UTILITY REGULATION AND POLICY

Investor-owned utilities (private companies with ownership shares held by stockholders) serve the majority of electricity and natural gas customers in the United States. These utilities are primarily regulated at the state level, where public service commissions (PSCs) are responsible for overseeing and authorizing investment decisions, operations and customer rates.

Publicly-owned utilities – which include rural electric cooperatives, municipal utilities and federal or state power authorities – are not generally regulated by state public service commissions. They are overseen by a variety of somewhat comparable organizations such as coop boards, municipal governments or federal regulators.

State regulators of investor-owned utilities (and their counterparts for publicly-owned utilities) are clearly in positions where their decisions and policies strongly influence utility investments and operations.

They have a prominent role in establishing regulations and policies that support the establishment and implementation of utility-sector energy efficiency programs. PSCs in some states pioneered regulations and policies that led to the development and practice of utility "demand-side management," which includes customer energy efficiency programs.

Certain aspects of utility regulation and policy are especially critical for enabling and supporting utility energy efficiency programs. Experience has shown that without very direct and supportive regulations and policies, utilities will not develop and offer significant customer energy efficiency programs. For utilities to do so, they need confidence that they can at least recover their program costs (at a bare minimum).

Beyond program cost recovery, utilities face key financial disincentives and barriers to investments in energy efficiency. Consequently, leading states have enacted regulations and policies to create new business models for their investor-owned utilities – models that eliminate the financial disincentives that prevent utilities from saving energy and provide incentives for developing successful and effective energy efficiency programs.

State policymakers and regulators also can provide clear direction to regulated utilities about the importance of energy efficiency.

As a first step, legislators and regulators typically require utilities to offer programs; they also set up mechanisms for utilities to recover their costs through rate case proceedings. A recent trend has been for states to establish specific energy savings targets (typically as a percentage of total energy sales) for regulated utilities. Such energy efficiency resource standards (EERS) are in place in a large and rapidly growing number of states.

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