BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Examine the Commission's Post-2008 Energy Efficiency Policies, Programs, Evaluation, Measurement, and Verification, and Related Issues.	**Rulemaking 09-11-014** **(Filed November 20, 2009)**

COMMENTS OF THE NATIONAL ASSOCIATION OF ENERGY SERVICE COMPANIES (NAESCO) ON THE ADMINISTRATIVE LAW JUDGE'S RULING REGARDING 2013-2014 ENERGY EFFICIENCY GOALS AND THE ADMINISTRATIVE LAW JUDGE'S RULING REGARDING ENERGY EFFICIENCY POTENTIAL STUDY AND UPDATE TO THE DATABASE ON ENERGY EFFICIENCY RESOURCES

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NAESCO appreciates the opportunity to offer comments in the above-named proceeding. The Administrative Law Judge's Rulings request comments on a very broad range of subjects, and NAESCO will comment on only two of the proposed updates to the Net-to-Gross Ratios NTGRs, which seem to NAESCO to embody the systemic problems that the Commission is trying to understand and remedy in the design of the Bridge Period portfolio.

Summary of Comments

1. Lowering the NTGR for Large C/I Custom Measures is not justified because it does not take into account the services that the utility program deliver which make the implementation of the EE measures possible and are based on program evaluations that do not reflect current improved program processes and administration.
2. Lowering the NTGR for many residential measures, (e.g., the improvement of the thermal envelope) leads to conclusions that do not seem credible and undermine the Commission's policies.

Discussion

Lowering the NTGR for Large C/I Custom Measures is not justified because it does not take into account the services that the utility programs deliver which make the implementation of the EE measures possible and are based on program evaluations that do not reflect improved program processes and administration.

The Itron "DEER Database: 2011 Update Documentation" (Itron at 12-6) recommends reducing the NTGRs of Custom Measures delivered to large industrial customers to .60 for electric measures and .35 for gas measures. These recommended reductions do not take into account certain key elements of industrial programs and do not reflect improvements to program design, which NAESCO believes undermine the conclusions reached by the study. The Free Ridership argument advanced by the DEER Team boils down to two critical points: does the customer understand the EE measure or set of measures, and can the customer afford, or is the customer willing, to invest in the measure(s) without the incentive. If the argument of the DEER Team is accurate, and 65% of the customers who got incentives in the industrial gas program and 40% of the customers who got incentives in the electric industrial program are free riders, why aren't we seeing a huge uptake of these measures outside of the programs? Why, in other parts of this proceeding, is the Energy Division detailing the failure of the market to provide a significant level of EE implementation and asking all interested parties to provide suggestions about how the market can be enhanced? The recommendations of the DEER team also are based on evaluation of the 2006-2008 industrial program design and do not take into account improvements to the program processes and administration that reduce the potential of free-ridership.

NAESCO respectfully suggests that the answer is that the <u>services</u> offered by the third party program implementers, in conjunction with the specific EE <u>measures</u>, are what convince the customers to undertake the EE measures. These services include:

- Marketing capabilities and technical expertise that the core utility programs do not offer, and which reach customers that are seemingly impervious to normal market pressures (energy prices, advertising in industrial trade journals, etc.) or are unaware of the opportunities for energy efficiency in their facilities. The audit performed by the third party program implementer usually uncovers a number of measures with which the customer was not familiar or believed could not be applicable to the host facility, or provides economic analyses of those measures that the customer could not perform, which convince the customer of the value in implementing the measures.

- The rigorous project approval process and the technical and policy reviews of each project conducted by the utility program managers and their consultants confirm the savings analyses performed by the implementer, and convince the customer that the savings are real. These approval processes have been improved in the current EE cycle (2010-2012) based on the evaluation of the 2006-2008 programs and include an assessment of the potential for free-ridership that was not previously included in the programs. This additional scrutiny of each project significantly reduces the potential for free-ridership.
- The sequencing of a project, which requires that no construction begin before the project has been approved by the utility and which documents critical project milestones and invoicing, is so cumbersome that customers are unlikely to endure its inevitable delays for improvements they have already decided to make. The sequencing requirements also provide another improvement to the program processes that reduces the likelihood of free riders in the programs.
- The requirement that each project have an M&V plan reviewed by the utility and its third party consultants, and the monitoring and verification of savings over an extended period of time required by the plan, further convinces the customer that the savings are real.
- A new requirement (since July 2011) for selected projects to be reviewed by ED through the Custom Measure Review Process results in additional scrutiny by program administrators and implementers to assure that the projects proposed are not free riders.

We therefore urge the Commission to reject the reduction of the NTGRs for Custom C/I projects. Based on the improvements to program design and administration, NAESCO proposes that the NTGR for third party program Industrial projects not be decreased, but be increased to .9.

2. Lowering the NTGR for many residential measures, (e.g., the improvement of the thermal envelope) leads to conclusions that do not seem credible and undermine the Commission's policies.

The Itron study (Itron at 12-6) also recommends reducing the NTGR for residential roof and wall insulation from its current level of .7 to .28, indicating that about three-quarters of the residential customers who received incentives for insulation would have implemented the measure without incentives.

This conclusion appears to be reinforced by the projection in the Navigant study (Navigant at 95 and 101) that the technical potential for residential insulation after 2013 is minimal. This study, if adopted by the Commission, indicates that the best thinking of California's energy policy makers is that upgrading the thermal envelopes of the state's residential building stock will need little or no attention from EE programs after next year. Improved building codes will do the whole job.

NAESCO respectfully suggests to the Commission that this premise is not a realistic foundation for state energy policy, in the absence of state legislation that requires the insulation of houses to Title 24 standards upon resale. NAESCO suggests that there are hundreds of thousands (perhaps millions) of California residences that need substantial work on their thermal shells that their owners either cannot afford or in which they do not want to invest. And these homes will not be insulated by the end of next year. Many of them will probably not be insulated by the end of the decade. But the current Commission policies – that programs provide incentives only for improvements that exceed current Title 24 standards -- prevent the implementation of programs that might make a real dent in this major EE opportunity.

NAESCO therefore urges the Commission to use this period during which the Commission is re-examining the key elements of the EE programs to re-examine whether the policy of paying incentives only for energy savings produced by improvements that exceed Title 24 standards is accelerating or inhibiting the state's progress toward the goal of achieving all cost-effective energy efficiency.

Respectfully submitted by:

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