

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION
Comments of the National Association of Energy Service Companies (NAESCO)
Regarding the Special *En Banc* Hearing on
Alternative Energy, Energy Conservation and Efficiency,
and Demand Side Response
In Docket M-00061984

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Introduction

NAESCO's current membership of about 75 organizations includes firms involved in the design, manufacture, financing and installation of energy efficiency and renewable energy equipment and the provision of energy efficiency and renewable energy services in the private and public sectors. NAESCO members deliver about \$5 billion of energy efficiency, renewable energy and distributed generation projects each year – about equal to all of the energy efficiency projects delivered by all US utilities combined, according to a recent report by the Lawrence Berkeley National Laboratory.

NAESCO numbers among its members some of the most prominent companies in the world in the HVAC and energy control equipment business, including Carrier, Honeywell, Johnson Controls, Siemens, Trane and TAC/Tour Andover. Our members also include many of the nation's largest utilities: Pacific Gas & Electric, Southern California Edison, New York Power Authority, and TU Electric & Gas. In addition, ESCO members include affiliates of several utilities including ConEdison Solutions, FPL Energy Services, Pepco Energy Services, Constellation Energy Products and Services, Energy Systems Group and Direct Energy. Prominent national and regional independent members include Atlantic Energy, DMJM Harris, NORESKO, Onsite Energy, EnergySolve Companies, Ameresco, UCONS, Chevron Energy Solutions, Synergy Companies, Wendel Energy Services and WESCO.

NAESCO member companies have delivered energy efficiency, renewable energy, demand response and distributed generation projects to Pennsylvania institutional, government, industrial, commercial and residential customers for over a decade. Our members have delivered almost all of the \$300 million of projects in the Pennsylvania state (GESA) and local government performance contracting programs during the last few years.

In addition to the project delivery experience of its members, NAESCO has served on a number of advisory groups that assist the administrators of energy efficiency programs in several states, including:

- The New York SBC Advisory Group, which is appointed by the New York Public Service Commission to review and transmit the quarterly evaluation reports for the New York energy efficiency programs administered by NYSERDA.
- The Program Advisory Groups for three California utility energy efficiency programs;
- The Leadership Group of the National Action Plan for Energy Efficiency;

- The New York City Energy Policy Task Force;
- The Energy Efficiency Task Force for the Western Governors Association Clean and Diversified Energy Advisory Committee; and,
- The New York State Regional Greenhouse Gas (RGGI) Operating Plan Advisory Group.

NAESCO's experience on these advisory groups, as well as its experience in state proceedings that are developing new energy efficiency programs in North Carolina, South Carolina, Indiana, Oklahoma, Michigan, Illinois, Florida and New Jersey during the past year provide some perspective on the development of effective energy efficiency programs that may be useful to the Pennsylvania Commission.

Comments

NAESCO would like to offer brief comments on several of the questions posed by the Commission for the *en banc* hearing.

Question 1b. Should new/expanded programs be developed?

NAESCO recommends that the Pennsylvania utilities adopt a set of new programs that represent the current "best practices" among large-scale energy efficiency programs across the country. During the past two years, I have seen a number of utilities that are starting new large-scale programs try to reinvent the wheel. That is, the utilities propose to start with the kind of programs that utilities first fielded in the early 1980s and essentially repeat the two-decade evolution of program design. This is a waste of time and resources, and inhibits the ability of the utility programs to meet the aggressive energy savings targeted that have been established in Pennsylvania.

An example of a "best practices" program is a standard offer or standard performance contract program that would provide incentives to the successful Pennsylvania Guaranteed Energy Savings Agreement (GESA) program for state and local government facilities. This program is considered a national model. It has a robust and competitive infrastructure of Conservation Service Providers (CSPs) in place, is efficiently administered by the Commonwealth's Department of General Services and offers expert technical assistance to customers from Penn State University. With some additional resources from the utilities, the program can easily achieve the legislative target of 10% of Commonwealth energy savings from federal, state and local government buildings. There is no need for the utilities to create

redundant programs, or programs that compete with GESA. The utilities should simply contribute resources to accelerate GESA.

NAESCO also recommends that the utilities convene stakeholder groups to facilitate the design of “best practices” programs. These stakeholder groups should represent all classes of customers, energy efficiency and environmental policy organizations and conservation service providers, each of which can contribute its experience and perspectives to the program design. NAESCO recommends that these stakeholder groups be true collaboratives, which should be charged by the Commission with reaching a consensus with the utilities on program designs. They should not be considered tangential to the real program design process, providing limited input that may or may not be heeded by the utilities.

Question 2: Should DSR/Energy Efficiency (EE) programs be combined to have the greatest impact?

NAESCO strongly recommends that the utilities combine the offers of various types of EE and DSR measures into composite offers specifically targeted at different types of customers. Energy industry professionals understand that energy efficiency, demand response and distributed generation, for example, employ different types of technologies that have different economic characteristics. Most customers, however, do not know much about these distinctions and are confused when we professionals present the different technologies in different programs that seem to overlap and sometimes compete with each other. Customers who want to buy a new car are not forced to procure the body from one vendor, the engine from a second vendor and the seats from a third vendor. Rather, the customers are presented with base model and a coherent list of options from which to choose.

NAESCO suggests that it is the job of the utilities and the Conservation Service Providers (CSPs) to blend the technologies and the incentives that are representative of the economics of the technologies into comprehensive, coherent customer-centric packages that are available to the customer through a single point of contact. We cannot expect customers to adapt to our way of marketing DSR and EE. Rather, we must adapt our marketing to the way that customers are used to buying.

Question 6: Should some or all DSR/EE programs be coordinated across the Commonwealth to act as one program?

NAESCO strongly supports the development of common programs by the utilities. NAESCO suggests that the 80/20 rule applies to this issue. There are certainly some programs that will be unique to each utility, based on the particular circumstances of some groups of its customers. But the core programs will offer a set of core technologies to all customers within designated customer classes. These core programs will be used by the vast majority of customers and will deliver the vast majority of program savings. They should share all of the fundamental program elements: marketing, application processes and forms, incentive levels, financing processes and forms, quality control procedures, monitoring and verification and evaluation. These common program elements will make the programs more economical by reducing administrative and marketing costs and realizing volume discounts in the procurement of material and equipment. They will enable the program administrators to develop significant expertise in the operation of the various programs. And they will Commission's review of program results simpler and more effective.

NAESCO would go one step further and recommend that the Commission strongly consider a single program Commonwealth administrator for these core programs, or subsets of the core programs, (*e.g.*, one administrator for residential programs and one administration for industrial programs).

The utilities may respond to this suggestion by saying that they cannot today design statewide programs, because they need to test various program models over the next few years and then gradually hone in on the best model. NAESCO suggests that this approach is unnecessary, and will seriously handicap the potential of the Commonwealth to reach its aggressive energy savings goals. The fact that the utilities may not be able to easily identify the "best practices" programs they should adapt does not mean that these programs do not exist, but rather that the utilities are not current in the EE and DSR fields. If they are uncomfortable getting up to speed quickly, NAESCO suggests that the Commission turn to the robust and competitive world of third party program administrators who can deliver "best practices" statewide programs immediately.

Question 13: What level of costs is reasonably required to administer these programs successfully, expressed as a percent of total costs?

NAESCO recommends that the Commission use the New York State energy Research and Development Authority (NYERDA) Energy \$mart program as its benchmark for

administrative costs. NYSERDA spends about 10% of its total budget on administrative costs: 7% for program administration, 2% for program monitoring and evaluation and about 1% for environmental compliance reporting and other fees mandated by the state. This budget does not include program marketing, which for NYSERDA is an additional 1.7% of total costs. This administrative budget has been sufficient for NYSERDA during the first nine years of the Energy Smart program to deliver about 3,060 GHW of annual savings, about 1,200 MW of peak load reduction, and annual energy bill savings to participating customers of about \$570 million. NAESCO believes that it should be a sufficient administrative budget for the core Commonwealth-wide programs.

NAESCO suggests that additional administrative budget may be required by the utilities to deliver the specialized programs that are not part of the Commonwealth-wide core program offering, because these programs are by definition more difficult to design and deliver. To deal with this issue, NAESCO recommends that the Commission set a benchmark such as the NYSERDA budget level and then require the utilities to justify administrative expenses above the benchmark in their program applications.

Conclusion

NAESCO appreciate the opportunity to present these comments to the Commission. We believe that the Commission has the opportunity to achieve the mandated energy savings goals for the Commonwealth by utilizing the resources of all stakeholders to design and implement a set of “best practices” programs, including expansion of the successful GESA program for state and local government facilities. NAESCO is ready to contribute its experience and resources to this effort.

Respectfully submitted by,
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