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October 9, 2018
Via Electronic Filing

Hon. Kathleen Burgess
Secretary to the Commission
New York State Public Service Commission
Empire State Plaza
Agency Building 3
Albany, NY 12223 - 1350

Re: Case 18-M-0084

Dear Secretary Burgess,

The Alliance for Clean Energy New York and Advanced Energy Economy Institute respectfully submit these comments on the *New Efficiency: New York White Paper* in response to the notice for public comment in the New York State Register published on August 8, 2018.

Respectfully submitted,

Anne Reynolds
Executive Director

CASE 18-M-0084 - In the Matter of a Comprehensive Energy Efficiency Initiative

Comments on SAPA Notice of August 8, 218 Re: New Efficiency: New York
Submitted by: the Alliance for Clean Energy New York and
Advanced Energy Economy Institute
October 9, 2018

Introduction

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 SAPA Notice *I.D. No. PSC-32-18-00013-P,* regarding *Energy Efficiency Programs and Targets for Investor-Owned Utilities.*

The EE Organizations thank the Public Service Commission ("PSC"), the Department of Public Service ("DPS"), and the New York State Research and Development Authority ("NYSERDA") for leading a series of forums ("EE Forums") and conversations to further expand on the concepts outlined in the *New Efficiency: New York* White Paper ("EE Paper").

These comments attempt to answer some of the questions posed in the SAPA notice cited above, as well as address many of the issues raised in the EE Paper and EE Forums -- all with the ultimate goal of supporting New York's ambitious energy efficiency ("EE") vision. We are also attaching here comments previously submitted in July in response to the EE Paper, which we believe continue to be relevant to the ongoing inquiries.

Specifically, we focus on the following areas:

1. Urgent need for immediate action and some paths forward, including allocation of targets
2. Establishment of a modern and robust EE value framework, including portfolio mix criteria
3. Support for time and location-specific incentives (as part of the portfolio mix)
4. Utility-leveraged actions that maximize value while protecting ratepayers (EAMs/shared savings)

The bottom line is that New York has a viable path to meet and exceed Governor Cuomo's EE goals, but only if immediate action is taken, EE is valued properly, and utilities are appropriately incentivized.

Without such actions, the EE Organizations believe it is highly unlikely that Governor Cuomo's goals will be met. This judgement is based on years of experience in the EE market in a variety of sectors and contexts.

We look forward to continued dialogue to further our mutual goals to advance New York's EE economy, create jobs, meet clean energy and greenhouse gas goals, and reduce costs to customers.

Immediate Actions

With only 6 years to achieve its ambitious EE goals of 3% annual reduction in energy consumption by 2025, New York has no time to waste. Current levels of EE achievement are low compared to neighboring states, as New York has grappled with its evolving policies over the past four years. To meet the Governor's goals, Synapse Energy Economics estimates that New York will have to double EE activities -- a steep ramp up in a short time period.[1] Acadia Center calls the gap between the proposed target and current levels 'severe,' requiring immediate and sustained action' to bridge it. Further, EE business investment decisions and workforce preparation depend largely on certainty and stability, and there is danger of eroding New York's strong contractor network if policy decisions stall much longer.

It may be tempting to resolve the many issues of utility targets, funding, and performance incentives in the context of utility rate cases, in which parties are compelled to achieve compromise and hammer out an acceptable plan. But that would again postpone action, rely too heavily on specific utility circumstances and needs, and miss the opportunity to craft a statewide policy approach. Rather, the PSC needs to set interim, year-over-year annual utility efficiency savings targets and funding, starting in 2019, to reach the 2025 goal -- before the rate case cycles begin anew.

[1] See slides 20-21, Synapse afternoon presentation at the Value of EE Stakeholder Forum, Sept. 14, Albany, NY

Allocation of targets

The EE organizations believe that at least 50% of the entire energy efficiency goal of 185 TBtu should be allocated to the investor-owned utilities collectively. We agree that the entire target will be met by a variety of means, in addition to investor-owned utility programs, such as new codes and standards, new appliance standards in law, and actions by NYPA and LIPA. We also note that several of these interventions, particularly the need to pass state legislation to enact new appliance efficiency standards, are not under the sole control of the Administration and therefore need to be discounted in terms of likely outcomes. These actions also take time, which would put the goals yet further out of reach. Thus, we strongly believe that the allocation to investor-owned utilities should be increased to enhance the likelihood that New York will meet the 185 TBtu goal. Our recommendation is that 92.5 TBtu be allocated to investor-owned utilities, which is half of the overall goal.

We acknowledge that there are many factors to consider in allocating this 92.5 TBtu level to investor-owned utilities, including the relative fraction of a utility's load in each customer class; historical achievement of efficiency savings by different utilities; and geographic and demographic differences, residential vs. industrial differences, etc. We suggest that even while considering these important factors, the allocation method should be as simple and straightforward as possible. Without being too prescriptive here, we could see such options as:

- Allocating simply by proportional load of each utility
- A formula incorporating utilities' ETIP, NWA, and REV demo achievements to date, to differentiate among the utilities' levels of effort;
- A formula to reflect the share of energy savings by sector (e.g., residential vs. commercial/industrial) proportional to a utility territory's composition.

Portfolio Mix Criteria: Establish a modern and robust EE value framework

Moving to a new framework for valuing EE is an urgent priority that will lead to the action recommended above. At the moment, analysis put forward by NYSERDA and DPS staff about an EE value framework conflicts with analysis done by stakeholders and other industry experts; in our view, if implemented, that approach will likely lead to failure to meet the Governor's goals.

That analysis has determined, in short, that most customer EE is already "sufficiently compensated" via customer bill savings. In the view of the EE organizations, this approach implies that new utility investment levels aren't needed or appropriate, and the status quo would suffice, a position clearly at odds with our proposals for increased investment and urgent action. Further, we posit that customer bill savings and customer costs are not relevant to system value but, rather, are related to issues of program design and rate design. These distinctions were discussed at some length in the Sept. 14 Value of EE Stakeholder Forum.

In contrast, we propose that value should include all benefits, with "net value" defined as value minus program costs (utility administrative costs, customer incentives, market participant incentives, etc.) to generate energy savings. We outlined a proposal for utility valuation of EE in past documents, including comments filed in July in response to the EE Paper. Those comments are attached here as an addendum.

To summarize, the EE Organizations define EE Value in the following manner:

"EE Value is the value to ratepayers and society from incremental EE driven by utility-leveraged actions. EE Value includes utility grid value that impacts all ratepayers (e.g. lower future T&D costs) as well as societal externalities (e.g. carbon) valued by the state and the PSC."

In other words, EE Value is the marginal benefit driven by utilities. "But for" the utility intervention, the EE Value benefits would not have been achieved.

EE Value is therefore analogous to the "shared savings" calculation used or proposed by utilities for NWAs and NPSs when calculating utility incentives. In the NWA / NPS construct, utilities identify the relevant benefits and costs for each technology / approach and then define the Net Value by subtracting discounted costs from discounted benefits.

EE Value is distinct from "compensation," which is generally related to customer bill impacts. While customer bill impacts are important, they are ultimately an issue for rate design and program design. Whether a customer saves money on his/her energy bills today is not necessarily relevant to future utility costs, especially with New York's decoupling paradigm. And while energy bill savings and rate design may drive additional EE, we define EE Value squarely

in terms of utility-leveraged actions above the baseline provided by existing customer energy price signals.

While not an issue addressed in the current inquiry, the Benefit Cost Analysis framework (BCA) is closely related to the valuation of EE, and we see a need for review and reform of the BCA. We would encourage the PSC to clarify a number of aspects of the BCA Framework, including treatment of participant costs, which in our view are not ratepayer costs but conversely represent non-energy benefits valued by each customer; application of symmetry in accounting for all costs and benefits so that costs don't unfairly outweigh benefits and thus skew results; and reconsideration of wholesale price suppression effects, which are currently excluded as a cost 'transfer' but in our view should be counted as ratepayer value creation. The National Standard Practice Manual[2] offers important principles for robust and equitable cost-benefit analysis that could contribute to the ongoing EE valuation process in New York.

The EE Organizations believe that EE Value should include the following benefit categories at a minimum based on the National Standard Practice Manual, as presented by Synapse at the Sept. 14 EE Value Forum[3]:

- Avoided Energy Costs
- Avoided Generating Capacity Costs
- Avoided T&D Upgrade Costs
- Avoided T&D Line Losses
- Avoided Ancillary Services
- Wholesale Price Suppression Effects
- Avoided O&M
- Avoided net restoration costs
- Avoided Environmental Compliance Costs (e.g., RGGI)
- Avoided RPS (or CES) Compliance Costs
- Avoided Credit and Collection Costs
- Reduced Risk

[2] https://nationalefficiencyscreening.org/national-standard-practice-manual/

[3] See slide 6, Utility System Benefits, Synapse presentation, Value of EE Stakeholder Forum, Sept. 14, Albany, NY

Portfolio Mix Criteria: Support for time and location-specific incentives

The EE organizations are fully supportive of the “adder” and “kicker” concepts outlined by NYSERDA and the DPS in the Sept. 14 Forum. A base value of EE would be established using utility Marginal Cost of Service Studies plus the value of carbon and other externalities, and utilities would identify specific areas where deferred capital investment or avoided costs via EE would provide ‘‘added’ value. New York’s non-wires alternative (NWA)/non-pipes solutions (NPS) projects help set precedents for these locational benefits, and the concept can be expanded to cover wider areas and longer time frames to capture ‘extra’ benefit from EE projects. Adders can become more granular over time as utilities develop more location-specific cost estimates on their system and smart meters and/or other types of grid intelligence are implemented.

Recognizing the temporal and locational value of energy and capacity on a utility’s distribution network has been a primary goal of the REV and value of DER proceedings. Our energy efficiency procurement methodology is able to incorporate these values and further the development of EE measures that support time- and location-based needs of the grid. To build off of the effort made in the Value of DER proceeding, we recommend adopting a similar time and location method here. Energy and capacity components within the value of energy efficiency would vary to reflect time and location. A single valuation methodology would be developed for a utility territory. At a minimum, efficiency provides carbon reduction value. The value of EE would be modified to reflect locational costs and needs associated with capacity-constrained areas of the grid.

The energy component could be based on the value of reductions in kWh consumption during blocks of time within a day, reflecting typical energy prices within those time blocks. The capacity portion would reflect the value of demand reductions coincident with a utility system’s peak. Thus, the energy and capacity values of a particular measure would be based on the measure’s expected reductions in energy consumption during those time blocks and the measure’s contribution to reducing demand coincident with system peak.

The ‘adder’ would come into play in areas with capacity constraints; instead of using the distribution system peak, the capacity value would be based on reductions coincident with the local distribution peak in the constrained area. The value would be augmented with an adder

that reflects the avoided costs associated with a utility upgrade that would otherwise be required.

Initial capacity values would be based on utility Marginal Cost of Service Studies, with specific locations receiving an administratively-established higher value to reflect the avoided costs of potential utility upgrades. As noted above, over time, utilities will be able to increase the granularity of location-specific needs and costs, which would be reflected in more accurate location-specific adders.

EAMs: Utility-leveraged actions that maximize value while protecting ratepayers

The EE Organizations believe that all of the goals related to Portfolio Mix Criteria and EAMs, as highlighted in the current inquiry, can be addressed by setting clear and transparent guidelines for defining EE Value and then creating a simple “shared savings” mechanism to share that value between ratepayers and utilities.

Per above, the EE Organizations believe that EE Value should be broken into the following components to meet the desired Portfolio Mix Criteria:

- “Base” level of value to recognize universal value streams (e.g. carbon)
- Locational adders to recognize the enhanced value of EE in certain geographies
- Measure adders to recognize the enhanced value of EE for technologies / approaches that have high temporal value (i.e. high peak coincidence)
- Other adders to meet important policy goals (e.g. 20%+ low- to moderate income mix)

The PSC should direct the utilities to define these values based on the best information available, as well as PSC guidance. The EE Values should initially prioritize simplicity, increasing accuracy levels over time as the market adapts to more sophisticated price signals, as noted above.

The EE Organizations acknowledge that the avoided costs / savings from EE may not be as specific and immediate as the avoided costs / savings from a NWA or NPS project. This less precise application does not mean that EE lacks value, however, and the PSC should

acknowledge the lack of exactitude while recognizing the long-term ratepayer and societal value from EE.

Once the EE Values are set, utilities can procure EE up to those values. The “cost” is the all-in procurement cost related to program administration, marketing, and incentives. Per above, the EE Organizations do not believe the cost category should not include participant costs; these costs represent non-energy benefits (comfort, productivity, etc.) and are not socialized across the rate base. In addition, participant costs represent investment of private capital, an explicit Commission goal; counting participant costs against EE Value would be counterproductive towards this goal.

The EE Organizations believe that the Commission should create a “shared savings” model similar to the NWA / NPS framework whereby utilities keep a portion of the Net EE Value, defined as the difference between Gross EE Value and the EE procurement cost (utility costs, incentives, etc.).

Shared savings provides utilities with an incentive to meet key Commission goals:

- Drive EE as cost-effectively as possible to increase Net EE Value per project
- Drive EE scale to increase the total volume of Net EE Value
- Encourage innovation by rewarding approaches that reduce costs and/or increase scale

Operating with flexibility within their unique territories, utilities will work with program implementers and market participants to drive more EE, incentivized to procure as much EE at the lowest possible cost. Therefore, the EE Value will most likely not be the size of the incentive or program cost, but rather serves as a cap that guarantees value to ratepayers and society.

By defining and rewarding EE Value, the following Portfolio Mix Criteria goals will be achieved:

Portfolio Mix Criteria	EE Value Impact
Identify and appropriately compensate for energy efficiency that provides heightened locational and temporal value	● Locational and other "adders" integrated into EE Value calculations ● Simple at first, with increasing accuracy / sophistication over time
Help achieve scale and growth of energy efficiency markets	● Provides strong incentive for utility to drive additional EE via cost-effective market approaches (e.g. Marketplaces)
Enable innovative utility and third party business models that leverage partnerships, data and information, contracting mechanisms, new cost and benefit sharing models, or other approaches that demonstrate potential for reducing the costs of achieving energy savings	● Provides strong incentive for utility to drive additional EE via innovative business models and partnerships ● Private market can provide clear value proposition to utilities based on EE Value (e.g. if utility shares X amount of data, market actor Y can drive $Z worth of value)
Employ business and finance models that increasingly leverage public and private dollars with multiples of private dollars	● Utilities will be incentivized to leverage private capital wherever possible to drive greater scale at the lowest possible utility cost
Includes a minimum allocation of 20% of additional levels of investment toward the low- and moderate-income sector	● Policy "adder" can be included in EE Value definition to drive additional EE investment in low and moderate income customer
Includes criteria and guidelines regarding the delivery of cost-effective cross-fuel programs	● Putting a value on carbon and other environmental / health externalities will define the value for cost-effective and valuable cross-fuel programs

Conclusion

Thank you for the opportunity to comment once again on effective ways to value EE and allocate targets so the state's utilities will procure increasing levels of cost-effective and cross-fuel energy savings. As always, we offer our companies as a resource and look forward to continued engagement as New York forges a path toward its ambitious goals for a clean and equitable advanced energy economy.

Attachment A:

Comments on *New Efficiency: New York*
Submitted by Alliance for Clean Energy New York and Advanced Energy Economy Institute
July, 2018

Comments on *New Efficiency: New York*
Submitted To: NewEfficiencyNY@NYSERDA.NY.gov
By: The Alliance for Clean Energy New York and Advanced Energy Economy Institute

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.

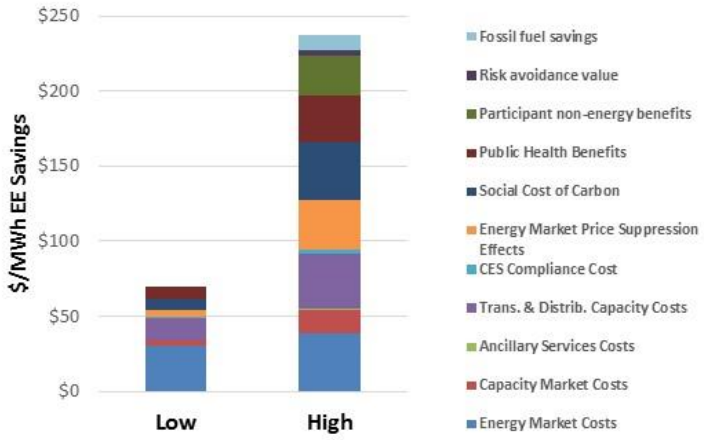
With respect to Chapter 6, Market Enabling Actions, we would like to specifically state our support for:

- 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.*