



### **New Mexico Electric Utility Energy Efficiency Programs: A Success Story**

August 2018

#### **History**

- In 2005, the state legislature adopted the Efficient Use of Energy Act (EUEA), directing investor-owned utilities to implement cost-effective energy efficiency and load management programs, establishing a cost recovery mechanism for utility investments in efficiency, and directing the Public Regulation Commission (PRC) to establish rules for integrated resource planning.
- In 2008, the EUEA was amended, requiring that electric utility programs achieve 5% savings by 2014 and 10% by 2020 (as a fraction of 2005 electricity sales). The amended EUEA directed the PRC to remove disincentives and allow utilities to earn a profit on investments in cost-effective energy efficiency and load management programs.
- In 2013, the legislature amended the EUEA a second time, setting utility funding of energy efficiency and load management programs at 3% of customers' bills and changing the cost-effectiveness test from the Total Resource Cost test to the Utility Cost test. At the same time, the legislature lowered the state's 2020 energy efficiency standard from 10% to 8% of 2005 retail kWh sales and required utilities to spend at least 5% of their total DSM budget on programs for low-income customers.
- In 2014, the New Mexico Public Regulatory Commission (PRC) revised the rules implementing the EUEA. These revisions included establishment of the Utility Cost test (UCT) as the primary means for assessing DSM program cost effectiveness. The revised rules allow utilities to propose performance incentive mechanisms on an individual basis, and removed the requirement that individual programs meet the cost-effectiveness threshold in favor of requiring portfolio-level cost effectiveness.

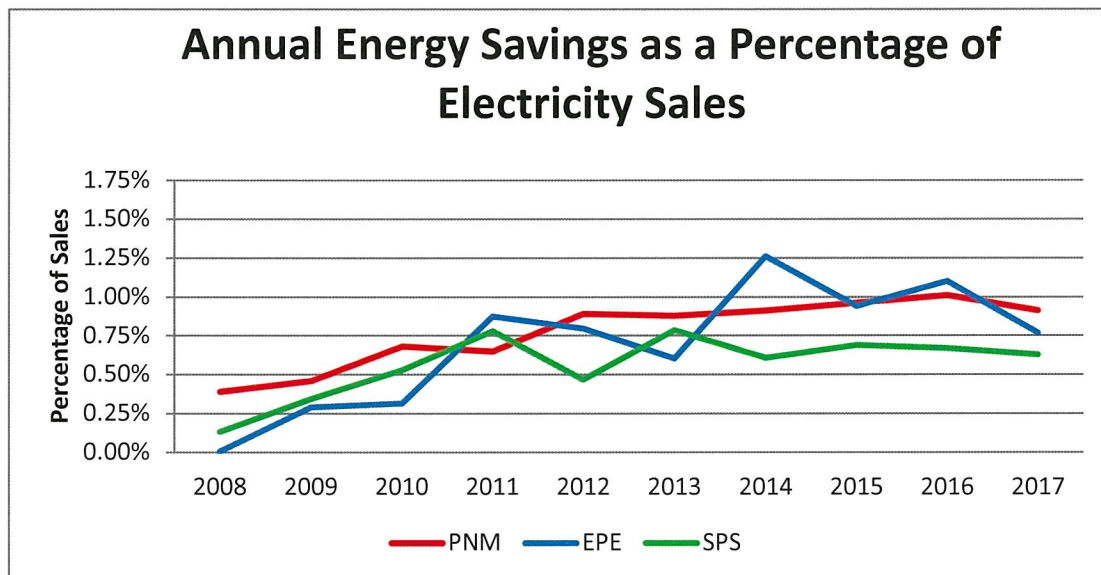
#### **Utility Energy Efficiency Programs**

- The state's largest electric utility, Public Service Company of New Mexico (PNM), serves about 520,000 customers. PNM spent \$25.9 million on DSM programs in 2017, and as a result reduced its peak demand by 72.4 MW and saved 74.5 million kWh per year. PNM is on track to meet the energy savings requirements of the EUEA.
- Southwestern Public Service Company (SPS) serves about 120,000 customers and El Paso Electric Company (EPE) serves about 97,000 customers in New Mexico. Both utilities have approved energy efficiency plans that meet the 3% funding requirement. SPS spent \$8.3 million on DSM programs in 2017 and as a result saved about 33 million kWh per year. EPE spent \$4.5 million on DSM programs and as a result saved about 13 million kWh per year.

#### **Impacts of Energy Efficiency Programs**

- As shown in the figure and table below, the three investor-owned utilities in New Mexico significantly ramped up their energy efficiency programs over the past decade. Combined they saved 1,055 million kWh in 2017 as a result of DSM programs implemented during 2008-17. The savings are equal to about 7.0% of total electricity use by retail customers of these three utilities. It is also equivalent to the electricity use of 130,000 typical households served by the utilities.

- The estimated net economic benefits from utility efficiency programs operating in New Mexico over the past decade total \$420 million, according to the utilities' own data.
- The electric savings in 2017 also resulted in water savings of around 520 million gallons per year, enough to supply about 3,600 New Mexico households.
- As a result of energy efficiency programs implemented over the past decade, New Mexico's electric utilities cut their CO<sub>2</sub> emissions in 2017 by about 580,000 metric tons, the equivalent of taking around 115,000 passenger vehicles off the road.



### DSM Program Results of New Mexico's Investor-Owned Electric Utilities

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
DSM Program Spending (\$M)	8.8	15.6	23.5	27.3	27.7	31.2	34.0	39.0	39.7	38.7	<b>285</b>
Electricity Savings (GWh/year)	42.2	58.7	87.2	108	130.8	129.7	126.2	130.1	122.2	120.3	<b>1,055</b>
Peak Reduction (MW)	57.7	63.9	83.7	78.4	82.4	88.2	86.7	85.9	84.0	83.4	<b>NA</b>
Net Economic Benefits (\$M)	35.5	44.7	46.9	65.9	66.9	27.2	34.7	33.8	33.5	30.5	<b>420</b>
Net Savings (% of Retail Sales)	0.28	0.40	0.58	0.70	0.83	0.82	0.80	0.83	0.81	0.80	<b>NA</b>
CO <sub>2</sub> Emissions Reduction (thousand metric tons/yr)	23.2	32.3	48.0	59.4	71.9	71.3	69.4	71.6	67.2	66.2	<b>580</b>

Notes: 2008 Net Economic Benefits include values for PNM and SPS; 2008 value not reported by EPE. CO<sub>2</sub> emissions reductions based on avoiding 550 metric tons per GWh, an average value for PNM's programs in recent years.

Source: Utility data from annual Demand-Side Management reports submitted to the New Mexico Public Regulation Commission.

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**2019 Legislative Concept: Amendments to the Efficient Use of Energy Act (EUEA)**

**Preliminary Draft – Nov. 29, 2018**

- Energy savings requirements now contained in the EUEA for electric utilities end in 2020: proposal would extend energy savings requirements through 2025.
- Proposal clarifies that utilities should use the same discount rate for analyzing the costs of energy efficiency programs and the costs of alternative energy supply investments.
- Proposal directs the PRC to adopt a rate adjustment mechanism to ensure that the revenue per customer approved by the Commission in a utility's most recent rate case is recovered by the utility without regard to the quantity of electricity sold (i.e., decoupling of utility revenues and sales). This policy removes the financial disincentive that utilities face when they implement successful energy efficiency programs for their customers, and likewise removes the financial incentive that utilities have to push higher electricity consumption. Only applies if a utility requests this type of rate adjustment mechanism.
- Proposal allows a utility to spend between three and four percent of revenues on cost-effective energy efficiency and load management programs for its customers. Current funding level is fixed at three percent of revenues. Maintains funding limit of \$75,000 per year per customer for a utility's energy efficiency and load management programs.

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