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Title: Mechanisms for Encouraging the Implementation of Energy Efficiency Programs by Utilities

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It is the purpose of federal Governments to promote an efficient use of energy, taking into account that most of it comes from non-renewable natural resources.

The majority of current tariff structures in the region are being modified and federal subsidies are being eliminated to balance the fiscal accounts. The reduction of subsidies will lead to an increase in tariffs for users and the impact must be minimized through complementary economic policies.

Under the traditional tariff structures, revenues from utilities are proportional to sales of electricity and natural gas, while many of the costs are fixed regardless of sales.

Energy efficiency is one of the cheapest, safest and cleanest ways to overcome many of today's energy challenges, and it is key and necessary to encourage utility companies to invest in effective energy efficiency programs for customers.

The programs of companies that aim to improve energy efficiency among their customers lead to a reduction in revenues from lower sales and can have a negative effect on profits. This represents an important barrier to the implementation of effective energy efficiency programs.

The financial losses incurred by utility companies when implementing efficiency programs should be avoided, by designing mechanisms that allow them to recover these costs through different incentives.

Investments in capital goods provide a return on investment within the traditional business model of utility companies, while expenditures on energy efficiency programs avoid the need for these capital investments but do not provide a return. The traditional business model is based on a performance incentive, so companies increase their profits by selling more electricity.

Investments in energy efficiency cause a decrease in energy consumption and therefore also in the income of companies, and at the same time do not reduce the short term fixed costs of service delivery. Huge savings could be achieved if effective energy efficiency programs are implemented.

This paper aims at proposing the creation of a regulatory framework that encourages a system where the “supply” disciplines the “demand” and therefore pushes the cultural change in which the commitment of all the actors involved and mainly of the users is required.

The methodology used to address these goals reviews different mechanisms implemented across the globe and also explores new alternatives. The results expected are:

1. To propose financial and operational mechanisms to deal with the disincentives that the distribution companies have to invest in energy efficiency.
2. To constitute a rate adjustment model that allows a utility to recover revenue specifically lost as a result of energy efficiency programs.
3. To estimate energy savings over a given period of time, distinguishing between tariff effects between revenue effects from energy efficiency programs and other variables such as climate and the economy.
4. To assure a mechanism that allow utilities to recover all costs incurred in the implementation of energy efficiency programs, including labor costs, overheads, materials, incentives paid to customers, advertising, marketing, monitoring and evaluation, plus an amount that results from multiplying the fixed component of the tariff by the energy saving obtained from energy efficiency, with the objective of covering the fixed costs during a certain period, according to the class of customer.

Key words: Energy Efficiency, Utilities, Energy Equity, Innovation, Emerging Countries, Natural Resources, Sustainability, Climate Change, Fossil Fuels, Energy Markets and Policy.