THE NATIONAL ASSOCIATION OF ENERGY SERVICE COMPANIES (NAESCO) REPLY COMMENTS ON THE EEPS PROGRAM REVIEW WHITE PAPER

NAESCO appreciates the opportunity to submit these Reply Comments, which we summarize as follows:

1) NAESCO urges the Commission to thoroughly revamp the structure of incentives paid to utilities for program management, because the current structure is a quagmire that will absorb an inordinate amount of stakeholder time and fail to provide the utilities with sufficient motivation to implement the level of energy efficiency required by EEPS.

2) NAESCO urges the Commission to go beyond enhanced program coordination between NYSERDA and the utility Program Administrators (PA) to fully integrate the programs into a consolidated offering that provides incentives for single-technology retrofits and enhanced incentives for multiple technologies for whole house or whole building projects.

3) NAESCO urges the Commission to replace the current EM&V protocols of evaluating individual measure cost effectiveness with protocols that evaluate project and program cost-effectiveness, because the individual measure evaluation protocols are wasteful of program resources and fail to adequately recognize the overall economic benefits to the customer of a comprehensive set of measures implemented in EE projects and the value of a continuous improvement cycle created by installation of multiple efficiency measures.

4) NAESCO urges the Commission to expand the membership of the Implementation Advisory Group (IAG) to include representatives of program implementers and customers, which we believe will improve the effectiveness of the IAG.

5) NAESCO urges that the quantification of the effects of EE programs on wholesale market prices be made a factor in the TRC and other tests of program cost effectiveness.

DISCUSSION

The next few pages outline NAESCO's reasoning behind its recommendations to the Commission.

1) NAESCO urges the Commission to thoroughly revamp the structure of incentives paid to utilities for program management, because the current structure is a quagmire that will absorb an inordinate amount of stakeholder time and fail to provide the utilities with sufficient motivation to implement the level of energy efficiency required by EEPS.

NAESCO believes that the comments of the various parties on the current incentive mechanism are just one round of what will be a continuous controversy that will last as long as the EEPS program if the incentive mechanism is not adjusted. NAESCO has participated in the proceedings regarding similarly structured incentives in California during the past few years. The proceedings have been in progress for about five years; have absorbed an enormous amount of Commission, Staff, utility and stakeholder time; and, show no signs of resolution. The endless and continuous California proceedings have had a deleterious effect on the overall success of the program.

In NAESCO's opinion, the root of the problem is that the current incentive structure attempts to motivate the utilities to graft onto their traditional business model of long-term returns on substantial capital investments a fee-for-service business model for managing EE programs. To overcome the institutional resistance to this new business model, the Commission has offered overly generous incentives to the utilities that cannot help but antagonize consumers who are also ratepayers. Just one example is that the potential maximum incentive for utility programs of about $.04/kWh has been set at almost double the reported total costs of the NYSERDA Energy $mart program at a similar stage of program development[1]. So it is not surprising that major consumer groups, like Multiple Interveners (MI at 31), will continue to oppose the incentive structure as exorbitant and thus create continuous doubt among utilities, as similar consumer groups have done in California, that the incentives will ever be paid. This doubt undermines the utility motivation the Commission hopes to achieve with the incentives as well as discourages customer program support and ultimate participation.

NAESCO believes that the incentives should be restructured to provide the utilities with a modest program management fee (1-2% of program costs), similar to the types of fees that investment managers collect, plus the opportunity to earn normal (or modestly set premium) rates of return on funds the utilities invest in effective energy efficiency programs that produce measurable energy savings. We understand that the utilities are leery of the challenges inherent in moving to this investment model, as evidenced by the comments of the Joint Utilities on the issue of amortizing EE program costs (JU at 28). But we believe that the utilities are capable of supporting a restructured incentive mechanism and a new business model, just as they have restructured their operations to integrate new generation technologies, convinced investors of the efficacy of a new generation and delivery models, and have overcome the persistent pushback and barriers to generation and transmission siting. Furthermore, the utility investment model of EE programs would allow utilities a path for growth in revenues and profits, and would lead to the development and implementation of innovative solutions to the challenges that have historically discouraged the penetration of EE into crucial customer market segments like high-end commercial office buildings.

2) NAESCO urges the Commission to go beyond enhanced program coordination between NYSERDA and the utility Program Administrators (PA) to fully integrate the programs into a consolidated offering that provides incentives for single-technology retrofits and enhanced incentives for multiple technology implementation for whole house or whole building projects.

The problem of competing and sometimes duplicative utility and NYSERDA programs that waste public resources is highlighted by the joint Utilities' documentation of a NYSERDA program paying double the incentive offered by a utility program to the same customer for the same measure (JU at 32). We urge the Commission to go beyond the remedy that the White Paper proposed – increased coordination among program administrators. We believe that NYSERDA and the utilities should offer a single consolidated program to a class of customers. This program offering should include incentives for individual measures plus additional "bonus" incentives for the implementation of more than one measure and a "super bonus" incentive for a whole house or whole building retrofit. These consolidated programs would combine the best thinking of both the utilities and NYSERDA about the proper level of incentives, would

[1] "National Action Plan for Energy Efficiency," US DOE and US EPA, July 2006, page 6-8

eliminate wasteful competition between programs, and would promote the Commission goal to harvest the maximum possible savings from a customer location – a necessity if the programs are to reach the EEPS savings targets.

3) NAESCO urges the Commission to replace the current EM&V protocols of evaluating individual measure cost effectiveness with protocols that evaluate project and program cost-effectiveness, because the individual measure evaluation protocols are wasteful of program resources and fail to adequately recognize the overall economic benefits to the customer of a comprehensive set of measures implemented in EE projects and the value of a continuous improvement cycle created by installation of multiple efficiency measures.

NAESCO member ESCOs typically deliver comprehensive, multi-technology projects to their customers. In those projects, the isolation of the savings due to a particular measure in a particular project is difficult, and often not worth the effort, because the customer is buying a package of measures designed to create maximum savings and best value, not individual measures. NAESCO member companies have seen numerous examples of the application of measure-based EM&V (*e.g.*, disallowing the retrofit of a two lamp fixture at the front of a row of four-lamp fixtures in a classroom because the two-lamp fixture is often turned off to enhance A-V presentations) that only serve to aggravate customers and provide ammunition for intractable controversies among stakeholders about net-to-gross savings issues. We respectfully suggest that it would be better to use program valuable EM&V resources (dollars and expert consultants) to provide a continuous improvement cycle feedback system to program administrators than to haggle about individual measure savings values. Furthermore, as evidenced by the NYISO comments about enhancing the reliability of EEPS program savings projections, there is a lot of work to be done on the macro level of EM&V, which is more critical to the future role of EE than continuous fine-tuning of individual measure savings.

4) NAESCO urges the Commission to expand the membership of the Implementation Advisory Group (IAG) to include representatives of program implementers and customers, which we believe will improve the effectiveness of the IAG.

NAESCO believes that once the program coordination issues are resolved by having utilities and NYSERDA offer consolidated programs (see #2 above), the IAG should be expanded to include representatives of program implementers and customers. NAESCO's experience is that these representatives can provide the program administrators with real-time feedback about what is working and not working in the field, a more granular view of current market factors, and suggestions for program modifications that will expand overall customer participation, often at no additional cost.

5) NAESCO urges that the quantification of the effects of EE programs on wholesale market prices be made a factor in the TRC and other tests of program cost effectiveness.

NAESCO respectfully suggests that the White Paper may be incorrectly applying the lessons learned from the study of the wholesale market price effects of demand response (DR) programs on the capacity market to the effects of EE programs on the wholesale energy market. Studies by Neenan Associates on the results of the first few years of operation of the NYISO DR programs demonstrated that the wholesale generators and traders very quickly adjusted their forward contracting and hedging strategies to account for the fact that DR programs suppressed peak capacity prices. This quick adjustment meant that these forward contracting and hedging factors quickly approached zero value in the calculation of the cost effectiveness of DR programs. In the energy market, however, the suppression of wholesale market prices due to the substitution of lower cost EE resources for higher cost generation resources (particularly expensive new generation sources), at the scale envisioned by the EEPs initiative, is not a temporary phenomenon that can be obviated by forward contracting and hedging strategies. It is a permanent reduction in the cost basis of the pool of resources, which will be reflected in the retail prices paid by all ratepayers, not just EE program participants.

CONCLUSION

NAESCO urges the Commission to enact our suggestions as part of the re-authorization of the EEPS programs.

1) Thoroughly revamp the structure of incentives paid to utilities for program management, to provide utilities with a modest program management fee and support for their adoption of a strategy of major investments in energy efficiency.

2) Integrate the competing NYSERDA and the utility programs into consolidated programs for each customer class that provide incentives for single-technology retrofits and enhanced incentives for multiple technologies in whole house or whole building projects.

3) Replace the current EM&V protocols of evaluating individual measure cost effectiveness with protocols that evaluate overall project and program cost-effectiveness, because the resources currently devoted to refining measure savings estimates can be better used to provide a continuous program improvement cycle and work on the macro issues of integrating large-scale EE into the existing electric system operations and planning framework.

4) Expand the membership of the Implementation Advisory Group (IAG) to include representatives of program implementers and customers, who can provide program administrators with real-time information and suggested program modifications.

5) Include the effects of EE programs on wholesale market prices in the TRC and other tests of program cost effectiveness, because these effects are real and permanent.

Respectfully submitted by,

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