NAESCO National Association of Energy Service Companies

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June 20, 2008

Jaclyn A. Brilling
Secretary
New York Department of Public Service
3 Empire State Plaza
Albany, NY 12203

Re: Case 07-M-0548

Dear Secretary Brilling:

The National Association of Energy Service Companies (NAESCO) appreciates the opportunity to provide comments to the New York Public Service Commission (Commission) on the issue of utility incentives, in response to the Commission's "NOTICE SOLICITING COMMENTS," (NOTICE) dated May 30, 2008.

NAESCO's current membership of about 70 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, NORESCO, Onsite Energy, EnergySolve Companies, Ameresco, UCONS, Chevron Energy Solutions, Synergy Companies, Wendel Energy Services, and WESCO. NAESCO member companies have delivered energy efficiency projects to New York institutional, government, industrial, commercial and residential customers for over twenty years and have delivered demand response, retail commodity energy supply including green power products, and renewables since the transition in the New York market to retail competition in the late 1990s.

NAESCO currently serves on the New York System Benefits Charge Advisory Group, the Program Advisory Groups for the California utility energy efficiency programs, the Energy Efficiency Task Force of the Western Governors Alliance, and the Leadership Group of the National Action Plan for Energy Efficiency. This experience gives us a basis for making some suggestions about appropriate structures for utility incentives for administering energy efficiency programs.

NAESCO fully supports utility rate structures that allow utilities that administer energy efficiency programs to recover the full costs of cost-effective program portfolios plus a reasonable incentive calculated as a percentage of the net benefits delivered to ratepayers.

In reviewing the three documents referenced in the Commission's NOTICE, we believe that the California Public Utilities Commission Decision 07-09-043 captures the two essential principles of formulating appropriate utility incentives: 1) utility incentives should be a percentage of net benefits; and, 2) the percentage of net benefits paid as an incentive should be modest (9-12%).

The other two documents, the Commission Staff's Revised Proposal of November 27, 2007 and the Staff's Initial Brief filed on April 10, 2008, recommend an appropriate level of incentives, but the methodology the Staff used to develop the incentives is not as clear or as transparent as a percentage of net benefits.

Unfortunately, the California Decision also mandates a complex process for determining net benefits, which NAESCO believes is not appropriate for New York. NAESCO understands that the Commission, at its June 19, 2008 meeting, announced the formation of an advisory group that will make recommendations on appropriate methods of verifying the energy savings produced by NYSERDA and utility-administered programs. NAESCO suggests that it would be a modest extension of this advisory group's charge to develop an appropriate method for quantifying net program benefits.

NAESCO therefore respectfully suggests that the Commission base its regulations regarding utility incentives on the California model of a modest percentage of net benefits, with net benefits calculated in a process that is appropriate for New York.

Respectfully submitted by,

Donald Gilligan /s/

Donald D. Gilligan
President