

Oct. 19, 2012

Kevin Lucas  
Director of Energy Market Strategies  
Maryland Energy Administration  
SENT VIA EMAIL

Dear Kevin,

I am writing to provide brief comments from the American Council for an Energy-Efficient Economy (ACEEE) on the first draft of the “Report to the Senate Finance Committee and House Economic Matters Committee to Discuss Whether to Set EMPower Maryland Targets Beyond 2015.”

In particular, we reviewed the options listed in the draft report and wish to endorse the following options:

- 1. Annual Reduction Based on Percentage Sales – “Bottom Up” Approach.** We believe that a bottom-up approach which measures savings from utility-led programs needs to be used. Utilities should neither receive credit for nor be penalized for savings or sales increases beyond their control, both of which can happen in a top-down approach. As long as a bottom-up approach is used, we can support either annual targets or cumulative savings targets in specific years. If cumulative targets are used, at least two targets should be set (e.g. for 2017 or 2018 and for 2020) so that progress can be monitored and adjustments made. As noted in our previous comments, we suggest savings targets of 1.5% per year for electric savings and 1.0% per year for natural gas savings. These targets have been achieved in other states in the northeast and in fact some states have even higher targets. We believe that targets should be set in legislation based on recent experiences in Maryland and other states. Such an approach would provide certainty and allow programs to proceed expeditiously without a long planning effort. Furthermore, our observation of the Public Service Commission (PSC) over the past decade indicates to us that they would have great difficulty overseeing an “all cost-effective” standard.
- 2. Define Cost-Effective in Statute Based on Industry Standard Tests.** Currently the PSC uses a modified and very strict version of the Total Resource Cost (TRC) test. They have modified the test to include the cost of free riders but not savings from free riders, as is generally done with the TRC. We are unaware of any other states that make this modification, a modification which reduces benefit-cost ratios significantly. In addition, to our knowledge the PSC does not include spillover (energy savings induced by programs among non-program participants) in its calculations. Spillover can have as much impact on savings estimates as free-rider adjustments. As an alternative, we

suggest use of the Utility Cost Test because this test most directly compares the cost to utilities of demand-side and supply-side resources. A paper outlining concerns with the TRC test and the rationale for using the UCT test is attached. Alternatively, the full TRC can be used, but to be a fair comparison with supply-side resources, this would need to include the savings achieved through spillover and the savings achieved by free riders (e.g. if free riders are included in the TRC, both costs and benefits should be included).

Finally, the baseline year used to determine the amount of energy saved should be a rolling baseline based on the preceding two or three years of sales. If sales go up or down, the baseline adjusts automatically. If several years are used for the baseline, weather normalization is probably not needed, but if other parties believe such normalization is important, we would not object.

Please let us know if you have any questions about these recommendations.

Sincerely,

A handwritten signature in black ink that reads "Steven M. Nadel". The signature is written in a cursive, slightly slanted style.

Steven Nadel  
Executive Director