Electricity Advisory Committee

TO: **Honorable Patricia Hoffman, Assistant Secretary for Electricity Delivery and Energy Reliability, U.S. Department of Energy**

FROM: **Electricity Advisory Committee (EAC)**
Richard Cowart, Chair

DATE: **June 6, 2013**

RE: **Recommendations on the DOE Race to the Top Initiative**

Introduction

The DOE Electricity Advisory Committee (EAC) has reviewed the publicly available information regarding the Race to the Top proposal and supports the concepts embodied in this important initiative. The EAC sets forth below five principles that we recommend to the DOE regarding the proposal.

The EAC recognizes that many of the most critical policy decisions affecting such matters as energy efficiency and energy productivity are made at the state level. The Race to the Top approach provides a dual benefit in that first, it rewards those states that make the most progress in meeting the energy goals established by the President and DOE, considering their individual circumstances, and second, it identifies successful models for other states to follow in their own efforts to achieve these important goals.

In the remainder of this document, the EAC respectfully sets forth its recommendations to the Secretary and Staff of DOE regarding the principles that should be considered in the implementation of this proposal. The EAC looks forward to continuing to provide any assistance that it can to DOE in helping to ensure the launch and successful implementation of this important program.

Race to the Top Initiative Overview

In his February 12, 2013 State of the Union message, President Obama issued a "new goal for America" to "cut in half the energy wasted by our homes and businesses over the next 20 years." Rather than treating this goal strictly as a federal initiative, however, the President declared that "[w]e'll work with the states to do it" and proposed that "[t]hose states with the best ideas to create jobs and lower energy bills by constructing more efficient buildings will receive federal support to help make that happen."

In the State of the Union Blueprint document issued by the White House in conjunction with the State of the Union address, the President's proposal was referred to as "a new Energy Efficiency Race to the Top for the states." Modeled after the Administration's approach to education reform at the state level, the Blueprint stated that the President's upcoming budget would include Race to the Top awards for states that implement effective policies to increase energy efficiency and decrease waste. As noted in the Blueprint: "Not only will increased efficiency save consumers money, the resulting reforms will drive investments that enhance manufacturing competitiveness, improve grid resiliency, and cut carbon pollution."

On April 10, 2013, the President announced his proposed budget for the federal Fiscal Year 2014. The budget for the Department of Energy (DOE) included a request for $200 million to fund a "Race to the Top for Energy Efficiency and Grid Modernization." In the summary description of the DOE budget proposal, this request is described as a challenge to "States, tribes, local governments with public power authorities, and co-operatives to cut energy waste and modernize the grid." The budget summary goes on to describe "[k]ey opportunities for states and other eligible applicants" to include "modernizing utility regulations and adopting policies to encourage cost-effective investments in efficiency, including combined heat and power and demand response measures; clean distributed generation; enhancing customer access to data; investments that improve the reliability, security and resilience of the grid; and enhancing the sharing of information regarding grid conditions."

Finally, in its FY 2014 Congressional Budget submission, DOE provided greater detail in support of the Race to the Top proposal. According to the DOE budget submission, the funding for the program would be appropriated in the Fiscal Year 2014 Budget, but would remain available until September 30, 2018. DOE envisions a two phase program. Phase 1 would be the "qualifying phase" in which eligible applicants will be able to use DOE assessment tools to evaluate their energy policies relevant to the qualifying criteria, which would include 1) modernizing utility

regulations and policies to encourage cost-effective investments in energy efficiency, including combined heat and power and demand response; 2) creating a "level playing field" for distributed generation; 3) enhancing customer access to their energy data; 4) increasing investments that improve the reliability, security and resilience of the grid; and 5) enhancing the sharing of information regarding grid conditions. In order to qualify to compete for funding in Phase 2 of the program, applicants must meet at least four of the five Phase 1 qualifying criteria, including the criterion for energy efficiency. Under the DOE proposal set forth in its budget submission, $15 million would be used by DOE to oversee the program and $25 million would be made available in Phase 1 in the form of technical assistance grants to eligible applicants to help them meet the qualifying criteria in Phase 1. In Phase 2 of the program, applicants who have met at least 4 of the 5 Phase 1 qualifying criteria may compete for cash awards. Awards would be given from the remaining $160 million of the appropriation to those applicants that have made "the most progress toward improving energy efficiency and energy productivity."

EAC Recommended Principles

1. **RttT should allow participation by States and other eligible applicants with all types of utility ownership and business models.**

RttT has been generally characterized as a "state" program, but in its summary budget materials, DOE refers to RttT participation by "States, tribes, local governments with public power authorities, and co-operatives." This is an important and appropriate clarification. While some regulations, policies, investments, or programs that might qualify for RttT support could be implemented on a statewide basis – such as building codes, energy benchmarking, and energy efficiency standards – many would be implemented as a result of changes to the ways in which utilities are regulated and operated within each State. Across the Nation, investor-owned utilities are generally regulated in whole or in part by state regulatory commissions. This is typically not the case for government-owned public power companies, rural cooperatives, and tribal utilities. In addition, some investor-owned utilities are vertically integrated, and therefore fully regulated at the state level, while other investor-owned utilities have been restructured, so that a portion of their service is regulated at the federal level or is subject to competitive market forces. The EAC submits that it is essential that RttT participation be designed so that it can accommodate all these different types of utility ownership and regulatory structures.

2. **Phase 1 RttT qualifying criteria should be descriptive rather than prescriptive, allowing flexibility and innovation in meeting requirements that have been identified as important for achieving energy efficiency and productivity.**

One of the great benefits of the RttT approach is that it explicitly rewards states and other applicants for innovations that can then serve as a model for others. While DOE must identify the qualifying criteria, states and other participants should have flexibility in determining how to achieve those criteria and thereby qualify to compete for Phase 2 RttT awards.

3. **In Phase 2, RttT applicants should be judged and rewarded based on their own improved performance.**

States and other eligible entities will be entering the RttP process from vastly different starting points. Applicants' awards should therefore not be granted to those few who reach a designated "finish line" before other applicants. At the same time, to qualify for competition for the Phase 2 rewards, applicants should be expected to have adopted policies and practices that promote energy efficiency and productivity. Among those applicants who have met the qualifying criteria, success

for purposes of Phase 2 awards should be judged on the basis of the individual participant's improvement and progress toward designated policy goals.

4. **Phase 1 RttT funds should be used to support development of innovations, programs, policies, regulations and/or laws that advance energy efficiency and energy productivity in a manner that provides benefits to customers in excess of costs. Phase 2 awards should be made based on the achievement of improvements in energy efficiency and energy productivity.**

   Under this principle, in Phase 1, the Department would provide tools and technical assistance to states and other applicants to help develop their approaches to advance energy efficiency and productivity and meeting the qualifying criteria. Because the successful adoption of many energy efficiency measures often depends on human preferences and behaviors, the EAC believes that DOE should consider the provision of tools and technical assistance that incorporate high quality behavioral social science.

   The purpose of the Phase 2 rewards would be not only to encourage eligible applicants to expand their energy efficiency and productivity efforts in the most appropriate manner, but also to ensure that once each participant's framework is in place, the Phase 2 rewards are applied to maintaining and expanding improvements in energy efficiency and productivity.

5. **The RttT awards should be focused on achieving improvements in energy efficiency and productivity.**

   The RttT is directed toward "doubling American energy productivity by 2030, starting with a new Energy Efficiency Race to the Top." The EAC recognizes that improvements in a range of qualifying criteria categories could create improvements in energy efficiency and productivity. The EAC supports the Department's funding request, including the funding for technical assistance to eligible applicants to assist them in meeting the qualifying criteria in Phase 1. The EAC also supports the Department's proposal that the selection for Phase 2 awards should be based on making the most progress toward improving energy efficiency and energy productivity. Energy productivity improvements may be evaluated, in part, based on progress in enhancing economic output per unit of energy required. The Phase 2 awards will be based on achieving improvements in energy efficiency and productivity and the benefits should be felt across the electric industry and the economy as a whole.