

Ruth Kiselewich
Director
Demand Side Management Programs

P.O. Box 1475
Baltimore, Maryland 21203-1475
410.470.1361
410.470.8023 Fax
Ruth.C.Kiselewich@bge.com



Via Email

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Kevin Lucas
Director of Energy Market Strategies
Maryland Energy Administration
60 West St., Suite 300 Annapolis, Md. 21401

RE: BGE Comments 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*

On June 29, 2012, the Maryland Energy Administration (MEA) held a meeting at which it solicited comments on a number of issues related to EmPOWER Maryland and its future including recommendations on electric EmPOWER Maryland goals past 2015, addressing the potential for gas goals, and whether the utility should continue to deliver the EmPOWER energy efficiency programs needed to support the EmPOWER goals. On August 7, BGE provided its comments including concerns with the current goal setting methodology. On September 6, the MEA distributed its draft report entitled: *Report To The Senate Finance Committee and House Economic Matters Committee To Discuss Whether To Set EmPOWER Maryland Targets Beyond 2015*. MEA has asked the stakeholders to provide them with written feedback on any and all aspects of the report and supporting documents. Below are BGE's comments.

Electric Goals

BGE is appreciative of the opportunity to comment on the draft report. BGE has been very successful with its BGE Smart Energy Savers Program® with over 1 billion kWh in gross wholesale annual savings and over 13 million energy efficient measures installed under EmPOWER through June 2012. BGE has been focused on being as aggressive as possible with cost effective programs, has demonstrated effectiveness with its program as reflected in customer satisfaction and the numerous industry awards it has received, yet it is falling short of current goals because these are very challenging and, as BGE has previously commented, because of the inequities in goal allocation. BGE previously commented on how

the goals should be established and that it believes that an annual energy reduction of 0.5%, based on 2014 sales, is appropriate.

Maryland Natural Gas Energy Efficiency Potential Study

In the report, the MEA has summarized the Maryland Natural Gas Energy Efficiency Potential Study. BGE is surprised that the summary does not reference, nor even include “Program Potential”, but rather focuses on “Achievable Potential” at various market penetration levels. The study stated the following: “**Program Potential** is the *achievable* potential possible given a specific funding level and program designs. Program potential is a subset of achievable potential.” (Italics added for emphasis.) The program potential is described as less than the 80%, 60%, and 40% market potential penetration goals and represents a more likely achievable goal by accounting for the limitations inherent to program budgets, staffing and timing constraints. It would seem that, given the numbers being provided may become the basis of a goal, that the primary focus should be on this achievable potential reduction. Even using this approach, BGE feels *all* estimated levels of potential (80%, 60%, 40% and Program) are extremely aggressive. Specifically, BGE’s 2012-2014 EmPOWER MD program filing approved by the Maryland Public Service Commission on December 22, 2012 includes savings from energy audits done for homes with gas, as well as savings from gas furnaces, and forecasts BGE will save approximately 4.3 million therms by 2015. While these savings do not include any gas savings for non-residential measures, BGE’s targets seem to indicate the draft report’s 2015 projection of nearly 58 million therms saved at the “40% Potential” level are too high. Further, the excessiveness of the goals is magnified by the fact that the study did not consider increases in natural gas use through fuel switching or Combined Heat and Power (CHP) when especially the latter is expected to have big impacts given the early interest in the incentivized program being offered by BGE under EmPOWER Maryland. As noted in its prior comments, BGE believes there should be no natural gas goals. The Act should just encourage the provision of incentives for the purchase of energy efficient gas appliances such as for gas furnaces and hot water heaters. As noted, BGE already offers incentives on some residential measures.

Natural Gas Fuel Switching Potential in Maryland

The Maryland Energy Administration’s summary of the GDS study on the natural gas fuel switching potential in Maryland states that BGE has filed a fuel switching program. This is not the case. BGE had been considering such a filing and had a draft it was sharing for comments, but no such filing has been made. The report says the total market potential for fuel switching is 96,000 MWh by 2015 (40% market penetration level). As already noted above, there is no “Program Potential” level mentioned in this summary. BGE is concerned about the challenges to convince customers to make the necessary investments (+/- \$10,000) to convert to natural gas and sees no evidence that the study considered this. Conversions typically are done with the customer replacing their heating system, water heating system and having the necessary internal piping installed, all of which makes the economics for fuel switching challenging. Finally, given that over the years BGE has had various promotions to encourage the use of

gas, it is unclear how much more customer participation can be achieved and again it is unclear that the study fully considered a customer's willingness and ability to make the required significant investment for fuel switching even with some level of incentives.

Combined Heat & Power (CHP)

BGE is a strong supporter of the CHP technology and has embarked on an aggressive campaign to encourage customers to implement this technology. BGE believes that its large incentive structure and strong customer outreach will provide viable projects being completed in 2013 and 2014. BGE has forecasted that approximately ten projects averaging 1 MW in size will be submitted by customers and CHP project developers during BGE's current RFP cycle that is due on 12/21/12. If this current solicitation proves successful, BGE also is willing to conduct future solicitations provided the appropriate Maryland Public Service Commission approvals. With this being said, BGE does have concerns with some of the CHP items in the draft report.

Export: Of primary concern to BGE is the suggestion that hypothetical incentives should include allowing facilities that have large thermal loads to export excess electricity at wholesale market rates. BGE feels that this is not in the spirit of the EmPOWER Maryland program which encourages customers to use their energy more efficiently. Although CHP utilizes an alternative fuel source (i.e. natural gas) to generate electricity, BGE's CHP incentives are being provided to encourage customers to use that energy more effectively. It does not provide incentives for customers to simply utilize alternative fuel sources and then sell the excess power back into the grid. BGE believes that it was never the intent of the EmPOWER Maryland initiative to create co-generation plants.

Summary of Maryland CHP Potential: BGE is highly skeptical of the Market Penetration (MW) numbers that are being presented in the draft report. Under the "\$900/kW Capital Incentive" column, the model is projecting 914 MW of potential through 2020. BGE feels that this is unrealistic and would provide false expectations on the results of any CHP program. BGE and the PHI utilities are currently forecasting 20 MW of CHP installations combined for 2013/2014 using the \$900/kW incentive. If this was projected over 8 years, this would translate to 80 to 160 MW, which is significantly less than the overly optimistic forecast of 914 MW.

Other Comments

Other State's Energy Efficiency and Conservation Programs

The section on other State's programs compares Maryland's goal achievement to other states. Such a measure is problematic given that it ignores that Maryland's goals are one of the most aggressive in the nation. The report compares Maryland spending to Massachusetts, Vermont and Connecticut. Using Massachusetts, BGE would need to increase expenditures by a factor of four to become comparable to Massachusetts' program spending. BGE continues to be very sensitive to the impact this type of program expenditure level would have on customers' energy bills with the EmPOWER MD charge.

Penalties

Two of the stakeholders in their comments recommended the adoption of penalties. Given the challenging nature of the goals, the current and potentially future issues with the goal setting, the adoption of a penalty structure is unreasonable. Imposing financial penalties for failing to meet EmPOWER Maryland targets unfairly chastises a utility for occurrences beyond its control. A penalty structure is not appropriate because progress towards the goal is dependent upon actions from parties other than the utility. The utility does not have unilateral control over the portfolio of programs that are offered. The EmPOWER Maryland energy efficiency and demand response programs offered by a utility are developed through a collaborative process that involves the input and scrutiny of a multitude of stakeholders and is, ultimately, modified, rejected, or approved by the Commission. The recent rejection by the Commission of the Consumer Electronics Program proposed by all the EmPOWER utilities, Commission Staff, the Maryland Energy Administration and Office of People's Counsel is a good example of this risk. Furthermore, there are a variety of externalities that influence the level of efficiency savings achieved that are beyond the utility's control, such as general economic conditions, changing energy prices, demographic trends, technology choices available to consumers, weather, evolving building and appliance codes and standards, and changes in Evaluation, Measurement and Verification results. Ultimately, a utility cannot force a customer to participate in an efficiency program offered by a utility. As such, it would be highly unfair to subject a utility to the risk of financial penalties based on how customers make choices.

The decisions on EmPOWER beyond 2015 are important ones that can affect the lives of Maryland citizens and the economic health of Maryland. Given the diverse perspectives and lack of agreement on the direction for EmPOWER, BGE believes that it is important to leave flexibility to adjust to realities that become evident only as time passes. In 2008, when EmPOWER became law and goals were set, no one predicted the major economic downturn which made many consumers and businesses unable to invest in energy efficient measures and impacted the achievement of the goals. As codes and standards are raised, all citizens benefit from the minimum higher efficiency standards, but the utilities have a harder time achieving savings reduction goals as their programs' efficiency baseline continues to be raised. Thus any goal should truly be an aspirational target and not a required goal, especially not one where penalties can be incurred.

Sincerely,

Ruth C Kiselewicz