ACEEE
American Council for an Energy-Efficient Economy
529 14th Street, N. W., Suite 600 Washington, D.C. 20045 P 202.507.4000 F 202.429.2248 W www.aceee.org

September 23, 2014

Hon. Kathleen H. Burgess
Secretary to the Commission
New York State Public Service Commission
Agency Building 3
Albany, NY 12223-1350
Re: Case 14-M-0101, Reforming the Energy Vision

Dear Secretary Burgess,

I am writing to provide comments from the American Council for an Energy Efficient Economy (ACEEE) on the DPS Staff Straw Proposal on Track One Issues in the Reforming the Energy Vision (REV) docket. ACEEE is a non-profit research organization that works on programs and policies to promote energy efficiency. We have been active on utility issues for more than two decades and have worked extensively in New York State including conducting energy efficiency studies on the state, working as a consultant to PSC Staff and NYSERDA, co-chairing the original System Benefit Charge Advisory Board, and providing comments to the PSC in several dockets.

ACEEE is one of the leading groups working on energy efficiency issues as well as on use of combined heat and power systems. Based on these areas of expertise, our comments address the Energy Efficiency section of the staff proposal (section V A E) and also the Utility Engagement in Distributed Energy Resources section (section VI A).

Energy Efficiency (Staff Proposal section V A E)

We agree with staff that the distribution utilities should continue to operate energy efficiency programs and should provide plans for doing so. Staff recommends that the minimum savings goals should be those under EEPS, which means savings of about 1% of electricity sales each year plus savings of about 0.5% of natural gas sales each year. But EEPS is only a portion of the state's energy efficiency goal as the state has a broader goal of 15% electricity savings by 2015, which works out to incremental electricity savings of about 1.9% of sales each year. Based on this broader goal we recommend that the electricity savings goal for utilities ramp up to 1.9% incremental savings each year, and that utilities be allowed to count savings in their service territories from NYSERDA and Green Bank initiatives towards this 1.9% per year goal. We note that Massachusetts, Rhode Island and Vermont have all reached this level of savings in recent years, including National Grid in Massachusetts and Rhode Island. We also note that EPA, in developing regulations under section 111(d) of the Clean Air Act, suggests that all states should ramp up to 1.5% per year savings. While 1.5% per year is reasonable goal for many sections of the country, in the Northeast, many states are pursuing higher targets, including NYS's goal of about 1.9% per year. We suggest that a ramp-up period be established for utilities to reach this goal, such as 1% per year in 2016, 1.45% in 2017, and 1.9% in 2018.

The staff report also suggests that utilities should consider incorporating such measures as whole building, fuel neutral approaches, and building management controls. We agree. In particular we note that NYSERDA has been a national leader in the development and operation of Home Performance with Energy Star for single-family homes, and in operating comprehensive performance programs for multifamily buildings. We suggest that the PSC specifically require that utility plans include transition plans from NYSERDA to utility-operated programs for these services. Also, many builders, contractors and building owners operate in multiple utility service territories. We recommend that utilities be required to work together to align qualification levels and procedures as much as possible in order to make it easier for third parties to participate in programs operated by different utilities.

Finally, the staff draft states that "[a]s ratemaking reforms and DSP markets develop… efficiency targets could be phased out or subsumed into an alternative performance measure." Our research has found that energy-savings performance targets are a much more effective measure to drive cost-effective energy savings[1] than attempts to rely on the market, which have resulted in substantially less savings.[2] We suggest that the

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[1] See for example *Energy Efficiency Resource Standards: A New Progress Report on State Experience*, http://aceee.org/research-report/u1403. In this report we found that most states were meeting targets although NYS was not, primarily due to a savings shortfall by NYSERDA but also due to a lack of rewards for meeting targets and consequences for not. Furthermore, little emphasis was placed on incremental savings, making results difficult to track from one year to the next. We recommend that specific rewards and consequences be developed in future tracks of the REV docket, and that both incremental and cumulative results be emphasized.

[2] See our July 2014 comments in this docket. There are many reasons customers do not invest in energy efficiency, with the result that customers have high implicit discount rates when

focus should remain on energy efficiency performance targets for utilities and accompanying regulatory business model tools that encourage energy efficiency. In the long term, if a utility proposes an alternative to performance targets in future plans, we recommend that they need to provide strong evidence that such alternatives will be as effective as performance targets in terms of driving investments in cost-effective energy efficiency.

Utility Engagement in Distributed Energy Resources (Staff Proposal section VI A)

Staff propose to allow utilities to own and operate distributed energy resources in specific situations and subject to a variety of constraints to prevent undue market power. We generally agree with Staff's recommendation. However, in addition to what Staff would permit (addressing important system needs), we also suggest that utilities be allowed to invest in DER where there are important resiliency benefits to be achieved that are in the public interest. We suggest this so that utilities could invest in DER systems for hospitals and other important public facilities so that these facilities can operate during power outages. As with investments to address important system needs, such investments should be subject to a demonstration of "why the benefits of utility

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considering energy efficiency investments. While such high discount rates may be rational for individual customers, at a societal level such discount rates mean that reliance only on the market will result in underinvestment in energy efficiency from a societal perspective. Also, while some customers will take out loans, others will not for a variety of reasons ranging from poor credit rating, aversion to debt, or financial procedures which make "on the books" loans difficult for some companies. The fact that we cannot rely strictly on the market is illustrated by an ACEEE study from 2001 which looked at previous attempts to rely just on the market (Kushler and Witte, http://aceee.org/researchreport/u011) The limitations of loans are illustrated by a 2011 ACEEE report that looked at many of the leading energy efficiency loan programs around the country and found only two that had served more than 5% of eligible participants. The highest participation rate – 16% of eligible customers – was achieved over a period of more than three decades (Hayes, Nadel, Granda and Hottel. http://aceee.org/research-report/u115). If NYS were to rely only on loans, how will the other 84% of customers be served? By contrast, a variety of incentive programs have achieved participation rates or 30% or even 50% or more (Nadel, Pye and Jordan, http://www.aceee.org/research-report/u942). Efforts to improve availability of capital are important, but they are just part of the suite of services that are needed to maximize adoption of cost-effective energy-efficiency investments. If NYS were to rely just on the market for efficiency services (including loans), it would mean that additional supply side resources and carbon reduction measures will be needed, resources and measures that are more expensive than energy efficiency and that all customers pay for through their energy bills. Thus, in order to minimize customer bills, long-term energy efficiency programs should be incorporated into REV. With good programs and policies, it should be possible to reduce the subsidies needed, but NYS cannot eliminate such subsidies unless it is willing to accept the higher bills that result from societally suboptimal levels of efficiency investment.

engagement outweigh the market power concerns” (language from p. 71 of the Staff proposal).

This concludes our comments. We would be happy to answer any questions you have about these comments. We look forward to the next step in this important proceeding.

Sincerely,

Steven M. Nadel

Steven M. Nadel
Executive Director