



**Comments of Northeast Energy Efficiency Partnerships (NEEP)
to the Maryland Energy Administration (MEA)
Regarding the Draft EmPOWER Planning Report
September 28, 2012**

INTRODUCTION

On behalf of Northeast Energy Efficiency Partnerships (NEEP), thank you for the opportunity to comment on the Draft EmPOWER Planning Report.¹ We would also like to recognize Maryland Energy Administration (MEA) staff for the significant outreach they have made in order to inform the final report to the Senate Finance and House Economic Matters Committees. This type of stakeholder engagement will strengthen the EmPOWER programs and build consensus on the best policy and program approaches to saving energy in Maryland.

As we provided extensive input in our July 27 comments,² we will not comment on every issue addressed in the draft report. We strongly reiterate our support for extending the EMPOWER Maryland programs for a second phase, as Maryland consumers and business stand to benefit significantly from these vital programs. Connecticut, Maine, Massachusetts, Pennsylvania, Rhode Island, Vermont, New York, and Washington D.C. have all recently re-authorized their energy efficiency initiatives, demonstrating that other states throughout the Northeast and Mid-Atlantic region continue to rank energy efficiency as their first fuel. We also re-affirm our recommendation that consumers will gain significantly if Maryland creates natural gas energy efficiency programs with robust funding and energy savings targets of about 1 percent of annual retail gas sales, consistent with the findings of the GDS Natural Gas Potential Study.

We offer suggestions in three key areas for MEA's consideration as it finalizes the EmPOWER Maryland report:

- 1) The final report should emphasize that energy efficiency is Maryland's least cost energy resource.
- 2) The final report should support changes to the EmPOWER Act's energy savings targets.
- 3) Regulatory adjustments could enhance performance in EmPOWER Phase II.

¹ These comments are offered by NEEP staff and do not necessarily represent the view of NEEP's Board of Directors, sponsors or underwriters.

² Northeast Energy Efficiency Partnerships (NEEP), "Comments to the Maryland Energy Administration regarding EmPOWER Maryland Planning for 2020," July 27, 2012, <http://neep.org/uploads/policy/NEEP%20EmPower%20Maryland%202020%20Report%20Comments%207.26.12.pdf>

1) The final report should emphasize that energy efficiency is Maryland's least cost energy resource.

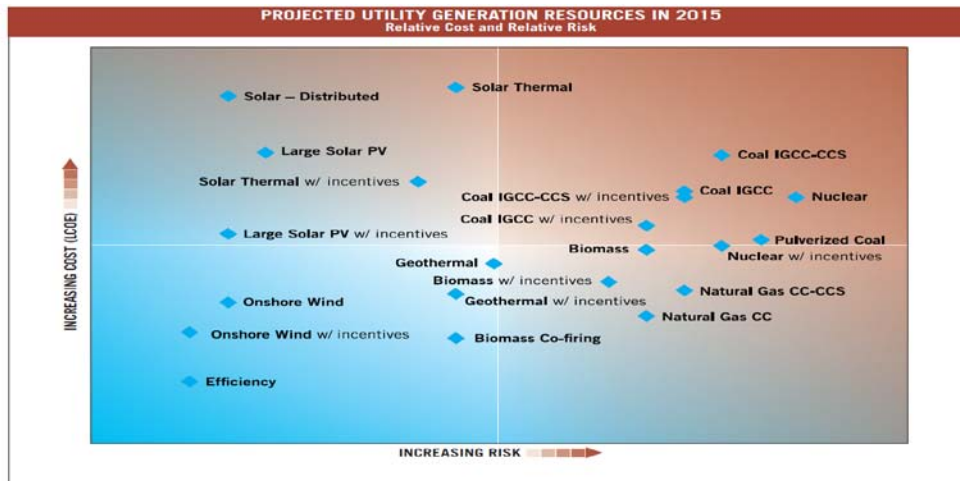
MEA rightly notes that, while the electric utilities are behind on their energy savings goals, progress has been made as each program administrator has gained experience, with annual savings levels climbing above 0.6 percent last year. The final report should more clearly highlight the fact that, despite these initial difficulties, there remain significant benefits that energy efficiency will provide to customers in future years, and especially note that it will remain Maryland's least cost energy resource. As the draft report notes, even in states with a long history of robust energy efficiency programs, energy efficiency costs between 3 and 4 cents/kWh, far below the average retail price of 12.70 cents/kWh in Maryland. Trends suggest that this is likely to continue into the foreseeable future.³ Massachusetts, for example, found that last year its acquisition costs remained around 3 cents per lifetime/kWh, even while it reached almost 1.5 percent annual savings.⁴

We also recommend that MEA highlight the other benefits that energy efficiency provides beyond customer bill savings. Strong efficiency programs will help sustain Maryland's growing clean energy sector, of which energy efficiency services make up a significant part.⁵ And energy efficiency programs should not be considered in a vacuum, but must be considered in comparison with other energy supply alternatives. The figure below, taken from a recent report by Ron Binz and CERES on risk and utility regulation, shows that energy efficiency is both the least cost resource and poses less risk to consumers and shareholders than investing in new supplies of either renewable or non-renewable generation resources. In particular, energy efficiency will reduce uncertainty and compliance costs for new federal environmental standards, the state's renewable portfolio standard (RPS), and help defer and right-size investments in new transmission capacity. In essence, lawmakers should be made aware that Maryland has only begun to see the benefits from energy efficiency and a more robust program is likely to accrue greater benefits for customers over time.

³ Maryland electric retail price data obtained from U.S. Energy Information Agency (EIA), at <http://www.eia.gov/electricity/state/maryland/>.

⁴ Massachusetts Energy Efficiency Advisory Council (EEAC), "Council Consultant's 2011 Annual Report: Summary of Results," p. 19, at http://www.ma-eeac.org/docs/8.10.12/EEAC_2011AnnualReportsConsult_081012f.pdf. See also, Maryland PIRG Foundation, "Falling Behind on Energy Efficiency: Maryland Risks Missing its Electricity Savings Goals," March 2011, at <http://cdn.publicinterestnetwork.org/assets/9beb753dc7176d6fb2c19a88a89022c9/MDP---Falling-Behind-on-Energy-Efficiency.pdf>.

⁵ Maryland Clean Energy Center, "2012 Maryland Clean Energy Industry Survey," June 20, 2012, at <http://mdcleanenergy.org/2012-industry-survey>.

Figure 1: Comparison of Cost and Risk Profile of Energy Resources (CERES, 2012)⁶

Additionally, MEA points to discrepancy of how peak demand energy efficiency resources are treated in PJM’s Reliability Pricing Mechanism (RPM) as contributing to better peak demand savings.⁷ More favorable treatment for energy efficiency in RPM, especially lifting the current 4-year cap on measures life of energy efficiency programs, could drive improved savings results.⁸ We look forward to working with lawmakers, MEA, and other stakeholders on this issue in the future.

2) The final report should support changes to the EmPOWER Act’s energy savings targets.

As we stated in previous comments, Maryland would benefit greatly from a second phase of EmPOWER Maryland programs. The consensus of stakeholders in this process is that the current design of the energy savings targets, with fixed, long-term energy savings targets tied to per capita electricity consumption (what the draft report calls a “top down specific reduction target”), is unsatisfactory. While this method appears to provide clarity to savings goals, we believe that this design can distract stakeholders from the real goal of reducing energy costs for all customers. An optimal approach would create realistic, binding energy savings targets that incentivize the program administrators to create well-funded and well-designed energy savings programs for all customer types.

⁶ Ron Binz, et al., CERES Report, “Practicing Risk-Aware Electricity Regulation: What Every State Regulator Needs to Know,” April 2012, p. 9, at <http://www.rbinz.com/Binz%20Sedano%20Ceres%20Risk%20Aware%20Regulation.pdf>.

⁷ Maryland Energy Administration (MEA), “EmPOWER Planning Draft Report,” p. 9, at <http://energy.maryland.gov/empower2020/documents/EmPOWERPlanningDraftReport.pdf>

⁸ For a comparison of the treatment of energy efficiency resources in wholesale capacity markets, see Paul Peterson and Vladlena Sabodash, Synapse Energy Economics, “Energy Efficiency in Wholesale Markets: ISO-NE, PJM, MISO,” ACEEE Energy Efficiency as a Resource Conference,” September 29, 2009, slide 5, at http://aceee.org/files/pdf/conferences/ee/2009/5A_Peterson_Sabodash.pdf.

The table below provides a brief comparison of how states through the Northeast and Mid-Atlantic regions design their energy efficiency savings targets and their respective energy savings performance in 2011.

Table 1: How Northeast and Mid-Atlantic States Determine Savings Goals⁹

State	Type of Savings Target	Who Sets Target	Funding Mechanism	2011 Annual Savings (as % of retail sales)
Connecticut	All Cost-Effective Efficiency	Annual savings targets set by state utility commission	System Benefits Charge & Conservation Adjustment Mechanism	1.30%
Maine	All Cost-Effective Efficiency	Annual savings targets set by state utility commission	<i>Funding Capped by Legislature</i>	>1.0%
Massachusetts	All Cost-Effective Efficiency	Annual savings targets set by state utility commission	System Benefits Charge & Energy Efficiency Reconciliation Factor	1.44%
Maryland	Energy Efficiency Resource Standard	15% per capita savings target set by statute	EmPOWER Maryland Surcharge	0.64%
New Hampshire	<i>No binding savings targets</i>	<i>Not applicable</i>	System Benefits Charge	0.59%
New Jersey	<i>No binding savings target</i>	Energy Master Plan Goal of 17% savings by 2020	System Benefits Charge	0.56%
New York	Energy Efficiency Portfolio Standard (EEPS)	15% energy savings target by 2015 set by state utility commission	System Benefits Charge	0.98%
Pennsylvania	Energy Efficiency Resource Standard	~1% annual savings set by statute	Act 129 Surcharge	1.20%
Rhode Island	All Cost-Effective Energy Efficiency	Annual savings set by state utility commission	Demand-Side Management Surcharge	1.22%

⁹ Data available from NEEP's Energy Efficiency Policy Snapshot, Spring/Summer 2012, slide 5, online at <http://neep.org/uploads/policy/EE%20Policy%20Snapshot%20Updated-5.2.12.pdf>.

Vermont	All Cost-Effective Energy Efficiency	Annual savings set by state utility commission	Energy Efficiency Charge	1.98%
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While each state has a slightly different approach, a number of trends are clear. First, the highest performing states have chosen an “all cost-effective efficiency” approach that requires their program administrators to invest in all energy efficiency resources that are less expensive than comparable energy supply options. Second, the most successful states have binding energy efficiency savings targets in place, a practice that Maryland should continue. Finally, most states do not set their savings targets in statute, but rather through the regulatory process, allowing for flexibility to adjust savings targets and to evaluate performance. MEA may consider it valuable to provide “all cost-effective efficiency” as another option to present to lawmakers in its final report.

Among the options presented, we favor a “bottom up” approach that sets binding, realistic targets that link utility performance to annual retail sales. Unlike the current per capita consumption targets, this will ensure that program administrators are evaluated based upon the strength of their programs rather than economic or weather factors beyond their control. Annual savings targets could be set by the Public Service Commission (PSC) as part of the next three-year EmPOWER plans, perhaps with the legislature setting a *minimum* target of 1 to 1.5 percent of annual retail sales as guidance to the Commission.

3) Regulatory changes could enhance performance in EmPOWER Phase II.

Various stakeholders, including MEA, environmental groups, and the utilities brought attention to the importance of putting in place the right regulatory framework to accompany aggressive energy savings goals. Two regulatory matters, cost-effectiveness screening and utility shareholder performance incentives, deserve further consideration as Maryland moves into EmPOWER Phase II.

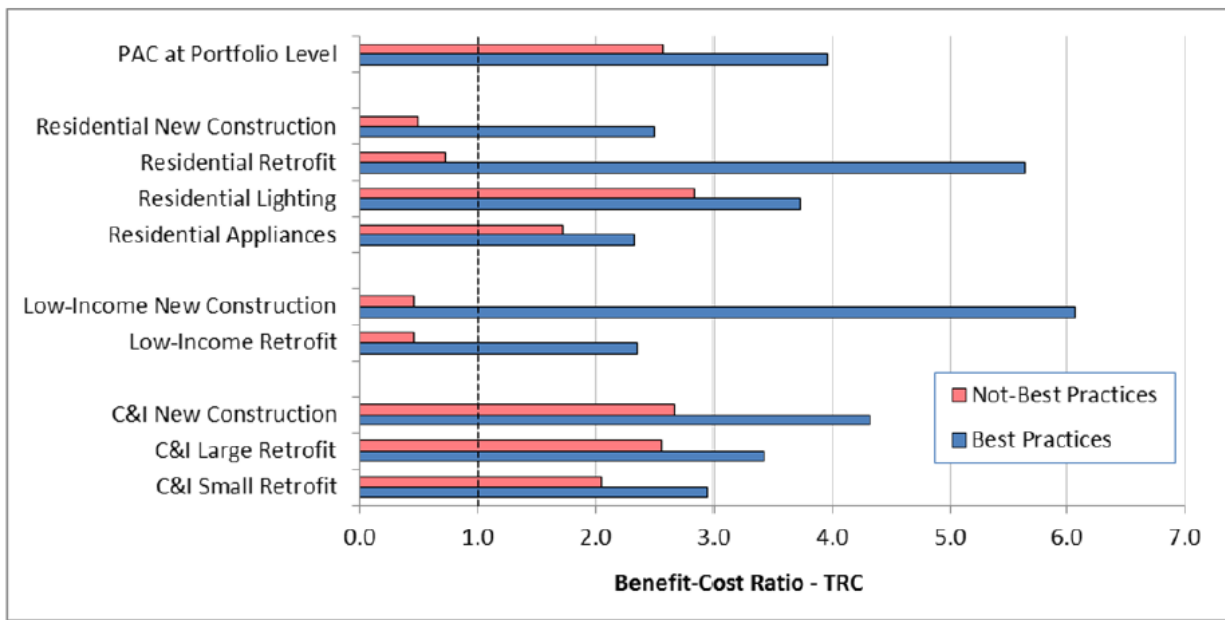
The draft report discusses the importance of proper cost-effectiveness screening to the success of the EmPOWER programs, particularly the Total Resource Cost (TRC) test.¹⁰ The critical issue is not primarily about who sets the test, but rather ensuring that the TRC test, if it continues to be the main cost-effectiveness screening tool in Maryland, includes the full range of customer benefits as well as costs.

A new report by the National Home Performance Council and Synapse Economics, entitled “Best Practices in Energy Efficiency Program Screening,” (see below, Figure 2) shows that many residential and low-income programs are not cost-effective unless the full range of energy, economic, health, and environmental benefits are taken into account (see the figure below for a full illustration). We highlight this in part because those residential and low-income programs may be of particular importance to lawmakers and their constituents, who

¹⁰ MEA, “EmPOWER Planning Draft Report,” p. 22-23.

stand to gain from greater access to energy efficiency programs.¹¹ This is also duly noted in the report¹², in citing the experiences in some other states - notably Massachusetts - that have been able to initiate successful residential retrofit programs due in no small measure to the fact that those programs have been allowed to screen as cost effective under that state’s regulatory review process. A more thorough examination of the link between cost-effectiveness screening and energy savings goal may be appropriate for a future technical proceeding before the PSC.

Figure 2: Cost-Effectiveness under Best Practices and Not-Best Practices (Synapse Economics, 2012)



Finally, many stakeholders raised the idea of shareholder performance incentives (SPIs) for utilities in their initial comments, though MEA has not currently addressed that in the draft report. Given other priorities, it may be premature to discuss SPIs to reward exceptional program performance. We note though that many jurisdictions around the region and the nation view a performance incentive mechanism as an essential element of their energy efficiency programs.

Increasingly, other states are using SPIs as a policy tool to incentivize more costly energy efficiency measures that have larger long-time benefits to customers and reward innovative program approaches. A recent report by ACEEE found a correlation between shareholder

¹¹ Tim Woolf, et al, Synapse Economics, “Best Practices in Energy Efficiency Program Screening: How to Ensure that the Value of Energy Efficiency is Properly Accounted For,” July 23, 2012, prepared for the National Home Performance Council, p. 4-5, 8, online at http://www.nhpci.org/images/NHPC_Synapse-EE-Screening_final.pdf.

¹² MEA, “EmPOWER Planning Draft Report,” p. 23.

incentives and higher expenditures on energy efficiency programs.¹³ Given that the EmPOWER Maryland Act already authorizes the PSC to adopt “reasonable financial incentives” for utilities, MEA may wish to address this in the final report.¹⁴

Conclusion

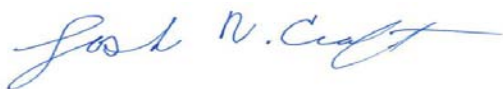
MEA staff has most succinctly and effectively summed up one of the greatest challenges in making the EmPOWER Maryland programs work, when they’ve noted:

“Program success takes dedicated and lasting investment. Maryland’s utilities must have the ability to spend more on programs that have a higher potential to save energy. Though the EmPOWER surcharge may increase, participants in the program will more than recoup the savings through reduced electric usage. Further, the experience of other states has proven that significant investments are necessary to obtain significant results.”¹⁵

NEEP could not agree more with the MEA’s assessment, and we fully support this concept as the best reminder of the intent of this report to the legislature, namely: to emphasize that if Maryland wishes to see energy efficiency work as a first order resource to meet the state’s energy needs, it needs to give efficiency the best chance to succeed.

Thank you for the opportunity to provide our views on the EmPOWER Planning report. We look forward to assisting MEA and its staff as it works to strengthen these vital programs.

Sincerely,



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Northeast Energy Efficiency Partnerships (NEEP)

¹³ Sara Hayes, et al., “Carrots for Utilities: Providing Financial Returns for Utility Investments in Energy Efficiency,” ACEEE Report, January 24, 2011, p. 16, online at <http://aceee.org/research-report/u111>. See also, Vermont Energy Investment Corporation (VEIC), “New Hampshire: Independent Study of Energy Policy Issues,” Chapter 9: Utility Performance Incentives Review and Assessment, September 30 2011, at http://www.puc.nh.gov/Sustainable%20Energy/Reports/New%20Hampshire%20Independent%20Study%20of%20Energy%20Policy%20Issues%20Final%20Report_9-30-2011.pdf.

¹⁴ Maryland Statutes, Public Utilities Article §7–211(f)(2).

¹⁵ MEA, “EmPOWER Planning Draft Report,” p. 24.