

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION



CASE 07-M-0548 - Proceeding on Motion of the Commission
Regarding an Energy Efficiency Portfolio
Standard

**ENERGY EFFICIENCY PORTFOLIO STANDARD
(EEPS) RESTRUCTURING PROPOSAL**

Department of Public Service
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EEPS RESTRUCTURING PROPOSAL

Introduction

In 2008, the Commission authorized the EEPS program¹ to develop and encourage cost-effective energy efficiency over the long term and to ensure that energy efficiency became an integral part of the New York energy industry. The Commission also adopted the goal of reducing electricity usage by 15% statewide by 2015. The EEPS program was designed to, among other things, achieve that portion of the “15-by-15” goal that was under the Commission’s jurisdiction.² In 2009, the Commission adopted a natural gas efficiency policy that encouraged the efficient end-use of gas, as opposed to adopting a policy of reducing the overall usage of gas.³ In July 2011, Staff issued a White Paper⁴ presenting numerous issues related to the EEPS program. Public comments and replies to these issues were received through September 2011. On October 25, 2011, the Commission issued an order⁵ reauthorizing the EEPS program through 2015. The order acknowledged programmatic concerns raised by DPS Staff and commenters. While noting that many EEPS programs were still in a relatively early stage of implementation, the Commission adopted an approach of continuous improvement, and required further review in 2013.

¹ Case 07-M-0548, Energy Efficiency Portfolio Standard (EEPS), Order Establishing Energy Efficiency Portfolio Standard and Approving Programs (issued June 23, 2008).

² Other State entities outside of the Commission’s jurisdiction, including LIPA, NYPA, and the Department of State among others were responsible for portions of the goal. Case-07-M-0548, Energy Efficiency Portfolio Standard, Order Establishing Energy Efficiency Portfolio Standard and Approving Programs (issued June 23, 2008) p.9.

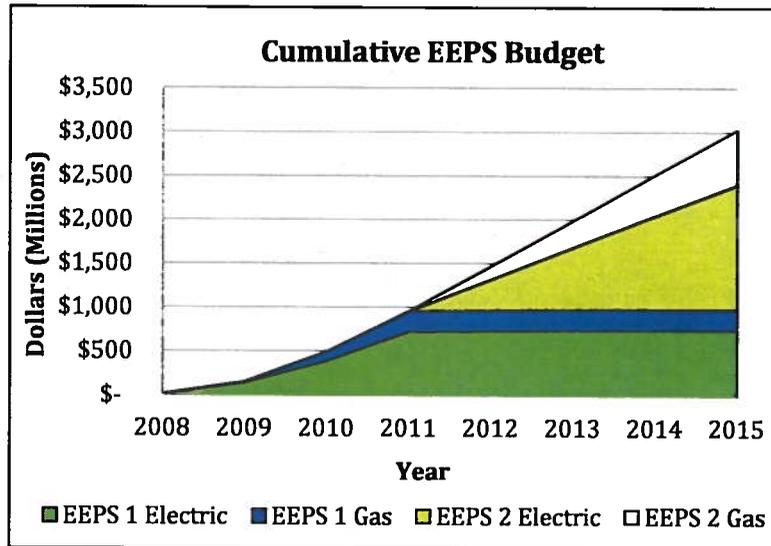
³ The Commission took a broad view of the gas efficiency portfolio, explicitly stating that the efforts to increase the efficiency of natural gas consumption, should not inhibit an overall increase in consumption - if the increase represented replacement for other energy sources with greater environmental impact. Case-07-M-0548, Energy Efficiency Portfolio Standard, Order Establishing Targets and Standards for Natural Gas Efficiency Programs (issued May 19, 2009) p. 10.

⁴ Case-07-M-0548, Energy Efficiency Portfolio Standard Program White Paper, DPS Staff, July 6, 2011.

⁵ Case 07-M-0548, Energy Efficiency Portfolio Standard (EEPS), Order Authorizing Efficiency Programs, Revising Incentive Mechanism, and Establishing a Surcharge Schedule (issued October 25, 2011).

To date, the Commission has authorized the collection from ratepayers of approximately \$2.6 billion through 2015 to fund the EEPS program.⁶ The EEPS program currently consists of 93 energy efficiency programs administered by NYSERDA and the State's six investor owned electric utilities (IOUs) and eleven gas companies.

As of July 2013, the EEPS program administrators have reported that \$1.4 billion have been spent and committed toward the planned



achievement of 5.1 million MWhs and 10.5 million Dths of energy savings.⁷ This represents 49% of the total 2015 EEPS program electric goal of 10.3 million MWhs and 49% of the total 2015 EEPS program gas goal of 21.6 million Dths.

In 2013, the Moreland Commission on Utility Storm Preparation and Response issued an interim⁸ and a final report,⁹ which included a critique of the EEPS program and a number of general recommendations. In many regards, the Moreland Commission's assessment of the EEPS program reinforced the concerns raised in comments on Staff's 2011 White Paper. At that time, the Commission established a continuous improvement objective and a requirement for a 2013 review.

This proposal attempts to address the concerns raised by the Moreland Commission's review of the EEPS program as well as those raised by Staff of the Department of Public Service, Program Administrators, ratepayers, public advocacy groups, and other stakeholders. The "EEPS Restructuring Proposal" is also intended to launch the Commission's 2013 review of the EEPS program with a solution-

⁶ Authorized collections through July 2013 are \$1.4 billion.

⁷ Retrospective application of evaluation adjustment factors may result in changes to previously reported values. Depending on the evaluation findings, these changes can either decrease or increase previous values. An example of a program where values would decrease is NYSERDA's EEPS1 CFL Expansion Program. Applying the latest evaluated net-to-gross ratio to the 18-month study period (and a 0.9 default for the time frame following the study period) causes the net acquired impacts to drop from 915,197 MWh to 421,394 MWh.

⁸ Moreland Commission on Utility Storm Preparation and Response Interim Report, January 7, 2013.

⁹ Moreland Commission on Utility Storm Preparation and Response Final Report, June 22, 2013.

oriented focus. The various components of the proposal are not panaceas. They are primarily designed to address long-term foundational components of the EEPS program, upon which the Program Administrators will be expected to build and continuously fine-tune their energy efficiency programs in ways that maximize the effectiveness and overall benefits of the programs in furthering the public interest.

This proposal is intended to initiate a dialogue regarding near-term and long-term changes to New York's energy efficiency program that would best serve to achieve a robust clean energy market in New York, and makes some initial, specific suggestions for reform. The forthcoming State Energy Plan, which will establish an energy vision for New York and integrate key initiatives (such as the Green Bank, the Renewable Portfolio Standard, and the Technology and Market Development Program), may lead to further proposals for adjustment of the energy efficiency program.

Principal Areas of Adjustment

The primary issues that are hindering the success of the EEPS program can generally be grouped into two broad categories: (1) role and role-related issues and (2) core technical and system infrastructure issues. While there is overlap between these two broad categories, constructive resolution of the roles and responsibilities issues is fundamental to progress on the technical and system infrastructure issues. In short -- the right resources must be allocated and assigned to proffer and implement needed technical improvements in a planned and systematic way.

Role and Role-Related Issues

Role-related issues have been identified at every relationship level of the program. Realignment of roles and resources is critical to the improvement of the EEPS program.

- Respecting its fiduciary responsibilities to the ratepayer for a new and substantial undertaking, the Commission maintained close oversight and direct involvement in many EEPS decisions (e.g., 90+ individual program budgets and targets, monthly reporting, specific measure lists, etc.). This resulted in an unsustainable administrative burden for instituting corrective action or changes to program details. Establishing broad, long-term guidelines designed to ensure protection of the public interest and rate payer funds and avoiding unduly burdensome process will improve results.
- Similarly, DPS Staff was tasked with managing numerous day-to-day details of the 90+ EEPS programs through numerous reporting and approval requirements. DPS resources have been insufficient to systematically support this level of detailed administrative oversight of the EEPS program. Staff's oversight should be geared toward ensuring that Program Administrators are working prudently and effectively toward the Commission's goals rather than having to focus on program minutia.

- Duplicative programs administered by NYSERDA and the investor-owned utilities have resulted in programs that are often in direct competition with each other. Although competition can often drive innovation, ratepayers have been funding both sides of this competition -- they are, in effect, bidding against themselves likely resulting in greater customer incentives than may be needed. Essentially duplicative programs also create administrative inefficiencies. The utility / NYSERDA competitive program administrator model has also inhibited the development of a robust and beneficial level of cooperation between DPS and NYSERDA staff that would make better use of the State resources available through both agencies. The EEPS program should be redesigned around complementary programs (e.g., introductory rebate programs that channel interested customers into whole building comprehensive programs), rather than competitive ones.
- The Evaluation Advisory Group (EAG) and Implementation Advisory Group (IAG) have advanced certain facets of the EEPS program but have also become pre-occupied with incremental details¹⁰ while major policy and program infrastructure challenges remain unaddressed. The core technical and system infrastructure issues underlying these, often important details, need to be addressed in a way that provides mechanisms for addressing details without stalling overall program improvement or goals.

Core Technical and System Infrastructure Issues

Core technical and system infrastructure issues continue to impede Staff's ability to ensure the benefits of the EEPS program and monitor and track its progress. Many of these same issues present ongoing challenges to the Program Administrators as they try to fulfill the regulatory requirements of the program while revising and improving program operations and offerings to meet market and customer needs. Some of the core issues that need to be addressed include:

- A more strategic and planned approach to energy efficiency program design and evaluation that incorporates:
 - Statewide potential studies to inform program design, targets and budgets;¹¹
 - Technical information studies and regulatory guides standardizing and documenting basic program parameters;
 - A statewide, reliable approach to evaluation of program performance;

¹⁰ It should be noted that many of these details could have important implications regarding compliance with ordered requirements and EEPS financial incentives. The focus of the advisory groups on compliance and financial incentives issues has diverted attention from the larger modifications of the EEPS Program now required to maximize its potential.

¹¹ Ongoing and planned residential and commercial baseline and potential studies may meet the planning needs for the 2016-2020 cycle but should be managed to ensure they are available to support E² Program planning

- A systematic review of “best practice” programs and new technologies operating in other New York programs (e.g., Technology and Market Development, SmartGrid Consortium) and outside of New York; and
- Integrated program review and revision cycles.
- While providing necessary customer privacy controls and protections, support broader access and sharing of customer data between NYSERDA and the utilities. Enable and support the creation of a comprehensive information technology platform to improve the efficiency and effectiveness of the targeting, delivery, tracking and evaluation of EEPS programs,
- A revised approach to cost-effectiveness testing in New York that:
 - Recognizes the State’s broader energy, environmental and economic objectives;
 - Defines a mechanism and cycle for outcome based measurement and for maintaining and updating the input parameters to the cost effectiveness tests;
 - Appropriately balances the need to achieve transparency and outcome based goals with the administrative burden and costs associated with the application of overly prescriptive measurement, testing and screening requirements; and
 - Aligns with the evolving energy policy framework in New York.

Goals

The focus and design of the 2008-2015 EEPS programs were governed by the statewide goal of reducing electricity usage by 15% by 2015 and Commission prescribed program-specific MWh and Dth energy savings targets. As we plan for the future, a singular energy reduction MWh goal no longer sets an appropriate direction or serves as an appropriate measure for the 2016-2020 program cycle. A new policy direction that supports more robust programs with broader objectives is evolving in New York. The energy efficiency goals for the 2016-2020 program cycle must align with this new direction and the vision that will be provided in the draft of the State Energy Plan to be released in the Fall of 2013.

New York’s stated interest in transforming energy markets to achieve greater scale of adoption will require a suite of key directional metrics that are designed to drive increases in overall system efficiency. Examples of the types of directional goals / metrics that might be considered include: decrease in system peak, increase in demand response penetration, decrease in energy intensity (per unit of economic activity or per square foot of building space), reduction in CO2 emissions, increased mobilization of private capital, positive indicators of market transformation, and increased penetration of advanced energy efficient technologies. In addition, it may be that each program sector has its own set of metrics. For example, goals and metrics defined by the policy objectives associated with providing energy efficiency services to the low-income sector could be quite different from those that are defined for the commercial and industrial (C&I) sector (e.g., reducing the number of

shut-offs and accounts in arrears may be an important component of the set of goals for the low-income sector while decreases in energy intensity per square foot of building space may be a dominant C&I objective). Similarly, the goals and metrics of prescriptive rebate programs may be quite different from comprehensive programs. Selection of the correct set of statewide and sector-level metrics is critically important to designing programs that achieve the State's energy policy objectives. DPS Staff encourages comments regarding the appropriate set of directional goals and metrics that should be used to focus and guide the 2016-2020 E² program.

Guiding Principles and Objectives

As DPS Staff considers options and approaches to address the various roles and foundational design and technical issues affecting the EEPS program, the following guiding principles and objectives are being used:

- Maximize penetration of energy efficiency with a goal of creating self-sustaining market adoption that will accelerate the adoption of all cost-effective energy efficiency as a matter of standard practice.
- Emphasize energy efficiency services that provide the greatest net benefit for ratepayers as a whole while ensuring equitable opportunities for all contributing customer classes.
- Support a long-range view and commitment to the continuity of energy efficiency programs in New York through the establishment of planned, integrated, multi-year review and revision cycles of statewide and program goals, program plans and supporting regulatory guidance.
- Advance a customer-centric program model that provides easy access to information and services that help customers choose the energy efficiency services appropriate for them and ensure high quality delivery of the services they choose.
- Establish an integrated statewide energy efficiency program that delineates NYSERDA and utility roles to reduce unproductive competition and customer confusion, and that facilitates coordination between NYSERDA and DPS Staff to better use New York State staffing and agency resources.
- Provide an opportunity for NYSERDA and the utilities to develop a joint organizational proposal for a coordinated statewide program that clearly delineates NYSERDA and utility roles but plays to the strengths of each. Joint proposal discussions should build off the experience to date and strive to advance the EEPS program in a balanced and equitable manner providing challenging but reasonable roles for all parties.

- Assist the Commission in focusing on the overarching goals of the EEPS program by developing and requiring compliance with critical progress and performance metrics deserving of routine and regular Commission attention and establishing a mechanism to ensure this information is routinely provided.
- Coordinate DPS, NYSERDA, utility, and contracted resources to create and maintain regulatory technical guidance and tracking systems integral to the establishment of a statewide program that yields verifiable results.
- Continue cost effectiveness testing but as a program assessment tool on a prospective and retrospective basis. Establish planned cyclical review and revision cycles of input parameters and associated guidance that gives consideration to societal needs and policy priorities.
- Re-design New York's approach to evaluation to make a broader use of statewide assessments and macro-level approaches, and provide potential studies and evaluation study results in accordance with planned, integrated, multi-year review and revision cycles of statewide and program goals, program plans and supporting regulatory guidance.
- Institute program changes in a transparent and planned manner to support reasonable business expectations of program vendors and contractors.

Proposed Roles and Responsibilities

The Moreland Commission identified the need to address (1) overlap between DPS and NYSERDA energy efficiency staff; (2) overlap between NYSERDA and the utilities; and (3) the level of DPS and PSC oversight of the EEPS program.¹² A growing recognition of the issues and challenges associated with established PSC, DPS, NYSERDA and utility roles has led to some adjustments to the EEPS program to try and increase flexibility, e.g., delegation of some decisions to the Director of the Office of Energy Efficiency (OEEE), elimination of some requirements for DPS Staff review and approval, and consolidation of some programs. While beneficial in many ways, these modifications have also introduced a level of uncertainty and confusion each time a change was made. The Moreland Commission correctly calls for a reexamination of roles and responsibilities and a reassessment of the high-level of direct PSC and DPS control that is embedded in the EEPS program. To address Moreland Commission recommendations and address foundational issues that are

¹² Moreland Commission on Utility Storm Preparation and Response Interim Report, January 7, 2013, pp. 43-44 and Moreland Commission on Utility Storm Preparation and Response Final Report, June 22, 2013, pp. 27-35.

impeding the advancement of the program, DPS Staff proposes the following roles for the various EEPs program participants. The roles are designed to maximize the use of each entity's resources and core strengths while ensuring the Commission's ability to maintain its statutory obligations to further the public interest.

Public Service Commission (PSC)

In the context of its responsibility for regulating rates and services of the utilities, the PSC should consider a process by which it would approve a multi-year statewide program plan, including budget and metrics on a five year planning cycle. The Energy Efficiency (E²) Statewide Program Plan (PP) would include utility territory specific sector level¹³ budgets and metrics with broad descriptions of the program approaches that would be used in each sector. The PP would be supplemented by a detailed "living" PP Implementation Plan including descriptions of the specific utility and NYSERDA programs that would be implemented to achieve the utility service territory sector-based metrics. The detailed "living" PP Implementation Plan would be submitted to DPS Staff, made available to the public, and would be routinely updated to reflect changes to the programs. Through approval of the PP, the PSC would maintain authority and control over the most significant policy issues, i.e., scale and focus of the program via approval of budgets and metrics, as well as regional and sector equity issues through the utility service territory sector based approach. Implementation details would remain flexible to allow NYSERDA and the utilities to adjust and respond to market and customer interests and values, but transparent due to the requirement to provide and maintain a "living" PP Implementation Plan.

In addition to periodic approval of the multi-year PP, the PSC should direct DPS Staff, NYSERDA and the utilities to cooperate in the development of a multi-year E² Technical Resource and Evaluation Plan (TREP) that would identify a multi-year budget for categories of technical resource projects and a statewide evaluation plan that would be reviewed and approved on a cyclical basis by the PSC. The TREP would identify the categories of resources needed to support initial development and cyclical revision of a prioritized list of key centralized technical resources, such as: (1) a statewide E² project database, (2) standardized statewide application processes, and (3) various technical guidance documents and tools necessary to a disciplined approach of estimating and verifying program performance (e.g., Technical Resource Manual, Cost Benefit Guidance Manual, Incremental Cost Information and Data, Evaluation Guidelines). The TREP would also identify the resources needed to evaluate the E² Statewide Program and conduct statewide potential studies such that information is available to support the development of the subsequent E² Statewide Program planning cycle and revision of the key technical resource documents. The TREP would be supplemented by a more specific "living" TREP Implementation Plan that would be submitted to Staff and made available to the public.

¹³ "Sector level" refers to Residential, Multifamily, Commercial & Industrial, and Low-Income.

The Commission would receive periodic progress briefings regarding implementation of the PP and the TREP and progress reports of the key metrics deemed most relevant to monitoring the progress of the overall E² Program. Commission approval would be sought regarding any reallocations of funds between program sectors or categories of technical projects.

Department of Public Service (DPS Staff)

DPS Staff with the assistance of NYSERDA, in consultation with the utilities, and in compliance with PSC-established guidelines, would oversee the development of the PP and the TREP. To address DPS resource constraints, NYSERDA would solicit and assist with management of appropriate contracted resources to support these efforts.¹⁴ Between cyclical planning periods, DPS Staff would review updates and changes to the detailed implementation plans; work with NYSERDA, consultants, and a newly formed E² Advisory Council (described below) in the development and/or maintenance of various technical guidance documents, potential studies and evaluation studies; review routine progress reports and submitted studies; prepare progress reports for the PSC; facilitate E² Advisory Council Meetings; monitor program performance; address issues arising from evaluation studies, review annual retrospective analysis of program cost effectiveness, customer complaints or suggestions and otherwise work with NYSERDA and the utilities to identify new opportunities to continually advance and improve the E² Program. DPS Staff will also help identify new programs or technologies by reviewing best practices from other states or countries to ensure continuous program advancement and improvement.

New York State Energy Research and Development Authority (NYSERDA)

NYSERDA has years of experience delivering statewide energy efficiency programs, providing it with a program administrator perspective and placing it in a good position to offer valuable assistance to DPS Staff in assessing and evaluating programs and understanding the parameters of regulatory guidance that would be most useful to program administrators. In addition, NYSERDA has the ability to contract technical services in support of the program's needs. Therefore, NYSERDA should serve as the coordinator of a statewide approach to program evaluation as well as provide assistance to DPS Staff in the facilitation of the E² Advisory Council, the development of the PP and the TREP and associated PP and TREP Implementation Plans, the development and maintenance of various technical guidance documents, as well as a statewide database.

As an E² program administrator, NYSERDA should work closely with the utilities in the development of a new customer-centric model for delivery of energy efficiency programs in New York. Key components of the model would include a common statewide single application form / fulfillment portal for all customers (by

¹⁴ This will require Commission consideration of an alternate financial arrangement to pay for these additional NYSERDA and contracted resources.

sector) and a uniform marketing message with a coordinated outreach strategy. Budgets and metrics for the statewide program would be developed on a sector basis for each utility service territory as a key component of the PP. NYSERDA would continue to deliver programs and NYSERDA's efforts in each utility service territory would contribute to the utility service territory's energy efficiency achievements.

Utilities

As administrators of E² programs, utilities would focus on designing and delivering E² programs, in cooperation with NYSERDA, that provide the best service, experience, and quality to their customers and address some of the unique needs of their system. Since many ratepayers are served by more than one utility and many installation and consulting contractors operate in more than one service territory, a centralized and coordinated model is needed to reduce confusion and administrator inefficiency, and facilitate the transfer of knowledge and information from one customer service experience to another. E² Program budgets and metrics would be set on utility service territory basis and all achievements would be attributed to the service territory metrics. The utilities would play a key role in marketing and outreach and would develop leads for all of the programs available to customers in their service territory, whether they are delivered through utility or NYSERDA programs.

E² Advisory Council

The Evaluation Advisory Group (EAG) and Implementation Advisory Group (IAG) have supported many improvements to the EEPS program. However, DPS Staff has lacked the necessary resources to fully realize the potential benefits of these groups. To improve the efficiency and effectiveness of these groups and to facilitate greater integration, the two groups should be merged into an E² Advisory Council and a subcommittee structure should be formed. This integration would support development and implementation of an integrated E² program planning cycle and prioritization of technical and infrastructure needs in support of this cycle. DPS Staff would continue to chair the meetings, but NYSERDA and contracted resources would support the E² Advisory Council and its subcommittees. In addition, the E² Advisory Council may benefit from some operational changes, including the identification of annual priorities and objectives that reflect the priority needs of the E² program, deliberation processes that strive for the best technical result rather than consensus, and the opportunity for the E² Advisory Council to provide a periodic recommendations and progress report to the PSC. Additional input and suggestions should be sought from the existing EAG and IAG.

Process to Resolution of Utility and NYSERDA Program Delivery Roles

As noted above, the Moreland Commission identified overlap and competition between NYSERDA and utility EEPS programs as an impediment to the EEPS program, but also acknowledged the difficulty associated with defining the program delivery roles that NYSERDA and the utilities should play.¹⁵ In the end, the Moreland Commission recommended that a consultant be hired to recommend a division of the EEPS portfolio between NYSERDA and the utilities.¹⁶

Ultimately, NYSERDA and the utilities should play to their strengths to design and deliver a complementary set of cost effective programs that serve the varied needs of the customer and increase the penetration and adoption of energy efficiency measures and practices. The utilities and NYSERDA are in the best position to understand their individual strengths and weaknesses to collaboratively determine the roles for which they are best suited. This type of cooperation was recently demonstrated by NYSERDA's and Consolidated Edison's productive collaboration in support of their Indian Point Contingency Plan proposal.¹⁷ In this context, DPS Staff recommends that the utilities and NYSERDA be granted an opportunity to put forth an organizational proposal that clarifies and distinguishes their roles and responsibilities as opposed to spending the time and resources to hire a consultant. If a workable NYSERDA and utility joint proposal is not provided within a specified period, Staff will further develop the division of roles and responsibilities that are sketched out in this proposal and provide an alternate proposal defining E² program roles and responsibilities for PSC consideration.

Organizational Proposal

Staff proposes that the Commission direct the utilities and NYSERDA to develop and submit an organizational proposal for a coordinated statewide energy efficiency program, i.e., the E² program, clearly delineating NYSERDA and utility roles. The joint organizational proposal would be submitted within a set time period, e.g., 120 days. During development of the proposal, the utilities and NYSERDA should give consideration to the following ideas, which are offered as optional, but directional concepts.

- Coordinated Messaging and Marketing - A coordinated sector-based messaging, marketing and outreach approach for all programs, with NYSERDA taking the lead in working with all the utilities to develop a basic message platform, but with the utilities taking the lead in delivery and

¹⁵ Moreland Commission on Utility Storm Preparation and Response Final Report, June 22, 2013, p. 29.

¹⁶ Moreland Commission on Utility Storm Preparation and Response Final Report, June 22, 2013, p. 34.

¹⁷ Case 12-E-0503, Order Upon Review of Plan to Advance Transmission, Energy Efficiency, and Demand Response Projects, (issued April 19, 2013).

outreach to take advantage of the utilities' ability to routinely and directly interface with its customers and their more direct knowledge of their customers.

- **Joint Utility Service Territory Metrics** - A process for establishing utility service territory metrics to which both the utility and NYSERDA programs would contribute to support collaboration and specific utility service territory needs and differences.
- **Coordinated Potential and Evaluation Studies** - A centralized statewide approach to planning and implementation of potential and evaluation studies to provide a more informed basis for the specific service territory targets and a more efficient and coordinated approach to evaluation. The scope and priorities of the studies would be determined through the E² Advisory Council with all study funding and contractors managed by NYSERDA.
- **Centralized Customer Application Platform** - A centralized customer-friendly application / fulfillment platform providing customer access to both the "Introductory" and "Comprehensive" E² program offerings. The centralized application / fulfillment platform would guide the customer to the level of service ("Introductory" or "Comprehensive") they want.
- **"Introductory" E² Program** - "Introductory" programs that are generally standardized across the state to deliver a specific suite of measures or packages of measures to each sector.¹⁸ The objective of the "introductory" programs would be two-fold: (1) to ensure failed or beyond useful life equipment is replaced with high efficiency equipment and (2) to provide information about how the customer can do more, e.g., how to take advantage of "Comprehensive" program services, do-it-yourself energy saving tips, etc. Due to the broad customer appeal and reach of "introductory" programs, DPS Staff proposes that "introductory" programs should be delivered primarily by the utilities but NYSERDA and the utilities should consider what cost efficiencies might be possible through a centralized rebate fulfillment service contract and/or other centralized or coordinated efforts with which NYSERDA may be able to assist. In addition, some small utilities may want to opt-out of delivering "introductory" programs. If so, the utility and NYSERDA proposal should consider how "introductory" services might be provided to customers of those utilities.
- **"Comprehensive" E² Program** - "Comprehensive" custom design programs that provide customers in each sector with opportunities to achieve deeper energy savings and the ability to integrate financing and renewable resource services. The objective of the "Comprehensive" programs should be to serve customers that want a comprehensive assessment of their energy use situation and the identification of value-based improvement options to meet their needs. Due to NYSERDA's administrative responsibility for complementary clean energy service programs (e.g., financing, renewables, and GJGNY audits) and the value of integrating these services into

¹⁸ Some regional differences in rebate levels would be expected.

“Comprehensive” projects, DPS Staff proposes that the “Comprehensive” program be led by NYSERDA. The customer incentive structure associated with the “Comprehensive” program should be coordinated with the “Introductory” incentive structure so the customer has no motivation to shop for higher per measure incentives. If, as part of a comprehensive work scope, a customer installs one or more measures that are provided under the “Introductory” rebate program, the customer should receive the same rebate regardless of the program providing the measure. Comprehensive programs should have add-on or bonus incentives encouraging more comprehensive work scopes, but within the bounds of planned sector-based cost-effectiveness criteria. The “Comprehensive” programs should be delivered through partners meeting certain specifications and requirements. The proposed designation of NYSERDA as lead of the “Comprehensive” programs is not intended to preclude the utilities from contributing to the delivery of deeper energy savings programs to its customers. NYSERDA and the utilities must find a way to seamlessly integrate utility service partners into the NYSERDA-led comprehensive program. DPS Staff recommends that NYSERDA work with the utilities that want to assist in delivering “Comprehensive” program services and propose a way to facilitate this without creating market confusion or escalation of costs to the ratepayer, e.g., integration of utility service providers into NYSERDA’s programs, carving out specialized utility initiatives that are focused on addressing unique needs of the utility’s system, vertical market programs with the utilities delivering to certain vertical markets and NYSERDA delivering to others, etc.

- **Fuel Neutral Fund** - Creation of a fuel-neutral fund for the “Comprehensive” E² Program to reduce the complexity and barriers to delivery of “whole” building programs to cover all heating and cooling needs of a customer, consistent with the customer-centric model.
- **Centralized IT Platform** – A centralized information and management platform that improves the standardization and sharing of information and supports the targeting, delivery, tracking and evaluation of E² programs and projects, while also providing necessary customer privacy controls and protections must become a priority to ensure accurate valuation of the energy efficiency.

Finalization of Organizational Structure

Upon receipt of the NYSERDA and utilities’ joint proposal,¹⁹ the PSC would invite public comment on the proposal. After considering comments, the PSC would establish a basic organizational framework for an integrated statewide delivery

¹⁹ If NYSERDA and the utilities are unable to develop a joint proposal, Staff will further develop the division of roles and responsibilities that are sketched out in this proposal and provide an E² Program roles and responsibilities proposal for PSC consideration.

approach for the E² program. The organizational structure should be finalized as early in 2014 as possible to allow adequate transition planning and as little disruption to energy efficiency service markets, as possible. Once an organizational structure is known, DPS Staff and NYSERDA, in cooperation with the utilities, would be tasked with the development of a plan that provides a phased transition to the revised program implementation roles, in accordance with the final organizational structure and addresses the prioritized development or advancement of necessary technical and infrastructure resources (see below).

Technical and System Infrastructure Advancement

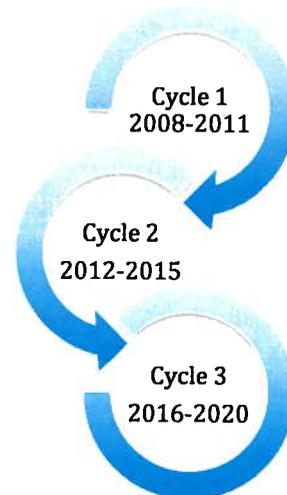
The early years of the EEPs program focused on the development and approval of NYSERDA and utility program proposals. The ambitious schedule for ramping up programs hindered the allocation of sufficient resources toward the development and maintenance of technical guidance and infrastructure systems that are needed to support the EEPs program. Over time, DPS Staff and the Program Administrators have initiated the development of some of the required basic tools and guidance, such as a technical resource manual, evaluation guidelines, reporting templates, and program modification approval processes. These efforts have generally progressed on an individual or isolated basis rather than as a part of a strategic plan.

Program Cycle Planning and Evaluation

A formal systematic multi-year program planning cycle must be put in place to establish a predictable and informed process to support design, implementation and evaluation of the E² program. As represented in the following diagram, one program cycle should inform the goals and design of the next. Each cycle should include a number of key inter-related activities, such as:

- Potential and Market Studies,
- Program Goals and Design,
- Technical Standards for Measuring Energy Savings,
- Evaluation Plan Development,
- Program Implementation,
- Program Data Collection & Reporting,
- Evaluation Study Implementation,
- Evaluation Study Reporting, and
- Revised Program Implementation and Reports.

The listing of activities implies a linear sequencing of activities that is often not the case. There are information feedback loops that will occur within a particular



program cycle and importantly, each program cycle must be coordinated with the next so key information and experience from a previous cycle is available to inform and improve the successive next cycle. This type of holistic scheduling and planning is not a simple task, as it requires a balancing of competing timing and information needs. For example, longer periods of program operation prior to initiation of evaluation study produces larger data sets that are more likely to yield evaluation results with higher confidence levels, but delayed initiation of evaluation study delays the availability of study results to support planning for the next program cycle.

To-date, the overall program cycle or scheduling of the cycle has not been optimally managed. DPS Staff and the program administrators have focused on many program implementation and evaluation study details at the expense of the larger EEPS program objectives. For example, hundreds of evaluation studies are in some stage of planning, implementation, review, or completion, but no integrated evaluation study schedule exists to show when the study results will be available to support decisions regarding the next program cycle or technical manual revisions. As year three of program cycle 2 is about to begin, many evaluation studies from cycle 1 are still incomplete. Policy guidance establishing rules for adjustment of savings to reflect impact evaluation study results has not been established. Revisions to the Technical Resource Manual are under way but many more need to be processed. There is a need to re-examine and reconnect the components of the program cycle to the overall program goals and objectives.

Staff proposes that DPS Staff and NYSERDA, with contractor assistance and in consultation with the utilities, be immediately tasked with the following:

- Task 1 – Identify a suite of directional goals for the E² program that aligns with the energy vision for New York.
- Task 2 - With the goal of creating an improved foundation for Cycle 3 programs (the E² program), review and assess the current state of affairs with regard to current program cycle evaluation and technical products and activities. Compile an integrated schedule for the completion of planned cycle 2 activities, identify activities that should be discontinued or re-prioritized, as well as activities that may need to be initiated.
- Task 3 - Perform an analysis of Cycle 1 and Cycle 2 (EEPS1 and EEPS2) program performance and design, to identify positive and negative outliers and inform program design for Cycle 3.
- Task 4 – Prepare a Cycle 3 Improvement Action Plan that works within the bounds of currently authorized evaluation and technical support budgets to provide the most relevant information by March of 2015 to support NYSERDA and utility submittal of the E² PP and TREP no later than August of 2015. Task 2 should focus on improvements to planning cycle activities that can be implemented during 2014-2015 (the remaining two years of cycle 2) to improve the foundation for the 2016-2020 E² program.
- Task 5 – Develop a conceptual program planning cycle schedule for the E² program for program years 2016-2020 that shows the completion of cycle 2 activities and their usefulness and applicability to the E² program.

In addition, as part of a coordinated statewide re-design of New York's approach to evaluation, NYSERDA should be tasked with identifying a way of more fully evaluating and capturing the savings associated with the market transformational effects of the State's energy programs.

Data Collection and Reporting Requirements

Voluminous quantities of financial, energy use and customer data must be gathered and housed to support the delivery, tracking and evaluation of energy efficiency programs. Templates for monthly and quarterly reporting of program performance and evaluation are used by all Program Administrators and are in the recently launched EEPS Statewide Database. Data collection requirements for evaluation purposes are specified in the "New York Evaluation Plan Guidance for EEPS Program Administrators." Although templates and some guidance have been developed for data collection and reporting, there are a number of areas of concern:

- **Definitions** – the lack of standardization of terms, e.g., budget categories, encumbrance, committed savings, leads to varied interpretation of terms and inconsistent reporting across Program Administrators;
- **Compliance issues** - due to changing requirements without adequate provision of time to revise Program Administrator databases;
- **Multiple non-integrated databases** – separate financial systems, energy efficiency project tracking systems and implementation contractor databases;
- **Sharing of data** – customer privacy protection concerns inhibit the sharing of data between the utilities and NYSERDA, evaluators and other contractors;
- **Appropriate reporting requirements** – key performance metrics should be identified, appropriate frequency and lag of reporting should be established, and unnecessary reports should be eliminated while maintaining the requirements to retain the data.

The Moreland Commission identified similar data and reporting recommendations and concerns, including: (1) development of comprehensive IT platform to track and evaluate programs; (2) removal of current barriers to sharing of customer information between NYSERDA and the utilities;²⁰ (3) lack of collection of life-time savings data;²¹ (4) concerns with regard to data quality, reliability, consistency and relevance;²² (5) frequency of reporting;²³ (6) failure to analyze and use the reported data.²⁴

The Moreland Commission recommendation to develop a centralized information technology platform that warehouses all EEPS data would appear to

²⁰ Moreland Commission on Utility Storm Preparation and Response Final Report, June 22, 2013, p. 34.

²¹ Id. at 31.

²² Id. at 32 and 35.

²³ Id. at 32.

²⁴ Id. at 35.

provide significant additional capabilities and benefits beyond those provided by the Statewide EEPS database that was launched in July 2013. Such an ambitious endeavor must be carefully scoped and planned, as it will likely take significant resources and several years to develop and future needs must also be considered. In this context, DPS Staff proposes that NYSEDA procure the services of a qualified contractor to define the scope and assess the benefits and costs of undertaking the development of a centralized information technology platform. The assessment should attempt to identify future data collection needs associated with expansion of integrated Clean Energy projects, including energy efficiency, demand response, distributed generation, renewable energy and energy finance services.

These efforts will take some time, but in the shorter term there are steps that can be taken to begin addressing the above concerns as well as ease the burden on both DPS Staff and the Program Administrators in the 2014 – 2015 program period. DPS Staff proposes the following actions to be taken in the near-term:

- A proceeding should be considered to address privacy protections and controls while supporting the sharing of customer data with NYSEDA.
- An open discussion forum with the Program Administrators and evaluators should be initiated regarding the database challenges and issues that they are encountering, the level of compliance with the current data collection requirements and whether changes should be made.
- Data reporting requirements should be revised to reduce frequency, increase lag, and streamline content, as follows:
 - Eliminate the filing of monthly scorecards in favor of quarterly scorecards to be filed on a quarterly lag. For example, a quarterly scorecard for the first quarter of a calendar year would be due on the last day of the second quarter of that calendar year. Allowing a longer lag time between the reporting period and the date by which it is due will reduce the number of corrections that need to be made to filed data.
 - Reduce the number of budget categories and clarify the definition of those that remain to improve comparability of data.
 - Develop consistent definitions for encumbrances and commitments.
 - Define a methodology for calculating lifetime savings and include it as a key performance metric to be reported.
 - Conduct an inventory of reporting requirements with the goal of eliminating duplicative reporting.
- The EEPS Statewide Database should be revised to align with all near-term changes to reporting and Reporting Guidelines should be developed / revised accordingly.

Cost-Effectiveness Screening

A common misconception, as noted by the National Action Plan for Energy Efficiency²⁵, is that there is a single best test for evaluating the cost-effectiveness of energy efficiency. The five key cost effectiveness tests that are commonly used to evaluate energy efficiency each provide different information about the impacts of the energy efficiency programs. Multiple tests used together can provide a comprehensive analysis of the cost effectiveness of energy efficiency that a single test cannot. Beyond the choice of the particular test or tests, there are many related decisions²⁶ that significantly affect the cost-effectiveness results. Collectively, these decisions ultimately determine which efficiency programs and measures are supported through ratepayer funded energy efficiency programs and should reflect the State's energy policy goals.

To date the EEPS program has used the Total Resource Cost (TRC) test applied at the measure level using avoided costs and discount rates set in 2008. Staff has taken a very active role in reviewing the TRC calculation for measures and working with the various Program Administrators to identify and assess incremental cost data and other relevant information on a case-by-case basis. Spreadsheets providing some of the input parameters have been created and shared with the Program Administrators to allow them to perform their own TRC calculations, but due to the individuality of each measure and its particular application, consistent use and application of the TRC test in a transparent and documented manner has been an elusive goal. In addition, the requirement to perform and pass the TRC test at the measure level, project level and program level has proved to be administratively burdensome and unsustainable.

In the context of New York's aggressive renewable energy and energy efficiency goals along with the Governor's 2013 State-of-the-State announcement of a Green Bank to mobilize the investment of private capital in support of these goals, an alternative approach to cost effective testing in the E² program is warranted. DPS Staff proposes the following approach, but recognizes that there may be a need to consider alternatives as the Green Bank initiative evolves.

- The TRC test should remain the primary screening test, but it should be applied at the sector level for each utility service territory (residential, commercial and industrial, and multifamily) as opposed to the measure level. Application of the TRC test at the sector level will reduce administrative

²⁵ National Action Plan for Energy Efficiency (2008). *Understanding cost Effectiveness of Energy Efficiency Programs: Best Practices, Technical Methods, and Emerging Issues for Policy-Makers*. Energy and Environmental Economic, Inc. and Regulatory Assistance Project. <www.epa.gov/eeactionplan>

²⁶ Some of the major decisions include: whether to apply the cost-effectiveness test at the measure, program or portfolio level; what benefits to include and method of quantification; discount rate assumption used to calculate net present value; net-to-gross ratios; whether to include CO₂, NO_x, SO₂ benefits and method of quantifying and valuing; and other non-energy benefits and method of quantifying and valuing.

burden and provide flexibility to offer some emerging measures or programs and achieve “deeper” savings, as long as they are offset by measures and programs with higher cost effectiveness.

- The TRC test, Program Administrator Cost Test (PACT), and Participant Cost Tests (PCT) should be performed at the program level, as supplemental tests for program assessment purposes. The PACT examines the costs and benefits from the perspective of the Program Administrator. The PCT examines the cost and benefits from the perspective of the customer installing the energy efficiency measures. The higher the PCT, the stronger the economic incentives to participate.
- A Cost-Effectiveness Test Reference Guide should be created to document the information sources, methodologies, and assumptions associated with estimating the benefits and costs of each test. The Cost-Effectiveness Test Reference Guide should be updated on a set frequency as part of the multi-year program planning cycle.
- The TRC and PACT benefits should be expanded to include environmental damage assessment costs for SO_x and NO_x, a revised CO₂ cost, and be updated to include LRACS, discount rates, etc. appropriate for the E² program cycle.²⁷ The updated information should be incorporated in the Cost-Effectiveness Test Reference in support of E² program cycle planning.
- A standardized cost-effectiveness calculation tool should be selected or developed and used by all Program Administrators to provide transparency and ensure the ability to replicate results.
- All sectors, with the exception of the low-income sector and “specific targeted programs” included in the PP should be demonstrated to pass the TRC on a theoretical basis. A TRC of less than one will be allowed for the excepted class of programs – the exact value will be determined as the various TRC input parameters are finalized. For assessment purposes, program level test results for the TRC, PACT and PCT should be filed as a supplemental report to the initial PP implementation.
- Annually, during the five-year implementation cycle, the program administrators, coordinated by NYSERDA, should submit retrospective program and sector-based TRC, PACT and PCT analyses based on program performance to-date. If the analysis demonstrates that a sector is not cost-effective at any annual review period, the Program Administrators should collectively assess actual sector results against the “filed” theoretical results to see what did not go as planned and they should use the program level analyses to identify the program(s) which are causing the sector to be non-cost-effective and should propose a corrective action plan. If a second annual retrospective cost-effectiveness analysis of cumulative program performance to-date shows that the sector does not pass the TRC, any program that

²⁷ Quantitative values for each of the input parameters requires additional investigation and should be applied to available program data sets before finalizing any decision regarding future cost-effectiveness testing.

contributed to the sector not being cost-effective for two consecutive years will be discontinued. In the context of the “two-strikes and you’re out” policy, Program Administrators should be closely monitoring the cost effectiveness of each program by performing periodic interim cost-effectiveness testing and making adjustments throughout the year. In rare exceptions for certain long “pipeline” comprehensive programs, e.g., C&I new construction programs, an alternate longer cost-effectiveness compliance period may be planned into the review cycle, as long as a reasonable basis is provided demonstrating that the sector will be cost-effective in a specified time horizon.

- Assistance from an appropriately qualified contractor should be obtained to support the development of the Cost-Effectiveness Test Reference Guide and the selection and development of the standardized cost-effectiveness calculation tool.

Technical Resource Manual

Technical resource or reference manuals (TRMs) have been developed or are under development in many States. A TRM is a critical reference document that provides methods, formulas and default assumptions for estimating energy, peak demand and other resource impacts from the installation of efficiency measures. New York’s TRM is titled the “New York Standard Approach for Estimating Energy Savings from Energy Efficiency Programs” and was developed as five separate manuals between 2008 and 2009 by the DPS evaluation consultant, TecMarket Works. In 2010, the EAG was charged with reviewing and updating the manuals. Ultimately, a compiled document was issued in October 2010. Initially, the Commission approved all changes and additions to the TRM, but subsequently established an IAG consensus process²⁸ to address TRM revisions. In recent months, the DPS Staff and the IAG have been working together to “build-out” the consensus process to support continued improvement of the TRM.

The TRM, in conjunction with the proposed Cost-Effectiveness Test Reference Guide discussed above, are baseline documents that will ultimately affect which efficiency measures and programs can be cost-effectively incorporated into the E² program; thus, updates to both manuals must be included into the overall program planning cycle process such that the E² PP is developed based on a specific version of each manual. While this baseline record must be known for each program cycle, the manuals should not remain stagnant through a five-year program cycle. They must be living documents that are updated to include new data or information regarding the existing content of the manual and support the expansion of the manual to include additional energy efficiency measures. The impacts of TRM changes on program savings and design can range from the

²⁸ Case 07-M-0548, Energy Efficiency Portfolio Standard (EEPS), Order Approving Modifications to the Energy Efficiency Portfolio Standard (EEPS) Program to Streamline and Increase Flexibility in Administration (issued June 20, 2011).

relatively minor to significant, so an effective date must be associated with each round of changes.

Currently, the TRM revision process is impeded primarily by the lack of dedicated technical resources to oversee and maintain the TRM; an ad hoc process for identifying and addressing TRM changes; an administratively cumbersome IAG consensus change review and approval process; and the lack of a planned process for assessing and incorporating the implications of evaluation study or other technical study results. Considering the importance of the TRM to the transparency, consistency and reliability of savings estimates produced through the EEPS program, Staff proposes the following:

- A DPS and NYSERDA staff team (TRM Team), assisted by an appropriately qualified third party contractor or contractor team, should be dedicated to the development and maintenance of the TRM.
- The TRM Team should be charged with facilitating and managing the input from an E² Advisory Council TRM subcommittee that routinely meets to establish TRM revision priorities in the context of the overall program planning cycle.
- The TRM Team will be tasked with developing proposed TRM changes, in response to the TRM subcommittee's prioritized list of changes. Prioritization principles should be established (e.g., technical errors first, evaluation study results second, new measures third). TRM subcommittee members should be asked to provide data and studies believed to be relevant to a particular change. The TRM Team should develop the proposal and submit it to TRM subcommittee for review and input. While TRM subcommittee consensus should be sought, it should not be required. Staff, in consultation with the TRM Team should consider the subcommittee's recommendation but will retain the authority to make final decisions. Routine reports summarizing TRM revisions and pending TRM changes will be provided to the PSC. Program Administrators can petition the PSC to reconsider a Staff decision.
- Broader systematic reviews of the TRM should be completed on a planned schedule that is coordinated with a statewide evaluation plan schedule, e.g., residential sector evaluations might be completed in a particular quarter with TRM revisions proposed in the following quarter.
- All TRM changes should be prospective with a specified effective date.
- The goal of the TRM should be to produce technically valid energy savings estimates, regardless of the impact on targets. TRM changes having the potential to significantly impact (upward or downward) a sector target should be identified and quantified to the extent possible.

Fuel Neutral Concept

When the Commission first approved gas EEPS programs, it set forth the concept that monies collected from electric ratepayers should be used to fund only electric energy efficiency measures and monies collected from gas ratepayers should be used to fund only gas efficiency measures. Funding was established based in part on the expected proportional share of the cost of EEPS electric and gas programs divided pro rata by customer segment.²⁹ The concept is rooted in the idea of directing the benefits of the programs to the type of customers who are providing the funding for the program. The concern regarding cross-subsidization is valid. However, this blunt approach to cost allocation over emphasizes the benefits accruing to program participants, rather than considering the broad range of societal benefits provided by the programs including environmental improvement, cost suppression and system and supply reliability. The simplistic configuration also ignores the reality that many individual measures can improve efficiencies related to more than one fuel type and the significant burden and cost of calculating and accounting for separate cost allocations many of which are based on approximations. It currently appears that the cost of avoiding any cross subsidy for both gas and electric customers exceeds the potential cost to one set of customers for subsidizing the other. Easing the overly restrictive cost allocation requirements should reduce program costs to all utility customers and increase the benefit potential of each program dollar. Staff recommends that a more fuel neutral approach be adopted and suggests the following two options for consideration.

To support a customer-centric energy efficiency program delivery model, the concept of a merged fuel neutral energy efficiency fund, particularly for the "Comprehensive" programs should be considered. The Commission could direct the continued collection of a surcharge from both electric and gas customers but allow program administrators to pool the funds and administer their energy efficiency programs with a "whole-customer" approach without the extra burden of tracking, allocating and limiting the customer assistance based solely on the fuel type rather than the overall public benefits provided by a project or program. This configuration presents the issue of gas customers, almost all of which are also electric customers, paying two surcharges for the same energy efficiency programs for which electric-only customers are paying one. However, assuming only gas and electric saving measures are eligible for efficiency program funding, gas customers would be able to avail themselves of additional measures - for example those associated with gas-fired space heating. It is possible that the direct benefits available to gas customers would at least off-set any "double" payment made by those gas customers as a group.

Another approach would involve eliminating the surcharge paid by gas customers and collecting the entirety of energy efficiency funding from electric

²⁹ See Case 08-E-1127, et al. Consolidated Edison Company of New York, Inc. - Energy Efficiency, Order Approving Multifamily Energy Efficiency Programs with Modifications (issued July 24, 2009).

customers. This configuration would eliminate any potential for gas customers paying two surcharges. Since gas/electric and electric only customers would be subject to the same surcharge, in order to avoid an imbalance toward gas customers, eligibility of non-electrical measures, could be based on expected environmental, reliability and overall economic benefits rather than simply on fuel type. This could involve the inclusion of measures specifically designed to conserve fuels other than natural gas (i.e., heating oil, propane, etc.) or inclusion of the benefits related to all fuels likely to be conserved by a particular measure in determining what measures are eligible for program support.

Establishing such a fuel neutral fund would provide the opportunity for more comprehensive energy efficiency projects and operational consistency across the State, while maximizing energy savings per project and reducing overall transaction and administrative costs. DPS Staff encourages comments regarding the two approaches discussed above.

Shareholder Incentives – Performance Metrics

Originally, the model for shareholder incentives was intended to be flexible enough "to ensure that all objectives of a portfolio of efficiency programs are achieved."³⁰ The system was designed to promote better program performance, to motivate utilities to pursue efficiency programs as a resource option, and as a tool to hold utilities accountable for meeting energy savings targets. In March 2012, the Commission recognized a number of shortcomings in the original design and modified the incentive structure in an effort to ameliorate some of its counterproductive results.³¹ Changes included incentives specifically for the statewide jurisdiction goal, and elimination of negative adjustments both of which were designed to promote cooperation among the utility program administrators and NYSERDA. Although the changes appear to be improvements, full cooperation among program administrators remains elusive.

Additionally, the rate structure for all of the utility EEPS administrators include a revenue decoupling mechanism (RDM), a ratemaking approach designed to eliminate or substantially reduce the linkage between sales and utility revenues and/or profits. The RDMs currently in place are designed to avoid the conflict, inherent in many volumetric or marginal consumption block rate structures, between a utility's desire to maximize value for its shareholders and its statutory public service responsibilities of efficiency, conservation of natural resources and preservation of environmental values.³² The Commission has previously

³⁰ Case 07-M-0548, Energy Efficiency Portfolio Standard, Order Concerning Utility Financial Incentives, (issued August 22, 2008) p. 3.

³¹ Case 07-M-0548, *supra*, Order Establishing Utility Financial Incentives, (issued March 22, 2012).

³² See Cases 03-E-0640, *et al.*, Proceeding on Motion of the Commission to Investigate Potential Electric Delivery Rate Disincentives Against the Promotion of Energy Efficiency, Renewable Technologies and Distributed Generation, Order Requiring Proposals for Revenue Decoupling Mechanisms (issued April 20, 2007).

recognized the utilities' obligation to provide energy efficiency services,³³ but also concluded, at that time, that a properly designed incentive program would improve the programs by increasing utility motivation and accountability, and potentially lowering program costs.

Without disputing the potential for incentives to improve energy efficiency programs, the incentive schemes instituted to date have not produced the desired results. Current incentives are based on a single metric, MWh saved, without reference to other elements of a utility's rate plan, other core utility functions or policy goals and values served by energy efficiency programs other than net resource benefits.³⁴ Relying on a single metric and wholly separating EE incentives from the other elements of the utilities' business and public service responsibilities, does not capture the breadth of goals and objectives that need to be balanced in the design and implementation of a statewide energy efficiency program. Moreover, the administrative burden required to properly track and reward financial incentives has further detracted from their effectiveness.

In order to encourage and support more robust programs with broader objectives, consideration should be given to identifying a set of metrics that more accurately reflects the breadth of objectives that are critical to the program's overall success such as, cooperation in program planning deadlines, accuracy and comparability of reported results, efficient data sharing to support evaluations, customer service and satisfaction metrics, market transformation metrics, etc. The standards to which the Commission holds the utilities regarding energy efficiency programs should not be vastly different from those required to be met regarding other performance metrics including customer service and service reliability. Similarly any incentive to reach certain energy efficiency program goals (or to avoid performance failures) should not be held in isolation but rather integrated into the other core utility objectives and responsibilities.

In short, a more effective incentive structure needs to be developed and properly integrated into utility operations. The incentive structure should align utility compensation with the objective of making energy efficiency part of the utilities' core business while driving innovation and creating a stable business environment. DPS Staff encourages comments regarding alternatives that should be considered.

Planned Restructuring

Program infrastructure and role and responsibility changes of the nature described in this proposal must be initiated well ahead of the next program cycle

³³ Case 07-M-0548, supra, Order Concerning Utility Financial Incentives (issued August 22, 2008) p. 33. See also Public Service Law §5(2) and Multiple Intervenors v Public Service Commission, 1666 A.D.2d 140, 144 (3d Dept. 1991).

³⁴ Case 07-M-0548, supra, Order Establishing Utility Financial Incentives, (issued March 22, 2012) p. 41.

beginning in 2016. Directional decisions are needed in the very near term so plans can be developed and resources allocated to effectuate the needed changes. While these transformative changes are being planned and implemented, DPS Staff must continue overseeing, and NYSERDA and the utilities must continue managing their currently authorized programs. In that context, DPS Staff proposes changes to current EEPS program rules to provide immediate relief from activities that consume significant Program Administrator and DPS Staff effort while yielding little value. In Staff's opinion, resources would be better spent establishing an improved foundation for the 2016-2020 E² Program.

EEPS 2014-2015 Program Year Changes

The items listed below are recommended changes for the 2014 – 2015 program years. The proposed 2014-2015 changes are consistent with the proposal set forth for the E² Program cycle; initiate the transition to the 2016-2020 cycle; and reduce administrative burden on both the Program Administrators and DPS Staff during the 2014 and 2015 program years. Staff recognizes that there may be additional changes to the 2014 -2015 program years not identified below that should be considered and encourages suggestions for such changes.

- Program Budgets/Targets - The requirement for approval by the Director of OEEE to reallocate program budgets and targets within a customer sector should be eliminated. Program Administrators should be allowed to reallocate program budgets and targets within a customer sector, provided that the overall sector budget and target remain unchanged, upon notification to the Director of OEEE. DPS Staff should be directed to develop guidance concerning what information should be included in such notification. This change will allow Program Administrators to optimize results within a sector in a manner that is less administratively burdensome on both program administrators and DPS Staff.
- Customer Incentive Levels - The requirement for approval by the Director of OEEE to revise incentive levels should be eliminated. Program Administrators should be allowed to change the incentive levels upon notification to the Director of OEEE, and DPS Staff should be directed to develop guidance concerning what information should be included in such notification. Program Administrators should be required to work within their authorized budgets and targets and encouraged to collaborate on incentive levels. This change will eliminate an administrative step that currently provides no value added. DPS Staff currently has no superior market intelligence or criteria by which to judge the appropriateness of an incentive level. Program Administrators interact with customers and other market actors much more directly than Staff and are in the better position to identify an incentive level that moves the market at minimal cost to the ratepayer.

- **Reporting** - Reporting frequency should be reduced from monthly to quarterly, reporting lag time should be increased, duplicative requirements should be eliminated and reporting requirements should include only key performance metrics to be identified. This change will reduce administrative burdens associated with reporting on both program administrators and DPS Staff.
- **Measure Classification Lists** - The current Classification Group lists should be eliminated and Staff should be directed to develop guidance concerning eligible EEPS measures. This change will allow DPS Staff to work with the Program Administrators to develop a simplified approach to developing and maintaining accurate eligible measure lists.
- **Payback Testing** - The requirement that a measure pass payback criteria should be eliminated for the remainder of EEPS 2. Regulatory guidance for payback analysis should be developed before re-implementing the requirement.
- **Banking and Borrowing** - The requirement to obtain approval by or provide notification to the Director of the OEEE to borrow from future EEPS 2 program year funding, as outlined on page 27 of the October 25, 2011 order should be eliminated. This change will eliminate a number of administrative steps and requirements that revolve around data and information that is already reported by the Program Administrators. Program Administrators will still be expected to modulate the delivery of their programs to ensure the availability of services to each sector through the end of 2015.
- **Pre-screening of prescriptive measures** - The requirement to pre-screen prescriptive (fixed dollar rebate level) measures should be eliminated. Program Administrators should maintain auditable records inclusive of the inputs necessary to demonstrate that each type of prescriptive measure is cost-effective in the majority of the installations. This change will reduce administrative burden of performing project level cost effectiveness testing for prescriptive measures associated with a fixed dollar rebate.
- **OEM Reporting** - Current OEM quarterly and annual reporting requirements should be eliminated. Program Administrators should be allowed to change OEM budgets upon notification to the Director of the Office of Consumer Policy. DPS Staff should be directed to develop guidance concerning what information should be included in such notification. This change will eliminate the administrative burden associated with reporting.

Transition Planning and Schedule

DPS Staff is putting forth this EEPS Restructuring Proposal during the fourth quarter of 2013 with the goal of fostering a smooth transition to a 2016 -2020 program cycle where there are clarity roles and responsibilities and a more fully developed technical and infrastructure foundation supporting implementation of

the E² Program. A tentative high level planning schedule is provided below to demonstrate that key change decisions are needed in the near-term to achieve the desired Cycle improvements.

- Sept 2013 Issue EEPs Restructuring Proposal for Comment
- Dec 2013 Possible Decisions Regarding 2014-2015 Program Year Changes
Possible "Directional" Decisions for Transition to 2016-2020 E² Program
- Qtr 1 2014 Implement 2014-2015 Program Year Changes
Initiate proceeding to address sharing of customer data between the utilities and NYSERDA
Planning Task 1 – Clarification of E² Program Goals
Complete Planning Task 2 - Integrated schedule for completion of cycle 2 activities
Initiate open discussion with Program Administrators regarding database challenges and issues
Procure the services of a contractor to assess the need and value of undertaking the development of a centralized database platform
- Qtr 2 2014 Joint Organizational Proposal submitted by NYSERDA and Utilities and issued for comment
Identify input parameter values for cost-effectiveness testing and standard tool to perform testing
Begin Planning Task 3 – Analysis of program performance and design using data through 2013
Complete Planning Task 4 – Improvement Action Plan
- Qtr 3 2014 Possible Decision Regarding Joint Organization Proposal and other key E² Program policies / directions
Develop Cost-Effectiveness Test Reference Guide
Develop recommendation regarding the development of a centralized database platform with corresponding next steps

- Qrtr 4 2014** Complete Planning Task 5 – Conceptual Schedule for E² Program Cycle
Possible Decision Regarding Sharing of Customer Data with NYSERDA
Develop Incremental Cost Reference Guide
Finalize Baseline and Potential Studies and Evaluation Studies that will be used to inform Guidance Documents and E² PP
- Qrtr 1 2015** Issue Revised TRM for Use in E² Program Development
Initiate Development of PP and TREP for E² Program
- Qrtr 2 2015** Update/complete Planning Task 2 with 2014 data
Develop Centralized Customer Application / Fulfillment Platform
- Qrtr 3 2015** PP and TREP E² Program submitted and issued for comment
- Qrtr 4 2015** Possible Decision regarding PP and TREP for 2016-2020 E² Program

