

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 07-M-0548 - Proceeding on Motion of the Commission
Regarding an Energy Efficiency Portfolio
Standard.

Ruling Establishing Comment Process and Schedule
Concerning the Report of Working Group V
(Issued December 30, 2008)

ELEANOR STEIN and RUDY STEGEMOELLER, Administrative Law Judges:

The purpose of this Ruling is to inform parties of the process we are putting in place to solicit comments on the Final Report of Working Group V concerning natural gas efficiency. It is critical to establish an overall framework and plan regarding natural gas efficiency measures, which may be in addition to, or replacement of, those currently in place or under consideration.

THE NATURAL GAS ENERGY EFFICIENCY PORTFOLIO

Working Group V filed its Report on Natural Gas Efficiency Goals on October 17, 2008, and presented its findings at a conference held November 3, 2008. In the Report, the Working Group, among other things, laid the valuable groundwork of analyzing the state's natural gas system. The Report discussed the relevant policy issues, developed a forecast of annual natural gas end-user demand through the year 2020, inventoried and described existing energy efficiency programs that save natural gas, and analyzed their impact on customers, benefits and costs.

Working Group V did not recommend a specific option or group of options for establishing a target, plan, or goal for natural gas savings over time. However, in order to focus comments and join issue most effectively before the Commission, this ruling will offer two models for design of a natural gas efficiency portfolio. Comments should be directed to these model options, to the list of questions posed in this Ruling, and to the contents of the Report of Working Group V.

The schedule for these comments is as follows:

January 30, 2009	Initial Comments
February 17, 2009	Reply Comments

We anticipate that following analysis of parties' comments and replies on these issues, the Commission will be presented with recommendations and may solicit or require proposed programs from administrators. Programs approved by the Commission should be able to be implemented prior to the 2009-2010 heating season.

COMMON ASSUMPTIONS OF MODEL DESIGNS

1. As with the electric industry, New York can capture opportunities for cost effective natural gas efficiency. End-use customer reductions in usage can be realized, and system-wide natural gas usage can be better reconciled with broader state policy considerations, including environmental and climate impacts.
2. These two models share the assumption that it is unwise to establish a fixed target for reduction in statewide natural gas usage at this time. A gas target calculated - as the electric target is - by establishing a net state decrease in usage over time, conflicts with other energy policy goals. Some increases in gas usage, resulting in conversion from other energy sources, are environmentally beneficial and will improve overall energy efficiency. Examples are conversion from oil to gas heating, and from electric to natural gas water heating, or increases in combined heat and power (CHP) generation. These increases in gas usage could be significant relative to the potential demand reductions expected from efficiency programs.
3. Both models exclude electric generating customers and cooking-only customers. The models differ in their treatment of interruptible and other large customers. All other customers would be eligible to participate and would contribute to program costs.
4. Each model would establish a maximum annual statewide spending level.
5. The maximum spending level would be allocated by service territory according to the same formula used by the Commission in Table 18 of Appendix 1 of its June 23, 2008 Order in this proceeding.

6. The allocations per service territory will be used to establish System Benefits Charge collections by each gas utility.
7. Authority to spend the budgeted sums will be contingent on the approval of proposals submitted by program administrators.
8. In order to accomplish an orderly transition, authorizations for all existing gas-funded programs will be extended to November 1, 2009, or their end date, whichever is later. A process for program submittal and approval will be established so that new authorizations are in place in time for programs to be operational by, or before, November 1, 2009.
9. Consistent with the Commission's September 17, 2008 Order Adopting an Interim Energy Efficiency Program for National Grid, customers converting from oil to gas appliances will generally be eligible for rebates, although energy efficiency funds may not be used to market conversions.

THE TWO MODELS

Model One: An expanded gas appliance rebate program.

Objective: To ensure that the highest-efficiency equipment available is installed in replacements of existing appliances and other purchases of new appliances.

Rationale:

1. Appliance efficiency programs are highly cost-effective.
2. Such a program would be simple to administer.
3. Existing building envelope programs are "fuel neutral" but are funded by a surcharge on electric ratepayers. This is supported by the fact that everyone is an electric ratepayer, regardless of the type of heating fuel used. However, the benefits that a customer receives will vary depending on the type of heating fuel that they have.
4. Expanding gas ratepayers' funding for building envelope improvement programs similar to those funded through the electric SBC would result in gas customers supporting customers of unregulated heating fuels who are not subject to a surcharge. It also has the potential for duplication of existing building envelope programs, and could result in gas customers "paying twice" to access the same program.
5. Having "fuel neutral" building envelope programs that are not equitably supported by customers according to the

benefits that each fuel type receives presents issues that are more appropriately addressed as part of a broader review of the electric SBC program funding and benefits allocations.

6. In the meantime, using gas ratepayer funding for a gas appliance-only efficiency program focuses gas ratepayer funding on gas savings in the most cost-effective manner.¹

Total Budget, Benefit and Cost Assumptions:

A preliminary analysis prepared by Staff, subject to further refinement, indicates that total program costs to achieve this objective would be approximately \$100 million per year, and associated savings are estimated at 33 million therms per year, assuming full participation of all customers at the time of their appliance replacements. Further refinement of this analysis will be made available for parties' comment.

Program Characteristics:

1. Programs are administered by utilities only.
2. Interruptible customers and customers with annual usage greater than 12,000 decatherms² will be excluded from participating in, and contributing to, the program.
3. Rebates are available for higher than standard-efficiency boilers and furnaces.
4. Rebates for water heating equipment are limited to tankless and instantaneous water heaters.
5. Rebates are structured to encourage adoption of the most efficient equipment available.
6. An alternative to rebates might be subsidized financing.
7. Rebate levels for specific equipment will be coordinated among utility territories.
8. Rebate levels will be differentiated by income level, so that low-income customers will be able to participate.

¹ Under this model there would be a transition to rebate programs as described above. To the extent that the 90-day program proposals include gas measures, those measures would be superseded by the programs contained in this model.

² The threshold of 12,000 decatherms may vary among utilities depending on existing rate classifications.

9. Program selection will rely on the Total Resource Cost test, adjusted to accommodate higher subsidy levels for low-income customers.
10. No incentives for utility performance – either positive or negative – will be included.

Model Two: A combined utility rebate and NYSERDA building envelope program

Objective: To establish a mixed portfolio of cost-effective natural gas efficiency programs including weatherization and other whole-house measures as well as rebates. Rather than a fixed statewide usage target, the plan will balance several factors: overall budget, bill impacts for participating and non-participating customers, overall impact on usage levels, and overall dollar savings. These considerations will yield a per-customer reduction target.

Rationale:

1. Adds gas funding to building envelope programs that are presently all electric-funded, to reduce cross-fuel inequities.
2. Expands oversubscribed weatherization programs and produces co-benefits of building envelope programs (employment opportunities, low-income customer benefits, health benefits, and improved value of housing stock).
3. Includes market transformation and new construction programs for long-term benefits.
4. Realizes early natural gas usage reductions through an expanded rebate program.
5. By setting a weather-normalized per-customer usage reduction target, the State can measure progress toward greenhouse gas emission and other related goals.

Total Budget, Benefit and Cost Assumptions:

Total budget is established at \$160 million per year plus evaluation and administration expenses and utility incentives. Estimated program benefits are those described as

the Medium Suite in the Working Group V Report, Appendix A, page 12; no specific portfolio of programs is prescribed.³

Program Characteristics:

1. Rebate programs administered by utilities, and building envelope, new construction, and market transformation programs administered by NYSERDA.
2. Full allocation of the total budget is contingent on program administrators submitting proposals that are cost-effective as measured by the Total Resource Cost test.
3. Statewide programs will be designed to distribute benefits in proportion to the service territory allocations.
4. Independent proposals will be entertained using the same process as established in the June 23, 2008 EEPS Order.
5. Micro-CHP is eligible if it meets size and efficiency standards to be determined.
6. Selection criteria will include screening metrics as described in the Working Group J Report, as well as the narrative factors detailed in the June 23, 2008 EEPS Order.
7. Interruptible customers will not be included at the outset but consideration will be given to developing a surcharge based on times during which gas is priced below oil so that imposition of the surcharge will not create an incentive to switch to oil. Inclusion of interruptible customers should also be considered in the extension of programs or creation of new programs for the 2011-2015 phase of the EEPS.
8. Measurement of progress toward a per-customer target presents challenges because of the potential for expanded application of gas due to conversions; additional analysis of this issue is needed to design such a measurement.

³ At these levels, as shown in Appendix A, p. 6 of the Working Group V Report, efficiency allocations are increased in all utility service territories except one. The Commission may choose to adopt funding levels that represent an increase in all service territories, either by increasing the total funding levels or by selecting a different allocation formula.

QUESTIONS FOR PARTY COMMENT

The following questions are intended to focus parties' comments for the benefit of the Commission's analysis. Parties are not required to address each question, nor are parties limited to the questions below. Parties are requested to organize their comments consistent with the organization of these questions.

Questions:

1. Does the Optimal report of NYS energy efficiency potential for natural gas, as developed in the report of Working Group V, represent a reasonable basis for initiating a gas efficiency program?
2. Comparing the respective results and bill impacts of the models presented in the Working Group V Report as supplemented by this Ruling, what level of funding is appropriate?
3. What are the relative merits of an appliance-only model compared with a model that includes whole-customer and building envelope programs?
4. Does the funding of building envelope programs create significant customer inequities, in terms of the allocation of costs and benefits across different fuels and across regulated and unregulated industries?
5. Is establishing a gas savings goal in terms of use-per-customer workable? In what ways can expected measurement difficulties associated with this approach be addressed and overcome?
6. Is exemption of interruptible and large customers reasonable, assuming that additional usage reductions and funding contribution by those customers may be foregone?
7. What is the total contribution to system throughput of large (more than 12,000 decatherms/year) customers that are not interruptible? Should an exclusion of large customers distinguish between high load factor industrial customers and lower-load factor commercial heating customers?
8. Working Group V identified as a starting point for program development the diversity of the natural gas market in different regions in New York State, including geographical and customer mix differences. How, if at

all, should this diversity be reflected in the development of a statewide gas efficiency program?

9. What are the relative benefits of integrated gas/electric efficiency program delivery versus gas and electric programs delivered separately? How can integrated programs be accomplished in territories not served by combination companies?
10. Is the split incentive problem of landlords and tenants an issue that needs to be addressed in creating gas efficiency programs? If so, how?
11. What are the respective potentials for greenhouse gas emission reductions from the models presented above or from other models?

(SIGNED)

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