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An Evaluation:

Focus on Energy

Public Service Commission

December 2011

Report Highlights

Focus on Energy is funded by utilities, administered by a private contractor, and overseen by the PSC.

Utilities recover their contributions to Focus on Energy from customers through utility rates.

Focus on Energy payments represent approximately 1.0 percent of an average residential utility bill and varied significantly for non-residential customers of different utilities.

$58.6 million was spent in 2010 to provide financial incentives for the purchase of energy-efficient and renewable energy products and services.

Contracted evaluators estimated Focus on Energy's

Focus on Energy, Wisconsin's statewide energy-efficiency and renewable resource program, encourages utility customers to reduce fossil fuel consumption by providing incentives for customers to purchase products and services that are energy efficient or use renewable energy sources. Wisconsin's electric and natural gas utilities collectively fund Focus on Energy and recover their contributions from their customers through electricity and natural gas rates.

Because Focus on Energy funding affects rates paid by utility customers, and because Focus on Energy programs are designed to affect energy consumption statewide, concerns have been raised about the operation and cost-effectiveness of the program. Therefore, at the request of the Joint Legislative Audit Committee, we analyzed:

- the roles and responsibilities of the utilities, private contractors, and the Public Service Commission (PSC) in program administration and oversight;
- the effects of utility contributions on customers' electricity and natural gas rates;
- program revenues and expenditures, including the types and amounts of financial incentives provided by the program;
- trends in Focus on Energy participation by residential and non-residential customers; and
- existing cost-effectiveness evaluations of the program performed by outside contractors.

Program Administration and Oversight

Statutes require certain utilities to hire a private contractor to serve as the program administrator for Focus on Energy. The program administrator

benefits exceeded its costs by a ratio of 2.3 to 1

designs energy-savings programs that support the use of energy-efficient and renewable energy products and services.

The program administrator also subcontracts with other private firms, which provide financial incentives for customers to participate in its energy-savings programs; help with customer training and education; and provide outreach and technical support to businesses developing and selling energy-efficient and renewable energy products.

To help ensure adequate program oversight, statutes require the PSC to conduct a review of Focus on Energy at least every four years and contract for independent program evaluations and financial audits of the program. The PSC also provides oversight by establishing the annual energy-savings goals to be achieved through Focus on Energy, approving the design of Focus on Energy programs, and monitoring program budgets.

In conducting our analyses of Focus on Energy, we reviewed documentation and data maintained by the utilities, private contractors, and the PSC. We also interviewed program staff, participants, and other stakeholders regarding program administration and oversight.

Key Facts and Findings

Focus on Energy funding totaled $96.9 million in 2010.

At the six largest utilities, an estimated $16.2 million in 2010 Focus on Energy payments were shifted from large energy customers to other non-residential customers.

Non-residential customers received more than $33.4 million in incentives for energy-efficient products and services in 2010, and residential customers received $16.2 million.

Although only 11.1 percent of the residential customers who received incentives in 2010 had also received incentives in the previous two years, repeat participation was more common among non-residential customers.

An estimated 321,086 utility customers benefitted in 2010 from price reductions for energy-efficient light bulbs.

Contracted evaluators include the reduced need to construct new power plants and the reduced emissions of pollutants among the

Focus on Energy Contributions

Statutes require investor-owned utilities to fund energy-efficiency and renewable resource programs, and municipal electric utilities and retail electric cooperatives to fund energy-efficiency programs. Although they may choose to fund their own programs, all investor-owned utilities, all municipal electric utilities, and 12 of 24 retail electric cooperatives currently contribute exclusively to Focus on Energy. Collectively, these utilities provided funding of $96.9 million for Focus on Energy in 2010.

From 2008 through 2010, at least 95.3 percent of annual contributions to Focus on Energy were made by the six largest investor-owned utilities. The residential customers of these utilities who used an average amount of electricity in 2010 paid from $0.86 to $1.16 per month for Focus on Energy. The residential customers of these utilities who used an average amount of natural gas generally paid from $0.56 to $0.69 per month. These Focus on Energy payments represented approximately 1.0 percent of residential customers' utility bills.

Although variations in facility type and energy use limit efforts to define average energy consumption by non-residential customers, we found that the Focus on Energy payments from non-residential customers of different utilities varied significantly. In 2010, for example, non-residential customers of certain investor-owned utilities paid less than one-half as much as customers of other investor-owned utilities for using the same amount of natural gas.

In response to concerns about variation in the Focus on Energy payments by customers of different utilities, 2005 Wisconsin Act 141 froze at 2005 levels the Focus on Energy payments made by utility customers that use large amounts of energy. Subsequently, those payments have been adjusted for the lesser of inflation or increases in utility operating revenues, as required by the Act. The PSC estimated that in 2010 those provisions of Act 141 would collectively reduce the Focus on Energy payments of non-residential large energy customers at the six largest investor-owned utilities by $16.2 million and, consequently, necessitate that amount to be paid by other non-residential utility customers.

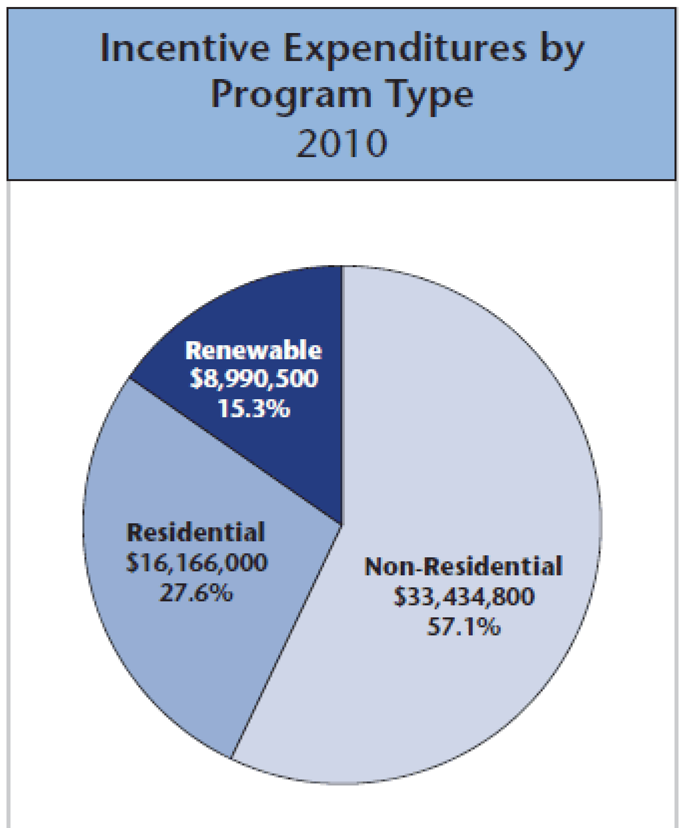
benefits of Focus on Energy.

Expenditures and Participation

In 2010, Focus on Energy's program administrator spent $87.0 million, including $58.6 million for financial incentives that encourage customers to purchase energy-efficient and renewable energy products and services.

The majority of all 2010 energy efficiency incentives were for non-residential customers. Non-residential customers received more than $33.4 million in energy-efficiency incentives in 2010. Lighting products represented the largest proportion of non-residential incentive expenditures.

Residential customers received energy-efficiency incentives of $16.2 million in 2010. Heating and cooling products and services, such as furnaces and central air conditioning, represented the largest proportion of residential incentive expenditures. Renewable incentives, which are provided to both residential and nonresidential customers for solar, wind, and biofuel projects, totaled approximately $9.0 million in 2010.



We estimate that Focus on Energy paid financial incentives to more than 70,000 unique residential customers and 6,800 unique non-residential customers in 2010. Although we estimate that only 11.1 percent of residential participants in 2010 had received incentives in the previous two years, repeat participation was more common among non-residential customers. We also estimate that 385,626 customers benefited in 2010 from incentives paid to retailers to reduce the shelf price of energy-efficient lighting products, including 321,086 customers who purchased reduced-price compact fluorescent light bulbs.

In 2010, Focus on Energy expenditures totaling $21.4 million were directed to program delivery activities, which provide customer support and training and help customers identify, develop, and implement projects eligible for incentives. Concerns have been expressed that expenditures for program delivery activities limit Focus on Energy's effectiveness by reducing funds available for financial incentives. Although program delivery activities are designed to enhance energy savings, limited data have been collected to measure their effects.

Measuring Cost-Effectiveness

To measure overall cost-effectiveness, the PSC contracts for evaluations that compare the societal benefits of program activities to their associated costs. The PSC states that this societal approach is consistent with program goals, such as reduced energy use, reduced environmental impacts, and market development. We found this approach to be consistent with national standards for evaluating energy savings programs and with practices in Minnesota, Iowa, and Indiana.

Focus on Energy's contracted evaluators estimated that statewide benefits of the energy savings achieved by Focus on Energy programs in 2010, including a reduced need for constructing new power plants and reduced emissions of pollutants, exceeded costs by a ratio of 2.3 to 1.

While it is probable that Focus on Energy has additional effects, including on employment and business sales, the difficulty of accurately measuring such effects makes it reasonable for the PSC to limit annual estimates to include only those benefits most directly linked to program activities.

Enhancing Oversight

We found that the PSC has not fully complied with statutory requirements to report on Focus on Energy activities. To position the Legislature and the public for a more informed discussion of Focus on Energy funding levels, the PSC could use its existing reporting requirements to provide enhanced information about Focus on Energy's effects on utility customers, including payments made to fund Focus on Energy, and the cost-effectiveness of Focus on Energy and other energy-efficiency programs.

Recommendations

We recommend the PSC report to the Joint Legislative Audit Committee by July 2, 2012, on expanding the program's efforts to measure the effects of program delivery activities on Focus on Energy participation and energy savings *(p. 41);*

Our report also includes recommendations for the PSC to enhance oversight of Focus on Energy by:

- complying with statutory requirements to report annually to the Legislature and to prepare annual statements of program costs and benefits for utility customers;
- conducting additional analyses of the program's effects among participants and non-participating utility customers;
- making information more readily available to utility customers on their payments to fund the programs; and
- including evaluation results from other utility-operated energy-

efficiency and renewable resource programs in its reports to the Legislature ***(p. 49)***.

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