BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY for Approval of 2013-2014 Energy Efficiency Programs and Budget (U39M)	Application No. A12-07-001 (Filed July 2, 2012)
Application of San Diego Gas & Electric Company (U902M) for Approval of Electric and Natural Gas Energy Efficiency Programs and Budgets for Years 2013 through 2014	Application No. A12-07-002 (Filed July 2, 2012)
Application of Southern California Gas Company (U904G) for Approval of Natural Gas Energy Efficiency Programs and Budgets for Years 2013 through 2014.	Application No. A12-07-003 (Filed July 2, 2012)
Application of Southern California Edison Company (U338E) for Approval of Energy Efficiency and Demand Response Integrated Demand Side Management Programs and Budgets for 2013-2014.	Application No. A12-07-004 (Filed July 2, 2012)

COMMENTS OF THE NATIONAL ASSOCIATION OF ENERGY SERVICE COMPANIES (NAESCO) ON THE JOINT RESPONSE OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M) TO ADMINISTRATIVE LAW JUDGE'S RULING REQUESTING SUPPLEMENTAL INFORMATION AND COMMENTS ON EXPERT CONSULTANT FINANCING PILOT PROPOSALS

Submitted by:

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The National Association of Energy Service Companies (NAESCO) appreciates the opportunity to submit these comments in response to the Ruling of Administrative Law Judge Fitch in the above-referenced matter.

Introduction to NAESCO

NAESCO is the leading national trade association of the energy services industry. NAESCO numbers among its members some of the world's leading energy services companies, including: ABM Energy, AECOM Energy, Aireko Energy Solutions, Ameresco, Burns &

McDonnell, CM3 Building Solutions, Chevron Energy Solutions, Clark Energy Group, ClearEnergy Contracting, Climatec, Comfort Systems USA EnergyServices, ConEdison *Solutions*, Constellation New Energy, Control Technologies and Solutions, Eaton Corporation, Energy Solutions Professionals, Energy Systems Group, Excel Energy, NextEra Energy Services, Green Campus Partners, Honeywell, Johnson Controls, M360, McClure Energy, Navitas, NORESCO, NXEGEN, Onsite Energy, Pepco Energy Services, Schneider Electric, Siemens Industry, Synergy Companies, Trane, UCONS, Wendel Energy Services, Willdan Energy Services, and Wipro. Utility members include the New York Power Authority, Pacific Gas & Electric, and Southern California Edison.

During the last twenty years, NAESCO member companies have delivered several billion dollars worth of energy efficiency, renewable energy, demand response, distributed generation and combined heat and power projects to California residential, commercial, industrial and institutional customers and have delivered thousands of Guaranteed Energy Savings Projects across the US as well as across the globe. Nationally, NAESCO member company projects have produced:

- $45 billion in projects paid from savings
- $50 billion in savings – guaranteed and verified
- 400,000 person-years of direct employment
- $30 billion of infrastructure improvements in public facilities
- 450 million tons of CO_2 savings at no additional cost

During this time NAESCO has been an active party in the California Public Utility Commission (Commission) proceedings (*e.g*., R0911014) that have formulated California's energy efficiency and renewable energy policies and designed and implemented California's energy efficiency and renewable energy programs. NAESCO is also active in similar proceedings in states around the country.

Summary of Comments

NAESCO offers three comments.

1) NAESCO believes that the Commission's emphasis on trying to use financing to drive the penetration of energy efficiency into certain segments of the EE market is misplaced, and is diverting ratepayer funding away from proven approaches to achieving the Commission's energy efficiency goals.

2) NAESCO suggests that the proposed program for large commercial customers is an example of putting the cart before the horse, and that large investments in a new financing infrastructure should follow, not lead, a demonstration that there is a demand for such an infrastructure.

3) NAESCO supports the Response's argument that the use of ratepayer funding to subsidize financing to public sector energy efficiency projects is, in large part, unnecessary, because such subsidies (*e.g.* credit enhancements) supplant a robust competitive marketplace that today provides financing for projects that meet the Commission goals at lower overall cost (and with no ratepayer subsidies for financing) making a new program superfluous at this time.

Discussion

We offer the following arguments in support of our summary points above.

1) NAESCO believes that the Commission's emphasis on trying to use financing to drive the penetration of energy efficiency into certain segments of the EE market is misplaced, and is diverting ratepayer funding away from proven approaches to achieving the Commission's energy efficiency goals.

NAESCO has commented several times in this proceeding that the policy of the Commission to try to drive increased customer participation in energy efficiency programs with financing, or to replace ratepayer incentives with financing, is, we believe, an incorrect approach. Our position on this matter was succinctly summarized last week by Richard Kauffman, the special assistant to US Department of Energy Secretary Chu for clean energy financing and a former partner at Goldman Sachs, in his talk to a White House meeting of the US DOE Better Buildings Challenge. The problem with this approach (trying to drive the EE market with financing), Mr. Kauffman observed, is that the history of innovative American financing is that financing programs supply funding for successful business models, not the other way around. The problem is that in many segments of the market today (*e.g*., large commercial buildings) there are no successful business models for energy efficiency delivery.

The very modest results of financing programs in other states cited throughout this proceeding (*e.g.,* a few loans per year in Massachusetts and Maryland commercial building financing programs) testify to the fact that we cannot drive the creation of business models with financing programs. And we cannot create business models out of thin air. Customers must perceive enough financial reward in investing in EE retrofits to generate the need for a new business model that delivers the retrofits. Focus on the financing, which is premised on the business model, which in turn is premised on the customer demand, does not create enough of an incentive to drive this whole train.

NAESCO firmly believes that the once the once the conditions are created that provide sufficient financial rewards to motivate customer interest and direct action (see discussion below) business models will be developed that motivate the private financing industry, which is standing on the sidelines of the energy efficiency marketplace with billions of dollars ready to invest, to provide the new financing mechanisms required to scale up the business models. Commission-developed and utility-operated financing programs may at that juncture prove to be superfluous to market development and growth.

We therefore urge the Commission to reduce significantly the funding of new financing programs to reflect the understanding that funding is not the barrier to successful acquisition of energy efficiency resources but rather requisite business models have yet to been demonstrated to be successful on a wide scale basis in the market segments that the Commission seeks to develop. Funds removed from the financing programs should be put back into the incentive programs, which are required to increase the rewards to the customers and to put the whole chain (customer demand to business models to financing) in motion.

2) NAESCO suggests that the proposed program for large commercial customers is an example of putting the cart before the horse, and that large investments in a new financing infrastructure should follow, not lead, a demonstration that there is a demand for such an infrastructure.

NAESCO suggests that the proposed financing program for large commercial customers, which would apparently allocate about $6 million for infrastructure (HUB costs and utility billing systems modifications) plus $1 million for marketing and would deliver financing to a target of 22 projects during the first two years (Response at 13) is an extreme example of putting the cart before the horse.

There is perhaps no better case for the need for a successful EE business model than the in the large commercial buildings market. Utilities, national and state energy policy officials and ESCOs across the country have been trying to crack this market since the mid-1970s, without much success. Recent history demonstrates that a huge new financing program is not the solution.

Several years ago, the Clinton Climate Initiative, with a half dozen large ESCOs and major investment banks that committed billions of dollars at attractive rates of financing as partners, announced with great fanfare a program to retrofit large commercial office buildings in US cities. The program established and staffed offices in major cities across the US. Today the program is considered a failure, with the Empire State Building as its only completed project (and that project was really a building renovation and market re-positioning with energy efficiency components, not an energy efficiency project), because it did not offer a compelling business model. As far as NAESCO can see, none of the participating investment banks invested anything like the amounts proposed in the Response in billing and loan processing infrastructure. This proposal seems to be saying, in effect, that California ratepayers should take risks and make investments that investment banks thought were premature and were not willing to make themselves.

In the experience of NAESCO and many other market participants, the owners of large commercial buildings are simply not interested in undertaking comprehensive building retrofits with long paybacks because they believe these projects encumber their ability to conduct their business of buying and selling buildings. Until we solve this problem, which has remained constant over almost four decades and through several real estate and national economic cycles, investing heavily in new programs to finance the retrofits that the building owners don't want to implement seems to be beside the point.

NAESCO believes, based on this long and painful experience, that the only way we are going to make real progress in convincing large commercial building owners to implement comprehensive energy efficiency retrofits is by adopting mandatory building energy efficiency standards. There are clear precedents for imposing mandates on commercial buildings in the in the recent retrofits of these buildings with fire-suppressing sprinkler systems and seismic reinforcements. We know that mandates will work, and that, unlike the sprinkler or seismic mandates, will more than repay their costs with energy savings. And we know that nothing else has worked.

We therefore urge the Commission not to accept the proposal to spend millions of dollars building a new financing infrastructure for large commercial customers. The target 22 customers, spread over the four IOUs (average of 5 bills per utility per month), can easily be serviced with manual monthly billing, at a tiny fraction of the proposed cost. Instead, the Commission should turn its attention to crafting a mandate for commercial building energy efficiency standards.

3) NAESCO supports the Response's argument that the use of ratepayer funding to subsidize financing to public sector energy efficiency projects is, in large part, unnecessary, because such subsidies (*e.g.* credit enhancements) supplant a robust competitive marketplace that today provides financing for projects that meet the Commission goals at lower overall cost (and with no ratepayer subsidies for financing) making a new program superfluous at this time.

The one segment of the energy efficiency marketplace that does need a lot of help with financing is public buildings. ESCOs are currently delivering $3-4 billion of comprehensive projects (EE + RE + DR +DG/CHP) in this segment each year, hundreds of millions of dollars of which are in California. These projects are financed with bond issues, leases and loans in a very competitive private marketplace that is currently offering historically low interest rates (in the range of 3-5%) that require no ratepayer subsidies for the financing. To supplant this marketplace with a financing program that uses ratepayer funds to provide credit enhancements or other assistance is unnecessary, as the Response notes (Response at 15).

Even the consultant's limited recommendation that public sector customers continue to have access to OBF programs has serious potential problems, because the current program rules allow these customers a convenient way to do single measure projects, which runs counter to the Commission policy of encouraging comprehensive retrofits.

Furthermore, any new approach to financing public sector projects should take account of the tidal wave of money (current estimates are $2.5 billion over five years) that will flow into schools and colleges from the new tax revenues generated by Proposition 39. The legislation and the program rules that will govern the expenditure of these funds are now being developed in Sacramento. We urge the Commission to encourage the IOUs, and their consultants, to get involved in these discussions, to ensure the optimal use of public funds (both tax and ratepayer) and the close coordination of programs operated by the state and the IOUs. We believe that redirecting the focus of the Commission to the challenges of implementing an infrastructure improvement program of the dollar magnitude expected is a much more immediate challenge which could provide enormous opportunities for the state going forward. The Commission, we think, should work in co-ordination with existing utility energy efficiency programs and leverage the technical and managerial expertise of the ESCO providers to cost effectively deliver energy comprehensive energy efficiency projects.

Conclusion

NAESCO urges the Commission to reconsider its attempt to drive the market for energy efficiency with new financing mechanisms, because this approach runs counter to the advice of successful financiers and the experience of the energy efficiency industry over the past four decades. Rather, the Commission should focus innovation on the development of new business models, built where necessary on energy efficiency mandates, for target customer segments. Once the business models have been demonstrated, then the Commission can look at the market to see if there are needs for new financing programs that are not being met by the private sector and that require the risk of ratepayer funds. NAESCO expects such needs will prove to be very modest.

Respectfully submitted by,

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