Conservation Services Group

Proceeding on Motion of the Commission Regarding an Energy Efficiency Portfolio Standard - Comments on the EPS Administration Consensus Recommendation	CASE 07-M-0548 January 25, 2008

Hon. Eleanor Stein
Hon. Rudy Stegemoeller
Administrative Law Judges
State of New York
Public Service Commission
Empire State Plaza
Agency Building 3
Albany, NY 12223

Re: Conservation Services Group's Comments in Response to the January 11, 2008 EPS Administration Consensus Recommendation

Dear Honorable Judges Stein and Stegemoeller:

CSG is an active participant in the EPS Proceeding as a program implementation contractor in NY, as well as in eight other states (MA, RI, NH, NJ, CA, MO, IA, OR). As a result, we have experience with many program-delivery models. This includes a full range of utility administration, state authority administration, special purpose entities, and regulatory authorities. CSG delivers programs for NYSERDA, LIPA, and several utilities, so we believe we could work within any effective system. Given our wide experience, we have the following concerns about the so-called Partnership Proposal for regional management of energy efficiency programs in New York:

1) The structure recommended is best suited to New York City and will be more difficult to operate in other parts of the state. New York City has a natural leader in the City

government and only two utilities operating in the territory. Long Island is similarly simple in administration, even though it has two counties and some 13 independent municipal governments; the unifying factor there is the Long Island Power Authority--and, to a lesser extent, NGrid/KeySpan. The rest of New York State has many county governments, many cities and towns, and seven different private utilities, in many cases with intertwined territories and no natural political or utility service delivery center. So a system of regional administration that could work in New York City, with the City government acting as lead, may result in paralysis in other parts of the state where there is no “natural” lead entity, except the state government itself or the state agency that oversees SBC funds – NYSERDA. If the commission adopts the Partnership Proposal, we recommend three territories: New York City, chaired by the City government; Long Island, chaired by LIPA; and the balance of the state chaired by NYSERDA, each with appropriate regulatory mandate.

2) The division between market transformation programs (assigned to NYSERDA) and customer-delivery programs (assigned to the utilities) is artificial. The market transformation programs depend on influencing end-use customers. For example: Stores will not stock ENERGY STAR® appliances (market transformation) unless customers are encouraged to buy ENERGY STAR appliances (end- use customer program). Contractors will not use certified technicians or submit to outside quality-assurance procedures (market transformation) unless customer incentives are tied to the use of qualified technicians and QC systems, and so on. Conversely, end-use customer programs have to drive customers to the transformed markets. Market transformation programs create the supply of energy-efficiency products and services, and end-use customer programs create

the demand for those services. The two must work closely together, agreeing on standards and timing to succeed. That implies some mixture of both dimensions: NYSERDA continues to run end-use customer programs and/or requires tight coordination between the NYSERDA market transformation programs and the utility end-use customer programs. Utilities, in turn, would be required to promote ENERGY STAR or higher- level appliances, link insulation and heating system rebates to the Home Performance contractor network, and promote the high technical standards established by the NYSERDA program.

3) The utilities have been out of the energy-efficiency program business for nearly a decade, and their internal systems for delivering these programs have atrophied. That does not mean that the systems cannot be rebuilt. But any plan for utility-run delivery must take this into account and allow for both a (re) learning curve and a ramp-up. Some utilities have maintained internal management capability, some have not. Some have access to internal expertise from other states, but some do not. So the ramp-up and learning curves will vary from company to company. Plans should allow for the ramp-up and should shorten the learning curve by tapping into the experience of programs with successful track records.

4) The adoption of a set of proven core programs will go a long way toward avoiding confusion where there are multiple administrators and program designs. While it is desirable to create some room for flexibility and experimentation, it is also important to reduce market confusion among a plethora of programs and at the borders between utilities – which often run through towns and down the middle of streets. A core program approach should also mandate cooperation between overlapping gas and electric

companies which might otherwise offer competing incentives. Such incentives can be at cross-purposes, driving the price of energy efficiency up as program administrators bid against each other for the same customers.

5) Unfortunately, the easiest programs to adopt (rebates for purchases of equipment, giveaways of low cost items) have the worst record of lasting and deep impact. They tend to be low cost to administer, have high percentages of free riders, and yield disappointing results from a market transformation perspective. Complex programs – central air conditioning optimization or early retirement (LIPA Cool Homes), building shell and mechanical retrofit, efficient new building programs, commercial refrigeration optimization, lighting replacement with automatic controls to take advantage of daylight – have proven to be long-lasting, high-impact winners when implemented properly by experienced program managers (utility or public). As utilities get back into the energy efficiency delivery business, they will tend to offer programs that are administratively simple (a good thing) but with a poor track record of impact, which may stall efforts to achieve the 15 x 15 goal. Again, this argues for a ramp-up, a continued strong role for the central NYSERDA programs, and a common core of programs that all utilities deliver which are directly linked to and supportive of the NYSERDA programs.

6) Utilities also face a contradiction between their long-developed culture of increasing sales and their renewed role in energy efficiency. The regulatory change of decoupling does not erase overnight 100 years of orientation towards encouraging volume sales. In our experience in a variety of states, a regulatory climate that rewards utility conservation programs is necessary but not sufficient for utility program success. New York's Decoupling ruling certainly creates the basic regulatory framework for utility

involvement in energy efficiency. Management focus on the development of internal rewards and recognition for utility conservation program managers, re-creation of the evaluation systems, and depth of management experience in overseeing and designing these programs all reinforce the need for ramp-up, and common frameworks for a core of programs, as well as some procedures for sharing the evolving experience among the utilities and between the utilities and any other entities managing programs. CSG believes that an open-bidding process for program delivery using the well-established infrastructure will help shorten the learning curve and ensure high-quality program design, delivery, and evaluation.

7) Finally, all programs have to operate under the same rules for measuring and evaluating energy savings. Otherwise it will be difficult to compare results across service territories. That strongly argues for a central authority for measure standards and M&V. We recommend that NYSERDA, which has expertise in evaluation, be charged with organizing the common M&V platform.

CSG looks forward to working with all parties to find the best path for expansion of New York's energy efficiency initiatives and reaching the Governor's 15 x 15 goal.

Sincerely,

Stephen L. Cowell
Chief Executive Officer

Mark R. Dyen
Senior Vice President