bring non-efficient parties up to speed is an improper subsidy.

For these reasons, manufacturers who already have energy efficiency programs should be exempt from mandatory participation or funding of other programs. Indiana should encourage these companies to continue their own “self-help” programs.

For large employers who do need additional resources to pursue energy efficiency, a program administered by an independent government agency, such as the Office of Energy Development, or an educational institution would be a better alternative than utility-sponsored programs. The institution could provide grants to participants to pursue energy efficiency projects. The technical resources of the institution could be enhanced through inclusion of industrial representatives in the grant-award process.

Funding for the grants could be created through a reasonable surcharge paid quarterly by large customers who are not exempt as a result of their own energy efficiency programs. A company would be exempt if it certifies that it has spent as much or more on its own energy efficiency programs than the company would otherwise pay via the surcharge. Appropriate certifications would also be developed for manufacturers whose energy efficiency programs have won awards or acquired other energy efficiency designations. Exempt manufacturers would be subject to random audits in order to verify the certifications.