

ORANGE AND ROCKLAND UTILITIES, INC.

ENERGY EFFICIENCY PANEL
UPDATE/REBUTTAL - ELECTRIC & GAS

1 Q. Please state your names.

2 A. Donald Kennedy and Charmaine Cigliano.

3 Q. Have you previously submitted testimony in this
4 proceeding?

5 A. Yes. We previously submitted direct testimony on
6 behalf of Orange and Rockland Utilities, Inc. ("Orange
7 and Rockland," "O&R" or "Company") as the Energy
8 Efficiency ("Panel") as part of the Company's January
9 2018 initial base rate filing.

10 Q. What is the purpose of the Panel's testimony?

11 A. The Panel is responding to the following positions of
12 Staff of the Department of Public Service ("Staff"):

- 13 • The Staff Markets and Innovation Panel's ("SMIP")
14 recommendation that energy efficiency ("EE")
15 expenditures should be treated as an expense in
16 the Company's revenue requirement;
- 17 • The SMIP's recommendation for using unspent
18 Energy Efficiency Portfolio Standard ("EEPS")
19 funds to offset EE costs in the Rate Year (*i.e.*,
20 calendar year 2019);

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- 1 • Staff's assumptions about the Company's EE programs
2 that affect three main categories;
3 • The SMIP's proposed run rate targets for the ETIP
4 expansion;
5 • Staff's proposed annual increases for both
6 electric and gas EE initiatives and the
7 feasibility of achievement; and
8 • Staff's Effective Useful Life ("EUL")
9 requirements.

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REBUTTAL

12 Q. Does the Company agree with the SMIP's adjustment to
13 recover EE expenses in the year they are incurred,
14 rather than recovering those costs over multiple
15 years?

16 A. No. In its initial base rate filing, the Company
17 proposed base rate recovery over three years, similar
18 to the recovery period for a majority of the Company's
19 deferred regulatory balances. However, after
20 additional consideration during the process of
21 drafting a response to Staff's recommendation, the

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1 Company believes that EE expenditures are more
2 appropriately treated as ten-year regulatory assets.

3 Q. Please explain why EE expenditures should be treated
4 as a regulatory asset.

5 A. First, EE costs should be recovered over the same
6 period as the EE investments are providing customer
7 benefits, including environmental benefits that
8 directly further state policy objectives.

9 The Company's EE portfolio exceeds an average asset
10 life of over ten years, yielding benefits over that
11 entire time period. Expensing EE costs over a single
12 year, as proposed by Staff, would improperly
13 accelerate the collection of these costs from
14 customers. Second, the SMIP states (p. 22), "Pursuant
15 to the March 2018 EE Order, the Company is required to
16 begin integrating energy efficiency planning into its
17 forecasted system plans and evolve its ETIP into a
18 System Energy Efficiency Plan (SEEP) that describes
19 the entirety of the utility's expanded reliance on,
20 and use of, cost effective energy efficiency to
21 support its distribution system and customer

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1 needs." If EE investments are to be treated as a
2 legitimate and viable alternative to traditional
3 infrastructure investment (particularly in NWA areas),
4 EE investments must be treated comparably from a cost
5 recovery perspective. Such comparable treatment will
6 encourage and facilitate the integration of EE as part
7 of the Company's core utility business, and properly
8 prevents any relative disincentive from making
9 critical new EE investments. It also will prevent the
10 signaling to the marketplace a lower than warranted
11 value of EE, as compared to other investments,
12 especially as the State seeks to achieve ambitious new
13 EE targets.

14 Third, amortization of the costs of an EE portfolio
15 over a ten-year period results in an average bill
16 reduction to customers every single year over that
17 ten-year period. In contrast, expensing these costs in
18 a single year would result in an average total bill
19 increase for customers.

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1 Q. What would be the total first year impact on the
2 revenue requirement with the proposed \$8 million EE
3 spending?

4 A. The first year revenue requirement impact if \$8
5 million in EE spending is recovered as O&M (*i.e.*,
6 expensing in a single year) would be \$8.2 million. In
7 contrast, if the Company's EE expenditures were to be
8 capitalized as a 10-year regulatory asset, the first
9 year revenue requirement would be reduced to \$1.1
10 million.

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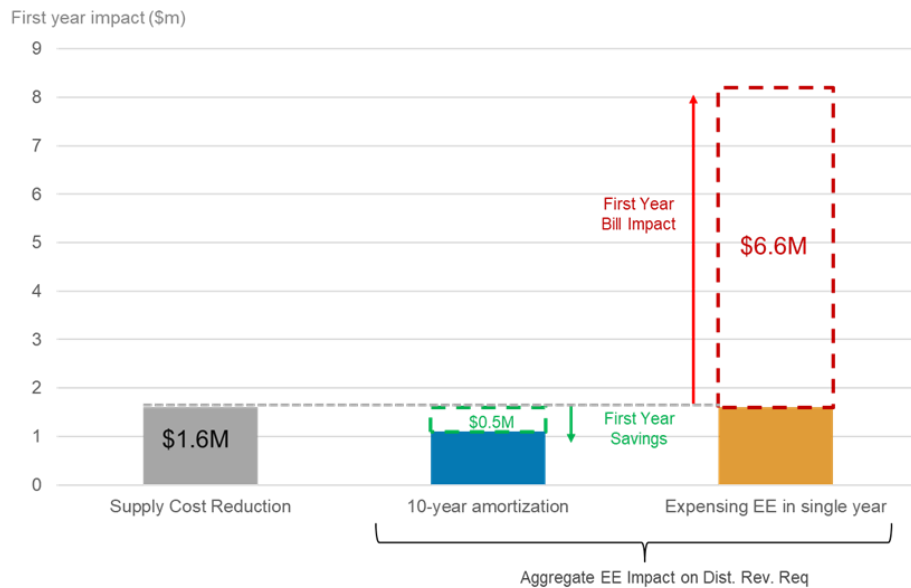
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*Assumes O&R's ongoing proposal for EE - 24 GWh first-year savings at \$8M program cost in 2019

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1 Q. How does the SMIP recommend using the \$7.02 million in
2 unspent EEPS funds to offset EE costs in the Rate
3 Year?

4 A. The SMIP recommends using \$1.17 million per year in
5 unspent EEPS funds to offset EE costs in order to
6 avoid a "hockey stick" rate increase beyond the Rate
7 Year.

8 Q. Does the Company agree with the SMIP's recommendation?

9 A. The Company notes that the remaining \$7.02 million
10 EEPS balance, including any accrued interest, is to be
11 used for "customer benefit", pursuant to the
12 Commission's Order Authorizing the Conclusion of
13 Energy Efficiency Portfolio Standard, issued November
14 17, 2017 in Case 07-M-0548 ("November 2017 Order").
15 Accordingly, the Company concurs with staff to return
16 the unspent funds over six years for "customer
17 benefit" in alignment with both the November 2017
18 Order and the general direction of Staff testimony.

19 Q. What is SMIP's run rate proposal for spending and
20 targets for the Company's ETIP expansion?

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1 A. Staff proposes that the minimum, mid-point, and
2 maximum net electric targets be increased to 43,709
3 MWh, 49,874 MWh, and 58,062 MWh, respectively, for
4 each of the next three years. The spending target
5 would become \$8.35 million for each of the next three
6 years.

7 Q. How does this compare to O&R's current ETIP plan?

8 A. The mid-point target represents a 158% increase in
9 savings from the current ETIP proposal, compared to a
10 budget increase of only 33%.

11 Q. How were Staff's targets derived?

12 A. Staff developed the minimum savings target for the
13 proposed targets by assuming that O&R can achieve
14 energy savings at their average cost per kWh realized
15 since 2012, and by applying this cost, or run rate, to
16 the proposed budget. Staff derived the maximum
17 savings target using the lowest four-quarter rolling
18 average cost to achieve. The mid-point target is the
19 average of the minimum and maximum run rates.
20 Historically, O&R has achieved the majority of its

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1 electric EE goals while not expending its full ETIP
2 budget.

3 Q. Do you believe that Staff's proposed targets are
4 achievable?

5 A. No, we do not believe that it is achievable to
6 increase net savings by 158% while maintaining or
7 lowering the current cost to achieve those savings.
8 Staff's simplified methodology ignores several
9 important factors about the reality of expanding EE
10 programs under current circumstances.

11 Q. Please continue.

12 A. There are several main reasons that O&R cannot
13 feasibly achieve Staff's proposed savings targets with
14 their proposed budget:

15 1. In order to reach the savings targets, O&R will
16 have to significantly expand its residential
17 programs.

18 2. In order to reach the savings targets, O&R will
19 have to realize substantially greater savings
20 from non-lighting measures and programs.

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1 3. In order to reach the savings targets, O&R will
2 have to increase marketing and outreach efforts.
3 Further, Staff's proposed cost to achieve for O&R
4 is significantly lower than both what Staff has
5 proposed for other utilities and what is being
6 achieved in all nearby jurisdictions with
7 similarly aggressive savings targets and
8 programs.

9 4. Staff's proposed budget is heavily impacted by
10 the Company's historical commercial and
11 industrial ("C&I") lighting spending which has
12 been capped at \$0.10/kWh, or \$100/MWh for the
13 last several years. Furthermore, over 80% of the
14 historical energy savings is attributed to lower-
15 cost lighting projects.

16 Q. Why will O&R need to expand its residential EE program
17 offerings?

18 A. The current ETIP electric portfolio has two programs
19 targeting the C&I sector and only one targeting the
20 residential sector. Further, the savings from the
21 residential program make up only 12% of the total ETIP

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1 electric savings, compared to 88% of the savings from
2 the C&I program. This savings distribution is out of
3 proportion to both O&R's sales to each sector, as well
4 as the portion of savings achieved in the residential
5 sector by other utilities that run aggressive
6 efficiency efforts. For example, according to the
7 Northeast Energy Efficiency Partnerships REED
8 Database, only 52% of 2016 net savings in ISO-New
9 England were achieved in the C&I sector. This is
10 clearly much more balanced than O&R's current
11 situation. By expanding our residential program
12 offerings, O&R will be able to achieve greater total
13 portfolio savings, as well as increase sector equity
14 by providing a better match between the portion of the
15 EE program funds that come from the residential sector
16 and the portion of the benefits received by that
17 sector.

18 Q. How will an expanded residential portfolio impact
19 O&R's cost to achieve savings?

20 A. The cost of EE in the residential sector is
21 significantly higher than the cost in the C&I sector.

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1 This is largely because of larger scale electric use
2 in C&I facilities. For example, one large industrial
3 facility may use the same amount of energy as
4 thousands of single family homes. For this reason,
5 administrative and marketing costs tend to be much
6 higher in the residential sector in order to engage
7 more customers. Furthermore, the Massachusetts
8 program's costs for 2016 consisted of 82% incentives
9 in the residential sector, but only 73% incentives in
10 the C&I sector. Incremental costs tend to decrease on
11 a unit savings basis as customer and measure size
12 increases. More specifically, the incremental cost of
13 a 10-ton efficient AC unit is significantly less than
14 10 times the incremental cost of an efficient 1-ton AC
15 unit. Finally, hours of operation tend to be much
16 lower in the residential sector. For example, the NY
17 Technical Reference Manual specifies the operating
18 hours for interior lighting in residential
19 applications as between 949 and 1,314 hours, for
20 upstate and downstate locations respectively. This is
21 far less than the 3,437 operating hours for a retail

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1 building, a value typical of most C&I facilities. The
2 result of this difference is that the same equipment
3 for the same cost will save three times more energy in
4 a C&I facility than in a residential home.

5 Q. How will upcoming changes in lighting standards
6 further impact the costs of residential efficiency?

7 A. Upcoming changes in federal lighting standards, if
8 adopted, will make LED lighting the baseline for
9 general service lighting beginning in 2020. This will
10 have an enormous impact on the foundations of
11 residential program delivery models, which often rely
12 on inexpensive lighting savings to subsidize the costs
13 of more expensive measures for an overall cost-
14 effective portfolio. The Company will need to make
15 foundational investments to build the infrastructure
16 to increase awareness, engage, administer, and deliver
17 to a far greater number of residential customers than
18 it has. In particular, these changes will result in
19 programs relying more on Home Performance with Energy
20 Star style programs, which tend to be among the most
21 expensive programs on a per unit of energy savings

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1 basis, even though they deliver more savings per
2 customer and higher non-energy benefits. In short,
3 changes in lighting code will drive residential EE
4 programs to move away from less expensive lighting
5 incentives towards a more holistic model that achieves
6 deeper savings, but at a greater cost. The greater
7 cost comes in terms of both marketing and outreach
8 required to achieve participation and building a solid
9 foundation of eligible contractors and trade allies,
10 but also in terms of promoting more measures that,
11 while still cost-effective, have a higher cost to
12 achieve and longer payback periods for the customer.
13 This is evidenced by the costs of Home Performance-
14 style programs in other jurisdictions. In
15 Massachusetts, the program costs \$0.90 per kWh, while
16 in Rhode Island it costs \$1.36 per kWh. Both are far
17 greater than Staff's overall mid-point target of
18 \$0.16/kWh.

19 Q. Please summarize the impact of increasing residential
20 sector savings on O&R's ultimate cost to achieve.

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- 1 A. In order to significantly increase EE savings to
2 achieve Staff's targets, if at all feasible, O&R will
3 have to increase the levels of residential sector
4 savings above the current and proposed expansion of
5 the residential portfolio savings. Due to inherent
6 features of the residential sector, in addition to
7 changes in federal lighting code that will severely
8 limit O&R's ability to promote lighting, historically
9 the least expensive and easiest measures to achieve,
10 increasing residential savings will necessitate
11 increasing the cost of efficiency above current
12 levels. If O&R is held to current cost targets, we
13 will not feasibly be able to expand residential
14 savings, which will in turn not allow us to meet the
15 aggressive targets that have been put in place for New
16 York.
- 17 Q. Moving on to O&R's current C&I programs, please
18 summarize the current composition of achieved savings.
- 19 A. The vast majority of current savings, *i.e.*, over 80%,
20 from the C&I sector come from lighting measures.

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1 Q. Are there specific features of lighting measures that
2 make them less expensive to achieve than other types
3 of measures?

4 A. Yes. Lighting measures are easy to understand, can
5 usually be implemented without any risk or disturbance
6 to core business functions, and typically have the
7 lowest paybacks for the customers. For these reasons,
8 we pay an incentive of just \$0.10 per kWh for lighting
9 projects, compared to \$0.29 per kWh for the remaining
10 electric portfolio. Furthermore, since lighting
11 projects are easier to understand and require little
12 disturbance, measurement, or study, they require less
13 marketing, outreach, and technical assistance than
14 other types of projects.

15 Q. Is this cost differential demonstrated in the achieved
16 C&I savings from other jurisdictions?

17 A. Yes, in Massachusetts, C&I lighting savings were
18 achieved for \$0.07 per kWh in 2016, compared to \$0.34
19 for the portfolio as a whole. In 2017, C&I lighting
20 savings were achieved at \$0.14 per kWh, compared to
21 \$0.34 for the portfolio as a whole. This lighting vs.

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1 non-lighting cost differential is representative of
2 most EE programs in most other jurisdictions.

3 Q. Is it feasible for O&R to meet Staff's proposed
4 targets by simply realizing more of the same kinds of
5 projects it has realized historically?

6 A. No. O&R has historically spent less than budgeted on
7 EE not because it is ending marketing efforts and
8 turning away potential customers once savings targets
9 have been met, but because there are not enough
10 projects being realized under current incentive levels
11 and marketing strategies. In order to achieve higher
12 savings, O&R will need to implement strategies to
13 achieve higher participation, particularly for non-
14 lighting projects. This will involve increasing
15 incentives, but also increasing spending on marketing
16 and outreach, forming deeper relationships with
17 contractors, trade allies, and other stakeholders,
18 deepening commitments and relationships between O&R's
19 EE department and our largest energy users, and
20 increasing technical assistance. We believe that these
21 activities will form a strong foundation for an EE

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1 portfolio that has much deeper roots and benefits than
2 the current program, but this will require higher \$
3 per MWh spending. If we do not increase our cost per
4 unit of savings, we cannot hope to achieve savings
5 from the deeper, more comprehensive projects that
6 would be required to meet Staff's proposed expanded
7 savings levels.

8 Q. How does Staff's proposed cost per kWh compare to the
9 costs proposed by other New York utilities?

10 A. The table below shows the cost of savings and savings
11 targets (as a % of sales) for O&R and National Grid.
12 As demonstrated, O&R is being asked to achieve a
13 higher level of savings at a much lower cost.

	O&R	National Grid
Minimum Run Rate (\$/MWh)	\$183	\$222
Max Target as % of Sales	1.48%	1.01%

14

15 Q. Is there any reason why O&R should be able to acquire
16 efficiency savings less expensively than other New
17 York utilities?

18 A. No. If anything, one may expect O&R to have higher
19 costs than the other utilities, as its proximity to

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1 New York City means that labor and material costs are
2 typically higher than other regions of New York State.
3 At the same time, the Company's service territory has
4 fewer very large users and lacks the high density of
5 development such as in New York City which tends to
6 allow for less expensive EE acquisition. Further, both
7 Orange and Rockland counties have a number of
8 demographic groups that are very hard to reach with
9 typical efficiency programs.

10 Q. How does Staff's proposed cost of savings, or run
11 rate, compare to nearby states with similarly
12 aggressive efficiency savings targets?

13 A. The table below shows the cost per kWh achieved in
14 Rhode Island, Massachusetts, and Connecticut from 2015
15 to 2017, along with the current proposed cost target
16 for 2020. In the past three years, these nearby states
17 were able to achieve their aggressive savings targets
18 at a median of \$0.34 per kWh. In 2020, in part due to
19 changes in lighting standards, current versions of
20 their efficiency plans call for new program offerings
21 in the range of \$0.54 - \$0.63 per kWh. The actual

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1 historical run rate for these three programs is more
2 than twice Staff's proposed target for O&R, and the
3 proposed future targets are between three and four
4 times higher than Staff's proposed midpoint target.

	2015 Achieved (\$/kWh)	2016 Achieved (\$/kWh)	2017 Achieved (\$/kWh)	2020 Plan (\$/kWh)
Massachusetts	\$0.38	\$0.34	\$0.34	\$0.56
Rhode Island	\$0.27	\$0.24	\$0.27	\$0.54
Connecticut	\$0.43	\$0.46	\$0.41	\$0.63

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6 Q. Is there any reason that O&R should be able to realize
7 efficiency savings less expensively than nearby states
8 with similarly aggressive targets?

9 A. No. There is no special attribute of O&R's service
10 territory that makes it 2-3 times less expensive to
11 achieve EE savings compared to its neighbors. While it
12 is possible to achieve 0.5% savings with costs around
13 \$0.16-\$0.18 per kWh, in order to increase savings to
14 1%-2% and beyond, it is necessary to spend more to
15 build a solid foundation and culture of efficiency
16 that allows deeper savings from a wider variety of
17 measures.

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1 Q. Please summarize your testimony on Staff's proposed
2 spending and savings targets.

3 A. While it may be possible for O&R to continue achieving
4 0.5% of sales per year at our current run rate,
5 expanding savings to 1% and beyond will require:

- 6 1. Increasing savings from the residential sector;
- 7 2. Expanding savings beyond lighting measures; and
- 8 3. Increasing spending on activities such as
9 technical assistance, customer support,
10 marketing, and outreach.

11 No other Northeastern program administrators achieve
12 over 1% of savings at run rates even close to what
13 Staff is proposing for O&R, nor is any other New York
14 utility expected to achieve these high targets at such
15 a low run rate. Staff has not provided any explanation
16 of how O&R may be able to increase savings by 158%
17 without modifying our measure mix or program
18 strategies, nor have they suggested any ideas for new
19 programs that could achieve significant savings at or
20 below their proposed run rates. In light of the above
21 evidence and significant new challenges faced by the

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1 EE industry from upcoming changes in federal lighting
2 standards, it will be a significant success if O&R can
3 achieve its original proposed 2021 targets of 37,393
4 MWh at a run rate of \$0.32 per kWh. Staff's proposed
5 efficiency levels and run rates are not feasible for
6 O&R, or any other program administrator.

7 Q. Is Staff's proposed increase in annual EE savings
8 between 2019 and 2021 likely to be achievable for
9 Orange and Rockland?

10 A. No. Increasing savings by this extremely aggressive
11 level is not possible without significant foundational
12 investments in O&R's internal capabilities to enable
13 such an aggressive program ramp-up. Administering an
14 EE portfolio to increase savings from the current 0.5%
15 of sales to 1.25% in 2019 would require O&R to
16 increase internal staff, particularly marketing,
17 customer account management, and technical
18 specialists. Hiring and training program staff is
19 often difficult to do quickly and Staff testimony has
20 already rejected the Company's proposal to increase
21 its staffing levels by just one FTE. Also, while some

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1 programs are easy to set up and implement, many rely
2 on coordination with specialized contractors and a
3 network of trade allies. Developing relationships and
4 vetting these market actors requires sustained
5 outreach over time. This is especially true for more
6 comprehensive programs that are designed to maximize
7 savings per customer rather than simply installing
8 prescriptive "one-to-one" replacement measures.
9 Lastly, achieving much higher savings would likely
10 require O&R to identify and implement innovative
11 programs, especially those targeted at hard-to-serve
12 customers. Developing cutting edge-programs and
13 identifying successful outreach strategies are often
14 iterative in nature and build on previous program
15 experience over time. In order to achieve the State's
16 aggressive energy efficiency goals, it is vital that
17 O&R has both the necessary human and financial
18 resources to deliver successfully.

19 Q. How quickly have EE program administrators typically
20 been able to ramp-up program savings?

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1 A. To inform emission reduction goals proposed in section
2 111(d) of the Clean Air Act (also referred to as the
3 Clean Power Plan), the U.S. Environmental Protection
4 Agency ("EPA") conducted an analysis of incremental EE
5 savings trajectories across the country.¹ Data
6 considered as part of the analysis included past
7 achievement of individual program administrators, as
8 well as policies set through state EE resource
9 standards ("EERS"). For individual program
10 administrators achieving savings of less than 1.5% of
11 annual retail sales, the EPA determined that the
12 average incremental annual savings improvement rate
13 was 0.3% per year. For program administrators
14 achieving savings greater than 1.5% of annual retail
15 sales, the average incremental annual savings
16 improvement rate was 0.38% per year. When considering
17 the ramp-up schedules set by states with existing

¹ U.S. Environmental Protection Agency Office of Air and Radiation, "GHG Abatement Measures." June 2014. Technical Support Document (TSD) for Carbon Pollution Guidelines for Existing Power Plants: Emission Guidelines for Greenhouse Gas Emissions from Existing Stationary Sources: Electric Utility Generating Units. Docket ID No. EPA-HQ-OAR-2013-0602.

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1 EERS, the average incremental annual savings
2 improvement rate was 0.21%.

3 Q. What has been the ramp-up rate experience of other
4 program administrators implementing EE programs in the
5 Northeast?

6 A. Similar the results of the EPA study, the table below
7 is the ramp-up rate experienced by the Mass Save
8 Program since 2010 with energy savings as a percentage
9 of retail sales. The largest year-over-year increase
10 of 0.4% was experienced after exceeding 2% of retail
11 sales, with an average increase of 0.3% after hitting
12 a ramp-up rate of 1.29%. These two studies
13 demonstrate that the increase in excess of the new
14 target proposed by Staff of 0.78% is not achievable.

2010	2011	2012	2013	2014	2015	2016	2017
1.29%	1.63%	1.99%	2.33%	2.76%	3.00%	3.21%	3.36%

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16 Q. What would be an appropriate rate at which O&R could
17 increase its efficiency program savings?

18 A. Based on the information just cited, a ramp-up as
19 proposed by the Company is appropriate since we are
20 starting at 0.5% of retail sales.

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1 Q. Does the Company agree with Staff's recommendation to
2 maintain the existing internal staffing levels?

3 A. No. In order to ramp-up programs and achieve the
4 aggressive goals, the Company will need to increase
5 existing staffing levels by at least one FTE as
6 originally proposed. With several new residential and
7 C&I initiatives, the existing staff is currently
8 engaged in meeting the goals of the current ETIP
9 portfolio which is also being expanded.

10 Q. What is the Staff Earnings and Adjustment Mechanisms
11 Panel ("SEAMP") proposing for the EUL requirements on
12 O&R's efficiency portfolio?

13 A. The SEAMP proposes that a precondition of O&R's
14 Earnings Mechanism for EE be that the Company maintain
15 our average portfolio EUL. This value is currently
16 13.2 years.

17 Q. What are the implications of this EUL requirement?

18 A. It means O&R would not be able to implement several
19 programs and measures that have EULs of less than 13
20 years, but that are cost-effective and promising
21 technologies. Examples include residential behavioral

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1 programs, retro-commissioning, and HVAC tune-ups. It
2 would also result in an extremely heavy administrative
3 burden. It could feasibly put the Company in a
4 situation where we would turn away customers
5 installing heat pump water heaters with measure lives
6 of 10 years until more customers install insulation
7 measures with measure lives of 30 years. This is
8 clearly not the way to implement a program that
9 produces a positive customer experience and encourages
10 significant program participation.

11 Q. How does Staff's proposed EUL requirement compare to
12 their proposed requirements for other NY utilities?

13 A. Under Staff's proposals, O&R is required to maintain
14 an average measure life of 13.2 years, while Central
15 Hudson and National Grid maintain 8.0 years and 6.8,
16 respectively.

17 Q. Why is O&R's required EUL higher than the required EUL
18 for other utilities?

19 A. Staff proposes requiring that utilities maintain their
20 current average EULs without any consideration for the
21 existing program offering differences among utilities,

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1 or the nature of the implication of the EUL
2 requirement on a portfolio of EE that needs to evolve
3 and grow substantially. Since O&R has previously
4 focused on and achieved the majority of its energy
5 savings from permanently installed measures with
6 longer measures lives and a high persistence of
7 savings, we are now being penalized and
8 inappropriately constrained to maintain that level
9 while embarking on a trajectory of rapid growth in our
10 energy efficiency efforts where we are seeking to
11 build and foster an energy efficiency marketplace
12 comprising of third party actors delivering an
13 increasingly diverse measure mix, which reaching a
14 larger population of customers. Other utilities have
15 implemented behavioral programs with an EUL of one
16 year during their EEPS and ETIP program
17 implementation, thereby significantly lowering their
18 historical portfolio average. O&R's historical
19 portfolio of 13.2 years does not contain behavioral
20 program offerings. This means that, under Staff's
21 proposal, O&R will not be able to implement similar

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1 behavioral programs, even though they have proven to
2 be a valuable complement to EE portfolios and have
3 been proven to be a successful customer engagement
4 tool across the country.

5 Q. Does Staff give a reason, other than status quo as of
6 2018, that O&R should not be able to implement
7 behavioral programs while other NY utilities can?

8 A. No, it does not.

9 Q. What is your proposal for EUL requirements for the
10 Company's earnings adjustment mechanism ("EAM")?

11 A. O&R strongly recommends that there be no EUL
12 preconditions for the Company's EAM. Such
13 preconditions would only serve to limit severely O&R's
14 ability to offer a balanced, innovative, and cost-
15 effective mix of EE programs and measures, create
16 undue administrative burden, and negatively impact our
17 ability to offer customers a seamless experience
18 offering a bundle of measures when interacting with
19 O&R's efficiency programs.

20 Q. Please explain Staff's proposal to increase the
21 residential gas EE portfolio targets and budgets.

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1 A. Staff has proposed to increase the gas EE portfolio
2 net ETIP goal of 14,691 Dth to 20,657 Dth, and
3 increase the budget of \$536,936 to \$705,279.

4 Q. Does the Company believe that Staff's increase in the
5 gas EE program target is achievable?

6 A. No. For the last two years, the gas EE portfolio has
7 been challenged to meet the 14,691 Dth goal with the
8 \$536,936 budget. In 2016, the portfolio achieved 63%
9 of the ETIP goal, while expending a majority of the
10 budget. In 2017, the program achieved 56% of the ETIP
11 goal, while expending 64% of the budget.

12 Q. Please explain the recent challenges experienced by
13 the program?

14 A. The recent Technical Resource Manual ("TRM") updates
15 that decreased the full load heating hours, in
16 conjunction with the increased federal baselines for
17 heating equipment, have significantly reduced the
18 savings achieved from high efficiency equipment. As
19 savings decline, the \$ per Dth cost increases. For
20 the 2016-2017 period, the \$ per Dth realized was \$49,

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1 compared to the Staff's calculated run rate of \$32 per
2 Dth.

3 Q. Are the run rates proposed by Staff applicable for the
4 current market conditions?

5 A. No. The goals proposed by Staff are not achievable
6 since the \$ per Dth prior to the TRM changes in 2016
7 are not an accurate representation of the cost to
8 obtain those savings.

9 Q. Please explain.

10 A. First, Staff's run rates calculations are not
11 representative of current market conditions and the
12 savings achieved by the program under the current TRM.
13 The same high efficiency boiler saves less Dth now
14 with the TRM changes than it did during the EEPS II
15 period, making run rates prior to the change
16 artificially low. Second, the Company's program
17 design provided low-cost low flow kits to participants
18 as a thank you gift in the EEPS II program period.
19 These low cost savings helped to further decrease cost
20 per Dth prior to 2016. In other words, the same level
21 of rebate dollars from the EEPS II period will not

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1 achieve the same level of Dth savings now. Third, the
2 current rebate levels that are no longer subsidized by
3 the federal tax credits have not spurred enough
4 participation to achieve the ETIP goal. Finally, the
5 gas commodity cost along with gas long run avoided
6 costs ("LRACs") have declined since the 2012 period,
7 and are forecast to remain at these lower levels. As
8 a result, the payback period for investing in high
9 efficiency equipment is much longer. The longer a
10 payback period, the less likely customers are to
11 participate because it takes longer for customers to
12 realize the value proposition of energy efficiency.
13 For these reasons, the current ETIP goals have not
14 been achieved under the current ETIP budgets, let
15 alone an increased goal with a lower \$ per Dth budget.

16 Q. What are the run rates for other utilities
17 implementing residential gas efficiency programs in
18 the northeast?

19 A. In 2016, Massachusetts spent \$83 per Dth and in 2017,
20 Rhode Island spent \$65 per Dth on residential gas

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1 programs, both significantly higher than Staff's run
2 rate of \$32 per Dth.

3 Q. What is the Company's proposal for the gas portfolio
4 and a gas EAM?

5 A. The Company proposes to use the current ETIP net goal
6 of 14,691 Dth and the current budget of \$536,946 as
7 the target calculation for the gas efficiency EAM
8 proposed by Staff.

9 Q. Is the current ETIP goal and budget appropriate for
10 setting the target for the gas EAM?

11 A. Yes. The Company has achieved 60% of the ETIP goal
12 while using 80% of the budget for the 2016-2017 ETIP
13 program period. Under current market conditions,
14 including the low gas commodity cost, declining gas
15 LRACs, and current TRM savings calculations, the
16 current ETIP goal will be challenging to achieve under
17 the existing budget.

18 Q. What does the Company propose for the minimum and
19 maximum targets for the gas efficiency EAM?

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1 A. The Company proposes 90% for the minimum target and
2 110% for the maximum target, or 13,222 and 16,160 net
3 Dth, respectively.

4 Q. What is EAM Staff proposing for the EUL requirements
5 on O&R's gas portfolio?

6 A. EAM Staff proposed a requirement that the gas
7 portfolio EUL be maintained at 11.0 years.

8 Q. Does the Company agree with this requirement?

9 A. No. Similar to the electric portfolio EUL discussion,
10 maintaining the 11.0 EUL is not possible and the
11 Company is being penalized for installing longer life
12 energy measures in its historical program. By
13 maintaining the 11.0 year EUL, the Company is
14 prohibited from offering customer engagement
15 behavioral programs that have proven successful across
16 New York State and the country or other measures with
17 EUL less than 11.0 years.

18 Q. What is your proposal for EUL requirements for the
19 EAM?

20 A. Similar to the electric EUL discussion, there should
21 be no EUL preconditions as they would severely limit

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1 O&R's ability to offer certain cost-effective measures
2 or new technologies that enter the market with less
3 than the 11.0 EUL requirement.

4 Q. Does this conclude your rebuttal and update testimony?

5 A. Yes, it does.