

PERFORMANCE AND ADVANTAGES OF DIFFERENT MODELS OF ENERGY EFFICIENCY PROGRAM ADMINISTRATION

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Jurisdictions across the country rely on different types of program administrators to manage and deliver energy efficiency (EE) programs. Most jurisdictions rely on electric and natural gas utilities to deliver EE programs, while some rely on non-utility administrators to deliver EE. Non-utility administrators include third-party and state administrators.

Third-party: independent entities that focus on EE and can achieve deep knowledge and economies of scale by administering EE programs for multiple states.

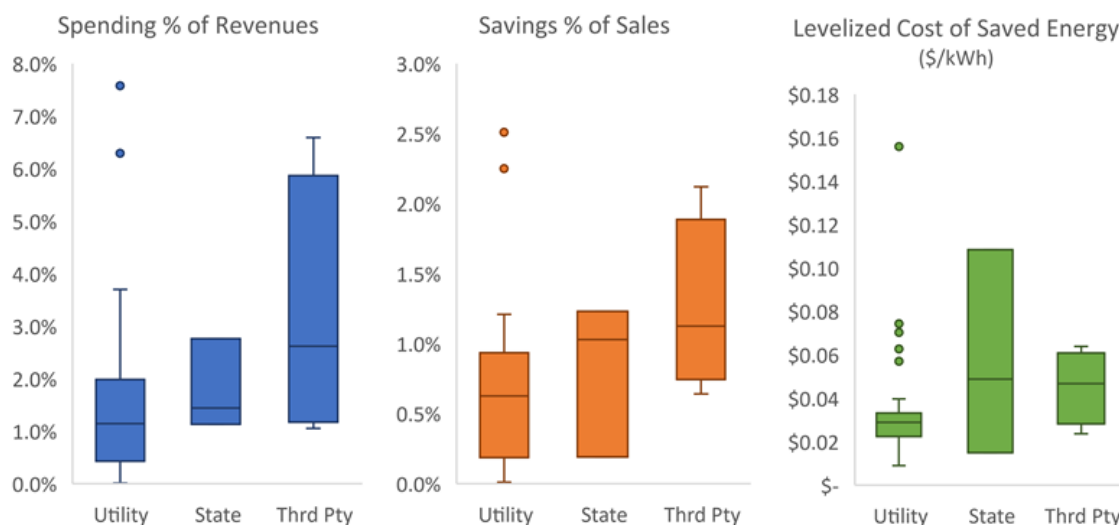
State: state agencies, energy offices, public utility commissions, or public entities outside of state agencies

In this analysis, Synapse Energy Economics (Synapse) compares the performance and advantages of utility and non-utility EE program administrators to determine if a non-utility program administrator could improve EE performance and service relative to a utility administrator. Figure 1 below summarizes 2019 spending, savings, and levelized cost of saved energy of utility, state, and third-party-administered EE programs.

The box indicates the range within which half of the results lie. The line in the center of each box indicates the mid-point of all the results. The vertical lines indicate the highest and lowest results, while the circles indicate a few data points that are outliers. The figure indicates the following:

- Third-party and state administrators generally spend more on EE programs and achieve higher levels of EE savings than utility administrators. To achieve the higher level of EE savings, third-party and state administrators generally incur a higher cost of saved energy than utility administrators.
- There is a wide range of performance by third-party and state administrators, and the overlap between the performance of the different models indicate that some third-party and state administrators do not consistently perform better or worse than utility administrators.

Figure 1. 2019 Electric EE Spending, Savings, and Levelized Cost of Saved Energy by EE Administrator



We find that no model of program administration is clearly superior to all others because (1) all models have differing levels of performance, which is more likely tied to state support for EE, and (2) each model has advantages as well as disadvantages.

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Our experience and research suggest that non-utility administrators are not a panacea and cannot, on their own, be expected to result in the most efficient form of EE planning or implementation. States that are more supportive of EE may be more likely to spend the time and resources to consider and select a non-utility administrator than other states. State support for EE can take many forms, including strong legislative directives, robust stakeholder input, strong EE goals, sound cost-effectiveness practices, clear and direct cost recovery practices, and utility performance incentives.¹ Rhode Island has strong regulatory support for energy efficiency.

Table 1. Typical Advantages of Different Models of EE Program Administration

Advantages	Models of EE Program Administration		
	Utility	State	Third-Party
EE experience and expertise			X
Well-developed customer/stakeholder/partner connections	X		
Leveraging and control of existing customer data	X		
Coordination with other utility programs and efforts	X		
Clearer motivation to pursue EE		X	X
Innovation/flexibility			X
Achievement of broader state policy objectives		X	
Independence/avoiding conflicts of interest		X	X

Table 1 above summarizes the typical advantages of utility, third-party administrator, and state administrator models in most states. The table shows that no model exhibits all advantages, though every model offers some advantages. While there is a lot of overlap between the advantages of third-party and state administrators, there are some important differences between the two models.

Utility EE program administrators of well-established EE programs, like National Grid in Rhode Island, tend to have more well-developed customer/stakeholder/partner connections due to their many years of experience. Also, utilities have control over and can leverage their customer data to inform outreach, encourage participation, and improve service. Lastly, utilities can coordinate their EE efforts with other efforts they lead and manage, such as advanced metering, grid modernization, and non-wires and non-pipe alternative programs and plans.

Third-party EE program administrators can bring more EE experience and expertise as EE is their area of focus and they are engaged based on their EE capabilities. Third-party administrators also have a clearer motivation to pursue EE as they are not deterred from pursuing EE due to concerns about lost customers, lost sales, and lost opportunity to make capital investments. Third parties are independent, meaning there is no perceived conflict of interest as third-party administrators will not profit from electrification of heating or transportation. Also, third-party administrators can be more innovative and flexible than large, investor-owned utilities with legacy systems, embedded practices, and cultural inertia.

State EE program administrators are independent and have a clearer motivation to pursue EE than utilities. State administrators offer unique value in that they can bring a greater alignment with state policy objectives than utility or third-party administrators. However, state agencies can suffer from some of the same organizational limitations as utilities, meaning they may not be as nimble or innovative as a third-party administrator.

¹ Sergici, S., Irwin, N. 2019. Energy Efficiency Administrator Models: Relative Strengths and Impact on Energy Efficiency Program Success. Prepared by Brattle Group for Uplight.