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**NAESCO Comments on Draft EE Action Plan**

*Additional submitted attachment is included below.*

**NAESCO Comments on CEC EE Action Plan Draft**

**November 27, 2019**

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NAESCO respectfully offers the following comments on the *2019 California Energy Efficiency Action Plan - Draft Staff Report*. Our comments are based on the experience of our senior executives – one with 45 years' experience in the energy efficiency industry and one with almost two decades of experience in the EE industry and a decade of experience running major federal EE and RE programs, including the Obama Performance Contracting Challenge referenced below.

The Draft Action Plan Draft lists about 44 recommendations in the Executive Summary and in Chapter 4 (pages 132 to 139). The recommendations do not seem to be prioritized, and we see no comparative analyses of the political or economic feasibility of implementing them, which is a precursor for prioritization. NAESCO cautions that its experience with national EE coalitions is that this type of compendium has not been effective with Congressional policy makers, who are bewildered by lists of 30-40 EE policy recommendations. The policy makers urge the EE coalitions to emulate the wind and solar industries and put forward one or two recommendations, such as the Investment Tax Credit (solar) and the Production Tax Credit (wind). The differential results of these differential approaches is striking. The wind and solar industries have had their ITC and PTC recommendations enacted into laws which have catalyzed phenomenal growth, while the EE industry lists of recommendations languish in dozens of unenacted bills.

Based on this experience, NAESCO suggests that the Staff develop a simple priority list of recommendations that is actionable by the Governor, the legislature and other policy makers and provides guidance to the private sector. NAESCO suggests that the methodology for developing the priority list is to determine the risks to reaching the 2030 goals and then putting the risks in priority order. Set out this risk analysis in a Gantt chart or similar presentation to make it easy for policy makers to understand the logic of the analysis and what actions they need to take. We respectfully suggest that the most significant risk is that the majority of existing homes and buildings will not be retrofitted, and so we suggest addressing that risk first.

During the past twenty years, there has been substantial progress in energy codes for new buildings and efficiency standards for appliances and energy-using equipment, but relatively little progress in the comprehensive retrofits of the existing stock of homes, commercial and public buildings, and industrial facilities, despite the best efforts of thousands of program designers and policy makers. Governors, legislators, policy makers, utility program managers and thousands of private companies have been trying since the mid-1970s to get the home and building owners to embrace the value of EE and implement EE across the building stock. We have, unfortunately, had only modest success. NAESCO respectfully suggests that, if we are

truly facing a planetary GHG emergency, another round of program tweaks, financing options and exhortations won't get the job done.

It's time to admit that the market is not the solution, with the exception of performance contracting in public facilities (see below). The market is an economic decision engine, and the economic case for existing building retrofits is not compelling to most home and building owners. If the economic case for EE were compelling, we would not need to talk about co-benefits or non-energy benefits, which are difficult to quantify and cannot currently be monetized.

Comprehensive retrofits that yield the 40-50% savings available in homes and businesses require investments with simple paybacks of around 20 years. Homeowners, whose budgets are already stretched to afford housing in today's markets, have shown they are unwilling to make these investments, because they won't recoup the investment during likely tenure of their ownership, and there is to date little evidence that these investments can be recovered in the home resale price. Commercial building owners won't make the investments because they are looking for increases in short-term Net Operating Income (NOI), which determines the capital value of their buildings. This translates into simple paybacks of less than five years.

However, during the decades that EE advocates and policy makers have unsuccessfully struggled with market approaches to retrofitting the building stock, mandates for other types of improvements in the same buildings have produced the desired results.

In the private sector, California commercial buildings have installed fire-suppressing sprinkler systems and the necessary structural improvements to make them more resilient in seismic events. Homeowners have installed smoke and CO<sub>2</sub> alarms, and those that live beyond the reach of municipal sewer systems have upgraded their septic systems.

In the public sector, the Obama Performance Contracting Challenge mandate implemented \$4 Billion of comprehensive EE retrofits (20-40% savings) in civilian and military facilities in four years (2012-2016) with ESPC and UESC projects. Colorado, Kansas and Pennsylvania retrofitted most of their state facilities with ESPC projects in a few years as a result of analogous Gubernatorial mandates. These programs were facilitated by expert technical assistance and streamlined delivery systems, and enforced by agency-specific targets and regular reporting of results. California certainly has the expertise to emulate these best practices.

Furthermore, these federal and state ESPC and UESC programs demonstrate a scalable private market model, leveraging negligible amounts of appropriated funding with billions of dollars of private capital. California lags behind the federal government and these leading states in the implementation of comprehensive public facility retrofits, and its leading programs, such as Prop 39, are not scalable. Prop 39 does not leverage modest public expenditures with private investment, but rather requires \$4 of state taxpayer funding for every \$1 of local funding, at least some of which is also (local) taxpayer money. (See: CEC-400-2019-003, January 2019, Page 16)

We therefore urge the Commission to modify the Action Plan to prioritize EE mandates (often called Building Performance Standards) for private and public buildings, and to fully utilize the proven market-based solution of performance contracts.