

HR&A

HAMILTON, RABINOVITZ & ALSCHULER, INC.
Policy, Financial & Management Consultants

March 3, 2004

Jaclyn Brillling
Secretary
NYS Public Service Commission
3 Empire State Plaza
Albany, NY 12223-1350

Dear Ms. Brillling:

Hamilton, Rabinovitz & Alschuler, Inc. is pleased to submit our comments on Case 05-M-0090 – In the Matter of the Systems Benefit Charge III.

Hamilton, Rabinovitz & Alschuler, Inc. (HR&A) is a policy, management, and financial consulting firm that was retained by NYSERDA to, first, design (and, for a period, market) NYSERDA's Energy Smart Loan Fund and, then, to design and implement the Assisted Multifamily Program. The firm is also a contractor for the Residential Technical Assistance Program with special expertise in real estate financing. As a consequence of these opportunities, HR&A has become familiar with NYSERDA's efforts to improve efficiency in housing through its residential programs, as well as with its work in financial markets.

We appreciate the opportunity to respond and look forward to a thoughtful public debate on this important matter.

Sincerely,

Candace P. Damon
Partner

Comments on Case 05-M-0090 – In the Matter of the Systems Benefit Charge III

Hamilton, Rabinovitz & Alschuler, Inc.

February 22, 2005

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1. To what extent have the goals and objectives established by the Commission been achieved?

The PSC and NYSERDA have made a series of related but distinct statements of goals and objectives for SBC funds over the 9 years since the Commission delegated substantial responsibility for achievement of its goals to NYSERDA. Indeed, as we will argue elsewhere in these comments, we believe the current process of SBC review represents an important opportunity for the Commission to clarify its contemporary goals, prioritize them, and begin to indicate how their achievement should be measured moving forward.

Most recently, the PSC, in the context of a review of evaluations of NYSERDA, stated that the purpose of SBC funding is to further the PSC's public policy goals:

- (1) Improve system-wide reliability and increase peak electricity reductions through end-user efficiency actions;
- (2) Improve energy efficiency and access to energy options for underserved customers;
- (3) Reduce the environmental impacts of energy production and use; and
- (4) Facilitate competition in the electricity markets to benefit end-users.

NYSERDA has restated these goals on its website, indicating that its charge is to:

- improve energy efficiency Statewide and reduce costs for ratepayers;
- make energy more affordable for residential and low-income households;
- help industries, schools, hospitals, municipalities, not-for-profits, and the residential sector, including low-income residents, implement energy efficiency measures; and
- promote economic development.

Both the PSC and NYSERDA have consistently indicated that, wherever possible, goals are to be accomplished not simply by spending SBC dollars on them, but by using those dollars to transform the marketplace such that, ultimately, aims are achieved without the need for continued infusion of public funds. Indeed, the concept of market transformation – and the well-established public policy of regularly monitoring progress toward that transformation – is central to these proceedings.

The SBC's impact on economic development and its consequent success in market transformation is among its most significant, yet least understood and appreciated, accomplishments. Taking the Assisted Multifamily Program (AMP) and the Loan Fund alone,

the two programs we know best, SBC II will stimulate more than \$600 million in construction and renovation, representing thousands of New York State jobs.

- If growth in utilization of the Loan Fund continues at its current pace of 6% per month, it will generate about \$320 million in energy efficiency investment from roughly \$40 million in SBC funds. In New York City expenditures of this type (on construction and renovation) currently lead to about one construction job for \$120,000 in expenditure, an estimate likely to be conservative if applied upstate. Using this standard, the Loan Fund will generate about 2,700 construction jobs alone.¹ (SBC investment will almost certainly have a more significant impact on permanent employment, but this is not readily estimable absent a detailed examination of the nature of borrowers' plans.)
- More than \$300 million will be invested through AMP, of which only \$63 million is SBC funding, a 1:4 leverage ratio virtually unheard of in low-income housing where co-investment is difficult to identify. In addition, AMP will be responsible for the creation of about 2,500 construction jobs.

No less importantly, the energy savings generated by these projects is available for further investment in development in New York State. Upon the completion of energy efficient renovation of more than 90,000 units in the AMP pipeline, AMP is projected to save consumers \$70-\$80 million per year, while the Loan Fund, projecting forward from current savings metrics, will save consumers about \$21 million annually.

These are dollar savings that translate directly into disposable income for New York's consumers and cash flow for its businesses. These savings have particular significance to low-income residents such as those AMP serves. The AMP Team saves the average low-income resident \$103 per year in direct benefits (including rent increases averted) and provides an additional \$252 in per unit annual savings to property owners, savings that, by the terms of the financings on these properties, will overwhelmingly be used for improvements in resident health, comfort and safety.

Further, as federal assistance to low and moderate income housing continues to be reduced, energy savings help ensure the continued viability of that housing. Energy savings:

- Reduce owners' operating expenses;
- Free up resident cash for rent payments and other necessities;
- Help forestall abandonment by tenants faced with energy (and other) bill arrearages and thereby help forestall high vacancy rates; and
- Help low-income properties stave off the need for restructuring and further government assistance.

Would some of this work have happened anyway? Perhaps some of it would have. However, there is no question that the strong SBC focus on implementation and market transformation has had a significant impact. For multifamily buildings, AMP charts a course from aging and inefficient systems to modern efficient replacements that includes direct assistance with identifying and securing the funds, obtaining regulatory approvals, specifications for bidding, and oversight of construction, and evaluation of savings. For other energy consumers, the Loan Fund provides a specification for minimum energy efficiency that guides both the contractor and the do-it-yourselfer in implementation.

¹ Urbanomics and F.W. Dodge *Capital Budgets & Plans* and the NYS Department of Labor

While the SBC is still young with respect to the time necessary to cause lasting change in the marketplace, there are already indications that it has the potential to transform markets and render itself (at least partly) unnecessary in the future. To return to the example of AMP, affordable housing is itself the product of a market intervention. Therefore, conventional notions of market transformation will not apply; for instance, regulatory limitations on owner profit mean that the actors one would normally expect to be able to incent may be less strongly affected by SBC investment than in other market segments. Rather, an important way to measure “market transformation” in affordable housing is by changes in behavior on the part of the major government housing regulatory and housing finance institutions. In a few short years, the SBC has already had a significant impact on the behavior and perspective of major regulatory agencies which have

- Shifted resources within budgeted capital fund allocations to incorporate energy efficiency and/or elevate it in priority. This is true of the New York State Division of Housing and Community Renewal’s Housing Management Bureau (DHCR-HMB) with respect to allocation of Project Improvement Plan and Modernization funds, and the federal Department of Housing and Urban Development (HUD) in its Mark-to Market restructurings;
- Permitted regulated properties to retain and reinvest energy savings that would otherwise be recaptured by the regulators. At the federal level HUD and the federal Department of Agriculture Rural Development (USDA) have allowed such arrangements. At the State level, the Office of Mental Retardation and Developmental Disabilities (OMRDD) has agreed to establish energy savings reinvestment plans with its providers;
- Agreed to pay debt service for loans for energy efficient renovation in properties under their purview. HUD, in particular cases, and USDA and OMRDD as a matter of policy across their portfolios, have agreed to cover these expenses; and
- In a landmark collaboration, agreed to modify the specifications used in the renovation of housing. The New York City Department of Housing Preservation and Development (HPD) will renovate tens of thousands of housing units in the coming years using more energy efficient methods. SBC dollars will support these renovations in the early years and be phased out thereafter. As SBC investment is phased out, developers will absorb a portion of the additional costs, while participating lenders will increase loan principal amounts in recognition of increased owner ability to pay occasioned by lower energy costs. Finally, we anticipate that as a consequence of the largest housing market player in the state adopting higher efficiency specifications, the cost of implementation will drop as contractors and manufacturers respond.

Other key actors in the affordable housing market are the large property managers and owners. Some of those that have worked with NYSERDA (notably Related Properties, Grenadier Realty, RiverBay Corporation, Rochester Management, CRM Rental Management, and AIMCO) have begun to change the way they approach capital improvement in their properties, focusing on improvements that will save on operating costs, taking out unsecured loans for major energy work rather than waiting for sufficient reserve funds to accumulate, and hiring engineering firms trained in energy efficiency for follow-on work.

Lenders are critical barometers for measuring value in affordable housing. As a result of NYSERDA’s affordable housing initiatives, as well as of its promotion of the Loan Fund, some New York State lenders (notably Amalgamated Savings Bank) are making loans for energy efficiency that take account of the impact of projected energy savings on a property’s financial health in their underwriting, resulting in expanded access to capital for energy work.

Finally, both AMP and the Loan Fund have exposed contractors all over New York State to specifications and designs that are more energy efficient than they otherwise would have used, an impact likely to affect the way they approach future projects.

2. Should the SBC program continue beyond its current expiration date of June 30, 2006? If so, for what duration should the SBC be extended and at what funding level?

Notwithstanding the early evidence of market transformation discussed above, many of the interventions NYSERDA makes cannot be expected to have achieved market transformation in a 3-5 year span. This is particularly true of the larger, more ambitious, more capital intensive efforts. Nor, in the case of initiatives that benefit moderate-sized projects, like AMP's renovations averaging \$1 million each, or the Loan Fund's, which average less than \$500,000, is it clear whether, absent continued SBC support, any of the transformative trends have sufficient momentum to continue on their own. Sustainable market transformation likely requires extended engagement over a span closer to 20 or more years. Even given that time frame, the necessity for low-income programs in a competitive energy market is likely to remain.² The SBC should be renewed if it is to achieve its core goal and build on its most significant achievements to date.

We believe five years is an appropriate term for the renewal of the SBC. A five year term will allow sufficient time for many SBC-funded programs currently underway to make sufficient progress to permit worthwhile evaluation and measurement of impact.

We believe that the PSC made the right decision in its ruling (Case 94-E-0952) of January 26, 2001 when it established \$150 million per year for the SBC, explicitly striking a balance between a rate increase and a funding level sufficient to achieve real impact on peak load and other market-related problems. We believe that the \$150 million should be indexed for inflation. Using the Consumer Price Index for urban areas of the northeast, applying inflation from 2001 through 2004 and assuming similar 2.8% inflation for the first three years of SBC III, we recommend an annual SBC allocation of \$187 M for SBC III.

Any new mandates, whether to address gas consumption or to promote renewables, should bring with them funds above and beyond that figure or risk jeopardizing progress in electric SBC programs that are beginning to have an impact in the marketplace.

² "Electric Utility Restructuring and the Low-Income Consumer – Facts on File Nos 9-12." Fisher Sheehan & Colton, Public Finance and General Economics, October 1997.

3. Have conditions changed since the establishment of the SBC that would necessitate a change in the overall goals and objectives of the SBC? If so, what changes are recommended?

By most measures, energy prices are higher and more volatile than they were when SBC II was proposed and approved.³ In some respects, higher prices impact the effectiveness of SBC programs favorably – consumers become more conscious of the need to save and more likely to utilize programs that help them to save. However, higher prices and higher volatility have a disproportionate impact on lower-income populations. They have fewer resources with which to pay their energy bills and less budgetary flexibility to cope with unexpected price spikes. We believe that this change in conditions calls for a greater focus on low-income programming in SBC III.

Another important change since SBC II is that some of NYSERDA's programs have already had a significant effect on the market. As suggested above, among these are those that promote high volume, low capital investment projects. For instance, the Keep CoolSM program has been immensely successful in bringing the price of ENERGYSTAR[®] air conditioners in New York down to the level of less efficient models. In response, NYSERDA has appropriately lowered the incentive available for consumers of these more efficient air conditioners steadily over time. We believe that there is an on-going opportunity to continually evaluate success in progress toward market transformation, either tightening standards to push the market still further, or phasing out of particular programs and shifting focus to other market-transformative opportunities. To avoid market confusion and build on success, a move in this direction will require NYSERDA to establish goals and indicators of market transformation for its programs and to index funding for them based upon achievement of those goals.

³ U.S. DOE, Energy Information Administration.

4. If assuming continuation of the SBC, how should programs be prioritized to meet those goals and objectives?

Programs should be evaluated based on the opportunity they present to impact the marketplace and progress made toward doing so. This approach should recognize the fact that each market changes in different ways and at different rates (a critical reason why evaluators must be thoroughly familiar with the markets they are assessing, an issue to be discussed later). A demonstrable change in the price of ENERGYSTAR air conditioners may be a reasonable short term goal. A demonstrable change in bank underwriting practices with respect to recognition of energy savings or a significant increase in the frequency with which architects specify heat recovery ventilation systems is a change that is reasonable to expect only over a longer time span. With goals firmly but realistically established, programs that show no signs of transforming their respective markets within expected time frames should be reconsidered and perhaps reformulated.

Some calls have been made for “sector equity,” the concept that each component of the economy (commercial, residential, industrial) should receive a proportionate share of SBC programming funds. We believe that, loosely speaking, some attention should be paid to proportionality. No sector should see a significant proportion of the SBC funding contribution it makes dedicated to another, such that opportunities to make impacts in a diversity of markets are lost. Nonetheless, generally speaking, the benefits of SBC programming are broadly shared. Reductions in peak load in the residential market have beneficial price implications for the industrial sector and vice-versa. Similarly, capital improvements in the industrial sector create construction and renovation jobs and generate savings that further bolster investment and job growth. These additional jobs benefit residents – who are also employees. On balance, a modest tilt in favor of programming with the greatest economic development potential might be expected and applauded.

Regardless, we believe that a debate regarding sector equity is worth having. The debate will require transparency with respect to current and future allocations and the goals those allocations are meant to advance. We believe the PSC has an opportunity to begin the conversation via these proceedings.

About three years ago, HR&A suggested that Loan Fund resources should be targeted to those market sectors in New York that (in addition to using banks as sources of capital financing):

- Are most likely to create new jobs;
- Have high energy costs relative to total operating costs;
- Are locally owned (i.e. with local control over investment decisions); and
- Participate in strong trade and other networks (i.e. can be contacted efficiently).

These indicators continue to strike us as reasonable criteria by which NYSERDA could make investment decisions, at least with respect to advancement of its economic development mission: we continue to feel that such an approach to programming with SBC funds is likely to have the greatest impact. (At the time, we identified hospitals, restaurants, plastics manufacturers, food stores, office buildings, and the printing and publishing industry as the strongest candidates for targeted outreach.)

Whether and however the sector equity debate is engaged, it should not obscure the ongoing importance of low-income programs. SBC funds should be apportioned to reflect both the size and the burden that population faces. In New York State, 15% of households live below the

poverty line,⁴ and 38% of households make less than 80% of the State median income of about \$43,000. Households that spend more than 35% of their income on housing costs are typically described as “housing cost-burdened.” In New York, more than 33% of households are housing-cost burdened. Reducing annual energy costs can have a significant impact on housing costs. Electricity costs alone may average \$600-\$800 per year. A 10-20% reduction per year for a low-income household can mean the difference between paying the bills for the month and falling into arrears. Moreover, the lower their total energy use, the more limited the risk they face from the growing volatility in prices.

In addition, we believe that New York City, as both the locus of peak load problems for the State and the location of 70% of the families living below the poverty line, should see at least a proportionate share of SBC funding. We recognize that New York City presents challenges for SBC fund administration: for a host of reasons, of which the cost of living is only one, New York City is an expensive place in which to market, design, build, and network. Nevertheless, we believe that economies of scale from the sheer volume of individuals impacted are likely to offset most of these higher operating costs.

⁴ All population and income data are from the 2000 Census and exclude Nassau and Suffolk County from calculations.

5. How might the SBC programs be adjusted given the Commission's order, issued September 24, 2004, regarding a Renewable Portfolio Standard (Case No. 03-E-0188)?

It is not yet clear what impact the RPS will have on SBC programs with which HR&A is most familiar. It is likely, however, that the requirement that a larger share of New York's power come from renewable sources will raise prices in the near term, not necessarily a bad result so long as low-income consumers are protected. Most recommended energy improvements in NYSEERDA programs use life-cycle cost-based Savings-to-Investment Ratios (SIR) to determine whether or not an improvement should receive SBC dollars. We believe that it may be important for SBC-programming to take account of the forward-impact of the RPS on pricing and the anticipated benefit that installation of renewables will provide, modifying as necessary the SIR calculations deemed acceptable.

In addition, we believe the PSC should treat the "Customer-Sited Tier" of the RPS expansively, providing liberal support to individual efforts at on-site generation. For instance, for many low-income housing facilities, high operating costs limit the properties' capacity to pay debt service or to make urgent repairs. This condition is particularly true of the large electrically-heated properties built in the 1970s by the Urban Development Corporation (now the Empire State Development Corporation). Many of these complexes have sufficient space for siting of cogeneration and renewable facilities. Their electric heat systems, meanwhile, result in a winter peak load, and allow for excess energy production in the summer which could contribute to peak load problems elsewhere on the grid. The financial impact of special incentives under the RPS for such facilities could accomplish four goals at once:

- 1) improvement in the living conditions of low-income tenants as properties overcome financial difficulties;
- 2) potential payment toward State-held mortgages currently in arrears;
- 3) reduction in peak load; and
- 4) a contribution toward the achievement of RPS goals.

Likewise, a programmed focus on the Customer-Sited Tier of the RPS would permit appropriate, sustained (and regularly evaluated) support of what might otherwise be treated as "one-offs" or "orphans" within NYSEERDA. For instance, NYSEERDA has provided some support to Stuyvesant Cove Park in New York City, a park with which we have some familiarity having prepared the proposal by the not-for-profit entity selected by the City of New York to operate it. The public-private partnership which conceived, designed, built, and is operating this park, is currently designing a centerpiece for the park: a state-of-the-art "green" learning, conference and entertainment facility, which has the potential to become one of the country's most significant energy-related educational initiatives.

To the extent that the RPS will appear as an additional charge on utility bills, we think it is important that the PSC address any resulting confusion among consumers. They will likely wonder what a "Renewable Portfolio Standard" is and why they have to shoulder some of the cost to help utilities increase utilization of renewable sources. (Alternatively, if the RPS and SBC charges are presented as a single – larger - charge, the obligation to explain the charge will be that much more of an imperative.) We believe the public is aware of the need to reduce emissions and particularly to reduce American dependence upon petroleum and other non-renewable energy

sources. Advance public relations work citing these themes with regard to the RPS should help ensure that public perception of the initiative is positive.

6. In what ways might the current SBC fund collection and allocation process be improved?

HR&A is not sufficiently informed on this topic to provide useful comment.

7. What specific program(s) should be eliminated, expanded or created?

NYSERDA's distinctions among program areas, for example "commercial/industrial" and "residential," can sometimes leave segments of the market unserved. Perhaps the best example of a lacuna created by these program divisions is the area of "mixed use" development. The concept of mixed uses is not a new one, but it has become an overwhelming trend in urban development over the last 10-20 years.⁵ The benefits of mixed use development are well-established, and include prevention of sprawl and preservation of open space, more efficient use of land and other public resources (e.g. utility distribution networks), and reduction in the need for automobiles. Indeed, the denser the development, the lower the per capita use of the earth's resources (energy in particular).⁶ Unfortunately, neither residential nor commercial SBC programming is currently equipped, in terms of the energy assessments they allow and the kinds of incentives they offer, to be supportive of mixed use development. A likely result of a mixed use development seeking support for energy efficiency from NYSERDA is rejection by both the commercial and residential programs. We believe that, in fact, there is a strong case to be made that such developments should receive *more* support than others.

In that spirit, HR&A offers a suggestion that might break down barriers that arise as a natural (and inevitable) result of bureaucratic distinctions that must be made in large institutions. The Ford Foundation, which awards several hundred million dollars each year in grants, faced a similar problem when it restructured roughly ten years ago. To encourage collaboration across its various divisions, it established a segregated allocation of funds that could be accessed only through interdisciplinary programming. Each contribution a division made to collaborative work with another division was matched from this special allocation. NYSERDA might consider a similar strategy. For example, the residential program would receive an additional allocation of funds for work it performed collaboratively with the commercial-industrial program. Such a strategy might prevent the need for further bureaucratic divisions (e.g. a "mixed-use program") that may further fragment efforts to promote inter-program collaboration. These segregated funds should be "new" SBC monies, not funds taken out of residential or commercial programming.

Secondly, Mayor Bloomberg's ambitious housing plan to create or preserve 65,000 units in five years and Governor Pataki's initiatives in senior housing stand in stark contrast to the lack of significant SBC programming in multifamily new construction. On a square footage basis more than half of all new construction in the State is residential.⁷ We believe that SBC support for residential new construction should take this into account. Further, the current approach to new construction under SBC II tends to be prescriptive in nature rather than treating a building's energy components as an integrated system. No rigorous approach to multifamily design and construction has been developed, and as yet no ENERGYSTAR label exists for multifamily properties. Meanwhile, residential energy use accounts for a quarter of total energy use in the U.S.⁸ A multifamily building offers an opportunity to affect energy use in many households at once. Moreover, it is far cheaper on a per unit basis to support energy efficient construction from the outset than to retrofit later.

⁵ *Emerging Trends in Real Estate, 2005*. Urban Land Institute

⁶ David Owen makes this case powerfully in his October 18, 2004 article "Green Manhattan" in the *New Yorker*.

⁷ Dodge Construction Reports.

⁸ Energy Information Administration, U.S. Dept of Energy.

Finally, we recommend NYSERDA consider establishment of a Venture Fund for energy investments that market imperfections render infeasible under current conditions. In our experience in the residential market, NYSERDA-supported engineers sometimes discover energy-saving or generating opportunities of very large scale (e.g. major electric heat conversions or cogeneration projects). Despite very compelling Savings-to-Investment Ratios, these opportunities are rarely implemented for at least three reasons: 1) owners and management companies do not believe the savings projections; 2) financially troubled properties face cash constraints that prevent them from investing reserves or taking out the debt to implement projects and may have mortgage holders or investors with first claim on any operating savings achieved; and 3) owners are reluctant to invest and to bear the risk because they are uncertain whether they will continue to own the property long enough to achieve a return on investment.

We believe a Venture Fund – perhaps operating as a sort of public interest Energy Services Company – could address all three of these problems. First, the Fund could take all or part of the risk of achieving savings. Few activities are more market-transformative than proving to major market participants that savings are achievable. Second, the Venture Fund would supply the capital to mitigate owner cash constraints. Operating agreements with regulators and/or mortgage holders could ensure that savings and fees are paid back to the Fund out of operating income (i.e. are senior to debt service). Third, by providing the capital and isolating the owner from risk, owner concerns about return should be resolved. These ideas require further development, but we believe that there is an important role for such a fund.

8. How can future SBC funded programs be more responsive to the needs of New York's energy consumers?

Our suggestions are fully covered elsewhere.

9. How can SBC funded programs be marketed more effectively?

Our answer to this question is treated as part of our answer to question 10.

10. In what ways can NYSERDA improve its administration of the SBC?

When the PSC constituted NYSERDA as the entity significantly responsible for furtherance of the Commission's goals and limited it to 5% of the budget for administration, later raised to 7% under SBC II, it created one of the most perfectly realized versions of a privatized agency of which we are aware. As the Commission is well aware, the extent to which public agency functions are appropriately delegated to private contractors has been one of the most hotly debated topics in public administration for at least a generation. The debate has raged principally around questions of public accountability, cost effectiveness, and quality of service. Using those criteria, it would appear that, on balance, the significant tilt toward privatization of function that obtains at NYSERDA has worked well.

Nonetheless, just as a host of conventionally "public" agencies have benefited from self-examination (albeit usually forced upon them) to ascertain the benefits of full or limited privatization of functions, we believe that NYSERDA might benefit from an examination of whether (1) all functions currently contracted out are performed optimally by contractors, and, more significantly, (2) whether there are important functions that are being performed minimally or not at all as a consequence of the privatization of the agency as a whole.

Virtually by definition, the highly privatized NYSERDA model, which involves great dependence on a diverse group of contractors who rarely interact with each other in either a structured or informal setting, results in:

- Difficulty defining, refining, and evaluating progress toward Authority-wide goals and similar difficulty communicating successes, challenges, and "lessons learned" to both colleagues and the public;
- Consequent redundancy and duplication of effort;
- Widespread market perception of "stove-piping," i.e. a need to consult with multiple individuals and divisions to advance a project; and
- Difficulty establishing market presence as a corporate entity with corporate goals, rather than as a collection of programs, a difficulty that slows progress toward market transformation.

All agencies benefit from occasional re-examination of their organizational models and structures. Even when it is subsequently shown that no major overhaul is necessary (as is usually the case), the discipline of re-examination benefits the institution. We believe NYSERDA should be challenged to undertake such an examination.

11. Is the current NYSERDA program evaluation process adequate? How might it be improved?

Program evaluation – no matter where conducted, of whatever program - should proceed from:

- A clearly understood and shared (among NYSERDA staff, contractors and evaluators) set of prioritized corporate goals and objectives;
- An equally clearly stated understanding of the fit of particular programs into those corporate goals and objectives, including collectively pre-established measures for ascertaining program progress in meeting particular goals and objectives; and
- A demonstration of expertise by the evaluator in the market segment of the program being evaluated, a demonstration that should be given greater weight than experience in “evaluation” itself.

Uniform application of this framework, which, in our view, was not in place in the last round of program evaluation, would result in evaluations of greater utility to the Commission, NYSERDA management, and, indeed, NYSERDA contractors. Necessarily, application of this framework would require acknowledgement of facts including:

- Every program cannot and should not be expected to advance every goal equally well. Rather the portfolio of programs should collectively advance the articulated corporate goals as they have been prioritized;
- Therefore, evaluation of NYSERDA’s relative success in meeting its goals demands evaluation of the Authority as a whole (its mission, authority, resources, incentive structures, and systems for operations) as well as of its many programs; and
- Units of measurement of success will vary by program, based on the nature of the markets in which different programs operate, among other factors. This will be particularly true of goals that are inherently harder to measure, e.g. progress toward market transformation.

12. Should SBC funds be extended to programs that encompass research and development into retail and/or wholesale electric market competitiveness issues, or transmission and/or distribution of the State's energy resources?

We believe that impartial research into competitiveness, transmission and distribution should be performed, and that it is a worthwhile use of SBC funds. In particular, this research should delve into barriers to the promotion of distributed generation. There are a number of low- and moderate-income housing complexes that could benefit from the development of generation capacity. However, they can only realize these benefits if they have a connection to the grid and the capacity to sell their production. While we understand the need for utilities to be able to support these complexes if the generation facilities should fail, we also believe that the system could assume a lower failure rate such that tariffs could be lowered and diverse sources of energy could flow more freely to the grid. If other efforts to redress the problems of large affordable housing complexes are put in place, they could prove to be beneficiaries of such policy research and adjustment.

Such research and/or new programming is, however, likely to be relatively costly. As with other proposed new programming, funds above and beyond the suggested base funding level of \$187 million should be identified if such new programming is pursued.

13. Should the scope of the SBC program be expanded to include programs for natural gas customers?

We believe strongly in an approach to energy efficiency that embraces all forms of fuel use. Without a natural gas SBC, major opportunities for energy savings are lost.

If so:

a. What kinds of programs would benefit New York's gas consumers?

NYSERDA's low-income programs are permitted to address gas as well as electric usage. Its work in multifamily housing has determined that fuel-switching (from electric to gas heat, hot water, and dryers) can generate significant savings for low- and moderate-income tenants. It has also identified a wide range of gas-saving measures – fully-condensing boilers, insulation, thermostatic radiator valves – that can save scarce funds for low-income properties.

In addition to energy-saving upgrades, we believe programs to extend gas lines to communities where they are currently unavailable would be beneficial. Electric heat is more common in areas where oil companies are not present and gas lines unavailable. An important way to generate savings while utilizing the State's energy resources more efficiently is to ensure that residents have access to more than one source of energy and are able to make choices among them. To the extent that extending the lines generates additional customers for gas companies, they should contribute non-SBC funds to programs that extend distribution networks.

b. Which classes of customers would be served most effectively by a natural gas SBC program?

To the extent that greater efficiency in gas brings down the price of natural gas (and potentially other energy commodities), all energy customers would be served by a gas SBC.

c. How should a natural gas SBC program be funded and what annual level of funding might be considered reasonable? How might a natural gas SBC affect current electric SBC funding levels?

We have no strong views with respect to how a natural gas SBC program might be funded. A surcharge on bills similar to the electric SBC would be feasible. However, we do not believe that a natural gas SBC should affect electric SBC funding levels. Much of the funding under the electric SBC is directed at market transforming efforts in electricity-related markets. No reduction in the electric SBC can be justified by the presence of a gas SBC, which should be utilized to promote greater efficiency in gas and to extend the reach of gas distribution networks. As mentioned above, we believe retrenchment at this relatively early stage of the electric SBC could harm ongoing market-transformative work.

d. What should be the initial duration of a natural gas SBC, and should that term coincide with the extension of an electric SBC, if the electric SBC is extended?

The gas SBC will benefit from some of the platforms already established for electric programs. Many SBC programs involve energy analysis of buildings and facilities and implementation of electricity-saving measures. Gas SBC programming will, in many cases, be able to utilize the same networks of engineering firms and many of the same policies and procedures as electric SBC programming, allowing for a broader approach to energy efficiency. For example, NYSERDA's low-income residential programming emphasizes a "whole building" approach to energy conservation, evaluating all fuels and all improvements that impact energy use, health, comfort and safety of residents. Implementers of these programs are able to address all energy-saving opportunities at once. The gas SBC will allow other electric programs to apply this same more inclusive methodology.

e. How might a natural gas SBC be administered and evaluated and how should it differ from the administration of the electric SBC?

Reflections on evaluation are included in #11 above. It is not clear to us that administration or evaluation of the gas SBC should be different.

14. Do you have any other suggestions for improving the overall SBC program that are not addressed by the above questions?

Our suggestions are fully covered above.