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January 23, 2004

**VIA HAND DELIVERY & EMAIL**

Carole J. Washburn
Office of the Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
Olympia, WA 98504-7250

**Re: Docket No. UE-031353**
**Puget Sound Energy, Inc.'s Response to Comments on its Draft Request for Proposals for Energy Efficiency Resources**

Dear Ms. Washburn:

Enclosed for filing are an original and 12 copies of Puget Sound Energy, Inc.'s ("PSE") response to comments that were submitted regarding PSE's draft Request for Proposals for Energy Efficiency Resources and Pilot Projects ("Energy Efficiency RFP") that PSE filed in this docket on December 12, 2003. We have also provided an electronic copy of this filing via email.

**Summary Description of this Filing and PSE's Response to Comments**

Commenters have raised several issues with respect to PSE's Energy Efficiency RFP. Concerns raised in different comment letters overlapped with concerns raised by others, as summarized in the matrix provided as Exhibit A to this letter. PSE's responses to most of the comments are also set forth in Exhibit A.

Exhibit B to this letter contains excerpts of PSE's Energy Efficiency RFP that PSE proposes to revise in light of the comments described in this letter and Exhibit A. Changes to PSE's original Energy Efficiency RFP have been blacklined for ease of reference.

Prior to the submission of formal comments on PSE's Energy Efficiency RFP, PSE also conducted a Public Meeting on its Energy Efficiency RFP on January 5, 2004, in order to address questions or concerns regarding the RFP. PSE has posted on its website a list of comments and questions discussed at the Public Meeting, as well

as answers and explanations provided by PSE. *See* http://www.pse.com/account/pdfs/rfp_electric_meeting_summary_2004-01-05.pdf. A copy of that document is attached as Exhibit C to this letter. PSE also has contacted most of the commenters to discuss potential avenues for addressing their concerns through changes to PSE's Energy Efficiency RFP and through other means.

In addition to the comments that were publicly filed with the Commission in this docket, PSE received comments on its Energy Efficiency RFP from the American Council for an Energy-Efficient Economy dated January 14, 2004, and from Quantum Consulting, Inc. dated January 13, 2004, that appear to have been sent directly to PSE and not filed with the Commission. For the convenience of the Commission and other interested parties, PSE has attached copies of these comments as Exhibit D to this letter, and has included its responses to these comments in Exhibit A.

**Additional Explanation Regarding Particular Comments**

Generally, with respect to comments on PSE's draft Energy Efficiency RFP, PSE notes that its efforts to address its resource needs through demand-side management and other energy efficiency measures are broader than issuance of this particular Energy Efficiency RFP under the Commission's WAC Chapter 480-107 process.

PSE has been assessing and developing conservation resource opportunities in consultation with PSE's Conservation Resource Advisory Group (CRAG). The CRAG was formally established as part of the settlement of PSE's 2001 general rate case that the Commission approved in its Twelfth Supplemental Order in Docket Nos. UE-11570 and UG-011571 ("Conservation Agreement"), and includes ratepayer representatives as well as representatives of select energy efficiency policy organizations. The CRAG's specific purpose is to work with PSE in the development of conservation plans, targets and budgets. Members of the CRAG participated in the development of the Company's 2003 Least Cost Plan, including the conservation potential assessment. More recently, PSE and the CRAG developed PSE's 2004-2005 Energy Efficiency Targets and Budgets, and PSE has already entered into agreements with service providers and otherwise taken steps to implement its commitments for the 2004-05 time period.

With this in mind, while PSE agrees that some of the comments merit further consideration, PSE believes that a number of them are not appropriately addressed through the Energy Efficiency RFP that is before the Commission at this time. In that regard, PSE notes that it filed its draft Energy Efficiency RFP to complement and supplement the Wind RFP and All-Source RFP that PSE previously filed in this docket. *See* PSE's Dec. 12, 2003 Letter. PSE designed its draft Energy Efficiency

RFP to comply with restrictions on proposals for conservation set forth in WAC Chapter 480-107. In particular:

> (2) A participating conservation supplier shall provide evidence that the proposed conservation measures can be installed and will produce anticipated savings over the term of the contract.
>
> (3) All conservation measures included in a project must:
>
> > (a) Produce electrical savings over a time period of greater than five years, or a longer period if specified in the electric utility's RFP. A measure with an expected life which is shorter than the contract term must include replacements through the contract term.
> >
> > (b) Be consistent with the utility's least cost plan at the time of the bid; and
> >
> > (c) Produce savings that can be reliably measured or estimated with accepted engineering methods.

WAC 480-107-030.

Thus, PSE has excluded from eligibility for the Energy Efficiency RFP proposals for education and information programs. To date, PSE's Conservation Resource Advisory Group (CRAG) has not supported recognizing claims of electrical savings resulting from such measures. For the same reason, PSE will not consider submissions of proposals for operations and maintenance measures, or for exploratory or unproven technologies.

Nevertheless, in recognition that issuance of a conservation RFP under the WAC Chapter 480-107 process might assist PSE in obtaining information about viable energy efficiency measures which are not yet widely available or adopted in PSE's service territory or that target market segments in which customers have infrequently undertaken energy efficiency investments, PSE's Energy Efficiency RFP already permits proposals for pilot programs that meet these criteria to consider for future implementation in conjunction with the CRAG. *See* Energy Efficiency RFP, Sections 1.2, 5.8.

**Confidentiality Agreement**

In response to comments submitted in its All-Source RFP, PSE revised the Mutual Confidentiality Agreement attached to the All-Source RFP. PSE proposes making the same revisions to the Mutual Confidentiality Agreement attached to the

Energy Efficiency RFP as Exhibit V ("CA"), for the sake of consistency. PSE has also revised Section 4 of its draft CA to reflect recent changes in IRS regulations.

Due to a recent experience with respect to its Wind RFP, PSE is also proposing to revise its Energy Efficiency RFP to require respondents to submit executed CAs one week prior to submitting proposals. This will avoid delays in reviewing and evaluating the proposals in the event there is a need to follow up on matters concerning the CAs.

**Other Clarification and Corrections**

PSE has also proposed a number of changes to its original draft for clarity and to ensure consistency with PSE's filed tariffs (for example, as to measure lives).

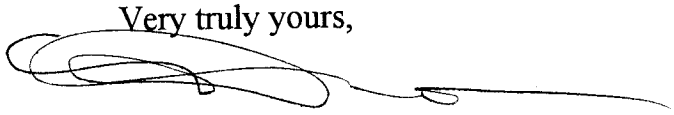
**Conclusion**

PSE respectfully requests that the Commission issue an order approving PSE's Energy Efficiency RFP, with the revisions set forth in Exhibit B to this letter, pursuant to WAC 480-107-060(2)(b).

Questions regarding this filing should be addressed to the undersigned or to George Pohndorf, 425-462-3272. Questions regarding PSE's Energy Efficiency RFP should be addressed to Claire Johannes, 425-424-6643.

Thank you for your assistance.

Very truly yours,



Kirstin S. Dodge

Enclosures
cc: (via email and U.S. mail)
Robert Cedarbaum
Simon ffitch
Danielle Dixon
Matt Steuerwalt
Stan Price
Steven Nadel
David Jump

# EXHIBIT A

## Description of Comments and PSE's Responses

| | Comment Received | WUTC Staff | NW Energy Coalit'n | Public Couns'l | NEEC | Quantum Consult'g | ACEEE | PSE Response |
|---|---|---|---|---|---|---|---|---|
| | ***Timing of RFP*** | | | | | | | |
| 1 | Clearly and obviously state that PSE will consider early implementation of projects before the general target date of January 2006 | X | X | X | | | | Language added to Section 1.3 of RFP |
| 2 | Projects selected for early implementation shall begin no later than January 2005 | X | | | | | | Language added to Section 1.3, at the end of Section 8, and Section 9 of RFP |
| 3 | Add milestones for early implementation to the RFP schedule | X | | | | | | Language added to Section 12 of RFP. |
| 4 | Allow early implementation of projects that fit within framework of current PSE conservation tariff | X | | | | | | RFP does not preclude these types of projects from early implementation. PSE does not feel that specific conditions or constraints should be placed on eligibility for early adoption. |
| 5 | RFP should target projects that augment or supplement PSE's existing programs for implementation in 2004-2005, then issue a separate RFP for 2006-2007 based on 2005 LCP guidance and input from CRAG | | X | | | | | In order to address recommendations from parties that PSE's all-source bidding include conservation, and in recognition of the work undertaken with advice from the CRAG in setting up the 2004-2005 targets, PSE believes the timing in the RFP as proposed is optimum. It allows bids to provide all parties with good information about additional conservation opportunities as well pricing to help inform the next LCP cycle. The rationale and timeline is reviewed more fully in response to Question 29 posted on PSE's website: http://www.pse.com/account/pdfs/rfp_electric_meeting_summary_2004-01-05.pdf . PSE has made allowance for early implementation of some proposals in response to several comments, and as shown in the response to Item 4 above. |
| 6 | RFP should target cost-efficient, technology-based conservation resources in the 2004-2005 period and exploratory projects in 2006-2007, which target new types of resources | | | X | | | | See item 5 above, and item 12 below. |
| 7 | RFP should be a different design, targeted to specific end use sub-sectors and/or specifically targeted program design approaches where | | | | X | | | See item 5 above, and item 12 below. |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | PSE needs additional support in the short term, to be issued later in 2004 with programs on-line by 2005. | | | | | | | |
| 8 | The long time gap between proposals and contracts creates uncertainty of future costs and market conditions, leading to increased cost of bids | | | | X | | | See item 5 above regarding timing. PSE is aware of this issue, and may evaluate and update bid information as well as potential alternatives throughout the process. Bidders will know in a timely manner whether they are candidates as soon as the end of August, 2004 when the Schedule in Section 12 shows Letters of Intent to be executed. |
| 9 | Speed up selection process to have contracts signed by July 1, 2005 | | | | | | X | See item 5 above. |
| | ***General Scope of RFP*** | | | | | | | |
| 10 | Involve CRAG in redesign of a limited, more targeted energy efficiency RFP; do not hold up the all-source RFP | | X | | | | | As described in item 5, PSE is pursuing a broad process to obtain information to supplement and enhance the upcoming LCP process. A more targeted RFP would likely preclude getting much new information on a wide range of conservation resource options. PSE will consult the CRAG in evaluation of final proposals for implementation. PSE is not precluded from pursuing more targeted energy efficiency using additional RFP(s). PSE concurs that the all-source RFP should not be held up by deliberations on the energy efficiency RFP. |
| 11 | Target specific program enhancements in one or more sectors, identified by PSE with advice from the CRAG, where the utility offers programs but isn't anticipating significant achievement | | X | | | | | Use of technologies or delivery mechanisms not included in PSE program offerings is a proposal evaluation criterion, see Section 8.1. Also see the response to item 10 above. |
| 12 | Encourage bids that would expand beyond PSE's program offerings | | X | | | | | Use of technologies or delivery mechanisms not included in PSE program offerings is a proposal evaluation criterion, see Section 8.1 |
| 13 | Allow for bids of pilot programs that would complement PSE's efforts | | X | | | | | RFP already does this, see Sections 1.2, 5.8 |
| 14 | Encourage exploratory submissions for non-material resources | | | X | | | | See PSE's response letter, attached with this filing of the RFP. |
| 15 | Encourage exploratory submissions for less-proven technologies | | | X | | | | See PSE's response letter, attached with this filing of the RFP. |
| | ***Proposal Evaluation Criteria*** | | | | | | | |
| 16 | Include respondent risk in evaluation, as is done for all-source | | | X | | | | Language added to Section 8.2 of the RFP. |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 17 | Proposals may be in direct competition with programs already established by PSE, only to be evaluated by the utility itself | | | | X | | | PSE will involve the CRAG and WUTC staff in evaluation of the proposals. Members represent a broad spectrum of ratepayer and policy interests, and were involved in PSE's already established programs. |
| 18 | Award extra points to projects that are set up to meet long-term objectives. PSE could accept proposals that achieve savings over a longer period of time (than two years), with decisions made on whether to extend these programs into years three and beyond as the initial two-year timeframe is nearing completion. | | | | | | X | Evaluation Criteria do address "Life of savings and degradation of savings over time", with " – preference given to long-term, stable savings". See Sec. 8.1, page 12.<br>The recommendation included the suggestion that PSE solicit proposals to be implemented over a time period longer than two years. Respondents would still only receive a contract for the initial two years. Nothing at this time would preclude PSE from contract extensions, subject to mutually agreeable terms. |
| | ***Performance Reduction Mechanism*** | | | | | | | See revised Section 5.7, 'Reduction in Compensation' of the RFP |
| 19 | Assign penalties only to the extent that the penalties are no different from those assigned to existing providers | | | | | | | Proposals selected for implementation in the 2004-2005 time frame would not be subject to the proposed performance reduction mechanism in Section 5.7; since none of our current 2004-2005 program implementation vendors are liable. The penalty sharing would only be for implementation in 2006-2007 and would depend on the regulatory mechanism adopted for that period. Section 5.7 of the RFP has been revised to reflect this distinction. |
| 20 | Penalty requirements should be handled with specific, numeric contract language, including an objective, measurable criterion for "team" penalty | | | X | | | | This is the intent at the time of final contracts. Clarifying language added to Section 5.7 of RFP. |
| | ***Non-Energy Benefits*** | | | | | | | |
| 21 | Quantify societal costs and benefits of all proposals, including generation. | | X | | | | | PSE supports the general concept of quantifying and comparing risks, including environmental and societal factors, across different resource alternatives. However, these risk factors are not readily quantified with standardized methods or levels of certainty. |
| | ***Technical Issues*** | | | | | | | |
| 22 | Clarify use of RTF deemed savings and measure lives in effect at the beginning of implementation period | | X | | | | | Language added to Section 5.3 of RFP. |
| 23 | Allow Commercial Building "Tune-Up" Programs as a measure | | | | X | | | See PSE's response letter, included with re-filing of the RFP. PSE, together with two other Puget Sound |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Region utilities, is currently in partnership with NEEA on the Building Performance Services Project, which focuses on the operating performance of commercial buildings. (see: http://www.nwalliance.org/projects/projectdetail.asp?PID=73). |
| 24 | Provide a definition of O&M measures | | | | X | | | A definition has been added to the Glossary, Exhibit VI. |

# EXHIBIT C

## PSE Energy Efficiency RFP – Jan. 5, 2004 Public Meeting
## Summary of Comments/Questions

# PSE Energy Efficiency RFP – Jan 5th Public Meeting
# Summary of Comments / Questions

## Topic A: LEAST COST PLAN

1) What was the cut-off for cost-effectiveness in the Conservation Supply Curves?

**A. Very high cost measures were excluded from the estimate of achievable conservation potential, since these measures had no chance of being selected as viable alternatives by the integrated resource analysis used in PSE's Least Cost Plan. The cutoff for very high cost measures was a levelized cost of 11 cents per kWh. Please see PSE August 2003 Least Cost Plan Update, Chapter IV and VII for more details (http://www.pse.com/about/supply/resourceplanning.html).**

2) What method was used to select the measures to go into a "bundle"?

**A. The savings and costs from individual measures were aggregated into 17 resource "bundles" according to customer segment and end use, so that each bundle consisted of savings with a similar load shape. The four customer segments were residential and commercial split into existing construction and new construction. The four end uses were lighting, HVAC, water heat, and appliances/plug loads. Industrial conservation from all end uses was a single bundle. This bundling process is described in Chapter IV of the PSE August 2003 Least Cost Plan Update.**

3) What is contractor role in the upcoming Least Cost Plan Process?

**A. Very limited. Information only for clarification on measure costs, savings or potential markets if needed.**

4) When reviewing the Least Cost Strategy graph - what is the annualized energy growth vs. the peak load over the next 20 years?

**A. Both energy sales and peak demand are forecasted to grow over 20 years at the same average annual rate of 1.6%. (reference Chapter II of the PSE August 2003 Least Cost Plan Update)**

5) When reviewing the Least Cost Strategy graph - why is there a spike in energy needs between 2011/2012?

**A. Energy need is the net of forecasted energy demand and the existing supply resources available. The sharp increase in energy needs by 2012 is due primarily to the expiration of power supply contracts with non-utility generators, as well as the loss of some hydro and combustion turbine resources. For details please see Chapter IX of the PSE April 2003 Least Cost Plan and Chapter V of the August 2003 Least Cost Plan Update (http://www.pse.com/about/supply/resourceplanning.html).**

## Topic: KEY POINTS

6) In the current 2004/2005 plan what percentage does the penalty mechanism in the stipulation agreement apply to?

**A. The penalty for the two-year period is applied to 23.1 aMW, the overall goal for savings for the two-year period is 39.2 aMW. The difference are programs not directly under PSE**

**building approach. Under the whole building approach, the current PSE program provides $ 0.40 per square foot to cover extra costs for energy use modeling, design and the installation of efficiency measures when the energy use performance is at least 10% better than the applicable energy code requires, or $1.20/ sf when energy use is at least 25% more efficient than the codes.**

16) What is the energy-savings goal for the C/I Retrofit program in 2004-2005 and what percentage of the overall target does this represent?

**A. The 2004/2005 Commercial/Industrial Retrofit target is 144,336,000 kWh over the two year period, which is 42% of the total electricity savings target on all programs. The detailed program descriptions and estimated savings/costs information by program can be obtained from the PSE website. www.pse.com/account/pdfs/2003_33_34_appendix_a.pdf**

17) In the LED Traffic Signal program, how do you deal with non-metered traffic signals?

**A. The reduced wattage is used to adjust the monthly kWh usage after the installation. The customer's billed cost goes down to reflect the energy savings even though the intersection is unmetered.**

## Topic: RPF REQUIREMENTS

18) Why is the focus of the RFP only on kWh savings and not on kW?

**A. The RFP is in conjunction with the needs identified in the Least Cost Plan strategy and the need is for energy resources, not peak demand at this time. Note that the pricing included in the Cost-effectiveness Standard (see Table IV-A, pg. 37 of the Exhibits) includes benefits associated with loads having an annual shape coincident with PSE's system load peaks. Thus, for example, winter-peaking residential space heat is valued higher than year-round commercial lighting measures.**

19) Comment: It was noted that a similar RFP from Pacific Corp. RFP specifically stated that compact fluorescent lamps (CFLs) were "non-preferred" while PSE's RFP with an allowed 5 yr. measure life was "encouraging" CFLs.

**A. PSE conservation supply curves specifically showed lighting as having significant potential. In fact, lighting makes up 32% of the residential potential, and 74% of the commercial sector potential savings. PSE's targets considered a planning scenario involving a cost-effective ramp-up to obtain lighting savings quicker.**

20) What is the relationship with NEEA and excluding its activities?

**A. NEEA programs are market-transformation based. The PSE RFP is focused on acquisition-based savings. To the extent that a proposal focuses on market transformation, it is considered a NEEA program. PSE is a major funding contributor to NEEA. If a proposal can supplement/complement an existing NEEA-funded activity by acquiring cost-effective savings from early-adopters immediately in PSE territory, then it will be considered as part of this RFP .**

## Topic: RFP EVALUATION – RESOURCE PROGRAMS

21) Can "extra" gas savings from an electric efficiency program be included in the Public Benefits?

**A. Yes, public benefits can include any non-electric energy benefits, including ancillary gas savings resulting from an electric efficiency proposal (but fuel-switching programs are**

**explicitly excluded from bidding). Conversely, PSE will consider non-electric energy costs as well, including any possible increases in gas usage.**

22) Will preference be given to geographic targeting of proposals?
**A. Geographic targeting of energy efficiency will be considered. However, it is incumbent upon bidders to provide the rationale for such geographic focus.**

23) Which takes precedence on cost-effectiveness – TRC (total resource cost) or UC (utility cost) test?
**A. All proposals must "pass" both tests to be eligible for further consideration (benefits greater than costs). However, greater weight is given to the TRC test.**

## Topic: RFP EVALUATION – PILOT PROGRAMS

24) Are the criteria shown in the Pilot proposal slide "in lieu" of the criteria for the Resource proposals?
**A. Yes, although the RFP does require similar info to be provided in the proposal.**

25) If a program is already provided by PSE, will the proposal be in competition with PSE?
**A. Yes, PSE is interested in ways to provide energy efficiency in a "better" or less-expensive manner.**

26) Since you are already working with CTED on Low-Income programs are you open to working with other state agencies on new construction?
**A. Yes, and if you have something to propose now bring it in through our current new construction program.**

27) Asked for a clarification when referencing the Draft RFP, Section 3.1 Energy Efficiency Resources, and the listed cost of $34 million. Does the $34 million include existing PSE programs excepting the items listed as limited?
**A. Yes. For a list of the limited programs see section 5.6 of the Draft RFP.**

28) Comment regarding Pacific Corp. vs. PSE RFP – Pacific Corp. RFP seemed to encourage "comprehensive" vs. "cream-skimming" programs since it limited CFL application. Is PSE encouraging comprehensive programs?
**A. Yes. The evaluation criteria in section 8.1 of the RFP specifically state that a mix of customer segments and end uses is encouraged and that creation of lost opportunities is discouraged.**

## Topic: RFP SCHEDULE

29) Realistically, how should bidders handle the time gap between submitting proposals at the end of April, 2004 and program implementation not beginning until January, 2006?
**A. The protracted timeline is necessary for two major reasons.**
**First, it has been recommended by a number of parties that energy efficiency be included as part of PSE's All-Source RFP. The final RFP will be submitted to the WUTC on January 28th, and is anticipated to be released on February 4th of this year. At the same time, PSE recently spent six months working with its Conservation Resource Advisory Group (CRAG) to develop 2004-2005 program targets and associated penalties approved by the WUTC. Thus the need to receive proposals in the near term, but implementation not until the next cycle of energy efficiency funding begins January 2006.**

**Second, the proposal submitted by April 2004 will be used to help inform PSE's next Least Cost Plan (LCP) cycle. Proposals are to be evaluated and finalists selected by August of 2004. These proposals will then be used to assist PSE in properly evaluating the need for least cost efficiency resources. Conservation supply curves will be developed, and the results included with the integrated LCP for submission to the WUTC by May of 2005. Once submitted, PSE is committed to working with the CRAG to develop program portfolios, and, should the CRAG determine them necessary, any financial penalty mechanism for the 2006-2007 period. That process is anticipated to be conducted throughout the summer of 2005. Once determined, PSE will submit program tariffs allowing for collection of funding through energy rates for approval by the WUTC in November 2005. With approval, PSE will be able to award contracts at the end of 2005, for program implementation to begin January, 2006.**

30) Comment: WUTC staff noted that public comments are due to WUTC, with cc: to PSE (reference docket number UE-031353) by January **13th** not 14th as listed. PSE's preference is to receive all comments in writing so they can be documented, and responses shared. If using email, the e-mail address is energyefficiency@pse.com. Please include DRAFT RFP comments in the subject line.

31) Once the letter of intent is given, will there be any compensation if not selected?

**A. No, not likely except by prior agreement. The letter of intent is notice that the proposal is on short list.**

## Topic – GENERAL QUESTIONS

32) Asked for explanation of the clause regarding "negative control provisions" in Credit Requirements, Section 7, page 12.

**A. As the RFP language indicates in a general way, PSE may require the inclusion of provisions that would prohibit the respondent from taking actions or operating its business in ways that could degrade the respondent's capability to perform its obligations to PSE. If PSE commits to enter into a long-term business relationship with a respondent, PSE will of course want to ensure (to the extent it can) that the respondent maintains the same -- or better -- capability to perform that it had at the time of PSE's initial evaluation.**

**Negative covenants of this type are common, particularly in supply resource acquisition transactions. The buyer wants to make sure that at closing it will receive what it expected based on due diligence reviews. But even in non-acquisition transactions (e.g., power purchase transactions), negative covenants are helpful for providing controls on the respondent's business practices, particularly those that may affect its creditworthiness position and, therefore, its ability to perform.**

**Because PSE would be entering into long-term arrangements with conservation providers, PSE will be interested in the continuing capability of the provider to perform its obligations to PSE. Therefore, "negative controls" may be as important in this context as in the plant acquisition or power purchase contexts.**

33) Comment: Noted that Section 6.3, page 11 required disclosure of "any and all relationships" and that would be lengthy for most people. PSE also pointed out that advisory members who plan to bid on the RFP would be asked to resign from process.

34) Is it possible that a contractor and/or customer will end up working in two separate programs if they have a project that includes both gas & electric savings?

**A. Yes it would be possible. Currently some customers work with multiple programs (i.e. commercial customers participating in both small business lighting and C/I Retrofit).**

# EXHIBIT D

**Comments from the American Council for an Energy-Efficient Economy dated January 14, 2004, and from Quantum Consulting, Inc. dated January 13, 2004**

*American Council for an Energy-Efficient Economy*
*1001 Connecticut Ave. NW, Suite 801*
*Washington, DC 20036*
*202-429-8873 (voice), 202-429-2248 (fax)*
*www.aceee.org*

Jan. 14, 2004

Ms. Claire Johannes
Energy Efficiency Services
Puget Sound Energy
10608 NE 4th Street
Bellevue, WA 98004

Dear Ms. Johannes,
I am writing on behalf of the American Council for an Energy-Efficient Economy, a national non-profit organization that has been working on energy efficiency programs and policies for more than 20 years. We have conducted dozens of projects on utility DSM programs and as part of our work reviewing the latest in utility policy and plans, looked over PSE's draft RFP for Energy Efficiency Resources and Pilot Projects. Based on this review, we wanted to make a couple of comments as follows:

1. The RFP seeks to procure efficiency resources over a two-year period from independent contractors. Given this approach, you are likely to get proposals that will maximize the savings over two years from easy to implement measures, but since only a two-year contract with an independent contractor is envisioned, you are not likely to get projects that use the initial two years to develop long-term sustained energy efficiency efforts. If you want the latter, you should say more about your longer term objectives, and give extra points in some way to projects that are set up in ways to meet long-term as well as short-term objectives. For example, you could accept proposals that achieve savings over a longer period of time, with decisions made on whether to extend these programs into years three and beyond as the initial two-year timeframe is nearing completion.

2. The RFP seeks to maximize utility flexibility while making it difficult for proposers to successfully implement projects. Proposals are due April 28, 2004, but contracts will not be awarded until 19-20 months later, just before implementation is to begin. While we recognize that PSE needs some time to evaluate proposals, program implementers need some time to plan for implementation before projects begin. Under the current structure, implementers will either need to pay for planning on their own, in the hope that they receive an award, or implementers will need to use several months at the beginning of the project to prepare, cutting into the two-year window to achieve results. We recommend that the project selection process be speeded up, with the result that selections are made in spring 2005 (permitting a year for the selection process) and contracts signed by July 1, 2005. In this way implementers will have 6 months to prepare, and can "hit the ground running" when work actually begins on Jan. 1, 2006.

I hope these comments are helpful. Please let me know if you have any questions.
Sincerely,
Steven Nadel
Executive Director

# Comments on Puget Sound Energy, Inc.'s Draft RFP For Electric Energy Efficiency Resources and Pilot Projects

## Dated December 12, 2003

By:
Quantum Consulting, Inc.
Berkeley, California
January 13, 2004
Contact: David Jump, Ph.D., P.E., Principal

Quantum Consulting (QC) respectfully submits these comments on Puget Sound Energy's (PSE) draft RFP for energy efficiency resources. We noted in the proposal requirements the following:

In Section 5.2,

- Conservation supplier shall provide evidence that the proposed conservation measure can be installed and will produce anticipated savings over the life of the measure as indicated in the contract.
- Conservation savings included in a project must produce savings over more than five years
- Conservation savings must be consistent with PSE's Least Cost Plan filed August 31, 2003
- Projects must produce savings that can be reliably measured or estimated with accepted engineering methods.

In Section 5.6, Limitations, it is stated that bids for operations and maintenance programs will not be accepted.

In Section 5.9.3 Description of Proposal, several of the items in the list refer to specific measures offered (e.g. annual electric savings, useful life, etc.)

Finally, in Section 8, Stage I evaluation criteria, it is stated that creating lost opportunities for further electric and gas conservation by a proposed project is discouraged.

Depending on how these requirements are interpreted, a building tune-up proposal may not be considered responsive to the RFP, even though it has been successfully demonstrated to deliver persistent energy savings, and meets all of PSE's stated requirements in Section 5.2. Tune-up program proposals may not be considered because:

1) The measures recommended are not perceived to last 5 years,
2) The savings produced by the measures are considered small and their nature prevents their savings from being reliably estimated,
3) The measures recommended by tune-up programs are considered to be operations and maintenance measures, and
4) Tune-up programs do not have a pre-determined list of energy efficient products to install, tune-up measures are customized for each facility.

QC urges PSE to consider tune-up program proposals as part of their energy efficiency resource programs. We address each issue identified above based on our experience in implementing a tune-up program for the City of Oakland (A California Public Utilities Commission-funded program).

Following the retro-commissioning (r-Cx) process, a building tune-up program provides commissioning service providers to work with a facility's operations staff to improve the performance of its *existing* systems and equipment, and to identify appropriate equipment retrofits and upgrades. This process provides energy savings solutions customized for each customer, and depending on the design, may provide cash incentives to defray initial capital costs of the measures. The program does not offer a narrow set of energy efficiency upgrades, and therefore avoids the creation of lost opportunities for savings in customer's facilities that would otherwise be created by focusing on ony specific systems and equipment.

R-Cx is like a quality assurance process, it identifies an entire spectrum of measures that customers can install to improve energy efficiency in their facilities. This spectrum ranges from simple operations and maintenance repairs to expensive capital improvement projects.

At issue are the nature of the operations and maintenance measures that are not accepted by PSE. O&M measures may include items that should be done as a part of routine maintenance, such as replacing air filters, and cleaning cooling tower media, or may be items that are never noticed by the operations staff, such as stuck or improperly modulating dampers and valves, false signals in control systems, sensor calibration errors, and so on. Some may argue that control system set-points and schedule changes are O&M-type measures, because they are simple to implement. QC recommends that O&M measures be defined as those measures that are a standard practice of routine maintenance, as characterized above. Barring this, QC requests that some definition of O&M measures be provided, so that those considering proposals have a clear idea of what is unacceptable.

We have found that the tune-up program achieves long-term persistence of savings by emphasizing "hard" measures (e.g., via hardware that must be installed with tools, repositioning control points, and software changes that require specialized skills that cannot be easily reversed). In combination with "soft" measures (e.g., control system set-point and schedules changes), the weighted average measure life is over 6 years.

Sources of data used in savings calculations include electric interval demand data; control system trend logs, and independent data loggers. After measures have been

installed, continuous monitoring of the data is used for diagnostic purposes by the facility operators to detect problems in system operation. To maintain and assure that the newly retro-commissioned systems are operating at efficient levels, service providers return periodically to collect and analyze data, quantify the savings, and correct problems.

Tune-up measure savings calculations may be reliably estimated using industry standard tools currently available. Because of the intrinsic nature of tune-up measures, detailed models of the systems and equipment are required to estimate savings. The industry standard ASHRAE HVAC Primary and Secondary Toolkits are used extensively for this purpose, as it allows engineers to model customer's equipment effectively. Building simulation tools such as DOE2, eQUEST, and others are also used. Bin methods are also common. Depending on the cumulative total of savings, whole-building approaches to savings estimates are appropriate.

The benefits of building tune-up programs are summarized as follows:

- Cost effective, with TRC ratios greater than 2 (in current programs),
- Electric and gas savings each approaching 10% of annual consumption,
- Emphasis on "Hard" measures,
- Minimizing lost opportunities, and
- Strongly synergistic with other programs.