



February 16, 2022

The Honorable Marvin L. Abney  
Chair  
House Finance Committee  
82 Smith St.  
Providence, RI 02908

Dear Chair Abney and Members of the House Finance Committee:

Acadia Center appreciates the opportunity to provide comments on Article 7 and Article 1, Section 16 of H7123, Governor McKee's FY 2023 Budget Proposal. Acadia Center is a non-profit research and advocacy organization committed to advancing the clean energy future. Acadia Center's work is characterized by reliable information, comprehensive advocacy and collaborative, innovative problem-solving. Acadia Center is deeply involved in all facets of Rhode Island's energy policy and serves in several technical advisory roles, including on the Energy Efficiency Technical Working Group and the Power Sector Transformation Advisory Group Electric Transportation Subcommittee, working alongside regulators, advocates, and utility program administrators to develop nation-leading energy efficiency plans and guide electric vehicle charging infrastructure deployment.

### **Article 7, Section 1: Identify Alternative Funding Source for the EC4<sup>1</sup>**

Acadia Center strongly supports efforts to provide resources to fund Executive Climate Change Coordinating Council (EC4) activities and urges the McKee Administration to increase the FY2023 budget proposals for all initiatives aimed at reducing greenhouse gas (GHG) emissions to mitigate the worst impacts of the climate crisis. However, Acadia Center strongly opposes the McKee Administration's proposal to utilize electric and gas ratepayer funds collected for energy efficiency programs to accomplish this worthy goal.

When Rhode Island enacted the Act on Climate, GHG emission reduction was formally recognized as an overarching statewide priority. The climate crisis will impact all of us and the solutions must similarly involve each of us. Unfortunately, Article 7, Section 1 of Governor McKee's budget proposal would fund the EC4's activities related to the Act on Climate solely on the backs of electric and gas ratepayers while asking nothing of other fossil fuel users, or the businesses that engage in the sale of carbon-polluting fossil fuels. For example, a Rhode Islander who is both a natural gas and electric customer would see part of their rates usurped to fund a variety of critical and well-intentioned EC4 activities. But the Governor's proposed budget asks nothing of the businesses engaged in the multi-billion dollar fossil fuel market, nothing of oil and propane fuel customers, and nothing of drivers of gasoline-powered vehicles to meet these climate goals. This presents an unjust balance, particularly when recognizing that oil and propane customers are more likely to reside in the state's wealthier, rural, and suburban communities, while the natural gas system is more concentrated in densely populated areas where low- and moderate-income households are more prevalent.

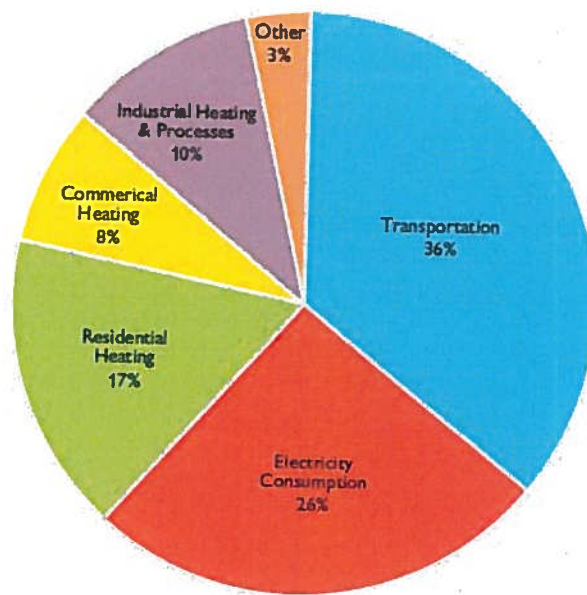
According to the Department of Environmental Management's 2019 Greenhouse Gas Emissions Inventory, summarized in Figure 1 below, transportation is the leading source of GHGs in Rhode Island at 36 percent. The

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<sup>1</sup> Referencing H7123, Article 7, Section 1, Pages 4-5 (or 112-113 of 319), Paragraph (o)i-iv.

collective uses of fossil fuels in buildings are the second largest source at 35 percent, and electric generation is the third largest source at 26 percent. However, the Governor’s proposal is to fund state climate action while drawing only from the use of one type of fossil fuel used in buildings—natural gas—and all uses of electricity which would also include the electricity used to heat buildings and power battery electric vehicles and plug-in hybrids.<sup>2</sup> The funding proposal, as written, is fundamentally unfair and misaligns the source of funding for climate action with the sources of the climate problem.

Figure 1: Rhode Island DEM Greenhouse Gas Inventory, 2019



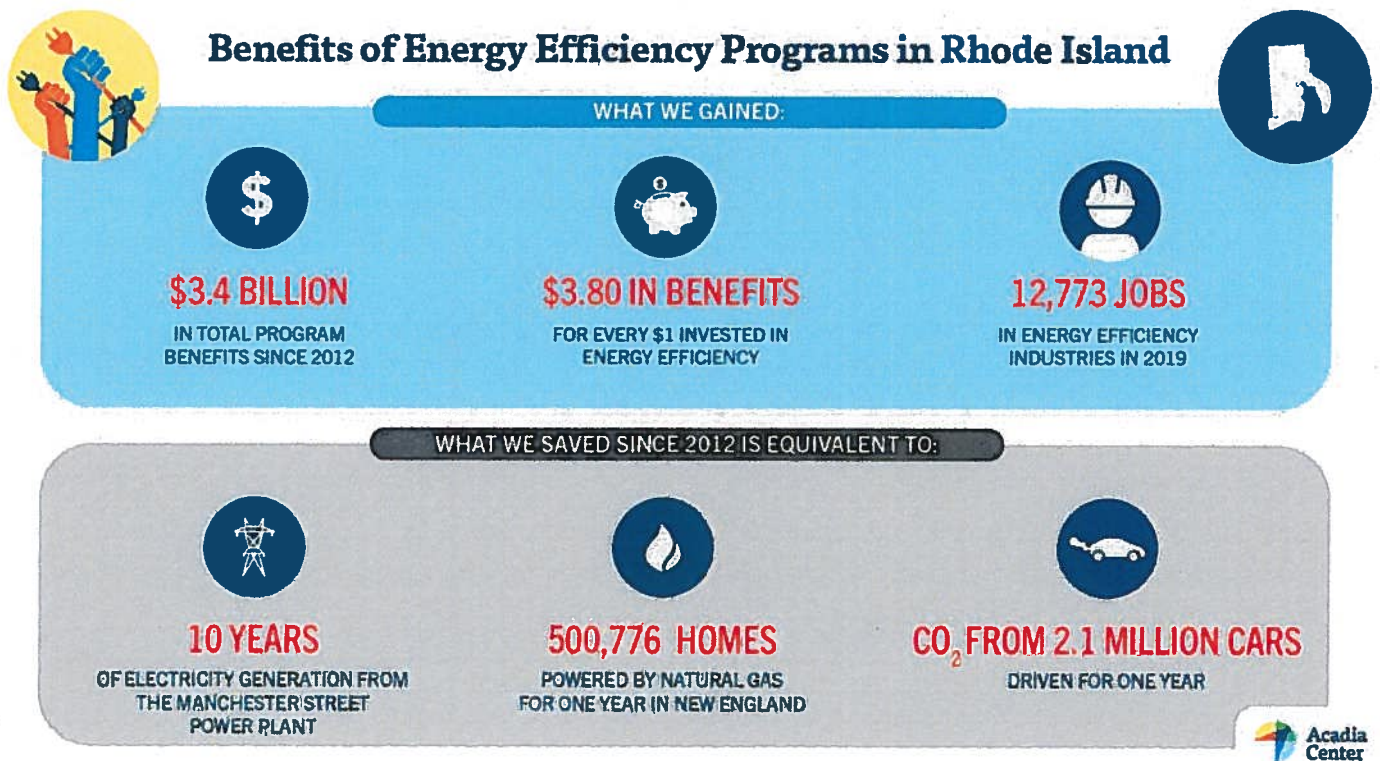
Acadia Center urges the General Assembly and McKee Administration to enhance the proposed funding for the EC4 and to identify another funding source that better reflects the broad societal and moral imperatives to address the climate crisis. The budget proposes \$6 million for the EC4, a sum that could easily be allocated from General Funds or other sources that are supported by all Rhode Island residents and businesses, as well as visitors to the Ocean State which is among the places in the world most endangered by climate change. Acadia Center is not endorsing any specific alternative funding mechanism but recognizes there are far better and more equitable sources of revenue to support the EC4 than diverting ratepayer funds away from energy efficiency investments. We look forward to collaborating with members of this committee and the McKee Administration to identify an equitable path forward.

<sup>2</sup> In general, Rhode Island lacks the electric metering infrastructure or rate structures that could disaggregate the electricity used for heating or transportation purposes. To the utility and the ratepayer, a kilowatt-hour of electricity consumed to heat your home is the same as the kilowatt-hour used to watch television or turn on the lights.

**Proposal Diverts Energy Efficiency Funds When Programs Should Scale Up, Not Scale Down<sup>3</sup>**

Energy efficiency is the least-cost, foundational, proven strategy to reduce energy consumption and combat climate change. Energy efficiency programs are, by law and regulation, cost-effective investments that include such long-lived improvements as insulation, weather-sealing, and HVAC equipment improvements that reduce or eliminate the need to procure additional electric and gas supply at greater expense. In fact, for every \$1 invested in energy efficiency, Rhode Island sees quantifiable benefits of \$3.80 which accounts for energy savings, economic development, job creation and reduced impacts from cutting carbon emissions. Rhode Island’s energy efficiency programs are a success story—the state has consistently ranked in the top five nationally for energy efficiency policies and programs according to the American Council for an Energy Efficiency Economy’s annual rankings.<sup>4</sup>

Figure 2: Benefits of Energy Efficiency Programs in Rhode Island



<sup>3</sup> Referencing H7123, Article 7, Section 1, Pages 4-5 (or 112-113 of 319), Paragraph (o)i-iv.

<sup>4</sup> ACEEE 2020 State Scorecards (most recent rankings).

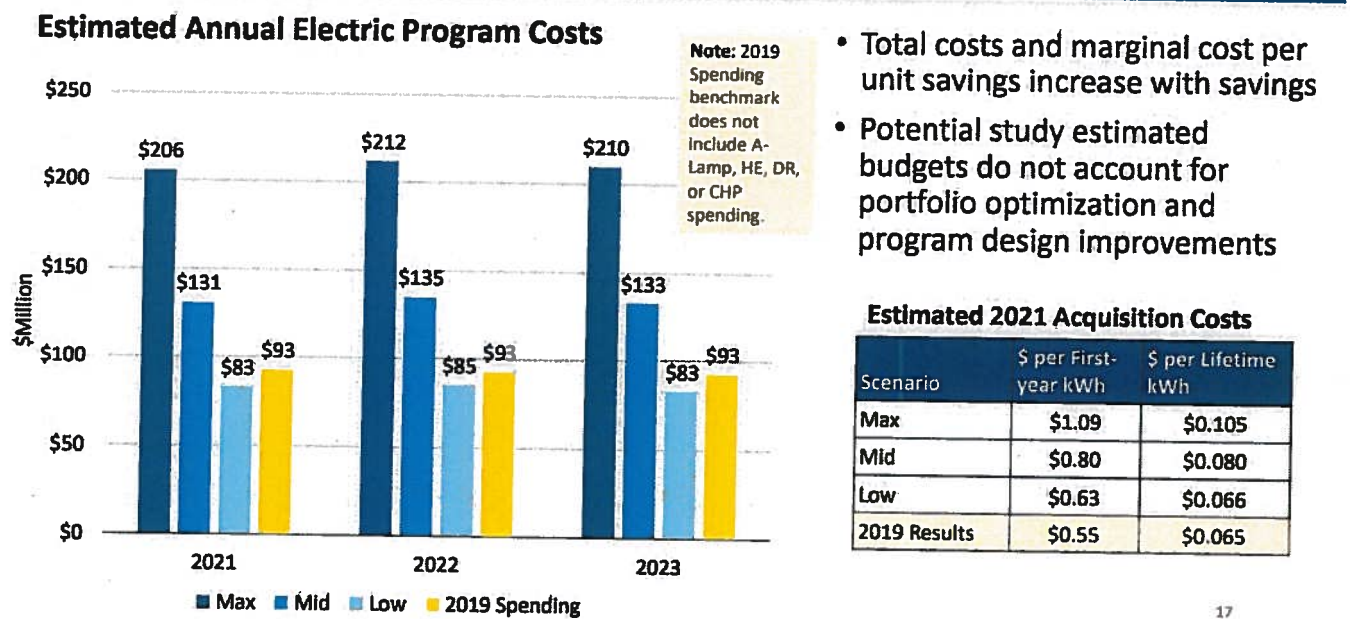
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Yet, despite these successes, the programs are still undersized relative to the total potential for energy efficiency savings that have been identified in the state by its consultants. Rather than diverting \$6 million in funding from these programs, as Article 7 proposes, the state should be enacting policy measures that unlock even greater energy efficiency savings and promote local economic development while simultaneously reducing carbon emissions and slowing the persistent flow of Rhode Island dollars out of state to procure fossil fuels.

According to the 2020 Rhode Island Energy Efficiency Market Potential Study, performed on behalf of the state, Rhode Island is not yet pursuing all cost-effective energy efficiency opportunities. The study demonstrates, in Figure 3 below, that the electric energy efficiency programs would be appropriately sized at over \$200 million annually to pursue all cost-effective energy efficiency savings, far above the \$122.6 million proposed by National Grid for the FY2022 energy efficiency plan.<sup>5</sup> Rhode Island could prudently invest an additional \$80-90 million per year in electric energy efficiency program investments. The state should not divert \$6 million of ratepayer funds away from these vital programs, even to fund the worthy climate-focused activities of the EC4.

Figure 3: Electric Energy Efficiency Program Maximum Potential

**EE: Estimated Electric Program Costs** 



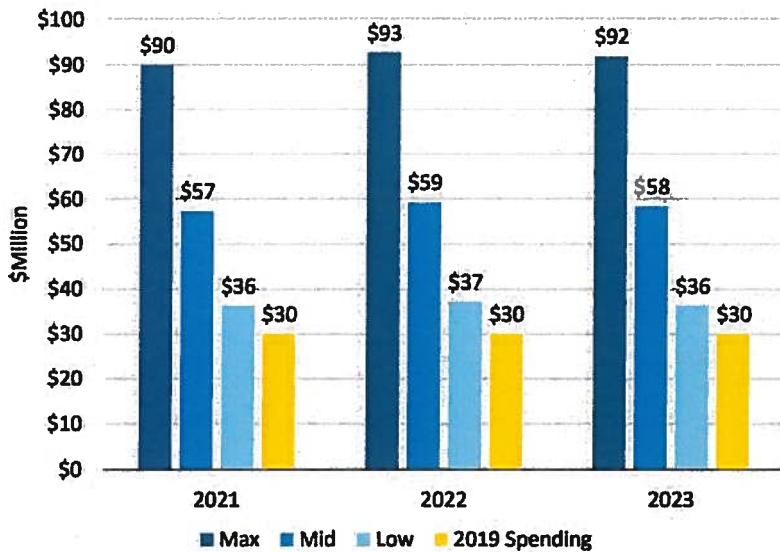
<sup>5</sup> Rhode Island Energy Efficiency Market Potential Study. Performed by Dunsky on behalf of the Rhode Island Energy Efficiency and Resource Management Council. 9 June 2020. <http://rieermc.ri.gov/wp-content/uploads/2020/06/dunsky-ri-ee-market-potential-study-final-results-dr-update-2020-06-09-v2-1.pdf>

Similarly, the Potential Study finds that the natural gas energy efficiency programs would be appropriately sized at over \$90 million per year to capture all cost-effective energy efficiency measures. For FY2022, National Grid proposed a gas efficiency program of only \$37.6 million, leaving a gap of over \$50 million between the program’s current ambitions and its full potential for energy savings. Gas efficiency programs are also critical tools to reduce the amount of harmful and toxic indoor air pollution that results from gas combustion in buildings and has been linked to increased cases of asthma, cardiovascular disease, and premature death.<sup>6</sup> Rhode Island should be investing more, not less, in these climate and public health initiatives.

Figure 4: Gas Energy Efficiency Program Maximum Potential

**EE: Estimated Gas Program Costs** 

**Estimated Annual Gas Program Expenditures**



- Estimated total costs and marginal cost per unit savings increase with savings
- Potential study estimated budgets do not account for portfolio optimization and program design improvements.

**Estimated 2021 Acquisition Costs**

Scenario	\$ per Annual MMBtu	\$ per Lifetime MMBtu
Max	\$120.09	\$9.38
Mid	\$91.92	\$7.65
Low	\$75.62	\$6.95
2019 Results	\$66.79	\$6.66

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**Article 7, Section 1: Performance Incentive Mechanism Is Tool to Steer Efficiency Savings<sup>7</sup>**

Acadia Center opposes the budget proposal to eliminate performance-based incentives related to the administration and implementation of statewide energy efficiency programs by utilities. Energy Efficiency programs encompassing a vast and diverse set of savings measures ranging from small, simple installs like faucet aerators to large, custom

<sup>6</sup> “Effects of Residential Gas Appliances on Indoor and Outdoor Air Quality and Public Health in California.” UCLA School of Public Health. <https://coeh.ph.ucla.edu/effects-of-residential-gas-appliances-on-indoor-and-outdoor-air-quality-and-public-health-in-california/>

<sup>7</sup> Referencing H7123, Article 7, Section 1, Pages 5-6 (or 113 of 319), Paragraph (p)

installations of industrial machinery controls. Performance Incentive Mechanisms (PIMs) are one tool that stakeholders and the Public Utilities Commission can use to narrow or steer energy efficiency programs in specific directions or to achieve certain goals. The current application of the PIM drives the utility to identify and pursue greater energy savings in the Commercial & Industrial customer segment. In the future, PIMs could be used to drive greater focus on “Next Generation Energy Efficiency” to better serve low- and moderate-income customers, or multifamily units.<sup>8</sup> PIMs are also structured to include Service Quality Adjustments, which operate like penalties, to ensure the energy efficiency programs are maintaining a minimum level of performance within different customer segments or objectives. Acadia Center advocates for the use of different PIM structures and goals to achieve specific outcomes, particularly to drive more savings to underserved and overburdened communities. It is essential Rhode Island retains the ability to use PIMs to drive better energy and climate policy from the utilities.

### Amendments for Meaningful Reforms to Enhance Energy Efficiency Programs

Rather than diverting funds away from the energy efficiency programs, or removing the Performance Incentive Mechanisms, Acadia Center urges the Committee to amend Article 7, Section 1 with the following provisions:

- Amend §39-1-27.7(a): Least-cost procurement shall comprise system reliability and energy efficiency and conservation procurement, as provided for in this section, and supply procurement, as provided for in § 39-1-27.8, as complementary but distinct activities that have as common purpose meeting ~~electrical and natural gas~~ energy needs in Rhode Island, including demand for electricity, natural gas, and delivered fuels, in a manner that is optimally cost-effective, reliable, prudent, and environmentally responsible, and that aligns with the state’s greenhouse gas emissions reductions requirements as set in §42-6.2-2.
- Amend §39-1-27.7(b)(2): Least-cost procurement, which shall include procurement of energy efficiency ~~and~~ energy conservation, and strategic electrification measures that are prudent and reliable and when such measures are lower cost than acquisition of additional supply, including supply for periods of high demand and supply of any combustible fuel used for thermal energy in buildings. Costs, for purposes of this section, shall include a reasonable assessment of the costs to society of greenhouse gas emissions.

### Article 7, Section 1: 3<sup>rd</sup> Party RFP Is Opportunity to Explore Additional Efficiency Models<sup>9</sup>

Acadia Center supports the budget provision in Article 7, Section 1 to issue a request for proposals (RFPs) related to the state’s energy efficiency programs. While the current utility-administered model for energy efficiency programs has generally served Rhode Island well, exploring the benefits and risks of other available models may generate reforms or new opportunities to better serve specific customer segments or objectives. The state has an ongoing responsibility to

<sup>8</sup> Next Generation Energy Efficiency envisions key reforms to efficiency programs to: 1) prioritize housing quality improvements; 2) Embrace clean heating and whole-house electrification; and 3) align efficiency programs with climate mitigation. Acadia Center brief. March 2021. <https://362kp4440e5xj84kkwjg322g-wpengine.netdna-ssl.com/wp-content/uploads/2021/05/Next-Generation-Energy-Efficiency-Brief1.pdf>

<sup>9</sup> Referencing H7123, Article 7, Section 1, Page 5 (or 113-114 of 319), Paragraph (q)i-iii.

look beyond the status quo to seek out every possible solution to achieve all cost-effective energy savings for residents and to exercise its powers and advance new regulations to address the climate crisis. The Governor's budget proposal appropriately envisions that the solicitation for RFPs does not explicitly require the state to select an alternative program administrator. However, the RFPs will give the state a new understanding of alternative models that may be superior to offerings today or will inspire changes to the current programs administered by the utility.

## Article 7, Section 2: Electric Vehicle Charging Program Benefits Rhode Island<sup>10</sup>

Acadia Center supports the proposed investment of funds to establish the electric vehicle charging infrastructure investment program. As the world's leading automakers have signaled, electric vehicles are going to rapidly replace today's fleets of internal combustion engine vehicles powered by gasoline and diesel. Rhode Island needs to prepare for this shift and this proposed program leverages federal funding to accelerate deployment of publicly-accessible electric vehicle charging infrastructure. Acadia Center and other stakeholders have long worked with National Grid, the Office of Energy Resources, and other state agencies to guide strategic investments in electric vehicle charging infrastructure as part of the state's Power Sector Transformation Advisory Group's Electric Transportation subcommittee. This work has overseen the deployment of hundreds of electric vehicle charging ports throughout the state to ensure these charging stations are distributed appropriately and equitably. One critical focus of this work has been to ensure communities historically underserved by clean transportation investments and overburdened by tailpipe pollution are able to participate in the benefits of vehicle electrification.

Acadia Center recommends two amendments to Section 2:

- First, Chapter 42-162-3(a) and (b) should include formal consultation with the members of the Power Sector Transformation Advisory Group's Electric Transportation subcommittee and include representation from environmental justice communities to help devise the state's electric vehicle charging infrastructure investment program and investment criteria. This consultation should precede the public comment period to ensure the expertise and experience of previously implemented charging infrastructure programs are incorporated into the proposed investment program and criteria.
- Additionally, Section 2 should include a timeline for developing and finalizing the investment program, rules, and criteria. Acadia Center urges the Committee to require a final adoption of the program's rules and criteria by December 31, 2022 which will provide enough time for state agencies to incorporate guidance from the federal government related to use of available federal funds from the federal Infrastructure Investment and Jobs Act signed in November 2021.

## Article 1, Section 16: \$37 Million Will Accelerate Heating Electrification Program

Acadia Center supports the proposed investment of \$37 million in American Rescue Plan Act funds to support a grant program within the Office of Energy Resources to assist homeowners and small-to-mid-size business owners with the purchase and installation of high-efficiency electric heat pumps, with an emphasis on families in environmental

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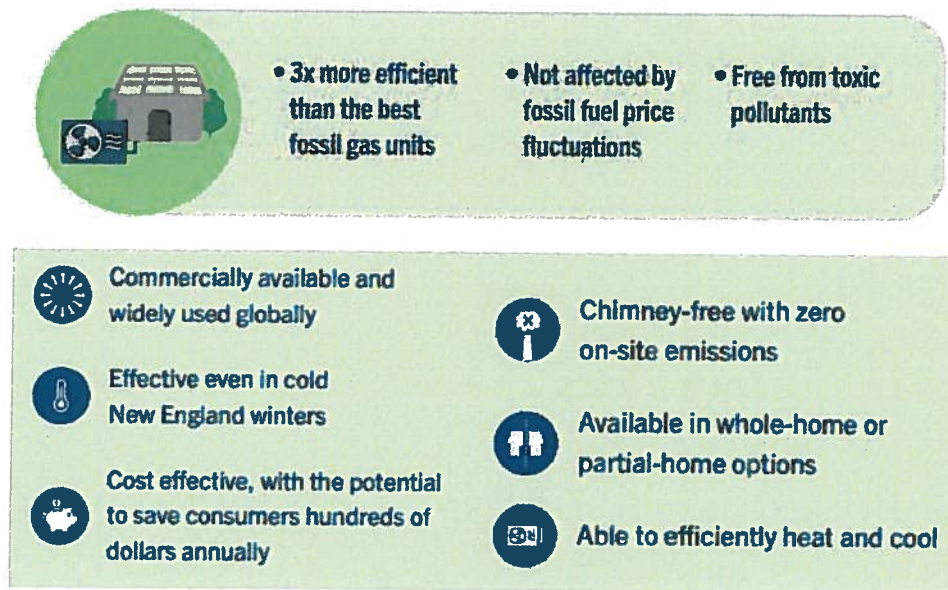
<sup>10</sup> Referencing H7123, Article 7, Section 2, Pages 6-7 (or 114-115 of 319).

justice communities, minority-owned businesses, and community organizations. This proposal will help Rhode Island make up ground on heat pump deployment—Maine, for instance, has already deployed more than 50,000 heat pumps and has established a goal of 100,000 additional installations through 2025.

The average home in the Northeast spends roughly \$1,000-\$2,600 on heating every winter. And because the Northeast imports an overwhelming amount of its fossil fuels, this money flows out of our local economy to other states and countries while also subjecting the region to volatile fossil fuel price fluctuations outside of its control. Fossil fuel heating is also a leading contributor to climate change and poses health and safety dangers such as gas leaks, carbon monoxide poisoning, asthma, cardiovascular disease, and premature death.

One solution to these multi-faceted problems is to switch to clean, highly-efficient electric heat pumps that provide both heating and cooling functions. These commercially available heating systems can save residents money, avoid winter fuel price fluctuations, reduce greenhouse gas emissions, and improve indoor air quality which leads to better health outcomes. Unlike fossil fuel heating, heat pumps emit no toxic pollutants in the home that exacerbate asthma and allergies. Risk of carbon monoxide (CO) poisoning and fires are also reduced, while ailments from thermal stress, like hypo- and hyperthermia, are avoided as comfort is improved. A study in Massachusetts found that HVAC improvements in low-income homes led to \$265 in annual health and safety savings per household. The same study found that coupling HVAC improvements with weatherization investments would nearly triple these benefits.

Figure 5: Benefits of Heat Pumps<sup>11</sup>

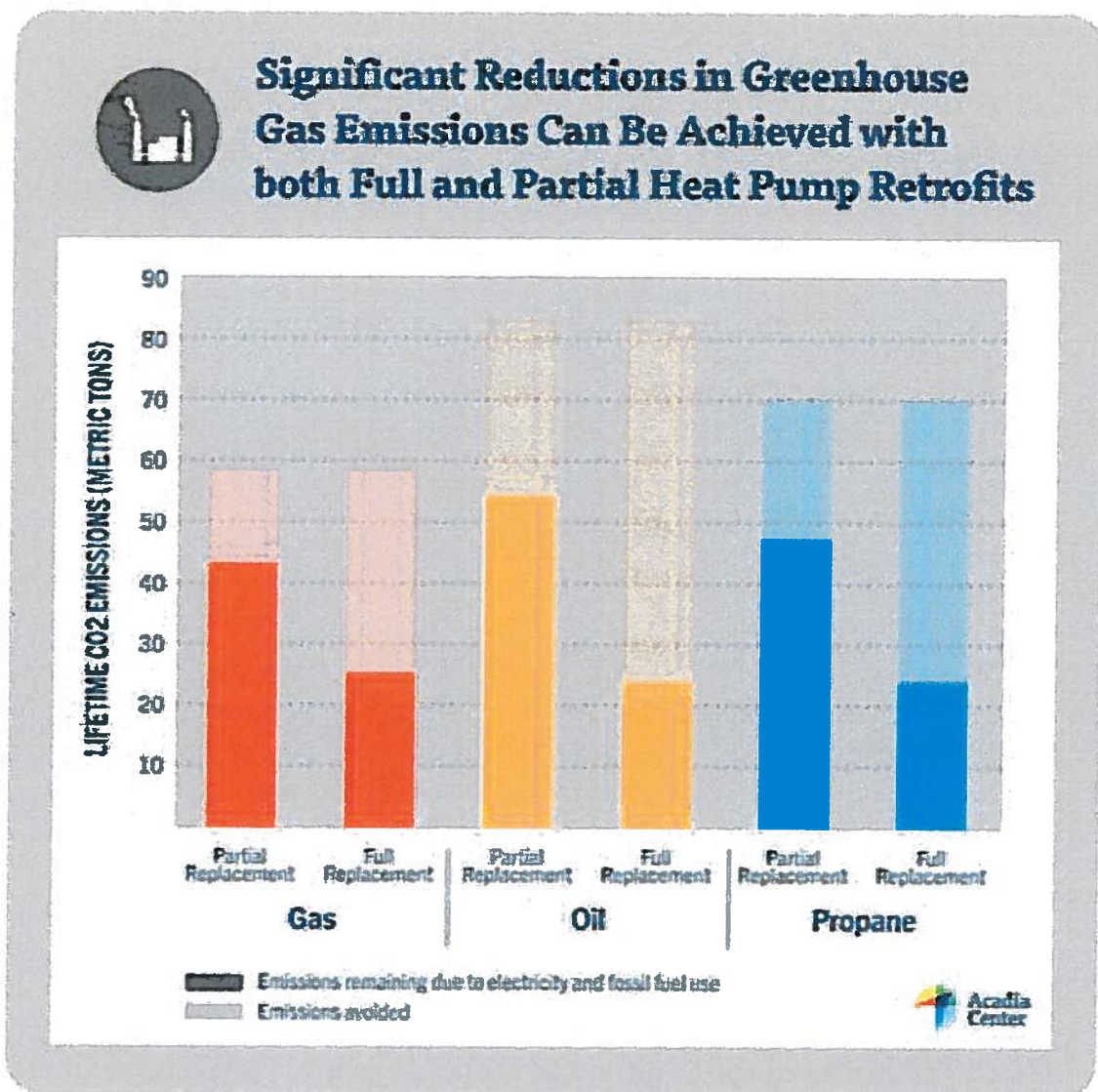


<sup>11</sup> Clean Heating Pathways. Acadia Center, March 2020. <https://362kp4440e5xj84kkwjg322g-wpengine.netdna-ssl.com/wp-content/uploads/2020/12/Acadia-Center-Clean-Heating-Pathways.pdf>



Greenhouse gas emissions are also significantly reduced by converting to heat pumps, even in cases where the heat pump meets only part of a building's heating needs. Switching completely from oil heat to heat pumps would reduce an average home's emissions by 58 tons over the equipment life—equivalent to taking about 12 cars off the road for 1 year. Because of the high efficiency of heat pumps, emissions attributable to the electric use from heat pumps are immediately lower than equivalent fossil-fuel equipment and will continue to decline as states rapidly shift electricity generation to renewable and cleaner sources. Installing heat pumps today creates a "renewable-ready" infrastructure that will take advantage of a cleaner grid as more renewables come online.

Figure 6: GHG Emissions Reductions from Heat Pumps



## Conclusion and Recommendations

Acadia Center fully supports the McKee Administration's desire to fund the EC4's activities and supports increasing the amounts budgeted for climate action to meet the existential threat of our time. These investments dedicated to environmental actions are important first steps to achieve the GHG reductions necessary to respond to the urgency of the climate crisis and comply with the requirements of the 2021 Act on Climate. However, Acadia Center must object in the strongest possible terms to the allocation of ratepayer energy efficiency funds to meet this goal as it would be diverting resources away from a key, proven tool in the fight against climate change. Investments in climate action must be supplemental and derived in an equitable manner. The proposal, as written, risks Rhode Island funding its climate actions on the backs of many ratepayers that are both least responsible for carbon pollution and also highly burdened by energy costs and health impacts resulting from the burning of fossil fuels.

Acadia Center opposes the proposal to prohibit the use of Performance Incentive Mechanisms to guide utility administration of the energy efficiency programs, but supports the provision to explore alternative models of efficiency program delivery through an RFP process.

Acadia Center respectfully requests the Senate Finance Committee amend the language of Article 7, Section 2, paragraphs (o) and (p) to remove the use of ratepayer demand-side management and gas funds and instead utilize another funding source for EC4 activities outlined in paragraph (o) to ensure these important climate activities are funded equitably by all interests within and conducting business in or with the state.

Additionally, Acadia Center urges the Committee to amend Article 7, Section 1 with the following provisions:

- Amend §39-1-27.7(a): Least-cost procurement shall comprise system reliability and energy efficiency and conservation procurement, as provided for in this section, and supply procurement, as provided for in § 39-1-27.8, as complementary but distinct activities that have as common purpose meeting ~~electrical and natural gas~~ energy needs in Rhode Island, including demand for electricity, natural gas, and delivered fuels, in a manner that is optimally cost-effective, reliable, prudent, and environmentally responsible, and that aligns with the state's greenhouse gas emissions reductions requirements as set in §42-6.2-2.
- Amend §39-1-27.7(b)(2): Least-cost procurement, which shall include procurement of energy efficiency ~~and~~ energy conservation, and strategic electrification measures that are prudent and reliable and when such measures are lower cost than acquisition of additional supply, including supply for periods of high demand and supply of any combustible fuel used for thermal energy in buildings. Costs, for purposes of this section, shall include a reasonable assessment of the costs to society of greenhouse gas emissions.

Acadia Center also recommends two amendments to Article 7, Section 2. First, Chapter 42-162-3(a) and (b) should include formal consultation with the members of the Power Sector Transformation Advisory Group's Electric Transportation subcommittee and representation from environmental justice communities to help devise the state's electric vehicle charging infrastructure investment program and investment criteria. This consultation should precede the public comment period to ensure the expertise and experience of previously implemented charging infrastructure programs are incorporated into the proposed investment program and criteria.

Secondly, this chapter should include a timeline for developing and finalizing the investment program, rules, and criteria. Acadia Center urges the Committee to require a final adoption of the program's rules and criteria by December 31, 2022 which will provide enough time for state agencies to incorporate guidance from the federal government related to use of available federal funds from the federal Infrastructure Investment and Jobs Act.

Finally, Acadia Center supports the McKee Administration's proposal in Article 1, Section 16, to invest \$37 million to accelerate equitable deployment of highly-efficient electric heat pumps throughout Rhode Island. Emissions from fossil fuel use in buildings is the second largest contributor of greenhouse gases in Rhode Island and heating electrification is the only viable, scalable pathway to addressing this challenge. This \$37 million should serve as an initial down payment to encourage more households, businesses, and HVAC contractors to adopt heating electrification and the resulting program should include strategies to ensure a just transition for today's fossil fuel workforce to gain the skills and certifications needed to evaluate, design, and install heat pump systems in new and existing building stock.

Acadia Center appreciates the opportunity to provide feedback on the Governor's FY 2023 Budget Proposal. We look forward to working with you and the Administration to improve H7123 to achieve the full potential of the state's clean energy programs.

Sincerely,



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