American Council for an Energy-Efficient Economy
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Re: Regulation for Energy Efficiency and Demand Response
Case No.: NEPR-MI-2019-0015
Subject: Public Reply Comment of the American Council for an Energy-Efficient Economy
Date: October 17th, 2019

The American Council for an Energy-Efficient Economy (ACEEE) welcomes this opportunity to provide reply comments on the above-referenced docket, in response to the Puerto Rico Energy Bureau's Proposed Regulation for Energy Efficiency and Demand Response, dated September 4, 2019.

ACEEE is a nonprofit research organization based in Washington, D.C. that conducts research and analysis on energy efficiency. ACEEE is one of the leading groups working on energy efficiency issues in the United States at the national, state, and local levels. We conduct research across the U.S., including the *State Energy Efficiency Database*, which since 2015 has tracked energy efficiency policy in Puerto Rico.

ACEEE concurs with the majority of comments which commend the Energy Bureau for establishing a regulation governing implementation of energy efficiency (EE) and demand response (DR) programs. Energy efficiency investments reduce energy waste, lower customer bills, create local jobs, and stimulate local economic development by attracting businesses and improving business competitiveness. Utility energy efficiency programs cost about 2 to 5 cents per kilowatt-hour, which is much less than the cost of new power plants. Because utility energy efficiency programs generally cost less than supply-side options, investments in energy efficiency reduce costs for *all* ratepayers by allowing utilities to spend less on additional electricity and natural gas supply capacity. These savings are particularly valuable given the relatively high costs of energy services in Puerto Rico, and Puerto Rico's ambitious goal for 100% renewable power generation by 2050.

We further commend the Energy Bureau for prioritizing establishment of an energy savings target pursuant to Act 57-2017. Our research finds that clear energy efficiency targets are the best way to support the achievement of meaningful energy savings. In 2017, 19 of the top 20 electricity-saving states had mandatory energy savings targets in place, as did 6 of the top 7 natural gas-saving states.[1] Mandatory energy savings targets cover approximately 49% of national electric sales while accounting for approximately 80% of reported nationwide utility savings in 2016 and 2017. Taken together, the utilities covered by these policies reported roughly 20 million MWh of savings in 2016 and almost 22 million MWh of savings in 2017.[2] States with savings targets saved on average more than four times as much electricity as those who did not have targets in 2017 (1.3% of retail sales compared to 0.3%). By prioritizing this energy policy tool, PREB is setting Puerto Rico up for success in delivering energy efficiency.

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[1] Berg, W. et al. (2018). State Energy Efficiency Scorecard. https://aceee.org/research-report/u1808.
[2] ACEEE (2019). "State Energy Efficiency Resource Standards." https://aceee.org/sites/default/files/state-eers-0519.pdf

Given the importance of clear goals for energy efficiency achievement, we agree with commenters from Rocky Mountain Institute (RMI) and the Natural Resources Defense Council (NRDC) urging the Energy Bureau to further clarify the 30% energy efficiency by 2040 goal. Such clarification will help to ensure that the third-party administrator and interested stakeholders are aligned towards the same outcome. Specifically, we recommend additional clarity on the following issues, each of which affect the target itself as well as implementation:[3]

1. **Define baseline used to assess the success of the 2040 goal.** The proposed regulation references Puerto Rico's long term goal of thirty percent (30%) of energy efficiency by 2040 multiple times. It is not clear what the baseline year is against which 30% is measured. As Vermont Energy Investment Corporation (VEIC) mentions in their comments, it is also not clear how potential population declines will be measured in the baseline. Such a baseline year will be required in order to translate the energy savings goal into a MWh savings target. For example, the regulation could reference a current baseline forecast of load in 2040.

2. **Track progress relative to the overall goal.** It is not clear whether the overall goal is based on the sum of incremental annual savings, or the cumulative persistent savings in place in 2040. We define incremental annual savings as new savings from programs implemented in a given year (i.e. first-year savings). Annual savings (sometimes called total annual, or cumulative persistent savings) represent all savings achieved in a given program year, including both savings from new programs and savings still being generated by programs implemented in past years. A cumulative persistent savings goal for 2040 would take into account the energy savings achieved by measures installed in 2040 plus the measures installed in previous years that are still providing savings. It would require that program administrators replace energy efficiency measures that reach the end of their useful lives in situations where evaluation results suggest they are unlikely to be replaced by a same or more efficient alternative.

   Regardless of the specific definition chose, we agree with RMI and NRDC's recommendations that PREB make an explicit statement that the goal is a minimum, and that additional cost-effective savings should be pursued. Combining goals with performance-based incentives for the third party program administrator (TPA) that encourage achievement beyond those goals can support the island in reaching higher savings than minimum goals.

3. **Set interim targets.** It is also not clear what, if any, minimum goals will be set by PREB (as opposed to the selected third party administrator) to reach the 2040 goal. We recommend setting interim targets that take into account an appropriate ramp up period, built in reference to assessments of available cost-effective energy efficiency potential, if such data is available.

4. **Clarify net to gross practices**. It is not clear from the proposed regulation whether the savings targets are gross, total savings regardless of why customers participated, or net savings resulting from the actions and investment decisions of the TPA. Such clarity will be important for the TPA, and the evaluation team assessing the success of the TPA's programs.

[3] For example, e.g. gross incremental annual savings at the generation level that includes codes and standards should have a higher target than the inverse.

NRDC recommends a net savings goal, and while we agree that consistency is important, we see successful approaches with high-level gross and net savings goals across different states. However, we offer caveats to consider in setting either a gross or net goal. If PREB selects gross savings for the overall target, we recommend that other parts of the framework consider net savings: for example, evaluations should analyze net savings; PREB might require a certain minimum threshold for a net-to-gross ratio; or PREB might reward TPA performance on the basis of net savings. If instead PREB selects a net savings target, it is important that evaluation take a balanced approached – for example, if the framework deducts free rider savings, it should also account for spillover/market effects.[4]

5. **Clarify scope of savings.** It is not clear whether the goal will include savings measured from the meter or the generator. Measurement from the meter will focus efforts on customer end use efficiency, whereas measurement from the generator will enable inclusion of distribution system efficiency measures like conservation voltage reduction. Regardless the choice, potential studies and goal setting should be consistent.

6. **Establish approach for inclusion of codes and standards**. Section 3.2 specifically calls on strategies to encourage compliance with building energy codes. It was not clear from the proposed regulation how these efforts by the TPA will be counted. It is important to clearly establish these methods, as savings from codes and standards can represent a large portion of a given portfolio, as in California. Massachusetts, Rhode Island, California, and Arizona all allow utilities to earn credit for their work to promote and support building energy codes.[5]

We look forward to continued engagement with the Energy Bureau on these issues. ACEEE is committed to helping Puerto Rico transition to clean, reliable sources of energy, and is eager to serve as a resource as the island implements policy to achieve its climate and clean energy goals.

Sincerely,

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[4] See https://aceee.org/research-report/u1401 for further details.

[5] Examples of how Massachusetts and California account for these savings here: Mass Save. 2015b. *Savings & Evaluation Methodology for Codes and Standards Initiative*. Docket No. RE-00000C-09-0427, October 20. Boston: Massachusetts DER (Department of Energy Resources). ma-eeac.org/wordpress/wp-content/uploads/; DNV GL. 2017. *Findings from Review of the Process for Codes & Standards Program Cost-Effectiveness Reporting*. San Francisco: California PUC (Public Utilities Commission). www.calmac.org/publications/CS_CE-Report_FINAL_10-10-2017_with_comments.pdf