Comments on *New Efficiency: New York*
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CASE 18-M-0084 - In the Matter of a Comprehensive Energy Efficiency Initiative

1. Summary

The Alliance for Clean Energy New York ("ACE NY') and the Advanced Energy Economy Institute ("AEEI"), on behalf of our member or stakeholder companies engaged in energy efficiency activities, (collectively, "EE Organizations") submit these comments in response to the *New Efficiency: New York* White Paper ("EE Paper") issued by the Department of Public Service ("DPS") in April 2018. It its *Notice Announcing Technical Conferences* issued by the New York Public Service Commission ("PSC" or "Commission") on May 21, 2018, the Commission invited public comment on the EE Paper by July 16. The EE Organizations thank DPS and the New York Energy Research and Development Authority (NYSERDA), as well the Commission, for the opportunity to comment on the EE Paper and the future of energy efficiency ("EE") in New York.

The EE Organizations believe that the EE Paper provides a helpful policy framework and guidance to meet the Governor's April 2018 EE commitment and, more importantly, leverage EE as a resource to reduce the energy bills of New Yorkers and dramatically reduce carbon emissions and other pollutants.

The next step is to fully define the Utility-leveraged portion of Accelerated Actions and to direct and provide guidance to utilities on actions they should be implementing to ramp up their EE savings. We recognize that this is not simple, nor easy. Still, we strongly urge the Commission to act speedily to issue an EE framework order focused on the Utility-Leveraged Accelerated Actions by the end of 2018 that allocates a portion of the EE target to each utility and explains how cost recovery will work in the short-term. Further, we request that this Order, while maintaining flexibility for utilities, compel them to apply a methodology to value energy efficiency as a resource and commence regular competitive procurements of EE. In this way, progress towards

the necessary EE ramp up can commence, and EE providers can begin to invest in New York, even recognizing that further details regarding each utility's EE policies will be established in individual rate cases or subsequent REV orders in the later years of implementation.

There is much more EE potential than has been developed by NYSERDA and the utilities to date, but it can only be realized if there is a funding mechanism and price signal to invest in and capture that value. Directives from the Commission to utilities that increase their EE targets, plus provide clarity regarding cost recovery, will jumpstart EE. Below, these Comments outline the mechanism by which we believe the PSC can execute a market-based strategy, ensuring benefits for ratepayers and creating a large investment opportunity for utilities and competitive market actors.

The PSC must be bold and timely, because we simply do not have any more time to wait to leverage the sizeable EE opportunity and meet the Governor's goals for EE, renewable energy, and carbon reductions for 2025. We hope to play a constructive role in informing the EE policy and market mechanisms that will make New York an example for the rest of the country.

2. Introduction

The mission of ACE NY is to promote the use of clean, renewable electricity technologies and energy efficiency in New York State, in order to increase energy diversity and security, boost economic development, improve public health, and reduce air pollution. The mission of Advanced Energy Economy Institute (AEEI), the charitable and educational organization affiliated with Advanced Energy Economy (AEE), is to raise awareness of the public benefits and opportunities of advanced energy. Our stakeholder companies are engaged in the full range of energy efficiency services, from information technology, financing and data analysis as applied to building operations and management; to efficiency in heating, ventilation, and cooling; to retrofits of multifamily buildings, lighting, industrial processes, and commercial operation; to residential weatherization; to advising on energy efficient new construction to net zero or passive house standards. These companies contribute to the 110,000 energy efficiency jobs in New York

State[1]. Efficiency jobs comprise the majority of clean energy jobs in New York and the U.S. as a whole; among the 3.4 million advanced energy jobs in the U.S., approximately two-thirds are in energy efficiency.[2]

Both organizations support the Commission's pursuit of the Reforming the Energy Vision (REV), which seeks to unlock the value of advanced energy so as to meet important state policy objectives and empower customers to make informed choices on energy use, for their own benefit and to help meet these policy objectives. We also support and welcome the Governor's April 2018 commitment to a 185 TBtu fuel-neutral energy savings goal by 2025, as well as the sub-target of 30,000 GWh by 2025 in end use savings below the 2025 forecast.

The focus of these Comments is on the Utility-Leveraged Accelerated Actions portion of the EE Paper. While we do briefly comment, and generally support, the other components of the EE Paper, we focus on the utility-leveraged actions in the strong belief that they offer the most immediate and impactful potential for progress, and because this portion of the program appears to be the least defined in the EE Paper. Many other programs and approaches described in the White Paper are already underway, and we support their continuation. As acknowledged in the EE Paper, these ongoing and planned actions need to be augmented to accelerate EE achievement and produce the investment needed to realize the necessary EE potential.

3. General Comments

Our organizations support the set of principles including in the Executive Summary (page 3) of the EE Paper, especially those focused on leveraging utilities. We agree that New York needs to "*Engage utilities for greatest impact – harnessing their system knowledge, ability to drive energy*

[1] NYSERDA, 2017. New York Clean Energy Industry Report. file:///Users/AnneReynolds/Downloads/2017-clean-energy-industry-report%20(2).pdf

[2] AEEI, 2017. At More Than 3 Million Jobs, Advanced Energy is a Big and Growing Source of Employment. https://blog.aee.net/at-more-than-3-million-jobs-advanced-energy-is-a-big-and-growing-source-of-employment-in-the-us.

efficiency as a system resource, and potential to develop value from the energy efficiency they deliver." We support the statement in the EE Paper that there is an imperative for *"Accelerating and shifting the portfolio of utility energy efficiency programs, seeking more effective measures and program structures, greater leverage of public funds, and increased market-based energy efficiency. This includes the proposed development of a shared savings approach that provides greater opportunity and reward for utilities to advance energy efficiency as a business and a resource." (*EE Paper, Page 3).

Our organizations agree that New York State has a strong foundation for energy efficiency through the Clean Energy Fund (CEF) and the Reforming the Energy Vision policies, as articulated in Chapter 2, and we also agree that there is still significant market opportunity as described in Chapter 3. Regarding targets (Chapter 5), we strongly support the overarching target, and believe the sub-target for electricity is critical for success. We understand and concur that these targets should be and will be achieved through a variety of programs and policies, and a mix of mandates and incentives.

New Efficiency New York covers a variety of concepts and methods for driving EE in NYS. These are categorized and summarized in Figure 4 (Page 28) into Sustained Actions and Accelerated Actions. Our organizations have commented on the evolution of most, if not all, of the Sustained Actions in other proceedings, including the range of CEF programs and Energy Efficiency Transition Implementation Plans (ETIPs), the utility demonstration projects, the requirements for utilities to pursue non-wires and non-pipes alternatives, and the programs implemented by the Long Island Power Authority. As such, we focus here on Accelerated Actions, which will result from <u>new</u> policies and programs.

The Non-Utility Accelerated Actions include programs that are critical for learning and demonstration, as well as for the efficiency savings they will achieve. These include State lead-by-example programs; actions in NYS government buildings; New York Power Authority (NYPA) accelerated Southeast efforts; and Statewide benchmarking. This group of projects make sense

and are non-controversial, and we support them. The NYS product standards and Accelerated Stretch Codes are also positive changes that we would support. We hope to see progress on these statutory changes during New York's Legislative Session in 2019.

The largest portion of Accelerated Actions efficiency savings is the Utility-Leveraged EE Investment portion; this portion is also the least defined portion of the EE Paper. There are remaining important decision to be made in this area.

4. Utility-Leveraged Action to Drive Energy Efficiency

As mentioned above, Sections 5.1 and 5.2 of the EE White Paper are the most important with respect to speedy Commission action, because they are the bulk of the Accelerated Actions that will allow New York to achieve its newly stated EE goal. The other issues and initiatives are also important, but that they are already defined, and in most cases, already underway.

We support several of the particular recommendations of Section 5, including:

- Encouraging utilities to include efficiency via non-wires and non-pipes alternatives projects and reflected in DSIPs, particularly "NWA-like long term contracting models as a means of procuring energy efficiency"
- Recognition of grid value for efficiency compensation
- Promoting models that leverage third party capital
- Encouraging utilities and NYSERDA to launch Pay for Performance pilot in 2018
- Use data to reduce soft costs, particularly cost of acquisition
- Improving EAM metrics and providing EAM performance rewards that are appropriately sized so that they are high enough to motivate utilities to exceed baseline targets while also ensuring net benefits for customers over the long-term. These EAMs should further incentivize utilities to pursue EE via the competitive marketplace.
- Fuel-neutrality in efficiency program funding
- Increased efficiency activity for public utilities

EE Organizations support the statement in Section 5 that, "utility approaches in the future must do proportionately more" with portfolios that improve upon the status quo with respect to value, scale, measure mix, cost reduction, innovation, and leverage. The EE Paper does not go further to lay out the specific mechanisms which will be used to compel further utility action. The majority of the recommendations in section 5.2 are expressed as "encourage utilities to" take particular actions, such as "design innovative approaches," to "build on findings from energy efficiency experiments" and "launch P4P in 2018." **We respectfully request that the Commission work expeditiously to define the specific mechanisms by which the utilities will be required to take these actions in the near-term.**

We are particularly interested in the recommendation, "Encourage utilities to explore NWA-like long-term contracting models as a means of procuring energy efficiency – potentially in a shared savings model – in lieu of conventional capacity." We interpret this recommendation to mean that utilities could and should procure energy efficiency through a competitive annual procurement process, beyond occasional and specific NWA projects. This approach could deliver EE savings at a competitive price and provide some level of certainty and opportunity to the EE marketplace. Moreover, since we view these periodic EE procurements as separate and distinct from targeted NWAs or demand response programs, they would not be subject to the same types of performance requirements as targeted NWA solutions or demand response resources. Each utility could be required to assign a value to EE using a generalized and consistent valuation methodology as a base rate for EE, and include a locational value, which would presumably increase in constrained areas. Ratepayers and utilities could share the savings, defined as the difference between the price for delivering the EE and the value of the EE to ratepayers and the grid. We urge the Commission to require utilities to take this approach, which we describe in more detail below.

4.A. Valuing EE

In this section, we summarize our support for each utility being required to assign a value to EE, and we express our concerns with certain statements in the White Paper regarding EE value.

First, our organizations firmly believe that EE brings a variety of benefits to the electric system and to ratepayers. To inform and shape EE policies, these values should be estimated by each utility using a consistent methodology. We suggest that the Commission direct utilities to estimate and assign a value to energy efficiency using the approach delineated below:

- EE value is based on energy usage and demand reductions, avoided T&D, and carbon emissions avoidance relative to the marginal cost of the alternatives;
- Each utility is required to provide a territory-wide or geography-wide negawatt value ("Initial EE Value") based on the value attributes above;
- Initial EE Values should be determined based on BCA handbooks and/or previous EE filings (e.g. ETIPs);
- Utilities supplement this Initial EE Value with location-specific values for areas where there are additional opportunities to create value via EE (e.g. significant load growth);[3]
- Utilities can update the EE Value every year based on changes in market conditions, utility needs, and policy developments;
- Measured savings should be based on open and transparent methods for measurement and verification (M&V) that is available to all parties; and
- As M&V sophistication improves from smart meters and grid intelligence, utilities can create more granular EE values based on location, measures, and other attributes.

Given the values of EE as discussed above, our organizations would like to note our disagreement with the statement:

> *"For mass market residential and small commercial customers paying flat volumetric rates, energy efficiency reduces the customer's payment for fixed costs that do not vary*

[3] As noted above, the EE procurements would not be substitutes for targeted NWA solicitation or for DR programs, and eligible EE deployments would not be subject to the same performance requirements.

with load as well as for usage-related costs, such that the value of the efficiency project to the customer typically exceeds its value to the utility system" (page 42)

This part of the White Paper cites a 2016 E3 study, "Full Value Tariff Design and Retail Rate Choices" (page 72). The EE Paper reference, however, does not match up with the E3 study intent, which was to compare different rate options. The study does not provide an apples-to-apples comparison of non-embedded (i.e. variable short-term or long-term) bill cost reductions to current and forward-looking grid value, nor does it purport to.

Because the value of EE is central to this policy setting proceeding, we believe that the subject deserves more robust consideration and transparent analysis. Specifically, we recommend that NYSERDA and/or DPS hold a public meeting or technical conference on this subject with stakeholders and experts prior to issuing more specific guidance in an Order. Given the importance of this issue, we respectfully request that this meeting/conference be scheduled as soon as possible.

4.B. Funding and Implementing Accelerated Utility-Leveraged EE

A fundamental shortcoming of the EE Paper is the lack of clarity regarding a funding mechanism for the acceleration of utility-leveraged EE. This is a critical decision point for the Commission. **For utilities to ramp up EE achievement, there needs to be a clearly established policy setting out how utilities can recover prudently-incurred costs**. Beyond this cost recovery, we fully support the use of incentives for utilities to achieve EE, as well as incentives for utilities to achieve EE more cost-effectively over time. But these incentives need to be in addition to a baseline of cost recovery.

A clear cost-recovery policy should be paired with (1) an allocation of the 30,000 GWh target to each investor-owned utility, (2) timelines for each utility to ramp up and achieve their allocation, and (3) some direction on how each utility should achieve their allocation. We would support an approach that allows each utility the flexibility to plan and implement its own unique EE portfolio.

A portfolio would include, for example, non-wires and non-pipes alternatives; earnings adjustment mechanisms; and REV demonstration projects that utilities include in their DSIPs and System Energy Efficiency Plans (SEEPs). We also suggest that each utility's portfolio be directed to include EE valuation, annual EE procurement levels, and shared savings proposals. This particular portion of each utility's portfolio could include the following three elements:

1. Utility pass-through for EE procurement payments
2. Utility valuation of EE
3. Utility incentives for EE value creation

Element One: Utility Pass-Through for EE Procurement Payments

- Utilities procure EE from market actors via competitive processes (by sector) or by standard offers with competitively set prices;
- Utilities can pass these EE procurement payments ("EE Payments") through to customers via supply and distribution rates (i.e., not with separate EE surcharge). This mechanism would be established in a procurement contract between the EE provider and the utility, a 'savings purchase agreement' akin to a power purchase agreement in the renewables context;
- Utilities can only pass through EE Payments to customers if the payments are based on measured energy savings delivered by market actors. This mechanism would be established in a Savings Purchase Agreement between the EE provider and the utility.
- EE Payments related to energy usage reductions and carbon emissions reductions are passed through via supply rates, similar to how renewable energy procurement is handled (i.e., REC procurement by load-serving entities is included in supply charges);
- EE Payments related to avoided T&D, as established in the utility valuation of EE, are passed through via distribution rates;
- EE Payments can exceed the EE Value only to meet specific policy goals (e.g. to target EE at low-income customers, in environmental justice areas, or to demonstrate or create zero net energy buildings), as directed by the PSC. When the cost of achieving these types of supplemental policy goals can lead to selection of other than the least-cost resource, this should be established in advance via a description of the evaluation process that would be used in selecting competing bids.

- EE Payments would be based on what EE providers bid/offered to the utility. Evaluation of bids should take into account the lifetime savings/estimated useful life of the EE measures installed, among other factors.

Element Two: Utility Valuation of EE

- EE value is based on energy usage and demand reductions, avoided T&D, and carbon relative to the marginal cost of the alternatives;
- Each utility is required to provide a territory-wide or geography-wide negawatt value ("Initial EE Value") based on the value attributes above;
- Initial EE Values should be determined based on BCA handbooks and/or previous EE filings (e.g. ETIPs);
- Utilities can supplement this Initial EE Value with location-specific values for areas where there are additional opportunities to create value via EE (e.g. significant load growth);
- Utilities can update the EE Value every year based on changes in market conditions, utility needs, and policy developments;
- Measured savings should be based on open and transparent methods or open source code that is available to all parties; and
- As M&V sophistication improves from smart meters and grid intelligence, utilities can create more granular EE values based on location, measures, and other attributes.

Element Three: Utility Incentives for EE Value Creation

- Utilities should share in the EE Value Creation;
- "EE Value Creation" is defined by the EE Value minus EE Payments to market actors. For example, if 1 MWh of electricity savings creates $100 of EE Value, and market actors (via a competitive procurement process) can deliver 1 MWh for $60, then the EE Value Creation is $40;
- The PSC should choose the percentage of "EE Value Creation" retained by ratepayers vs. utilities;
- The percentage of EE Value Creation retained by utilities should be enough for the incentives to be motivating to the utility;
- These utility incentives can be integrated into the existing EAM framework or created as a separate mechanism; and

- Regardless, incentives related to EE Value Creation will ensure that utilities are motivated to procure as much EE as possible at the lowest possible cost.

5. Non-Utility Activities

Chapters 6 – 10 of the EE Paper summarize a variety of non-utility leveraged actions. These include market-enabling actions, many which will be funded by the CEF; deep energy retrofits and decarbonizing heating and cooling; energy affordability for low-to-moderate income New Yorkers; and state product and appliance standards and building codes.

As summarized above in our General Comments, our organizations are supportive of these actions and recognize their value in an overall statewide portfolio of EE policies and programs. Chapters 6 – 10 appear to cover both Sustained Actions and Accelerated Actions. Again, we support both and look forward to legislative action where it is needed for codes and standards.

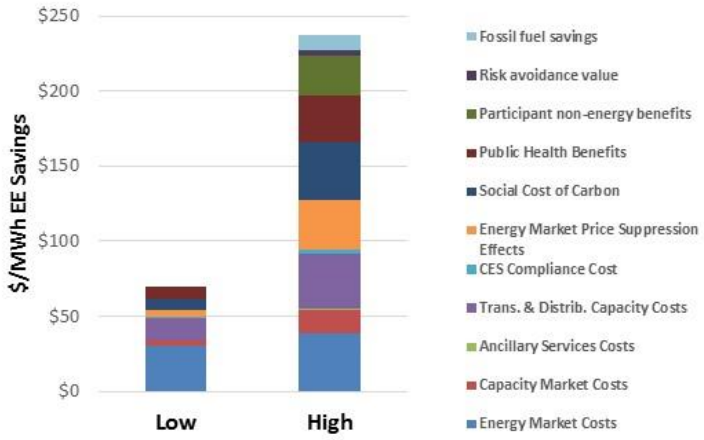
With respect to Chapter 6, Market Enabling Actions, we would like to specifically state our support for:

- Expediting third-party access to data, both in terms of anonymized data sets as well as customer-authorized data via Green Button Connect and similar protocols;
- Expediting the identification and sharing of locational data to make it easier for market actors to identify areas that create the most system benefits;
- Development of machine readable rate tariffs;
- Deployment of advanced M&V tools;
- Alignment of efficiency payments with utility system and environmental value;
- Utility compensation for efficiency based on approximate values in the short term;
- Increase NY Green Bank's role in supporting energy efficiency, including in supporting P4P and tenant improvement finance;
- Promotion of statewide residential PACE financing, assuming appropriate consumer protection provisions are included;

- Statutory changes to enable third party capital to leverage the utility billing mechanism;
- Forming or managing Opportunity Funds that enable private capital to investment in clean energy in low-income areas;
- Adjusting utility allowances based on efficiency upgrades and/or actual energy usage;
- Legislation that would mandate energy benchmarking for private buildings; and
- Increasing funding for workforce development.

Similar to Chapter 5, we note the lack of specificity in the recommendations that require mandates, funding, or investment. While promotion and encouragement are necessary prerequisites for success, they are not sufficient. A much firmer set of recommendations and action plans, including a funding mechanism, is necessary.

Furthermore, we reiterate our disagreement to the statement in Section 6.3 of the EE paper that states the "*value of the efficiency project to the customer typically exceeds its value to the utility system.*" This section sends the wrong signal to the market and defines "value" in such a manner that would prevent adequate investment. We note that other analyses, including a study done for NRDC by Synapse Energy Economics, Inc., conclude that there is a range of grid system and societal benefits of energy efficiency, as shown in the table below[4].



[4] March 19, 2018. Synapse Energy Economics, Inc. *Value of Energy Efficiency in New York, Assessment of the Range of Benefits of Energy Efficiency Programs.* Figure 13, page 28.

6. Next Steps

ACE NY, AEEI, and our stakeholder energy efficiency companies recognize the intensity of effort by NYSERDA and DPS staff to develop and publish *New Efficiency: New York* this past Spring, as well as to clearly and comprehensively present all of the information included in the EE Paper at the two technical conferences held in June. We appreciate this hard work and the level of attention provided to EE by both agencies, and the clear recognition of the key role of EE in achieving New York's ambitious decarbonization, renewable energy, and affordability goals.

This recent level of effort was built on the discourse that has been occurring throughout the REV process – broadly defined – regarding EE over the last four years, especially in the Clean Energy Advisory Council (CEAC) process, which examined EE topics in great detail.

Given this high level of discourse and public participation over the last four years, the Commission could pursue a "no regrets" Order in the short term – by the end of the calendar year -- that specifies the extent to which each utility will be required to ramp up energy efficiency targets each year to reach the 3% by 2025 target. This directive could cover, for example, the next 1 – 3 years, recognizing that more decisions with respect to EE will be made in rate cases or subsequent state-wide orders over time.

This Order, which we are respectfully requesting be issued in 2018, must also be clear about the utilities ability to have cost recovery for prudent EE-related expenditures.

Thirdly, the Order should establish the framework for utility-leveraged accelerated action which includes the elements described above in section 3 of these Comments and should direct the utilities to design competitive EE procurements as early as January 2019.

We also suggest that the Order include deadlines for utility compliance filings and the ability for utilities to continue to do REV Demonstration Projects, although not as a replacement for procurements to meet new targets as we have described.

In order to issue an EE framework Order by the end of 2018, the PSC Order on ETIPs issued on March 15, 2018 (Case 15-M-0252, *Order Authorizing Utility-Administered Energy Efficiency Portfolio Budgets and Targets for 2019-2020)* could be used as the existing vehicle for expedited action, since it requires the utilities, in consultation with DPS Staff, to transition from surcharge-based programs to program cost recovery via the rate base. By establishing a new System Energy Efficiency Plan (SEEP) structure, the Commission has created a framework for increased energy efficiency initiatives, along with many important adjustments, such as reconsideration of BCA, data aggregation standards, uniform reporting requirements, etc. Staff could also rely on extensive documentation in the REV docket regarding DSIPs, ETIPs, and the final reports of the CEAC Work Groups. The proposal could also draw from the Value of DER proceeding, including the fact that VDER did not address energy efficiency. In short, there is considerable and detailed information in the record regarding EE policy, and we encourage the Commission to rely on this documentation to take timely and decisive action.

ACE NY, AEEI, and our stakeholder EE companies sincerely appreciate the opportunity to comment on *New Efficiency: New York.*