

Annual Sector based 2% Energy Intensity Reduction with Feebate Provision

Industry Work Group – Not a Consensus template

Brief Description:

Each participating industry sector/sub sector business or entity will be required to reduce its energy intensity (electricity/natural gas) per unit of output by at least 2.0% per year on a continuing basis. In addition, a revenue-neutral funding mechanism (feebate) would be structured so that below average performers pay a fee that would be fed back to above average performers (or sector directed) to reimburse clean energy investments. The intent of the policy is to create a voluntary, incentive based strategy for industry sectors to establish energy efficiency goals, reduce energy intensity, and accommodate future growth in sector energy demand with clean energy investments.

Why Do It?

- Market forces alone have not proven sufficient in meeting emissions reduction goals
- Provides opportunity for “everyone to do their part” within sectors to reduce energy intensity while achieving continued economic growth
- Provides a funding mechanism that is a more fair, revenue neutral way to generate funds for clean energy investments while creating a competitive dynamic where the energy inefficient pay the efficient in a race to lower emissions.
- Helps document early emission reductions for the DNR registry.
- Consistent with the Midwest Governor’s Association energy intensity reduction goals.
- Potential for sector/business marketing, promotional and branding benefit.

Questions/Concerns Raised:

The comments provided by Ed Wilusz of the Paper Council and Todd Stuart, Executive Director for Wisconsin Industrial Energy Group, identified primarily two areas of concern: mandatory participation and the complexity of capturing facility performance.

The first is addressed by making the proposal voluntary and market-based for sectors that choose to participate. Moreover, by using “Green Tier Charters” as the negotiation framework for sectors to manage and report their energy efficiency commitments, participants might receive flexibility to overcome the real or perceived risk of regulatory barriers such as New Source Review. The potential for marketing, promotion and branding benefit is also available for sectors that invest in superior energy and environmental performance under Green Tier.

The complexities of tracking facility energy performance can be overcome by establishing a simple baseline for each facility that identifies its own unique energy intensity per unit of output. This ratio is adjusted each year and the change in percentage is easily compared to the performance of other facilities. By keeping the ratio simply defined and independently verifiable, reasonable comparisons can be made among companies in a sector.

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Emissions Reduction Impact:

A 2% percent reduction in electric energy use yields an estimated 408,234 metric ton reduction in GHG emission each year (based on 2003 WI industrial electricity sales). This compares to the estimated 390,000 ton reduction in GHG emissions from WI Energy Conservation Corp. (WECC's) impressive energy efficiency programs (residential, business, renewable, community) in 2007.

Funding Source:

Keeping the feebate strictly revenue-neutral within each sector should make the policy more politically feasible for sectors to participate. Public administrative costs should be low because each participating sector will establish energy efficiency goals, negotiate agreements, and provide program implementation. Some third-party oversight of sector performance will be required.

Policy Options:

- Provide a “Good Actor Clause” for those sector companies with an exemplary track record of energy efficiency so as to opt out of the 2% requirement.
- Credit those companies that already meet some threshold of energy efficiency performance including: energy audits, process efficiency improvements, lighting retrofits and provisions for continuous improvement.
- Provide opportunities for energy efficiency mentoring by large companies for small companies within sectors. Provide participating companies with additional regulatory flexibility or incentives for their mentoring efforts.
- Replace “feebates” with a better title such as “Pay for Performance” or REAP: “Refunded energy-efficiency advantage payment” as in “Reap the benefits of energy efficiency and clean energy investments”.