

To: Kate Marks, EPSA
From: David Terry, NASEO
Subject: NASEO Supplemental QER 1.2 Comments
Date: July 1, 2016
CC: Jeff Genzer, NASEO

Over the past several months, the National Association of State Energy Officials (NASEO) provided a series of suggestions and input on the QER 1.2 process. The U.S. Department of Energy's (DOE) leadership of this critical federal activity is greatly appreciated by NASEO's 56 State and Territory Energy Office (SEOs) members. The SEO directors serve as the governors and legislatures formal and informal energy policy advisors. Their state policy role, distinct from the state regulatory role, is essential to advancing electric system modernization, expansion of clean energy options, improvement of the nation's and our states' economic competitiveness, and enhanced energy system reliability. In addition to the specific topical input provided by NASEO, we would like to offer three important and overarching recommendations for DOE's consideration as the QER 1.2 process continues, including:

1. As noted above, the state energy policy role is distinct from the state regulatory role, and it is critical to advancing a more modern and resilient transmission, distribution, and end-use electricity system. As DOE considers various grid modernization issues, the jurisdictional role of the SEOs and the advisory role of State Energy Directors should be highlighted. The SEO's executive branch, non-regulatory status (*note some SEOs have siting and regulatory authority in certain energy areas*) affords them a lead role in convening and consensus building that can move state energy policy forward and aids governors and legislators in setting new policy. Further, SEOs often intervene in public utility commission cases in support of broader state energy policy goals. Generally, the regulatory role of the commissions is to implement existing state policy targeting investor owned utilities. Describing the important differences and complementary functions of the State Energy Office and State Utility Commission roles is fundamental to external audiences understanding how grid modernization can be accelerated. For example, grid modernization requires holistic consideration of not only critically important investor owned utility and state transmission issues, but also a range of non-regulated electricity market elements (e.g., consumer owned utilities, consumer owned devices, distributed resources, renewables, regional transmission considerations, storage, high performance buildings, advanced manufacturing, transportation). Policy-oriented stakeholder processes, such as those SEOs lead under statewide comprehensive energy planning are an excellent means for states to define paths forward in complex areas such as electricity system modernization. Finally, NASEO's Energy Policy and Markets Pilot (EMAP) program operated in conjunction with DOE offers an instructive example of the interplay of state energy policy, state electricity regulation, and non-regulated electricity market elements. EMAP seems a good state-federal collaborative example to include in QER 1.2.
2. The integration and interaction of the electric and natural gas distribution systems with an increasingly sophisticated built environment is "the clean energy opportunity" of the next five years. New commercial, residential, and institutional buildings are increasingly including demand reduction, storage, renewables, and

energy efficiency controls and sensors – all augmented by artificial intelligence systems – to achieve high levels of performance and afford two way power flows and decision making. These advancements have profound implications for every aspect of the grid, electricity policy, electricity regulation, natural gas, resilience, and utility business models. Leadership of U.S. energy and building systems technology providers in this exciting clean tech area require a robust and digital grid and distribution infrastructure to interact with if they are to propel market adoption of these innovations. The resulting substantial economic development opportunities include more competitive electricity production, distribution, and end use applications, as well as the possibility of expanded exports of energy technologies and services. Development of a SEO-federal program to support state energy policy and demonstration projects in the grid-facility integration area would be highly beneficial in meeting federal RD&D, security, environmental, and economic development goals, as well as the states' goals.

3. The U.S. State Energy Program (SEP) is the primary program offered by DOE to support states' energy planning, policy, and technology deployment efforts. SEP formula funds are used for a variety of important clean energy, energy assurance, and energy system planning activities. Of particular note, most states use SEP funds to support governors' statewide comprehensive energy planning activities and a variety of joint State-DOE initiatives, such as technology accelerators and financing programs. Elevating the role of SEP and state energy policy (distinct from regulation) in achieving both state and DOE grid modernization goals (in the context of QER 1.2) would send an important and positive message to state leaders, the energy industry and others. In addition, consideration of a pilot program that augments the states' SEP formula funds with a grid modernization incentive competitive program (e.g., based on the successful SEP Special Projects model, lessons learned from EMAP, QER 1.2 analyses, experiences of a number of states) would aid in realizing many of the recommendations of the first QER, as well as some of the recommendations that may emerge under QER 1.2.

NASEO applauds the constructive and thoughtful work of DOE's Office of Energy Policy and Systems Analysis on the QER. We appreciate the opportunity to provide these supplemental, overarching comments, and we look forward to working with you in the coming months. Please contact me with any questions.