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# Case 05-M-0090: In the Matter of the Systems Benefits Charge III

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## Comments from Conservation Services Group, Inc. in response to the Staff Proposal for the Extension of the System Benefits Charge (SBC) and the SBC-Funded Public Benefit Programs issued August 30, 2005

Submitted October 17, 2005

The staff report issued on August 30, 2005 supports the efforts that NYSERDA has managed and endorses continuation of the current funding levels for SBC programs for another five years. The following comments are written to advocate for minimal funding of $246 million a year along with reasonable yearly increases to compensate for inflation and to present a case for lengthening the SBC III Program to 10 years without interruption. Both changes are needed to support the efforts of the last two SCB funding periods and to ensure true market transformation.

Conservation Services Group (CSG) is a not-for-profit corporation that operates residential and commercial energy efficiency programs, builds solar power plants and consolidates the Renewable Energy Credits generated by small generators for sale in the various REC markets. Since 2000, CSG has had the privilege of implementing small family residential programs as a contractor for NYSERDA. At present CSG implements Home Performance with ENERGY STAR and New York ENERGY STAR Labeled Homes, provides marketing services for both programs and employs 30 New Yorkers. We have also built several solar power plants in New York State, which were financially possible because of the effective incentives offered through NYSERDA. Finally our appliance de-manufacturing facility in Syracuse has disposed of about 200,000 appliances (primarily room air conditioners and refrigerators) that were replaced by more efficient models in the course of several SBC funded programs, most notably the NY ENERGY STAR Keep Cool Program. CSG provides similar services in other states to different public agency and utility clients.

The staff report on SBC mentioned that the comments of various contractors (not surprisingly) favored increasing the pool of funds available. CSG is clearly a beneficiary of SBC funds in the most direct manner – much of our New York operation depends on the continuation and expansion of SBC funded programs. Although these programs are awarded following competitive bidding practices, we have an obvious interest in expanding the pool of available programs. With that interest stated explicitly, we will make only a few points.

<u>SBC III Funding Levels</u>

The New York SBC charges on a kWh basis are significantly lower than charges in many surrounding states, particularly Vermont, Massachusetts, Connecticut and New Jersey. The approximately $150 million per year that the PSC staff has proposed be continued in New York State, while a large number, is much lower on a per capita basis than the approximately $120 million per year being raised in New Jersey, Connecticut and Massachusetts for similar programs.

It is CSG's belief that the funding level for SBC III should be minimally increased to about $246 million a year. Based on the staff report, such a funding level would place the SBC charge at approximately 2% of electric revenues, which would make NY more consistent with expenditures in the other Northeast states with systems benefit charges (in comparison, Massachusetts' SBC is over 3% of revenues, while Connecticut's is at about 2%). NY has been a leader in program design and innovation and it should pair this success with funding levels as well. To not do this would put NY and the whole Northeast at a competitive disadvantage as increasing energy prices exact a disproportionate share of economic health from an area of older homes and greater dependence on energy imported from other regions.

As will be demonstrated below, there is need for program expansion. No eligible customer has been turned away from any residential program that CSG operates in New York because of lack of funds. But for the past two years we have been acutely aware that funding is limited, that program success has been eating away at the budgets, that NYSERDA has been moving money from various budgets to meet the needs of the more successful programs, and that expansion of programs, either in terms of geographic spread or services offered, was hard to afford within the overall cap on funds and given the distribution of funds among market sectors. In particular, marketing for residential programs has been reduced from initial levels for the last two years, which means that many New Yorkers have not heard about the excellent programs that are being offered.

To further the argument for additional funding, energy prices are up sharply – unregulated costs are up at the pump for gasoline and at the fill tube for heating oil and propane. Natural gas rates are up substantially as well, and these costs are rippling through into electric rates. Rising costs make energy efficiency more attractive -- for people who have the means to finance energy efficiency projects and who know about them. The market transformation approach that the PSC has pioneered means that the infrastructure to meet this increased demand is, in some places, becoming established. But the public and semi-public support system that is needed to maintain and build this infrastructure to sustainable levels needs to expand with the increasing demand. To be specific, as residential customers want to buy new energy efficient homes, or to improve their existing homes, they will be calling on the builders and contractors that we have been recruiting. We will need to process more applications, support more training and certification, inspect more jobs, record more results for evaluation, and work to notify more New Yorkers about the programs that are available. It is also necessary to step up efforts to prevent unqualified contractors and builders from claiming to offer the high quality services that we have struggled to establish in the past four years. In short, without expansion of the services that CSG and its competitors provide, the programs will miss the opportunity to grow with the new market conditions, and many New Yorkers will miss the opportunity to save energy in the most cost-effective and safe manner.

Recently, as a result of the sharp increases in energy prices, CSG has been contacted by or heard through contractors about customers who want to install space heaters and wood stoves, and has seen evidence of an increase in people wanting to do their own installations of energy-efficient measures. In the case of space heaters, customers may be making choices that will increase their energy costs or expose them to dangerous indoor emissions of combustion gases. In the case of do-it-yourselfers who wish to tighten up their homes without any diagnostic testing or building science awareness, there is a distinct threat of an increase in combustion equipment malfunctions and exposure to carbon monoxide via back drafting. The programs need an increased profile among the public in order to educate homeowners that, while they are considering energy conservation investments, they will best protect the health and safety of their families, as well as the durability of their homes, by participating in NYSERDA's residential programs.

This situation calls for increased funding to at least make up for inflation over the last five years, and to allow for the expansion of successful existing programs that are already starting to show signs of significant growth. The PSC staff recommendation is to continue funding at the $150 million per year level, which constitutes only 1.22% of total electricity revenues; again, from our own vantage point, it is time for NY to increase its investment to at least the 2% level, which would, based on the figures in the staff report, place SBC revenues at $246,000,000 immediately; and to allow that budget to grow proportionally at the 2% of revenues level as rates are adjusted for inflation and energy costs each year.

It is CSG's opinion that the profound increases in energy prices mentioned above that have occurred both nationwide and in New York State since the PSC prepared its report, increases considered by most energy experts to be permanent, also substantiate the compelling argument to increase funding for residential and low income programs. Individual consumers who pay the SBC charges and are the hardest hit by the increases should receive back the bulk of the charges in the form of energy efficiency services during the SBC III funding period. In the report, the staff reported that, during SBC I and II, residential and low-income programs together accounted for 31.1% of all SBC expenditures. This share was significantly less than that devoted to the business and industrial sector, which commanded 37.3% of all SBC funding.[1] These percentages should be brought into balance by assigning a larger portion of the increase in SBC funding to residential and low-income programs than to business and institutional programs. There are several factors supporting this position. The most important is that New Yorkers face some of the highest energy costs in the nation, due in large part to the length of the heating season. Thus, in addition to the higher costs of gasoline for transportation, New Yorkers now face huge increases in the cost of heating their homes during winter. Together, the two expenses significantly erode disposable income which will affect not only low-income ratepayers, but those in the middle class as well. An erosion of disposable income will, in turn, have a dilatory impact on consumer demand for non-essential goods and services in the economy, which, in turn, has a dilatory effect on revenues, income and employment levels for retailers and other business sectors important to the New York economy.

[1] Staff Proposal, p. 4.b

The magnitude of the macroeconomic effect of loss of disposable income is not well known as of yet, given the fact that energy cost increases are so recent and the New York economy has not yet experienced its first heating season under the new energy cost regime, but the magnitude of the energy price makes it obvious that the New York economy will suffer from the erosion of disposable income and consumer confidence that will occur beginning this fall and winter.

Next, while NYSERDA's residential and low-income residential programs are reported by staff to have been successful to date, they have much work left to do before a high level of market penetration is reached and permanent market transformation is achieved. For instance, NYSERDA's main residential retrofit program, Home Performance with ENERGY STAR®, is the largest and most successful program of its type nationwide, having reached a penetration of over 8,700 energy efficiency retrofits as of the end of October 2005. However, despite its national preeminence, it has served less than 0.175% of the eligible 1-4 family buildings in the state.

Another reason is that residential energy efficiency programs are inherently expensive to mobilize on a large scale, given the necessity of communicating to a huge and diverse audience over a wide geographic area covering many media markets. Consumers need to be educated regarding the available programs and about the practicality of becoming program participants.

On the supply side, providers of services (i.e., residential contractors and homebuilders) have to be recruited one at a time and then trained on comprehensive techniques for providing energy efficiency and health and safety home upgrades. Additionally, these program participants must stay motivated to promote their services through aggressive communications and marketing. CSG has learned that, given an aggressive application of program business-to-business marketing and recruiting resources, it is possible to mobilize a leadership group of contractors and builders who understand the business proposition. These are the individuals who are inspired to truly transform their business models to promote the core objectives of the program. As their success is demonstrated, an increasing number of their competitors show an interest in program participation. However, it takes a significant effort and numerous resources to truly transform the industries, a process that can take a few years, especially for mainstream business entities that have large operations and many employees. The effort involves not only program recruitment and training, but also consulting on internal organization and staffing, and constant feedback on quality assurance and ongoing support.

Consequently, achievement of true market transformation requires years of effort, on the one hand educating a very large population of residential building owners in order to stimulate demand, and on the other hand developing success and demonstrating profitability among the providers of program services. This requires an ongoing program design that combines investments in mass marketing and communications, transaction incentives, partner recruitment, training, and quality assurance. While all of this effort more or less guarantees that residential and low-income programs generally achieve lower cost-to-benefit ratios than business and institutional programs do, it is CSG's strong contention that the new era of unprecedented energy costs compels higher level of investments in these market sectors in order to maintain the overall integrity of the New York economy.

SBC III Funding Period

As stated earlier, during the past 8 years, SBC I and II funding in New York have provided an extraordinary array of energy efficiency programs to the great benefit of New York ratepayers, employees and entrepreneurs but there still remains a significant gap in - 1) the achievable potential for meeting energy needs through efficiency and renewable energy; and 2) the actual energy savings that current efficiency and renewable programs are expected to achieve. In short, the job is not done. New York remains dependent on expensive, imported and polluting fuels, and the ratepayers and businesses of the state are still facing rising bills and supplies made unstable by international events and by the declines in domestic production. While there has been great progress, the electric grid remains vulnerable to interruptions and subject (in some locations) to capacity strain during system peaks.

To realize the full achievable potential for energy savings through efficiency and renewable energy development, CSG recommends expanding the SBC Program term through 2016. By lengthening the program term through 2016, the SBC program will provide more funding certainty, and continue its success in achieving the State's energy policy goals. In addition, this longer term will provide ample opportunity for programs to be expanded, and for some new programs to be developed.

From our experience, a ten-year commitment to SBC III represents the minimum commitment to be made to a successor program. This long term commitment will provide builders and contractors the assurance necessary to shift their business from business-as-usual to the incorporation of energy efficient features in their building projects. The New York ENERGY STAR Labeled Homes Program is routinely working with builders involved in multi-year construction projects. For many builders, the long term stability of these programs is a critical factor in gaining their ongoing commitment. For contractors that may be considering participation in the Home Performance with ENERGY STAR program or for those contractors currently participating, the ten-year commitment will provide the stability necessary to provide these businesses with the confidence to invest in the hiring, training, equipment and resources necessary to be successful in Home Performance.

Also, for New York lenders such as Home Headquarters of Syracuse that are just getting on board with the program as providers of low interest financing and grants for New Yorkers in the Assisted Housing markets, ten years of SBC funding sends a strong message of commitment and encouragement regarding program longevity. This message will be embraced by all current program participants, inspire others to join, and will motivate consumers.

It is CSG's belief that throughout these comments we have presented evidence to support our recommendations of raising SBC III funding to $246 million a year plus yearly increases to account for inflation and for lengthening the program run through the year 2016. We thank you for this opportunity to comment.