

*State Policy Series: Impacting
Industrial Energy Efficiency***Public Benefit Funds:
Increasing Renewable
Energy & Industrial
Energy Efficiency
Opportunities**

Thirty states and the District of Columbia currently have some form of a public benefit fund (PBF) or system benefit fund. PBFs are typically funded through a charge on customers' utility bills based on their energy usage, or through a flat fee. Policymakers see PBFs as a useful funding mechanism for energy efficiency, renewable energy, and low-income assistance programs and projects.

Creation

PBFs are usually created through state statutes or state agency orders, such as regulations from a state public utilities commission. Structuring PBFs to achieve maximum effectiveness can be a challenge. It is important to include all interested parties during the initial development of the policy. Interested parties may include: state lawmakers; electric utilities; state public service commissions; state energy offices; state environmental agencies; high electric use sectors, such as the industrial sector; renewable energy advocates; and project developers. With such a diverse group of interested entities, open communication will ensure that a successful policy can be implemented. Administration, funding, fee assessment, and fund allocation are also critical components of a PBF.

Key Elements

In most states, utilities, non-profit organizations, or quasi-public agencies are involved in the administration of the PBF, while the public utilities commission provides general oversight and regulation. A PBF charge assessed in increments of mills per kilowatt hour (kWh), with 1.0 mill equaling 1/10th of



one cent, is common in most states that feature a PBF. Mill charges range from 4.82 mills in California to 0.03 mills in North Carolina. Assessing all utility customers through a non-bypassable PBF charge is important for optimal effectiveness of a PBF, although some states have not formulated their programs in this way.

Once a PBF receives funding, states must determine how to best use the money to meet the goals behind enacting the PBF. It is important to distribute funds in a way that takes into account the higher fees that larger industrial customers may pay into the fund. PBF funds should be allocated in the short term to allow benefits to reach their full potential and be realized by ratepayers.

PBF Structure

States looking to maximize the effectiveness of a PBF should consider the following best practices:

Administration

1. **Identify the proper body to oversee the general administration of the PBF—usually a state agency or commission**
2. **Assign an independent administrator with the resources and expertise to administer either the entire fund or individual aspects of the fund**

Funding & Fee Assessment

1. **Establish a long-term PBF period to allow adequate funding**
2. **Provide supplemental PBF funding sources, such as carbon offset proceeds similar to those of a Regional Greenhouse Gas Initiative (RGGI) or mandated utility contributions**
3. **Create a non-bypassable fund to prevent industrial and utility opt-outs and to ensure full funding of the PBF**

Fund Allocation

1. **Choose an allocation model to best suit individual state needs and desired PBF goals**
2. **Structure the fund with a strong energy allocation component that includes industrial programs and projects**
3. **Allocate funds efficiently following fee assessment to increase project success and customer support**
4. **Adequately communicate the goals and progress of PBF projects and programs**

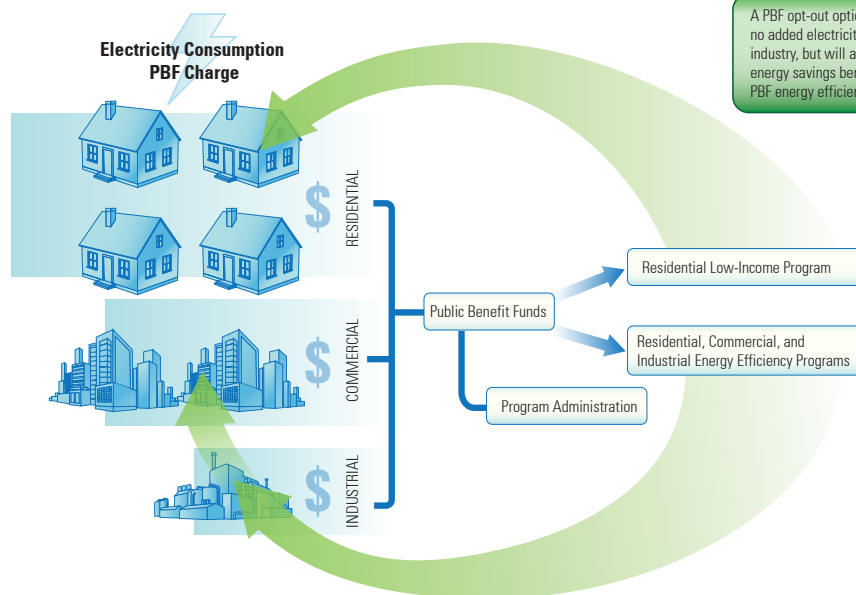
Benefits & Challenges

PBFs are viewed as a mechanism for generating revenue for programs related to energy efficiency, renewable energy, reducing energy usage, environmental concerns, and aiding low-income customers. However, major PBF stakeholders—industry, utilities, and states—may have concerns about PBFs and their effects on operating costs and revenue streams. Overcoming those challenges should be a major focus of initial conversations when creating a new state PBF policy.

PBF support of efficiency measures and renewable energy sources provides environmental benefits to all stakeholders by reducing greenhouse gas emissions. Customers too have saved millions of dollars in energy costs by taking advantage of PBF-funded programs for financial and technical efficiency assistance, energy education, and investment in renewable energy. Additionally, reductions in energy demand can minimize the need to expand existing or develop new conventional power plants. Specific to industrial customers, PBFs provide incentives and programs to improve energy efficiency in industrial facilities and processes, thereby lessening industrial energy consumption and providing substantial energy cost savings.

Industrial Stakeholder Considerations

As a significant energy user, the industrial sector may be opposed to PBF creation and its accompanying fee assessment for fear of increased energy costs. However, as its companies are operators of large facilities often with high energy use, the industrial sector potentially has the most to gain from a PBF. Furthermore, the energy efficiency opportunities available through a



PBF are greater for industrial sites. For example, using PBF dollars to retrofit a large, energy-intensive manufacturing plant can have a greater immediate impact on energy consumption than the rebates residential customers would receive for home window replacement.

Typically, the industrial sector is opposed to PBFs due to the additional cost imposed on industry's energy-intensive processes. Of course, the cost impact on the industrial sector varies by state, depending on the size of the charge assessed. While the added expense is a concern, these costs should be viewed in context with the benefits PBFs bring to the industrial sector, such as energy savings and increased stability. States seeking to ease industrial concerns about PBFs should consider engaging industrial customers regarding the issue and ensure the development of industry-conscious PBF programs. These types of considerations include:

- Providing PBF financial incentives related to industrial energy usage
- Providing PBF technical support to the industrial sector
- Creating a PBF recognition program for industrial customers
- Marketing PBF programs to the industrial sector

Utility Stakeholder Considerations

Depending on their supply and demand characteristics, utility companies may be opposed to a PBF because the energy efficiency and renewable energy programs offered through the PBF may reduce utility sales, revenue, and profit. Additionally, for some customers, the additional PBF charge may increase energy prices enough to warrant energy conservation measures to reduce energy expenditures. Utilities that face capacity constraints forcing them to utilize high-cost peaking units to meet electricity demand are most likely to recognize benefits from a PBF. In these cases, utilities will openly accept energy efficiency and load management programs that focus on peak load control as opposed to general conservation measures.

Overall, PBFs can provide state policymakers with a vital revenue generating mechanism for funding energy-related projects and programs, preparing states for a sustainable future.