

To: Massachusetts Department of Energy Resources (DOER)
From: Donald Gilligan, NAESCO
Re: Green Communities Act (GCA) Request for Information (RFI)
Date: February 27, 2015

NAESCO realizes that the DOER's Request for Information was directed at municipalities and other units of local government, but believes that its comments in response to the DOER question about performance contracting may be helpful to DOER as it formulates its GCA strategy for the next three years.

7. Mass Save Efficiency Programs and Performance Contracting – Municipalities may use performance contracting, known as energy management services, to use the cost savings from efficiency retrofits to pay for projects and other facility upgrades. These performance contracts are eligible to receive incentives through the Mass Save efficiency programs. Comments and suggestions on how performance contracting and the Mass Save efficiency programs interrelate are welcome.

We strongly support the Massachusetts goal of implementing "all cost-effective energy efficiency," and believe that accomplishment of this goal is a necessary pre-requisite to the Commonwealth's transition to an energy supply portfolio that has a high percentage of renewables. Unless homes and buildings are as efficient as possible, renewable energy will simply not be affordable. For example, a typical downtown Boston office building would have to reduce its electricity use by more than half to be able to break even on the substitution of electricity from the Cape Wind project for the current ISO-NE generation mix. This level of energy savings is technically achievable, but will require much more coordination between performance contracts and ratepayer-funded efficiency programs like Mass Save.

We believe that the Mass Save efficiency programs should be administered at the municipal level in such a fashion as to encourage, not discourage, the implementation of comprehensive "deep retrofit" projects. The Mass Save efficiency programs are often used by municipalities (working through the utilities/PA's programs via use of their "municipal vendors" for the direct installation of energy saving equipment) to execute short payback or "low-hanging fruit" projects. While such use of Mass Save programs reduces energy usage by the targeted equipment (typically lighting and control systems), these savings are not leveraged to support the longer payback measures in comprehensive retrofit projects (*e.g.*, HVAC upgrades and building envelope improvements).

As a result, achieving "all cost effective savings" in these municipal buildings will be much more difficult, because the municipality will have to implement additional projects that incorporate the long-payback measures, the costs of which cannot be repaid from savings (as with a comprehensive performance contract) because the municipality, in all likelihood, will have already spent the savings from the short-payback project, not banked it for application to the subsequent long-payback projects.

NAESCO suggests that the solution to this problem is to re-align the incentives for the Mass Save program so they support the long-term goals of the Commonwealth to achieve all cost – effective savings from each home or building, whether through performance contracting or another approach. Our perception is that the Mass Save programs are rewarded for achieving annual savings targets, so they naturally focus on quick payback projects with relatively high rebate/incentive levels that are easy to sell and implement. Re-focusing the Mass Save programs to leverage the rebates/incentives to support comprehensive performance contracting projects will require some program re-design. NAESCO and its member ESCOs will be happy to participate in a collaborative re-design effort with DOER, the EEAC, the utilities/PAs and other stakeholders.

Introduction to NAESCO

The National Association of Energy Service Companies (NAESCO) is the leading national trade association of the energy services industry. NAESCO numbers among its members some of the world's leading energy services companies, including: ABM Energy, AECOM Energy, Ameresco, CM3 Building Solutions, Clark Energy Group, ClearEnergy Contracting, Climatec, ConEdisonSolutions, Constellation New Energy, Control Technologies and Solutions, CTI Energy Services, Energy Control Inc, Energy Solutions Professionals, Energy Systems Group, Entegriety, Excel Energy, The Fulcrum Group, Indoor Environmental Services, NextEra Energy Solutions, Honeywell, Johnson Controls, Lockheed Martin, McClure Energy, Navitas, NORESKO, Onsite Energy, Opterra Energy Services, Pepco Energy Services, Performance Services, Schneider Electric, Siemens Industry, Southland Industries, Synergy Companies, Trane, UCONS, and Wendel Energy Services. Utility members include the New York Power Authority, Pacific Gas & Electric, and Southern California Edison.

During the last twenty years, NAESCO member companies have delivered billions of dollars worth of energy efficiency, renewable energy, demand response, distributed generation and combined heat and power projects to institutional, commercial, residential, and industrial customers in California. Nationally, NAESCO member company projects have produced:

- • \$50 billion in projects paid from savings
- • \$55 billion in savings – guaranteed and verified
- • 450,000 person-years of direct employment
- • \$33 billion of infrastructure improvements in public facilities
- • 450 million tons of CO2 savings at no additional cost

NAESCO member ESCOs have implemented hundreds of millions of dollars worth of performance contracting projects for Massachusetts state government, local government and industrial customers, and have been strong supporters of the Commonwealth's energy efficiency and renewable energy programs, during the past twenty years.