

THOMAS P. DiNAPOLI
STATE COMPTROLLER



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ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

January 13, 2011

Mr. Francis J. Murray, Jr.
President and CEO
New York State Energy Research and Development Authority
17 Columbia Circle
Albany, NY 12203

Re: 2010-S-27
NYSERDA FlexTech Program

Dear Mr. Murray:

According to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution and Section 2803 of the Public Authorities Law, we audited NYSERDA's FlexTech energy audit program for the period April 1, 2007 through October 26, 2010. The objective of our audit was to determine whether FlexTech resources are sufficient to meet program demand.

A. Background

The New York State Energy Research and Development Authority (NYSERDA) is a public benefit corporation established in 1975 to advance innovative energy solutions in ways that improve New York's economy and environment. To accomplish its mission, NYSERDA oversees about 30 programs aimed at reducing energy consumption; increasing the use of renewable energy; and providing affordable energy to low-income individuals.

NYSERDA administers the FlexTech (formerly Flexible Technical Assistance) program to provide New York State's commercial, industrial, institutional, government, and not-for-profit customers with objective and customized information to help them make informed energy decisions. NYSERDA receives funding for FlexTech from several sources, with varying funding periods. Two primary sources, the System Benefits Charge (SBC) and the Energy Efficiency Portfolio Standard (EEPS), specifically identify the amount of funding for FlexTech efforts. Other sources of funding during our scope period, such as the State Energy Program and ConEdison System Wide Program, provided money that NYSERDA used for FlexTech and other programs.

For the period July 1, 2006 through June 30, 2011, the SBC FlexTech budget is \$34.7 million, including unspent funds rolled over from the prior SBC cycle; in addition, the EEPS Electric budget is \$14.8 million for 2009-2013, and the EEPS Gas budget is \$950,000 for a similar period. These three FlexTech sources alone total more than \$50 million. NYSERDA reports the impacts of FlexTech and other SBC and EEPS-funded programs in quarterly reports, which it makes public on its website. At June 30, 2010, NYSERDA reported annual FlexTech energy savings of 1.1 million MWh¹ and 3.5 million MMBtus², and 209 MW³ in peak demand savings. More than 3,000 customers received assistance through the program during the period July 1, 2006 to June 30, 2010.

FlexTech serves both small and large commercial customers, tailoring the assistance to the customer's size and need. Small commercial customers with annual electric bills up to \$75,000 can apply for low-cost, walk-through energy audits performed by one of NYSERDA's four consultants. These audits generally cost around \$1,000; the cost to the customer is either \$100 or \$400, depending on the customer's annual electric bill, and NYSERDA assumes the remaining cost.

Large customers, with annual electric bills greater than \$75,000, can choose from a wide range of audits or studies depending on their needs, with NYSERDA sharing about half of the study cost, subject to a \$1 million maximum. Covered projects include general energy feasibility studies, industrial and process efficiency analysis, and long-term energy and carbon management. Detailed engineering design and whole building or new construction commissioning are ineligible for FlexTech funding.

Large customers can use either a pre-approved NYSERDA FlexTech Consultant or a consultant they choose themselves. NYSERDA selects its FlexTech Consultants every two to three years using a Request for Proposals process. Customers who opt to use a FlexTech Consultant start the application process by contacting a NYSERDA project manager to express their interest in the program. In contrast, customers who want to use their own consultant apply to NYSERDA by following the provisions of the related Program Opportunity Notice (PON), which is available on NYSERDA's website. The PON includes information about eligibility and program requirements, available funding, and general conditions of the contract. NYSERDA's oversight, under both scenarios, includes review and approval of the Scope of Work for each large customer study. All customers, large and small, receive a final report identifying recommended energy-saving measures, potential energy savings, payback period, and cost of implementation.

¹ MWh = megawatt-hour, which is a measure of electricity consumption equal to one million watts of power over a period of one hour.

² MMBtu = million British thermal units, which is the standard unit for measuring quantity of heat energy necessary to raise the temperature of one pound of water one degree Fahrenheit.

³ MW = megawatt, which is one million watts or one thousand kilowatts. Generally, one megawatt will power one thousand homes.

B. Audit Scope, Objectives and Methodology

We audited NYSERDA's FlexTech program for the period April 1, 2007 through October 26, 2010 to determine whether program resources were sufficient to meet demand. To accomplish our objective, we interviewed and met with key NYSERDA personnel to gain an understanding of the program. We also analyzed program data for both large and small customers and reviewed all funding sources applicable to FlexTech.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform our audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

C. Results of Audit

We found that NYSERDA has sufficient FlexTech energy audit resources to meet program demand. We considered the internal program resources available to meet demand for FlexTech services, as well as the financial resources available to fund NYSERDA's share of the energy audits and studies. To assess internal resources, we obtained data from NYSERDA officials about FlexTech projects started, completed, and in process during our scope, and analyzed it to further our understanding of program demand and NYSERDA's ability to meet it. We analyzed this project data to find out what types of customers are using FlexTech services and whether NYSERDA has been able to respond to requests for services in a timely manner.

Between April 2007 and July 2010, NYSERDA's FlexTech program provided energy audit services for 756 large and 2,685 small customer projects. By July 29, 2010, 2,682 of these had been completed and another 577 were in various stages of completion. The remaining 182 projects had been cancelled for various reasons, including customer request.

We concluded that NYSERDA has put adequate internal resources in place to address FlexTech customer needs. NYSERDA does not have a waiting list for FlexTech customer audits and we found no other indication that there is a backlog of unmet program need. NYSERDA also has processes in place to manage new and existing small and large projects; to record, maintain, and analyze project information; to oversee consultant performance; and to report project results and energy savings measures that are implemented. Project managers hold regular

staff meetings to discuss project status and any problems they may have with individual customers. We also found these processes to be well-managed.

We also found NYSERDA has sufficient financial resources devoted to the program to meet existing demand. As of June 30, 2010, fully half of the \$50 million of FlexTech funding provided by the SBC and EEPS sources remained available and unexpended. Further, as a result of a June 2010 Public Service Commission EEPS Order, NYSERDA recently received another \$660,000 in FlexTech funding. Additional sources include amounts from the Regional Greenhouse Gas Initiative, as well as a Transportation Fund established by the Attorney General's Office, neither of which specifically identifies the amounts available for FlexTech efforts, though they can be used for FlexTech.

We also analyzed program data to determine the extent to which program efforts have been used to assist publicly-funded entities, such as schools and local governments, which largely rely on local property taxes to fund operations. In these difficult economic times, publicly-funded entities such as these need to actively seek ways to cut costs and reduce operating budgets. The FlexTech program is one way NYSERDA can assist in this effort by identifying potential energy saving measures. We concluded that NYSERDA is reaching the public sector in its promotion of FlexTech services and, in turn, helping to reduce the burden on many local taxpayers.

We found about 29 percent of NYSERDA's 756 large customer FlexTech projects involved publicly-funded entities, while another 10 percent involved large health care facilities like hospitals, nursing homes, and psychiatric centers which often rely on significant public funding. The balance of these projects (about 60 percent) focused on large commercial entities. In the small customer area, about 18 percent of the 2,685 projects focused on publicly-funded customers, such as local governments and schools, with the remainder focusing on private and commercial entities. Though NYSERDA has both the program and financial resources to meet existing FlexTech demand, officials acknowledged there is untapped demand throughout the State that has yet to be reached, including potential demand in the public sector.

When the Public Service Commission established the State's EEPS in 2008, it designated FlexTech as a 'fast-track' program and approved additional marketing funding of \$800,000 to drive FlexTech program awareness and participation. To that end, NYSERDA launched a new FlexTech Outreach, Education and Marketing Plan (Plan) on June 7, 2010. The Plan includes a provision to target key decision makers among the largest commercial and industrial customers, including a mix of publicly-funded and private entities. NYSERDA will monitor the progress of the Plan and its success both in attracting FlexTech participants and in encouraging installation of energy-saving measures.

Major contributors to this report include Frank Houston, Walter Irving, John Buyce, Joel Biederman, Sharon Salembier, Joseph Robilotto and Matt Luther.

We provided a draft copy of this report to NYSERDA officials for their review and comment. Their comments were considered in preparing this report and are included.

We wish to thank NYSERDA's management and staff for the courtesies and cooperation extended to our examiners during this audit.

Very truly yours,

Walter J. Irving
Audit Manager

cc: Mr. Jeffrey Pitkin, Treasurer, NYSERDA
Mr. Thomas Lukacs, Division of the Budget



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December 27, 2010

Mr. Walter J. Irving, Audit Manager
Office of the State Comptroller
110 State Street
Albany, NY 12236

RE: Reply to Working Draft Audit Report 2010-S-27, NYSERDA FlexTech Program

Dear Mr. Irving:

This letter is in response to the Working Draft report provided to us on December 22, 2010. We are very pleased with the report's findings: NYSERDA has sufficient FlexTech energy audit resources to meet program demand; NYSERDA has put adequate internal resources in place to address FlexTech customer needs and that processes are well-managed; NYSERDA has sufficient financial resources devoted to the program to meet existing demand; and NYSERDA is reaching the public sector in its promotion of FlexTech services to help reduce the burden on many local taxpayers, but also recognizes untapped demand throughout the State yet to be reached, including potential demand in the public sector.

Your report points out that the Public Service Commission awarded "fast-track" funding to the FlexTech program as part of the Energy Efficiency Portfolio Standard proceeding, including \$800,000 for program awareness and marketing. The new FlexTech Outreach, Education and Marketing Plan was approved by the Department of Public Service in March 2010, and we will monitor the progress of the Plan and its success in attracting FlexTech participants and encouraging installation of energy efficient measures.

Thank you for the opportunity to respond to the Working Draft, and for the professionalism displayed by your staff during the course of the audit.

Sincerely,

A handwritten signature in blue ink that reads "Francis J. Murray, Jr." The signature is fluid and cursive.

Francis J. Murray, Jr.
President and CEO

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