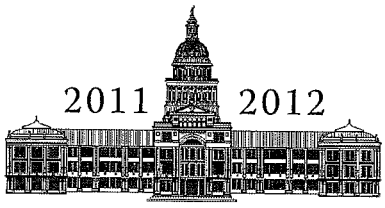

TEXAS PUBLIC POLICY FOUNDATION
LEGISLATORS' GUIDE TO THE ISSUES

Energy Efficiency

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THE ISSUE

The Texas Legislature has mandated the state's current energy efficiency program that calls for "each electric utility [to] provide ... incentives sufficient for retail electric providers and competitive energy service providers to acquire additional cost-effective energy efficiency for residential and commercial customers equivalent to at least ... 20 percent of the electric utility's annual growth in demand of residential and commercial customers by December 31, 2009."

Energy efficiency has greatly benefitted society and has been a key part of America's and Texas' economic growth. Energy intensity, the amount of energy it takes to produce a unit of output—or a unit of GDP, has been decreasing steadily. Since at least the Industrial Revolution, the world has been increasingly energy efficient. Yet, at the same time, the world has used more energy.

Ultimately, energy efficiency makes energy less expensive so we can use more energy. The public benefit of energy efficiency is that we are able to use more energy that produces more economic growth that makes society wealthier and healthier.

However, government-mandated energy efficiency programs today are designed to *decrease* energy use. They generally do this by *increasing* the cost of energy which results in a decrease in energy use, and subsequently in economic growth.

Texas is almost alone among the states in using a Program Administrator Cost Test (PACT) to evaluate its efficiency programs. The PACT ignores the expenses consumers incur in achieving the reduced energy consumption, understating the total costs of the programs and thus overstating the cost savings, i.e., efficiency, of the programs. For instance, the purchase of a refrigerator with an actual cost of $450 might save future power costs of $400, with the utility giving the consumer $75 to make the purchase. The consumer happily pays the remaining $75 to save $400 on their power costs. The utility reports that its $50 investment has passed a PACT test by saving $400 of power. Society, however, has spent $450 in order to buy only $400 of power savings.

The claim that Texans benefit from a state-mandated "increase in energy efficiency services ... and a decrease in overall energy consumption" demonstrates a fundamental economic misunderstanding. An uncompensated decrease in a person's consumption of any economic good is a cost, not a benefit. The fact that the person has chosen not to purchase the "energy efficiency services" and chosen instead to consume electricity is an indication that a program to mandate this change makes them worse off, not better.

Because of the nature of the energy efficiency program, increased gains in efficiency come at progressively higher costs. In other words, each unit of decreased electrical use comes at a higher monetary cost. The PUC's own rules state that "An energy efficiency program is deemed to be cost-effective if the cost of the program to the utility is less than or equal to the benefits of the program." Yet, as noted above, the agency cannot accurately determine at this point whether or not the programs under this rule are actually cost effective. As the goals are increased, it will be increasingly difficult for utilities to implement programs that are not burdensome and in-

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