

2008 Behavior, Energy and Climate Change Conference Roundtable Abstract

10. Bias Toward Capital Investments: Are We Underestimating the Cost-Effectiveness of Behavior Change Strategies?

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Abstract: National, state and local energy efficiency (EE) legislation and regulations tend to rely on economic instruments as their implementation tools. This reliance is rooted in

- (1) ease of administration, with applicants documenting expenditures to recover costs,
- (2) familiarity with the tools, mostly derived from long-standing economic development efforts, and
- (3) the rationales for action, since EE and alternative/renewable fuels promotion are typically advocated as economic, not environmental, measures.

The consequences of efforts that rely on financial stimuli to generate efficiency investments by governmental units, businesses and households is that potentially less costly efforts to promote behavioral changes do not garner the benefits of public sector support and publicity to the extent that they might. This imbalance poses problems for policy makers and those assessing the cost-effectiveness of alternative approaches:

- What are the efficiency costs associated with the pro-investment bias?
- When 10-20% improvements in EE are found to be possible with behavior alone, does that finding undermine the economic efficiency claims for EE equipment retrofits, additional insulation, etc., by reducing the economic payback attributable to the investment vs. the behavior change? By how much?
- Is it possible to get the behavior change to “stick” over time without the investment?
- Is it possible to get public policy to appropriately value behavior change as an alternative to new capital investments?

These questions take on new salience with the economic crisis that has emerged and the prospect of severe debt capital shortages and higher interest rates in the foreseeable future.