# Comments by Chesapeake Climate Action Network, Maryland Sierra Club, Environment Maryland, Interfaith Power and Light, and Maryland League of Conservation Voters in Response to the Draft EmPOWER Planning Report

September 28, 2012

Dear Mr. Lucas,

Thank you for giving us this opportunity to comment on MEA's "Draft Report to the Senate Finance Committee and House Economic Matters Committee to Discuss Whether to Set EmPOWER Maryland Targets Beyond 2015." We are very supportive of setting targets past 2015 for both electricity and natural gas, as well as several other programmatic changes to improve and expand EmPOWER Maryland.

To date, over 430,000 Maryland families have taken advantage of utility programs to reduce their energy consumption, resulting in anticipated lifetime savings of $2.6 Billion for these investments. The benefits of extending EmPOWER for both electricity and natural gas include reducing the emission of greenhouse gases and other pollutants, which improves air quality, water quality, and public health, increasing economic activity in Maryland, reducing consumer energy bills, increasing disposable income for ratepayers, and avoiding investments in new transmission and supply capacity, which are all ultimately borne by all Marylanders.

Please find below comments on specific options that were proposed in MEA's draft report, as well as other recommendations that we would like to see included in the MEA's final report. More detailed recommendations can be found in our comments dated July 31, 2012.

**Overview**

1. **Track energy reductions using a "bottom up" approach.**
2. **Set reduction requirements through a combination of ambitious long term goals and equally ambitious short-term targets. Long-term goals, to be achieved through all cost effective measures, could be set through legislation, while annual short-term "percent of sales" reduction targets could be set through the PSC and an advisory council.**
3. **Define cost effective as a total resource cost test that fully incorporates the benefits and avoided costs of proposed programs and portfolios.**
4. **The final report should recommend options to increase funding for energy efficiency and conservation programs, incentives that reward/penalize utilities based on performance, and the possibility of on-bill financing to increase ratepayer participation.**

## Reduction Targets Method

### Annual Percentage Reduction of Sales – "Top Down" Approach

While it is useful to compare current electricity usage to a baseline year as a means of tracking electricity sector trends over time, we believe that this is an ineffective means of setting and enforcing energy efficiency and conservation goals. The method of setting top down per-capita efficiency goals measured against a baseline year allows random variability to exert undue influence over the state's ability to meet its policy goals. Because of the natural variability of economic and weather patterns, we do not believe that using a top-down electricity consumption methodology measured against a baseline year fully reflects the progress that utilities are making towards achieving their goals.

### Annual Reduction based on Percentage of Sales – "Bottom Up" Approach.

We support this method of setting and tracking energy efficiency targets. As we and others mentioned in the last comment period, and MEA re-iterated in this draft report, bottom up tracking excludes external factors like weather and the economy from exerting undue influence over efficiency goals. These external factors have played a significant role in the state meeting its per-capita targets to date.

### All Cost Effective, Long-Term Goals, Short-Term Targets

Although MEA did not mention this option in their draft report, we support the adoption of aggressive long term goals set through an "all cost effective" approach combined with equally aggressive annual short-term targets set through the PSC and an advisory council.

The approach of combining the all cost effective mandate with aggressive annual targets is employed by many top achieving energy efficient states such as Massachusetts, Rhode Island, Washington, California, and Vermont. Annual targets can be assigned by the PSC in collaboration an advisory council that consists of individual utilities and other stakeholder groups. As NEEP noted in their last round of comments, "It is important that this council not only have strong representation from state government and business, energy, consumer and environmental organizations, but also have the resources to employ technical experts who have experience in setting goals for state energy programs and can help board members to evaluate program progress."

In addition, long range goals can help guide the annual target setting process by giving the PSC and an advisory council a high bar to aspire to. For example, if legislation called for efficiency and conservations measures to reduce approximately 11,300 GWh of electricity between 2016 and 2020, then annual reduction targets would have to be set at about 1.5% in order to put the state on track to achieve that goal. This method could allow for more rigorous year-to-year evaluations, and the annual target setting and approval process could give the PSC and the advisory council more flexibility to make adjustments when necessary.

## Cost Effective Definitions

**Define Cost Effective in Statute Based on Industry-Standard Tests**

We believe that the total resource cost (TRC) test is a sound method for combining the viewpoints of other industry-standard tests. However, in order to capture the true benefit of energy efficiency and conservation, it should incorporate the full environmental, public health, reliability, and other non-energy benefits of these investments. In addition, the avoided cost of electricity should be evaluated in a TRC test to account for the avoided wholesale price of delivered electricity (i.e. the wholesale cost including energy, capacity, transmission, and other PJM charges).

Any new EmPOWER statute should direct the PSC to look at a full range of customer benefits including avoided costs and other real, but often economically undervalued benefits, when performing a TRC test. This is particularly important in an era of low natural gas prices, which has lowered fuel costs and might result in significantly less program approvals if a full range of external benefits are not included when determining cost effectiveness.

## Other Characteristics

**Weather Normalization**

As noted in the draft report, this approach accounts for external weather events but not for the influence of economic forces on energy consumption. Therefore, rather than using a weather normalized top down methodology, we recommend that EmPOWER through 2020 should be tracked using a bottom up approach.

**Per Capita Metrics**

The draft report noted that shifting away from a per-capita metric would eliminate the issue of shifting regional populations across the state. We agree with that sentiment and we recommend that per capita metrics be abandoned as a means of tracking energy efficiency. Instead, progress should be tracked through a bottom up accounting of the first-year incremental savings achieved by the energy efficiency measures installed.

## Other Important Issues that were not raised in Draft Report

**Increase Funding**

While MEA correctly points out that Maryland spends dramatically less than other successful states on energy efficiency and conservation programs, and that there is a significant relationship between the amount of per capita spending on energy efficiency programs and the energy savings produced by high performing states, the draft report does not go so far as to propose increased funding for EmPOWER.

Options for increasing funding include: 1.) The PSC should approve cost-recovery for an expanded suite of EmPOWER programs through the EmPOWER surcharge; 2.) Increase the level of RGGI auction funds going towards energy efficiency and conservation programs to *at least* their original statutory level of 46 percent; and 3.) Create a Public Benefits Fund to pool the state's financial resources into a single funding mechanism that can be used to finance Maryland's long-term clean energy goals.

**Create Incentives**

Create incentives that reward exceptional utility program performance and penalize poor performance. Specifically, the Public Service Commission (PSC) should consider shareholder incentive mechanisms to encourage utilities to meet and exceed their targets, and the use of third party efficiency utilities in instances where individual utilities consistently fail to meet their goals. Many other state programs provide sticks, carrots, or both for utilities that do or do not meet their efficiency goals. The Maryland Public Service Commission (PSC), on the other hand, does not reward or penalize utilities that achieve or fail to meet their EmPOWER goals or the goals that they were projected to achieve according to their filings with PSC for approved programs. Creating shareholder incentive mechanisms would encourage utilities to set more ambitious targets, as would the threat of transitioning authority towards third party efficiency utilities in the event that utilities consistently fail to meet their targets.

**On-Bill Financing**

One novel way that some other states have encouraged ratepayers to take advantage of energy efficiency and conservation programs is through On-Bill Financing (OBF). The advantages of this system are that OBF has historically low default rates, it creates a revolving fund that refinances itself, it can be extended to previously underserved markets such as rental and multifamily buildings, and it can also be accessed by traditionally credit- constrained customers to gain access to financing through modified underwriting that takes bill payment history into account.

Barriers to OBF include upfront costs to utilities that need to modify their billing systems, a perception that utilities must function as a financial institution to participate in on-going financing, risks of non-payment of the finance charge, handling the transfer of property, finding capital, and addressing non-utility fuels. In order to overcome these barriers, PSC and utilities should consider through the use of a public benefits fund and the expertise of a 3rd parties. Using an adequately funded public benefits fund to extend low to no-interest loans to ratepayers that are collected through utility bills with the assistance of 3rd party financial experts could help overcome the funding challenges and utility resistance to acting as a financial institution.

PSC Order 84569 ordered utilities and other parties to convene a work group for the purpose of analyzing financing opportunities in greater detail, as well as legislative or regulatory solutions that might overcome barriers to financing programs. OBF was specifically mentioned in that order as an idea to consider. We recommend that utilities adopt OBF, and explore a 3rd party option to administer the loans, as a way to encourage ratepayers to take advantage of EmPOWER programs.

**Thank you very much for allowing us to comment on this important program. We look forward to engaging with MEA as it finalizes its report to the Legislature.**

***For more information, please contact James McGarry, Policy Analyst and Communications Associate at CCAN: (james@chesapeakeclimate.org)***