

## **Building Blocks that Lead to Market Development and Market Transformation<sup>1</sup>**

### **VEIC Study Review Committee DRAFT Comments**

#### **1.8.1 Clear policy direction<sup>2</sup>.**

Participants agree with the VEIC report that NH needs a clear, consistent, comprehensive statement of the state's energy policy enacted as legislation.

Although New Hampshire has a long list of legislation, Executive Orders, and regulations<sup>3</sup> that each, in their own way, address aspects of energy policy in the state, there is not a single, comprehensive piece of legislation that provides clear and unequivocal direction to state policy makers, planners, regulators, utilities, and stakeholders. Nor is there any statute in place that establishes an energy efficiency resource standard or mandates that utilities pursue all cost effective energy efficiency first. The working group recommends that NH head in the direction of adopting a policy that prioritizes procurement of all cost effective energy efficiency first as a means to promote a well-developed energy-efficiency market. Legislative policy should remain stable, not subject to political winds, so that all can rely on it in their planning and program decisions.

At the same time, questions were raised regarding how such an efficiency first policy would be implemented, with consideration for a range of issues including but not limited to non-electric benefits, shared credit for savings, cost-sharing, tracking, fuel conversion, and other perceived complexities of multi-fuel programs. These are issues which the EESE Board may wish to explore further.

There is also majority agreement with the recommendation that NH would benefit from clear regulatory guidance regarding energy efficiency and appropriate ways to meet legislatively framed energy goals. However, there is some disagreement on this point, with utility representatives believing that the best role to be carried out by regulators is approving plans developed by interested parties and then holding them accountable to these plans, rather than providing directives on how to meet policy goals.

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<sup>1</sup> The building blocks were first described in the VEIC Study, Chapter 1, Section 1.8 & then elaborated on in Section 9 of the "Key Findings & Recommendations" document.

<sup>2</sup> See Chapter 14, Step 1, pp. 14-4, "Review multiple energy policy statements developed over the years and enact a single, comprehensive, energy policy statement that provides clear policy direction for energy efficiency," for some detail on potential implementation.

<sup>3</sup> The key NH statutes in the current energy policy framework are identified and cross referenced with NH RSA in Chapter 2, section 2.2, pp. 2-1 – 2-2.

### **1.8.2 A single, trusted source of information<sup>4</sup>.**

The working group generally agreed that there is conceptual appeal to the VEIC recommendation to create a single, trusted source of accurate information with a common NH portal to program offerings, even if programs are implemented by multiple entities. This agreement stems from a shared sense that having one clearinghouse for information regarding energy programs and initiatives – a well advertised starting point which could direct individuals and businesses to other sites and resources – would be a valuable “one-stop shopping” destination for those interested in exploring their options.

However, members of the working group raised a number of questions and concerns that may merit further discussion by the EESE Board. These include:

- The question as to who would best manage and be responsible for this resource: a nonprofit, a state agency, the utilities, or another for-profit organization?
- Recognition that doing this right – not only up front, but in terms of an ongoing commitment to maintenance and improvement, will take real resources, and must be managed under the uncertainty as to where these funds will come from.
- Concern that while one entity may be tasked with doing this, success will be dependent on acceptance, buy-in and shared support from a wide range of stakeholders (noting that myenergyplan.net and NHSaves sites have made some steps toward a shared portal, but have not been used consistently for all program offerings).
- Caution that to make this work, it must be launched at a realistic scale – not made so comprehensive that it is a huge, unmanageable project to build and maintain.

### **1.8.3 High levels of coordination among service offerings<sup>5</sup>.**

The working group agrees that if the goal is to institutionalize market development, then market actors, suppliers, implementers, and customers need a common set of program features. Those features (such as incentive levels or product offerings) must change in response to market conditions and opportunities, and the changes should be clear and uniform. There is agreement that coordinated offerings work most effectively, and that programs and administrators should be required to implement programs with a high degree of coordination, consistency and communication.

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<sup>4</sup> See Chapter 14, Step 6, pp. 14-14, “Create a Home for Energy Efficiency and Sustainable Energy Implementation Support and Oversight in State Government,” for more detail on potential implementation.

<sup>5</sup> See Chapter 14, Step 4, pp. 14-12, “Continue ongoing efforts among utilities to increase the consistency in offerings, rebate and incentive levels, eligible technologies, etc. across energy efficiency programs,” for some detail on potential implementation.

**1.8.4 An emphasis on creating and expanding the market infrastructure<sup>6</sup>.**

There is agreement that programs should include a focus on building the capacity and skills of key market actors - including contractors, installers, designers, and vendors. For example, training and certification help to create, differentiate, and grow new business opportunities for these market actors by preparing them to meet evolving market demands. The group agrees that there needs to be an emphasis on creating and expanding market infrastructure in sync with growing market demand, and that, done right, this can achieve greater savings in the long term by maximizing future market potential. However, the working group noted that balance is need: for example, programs ought not to grow the workforce well beyond available work as some of these market players may exit the NH market or the surplus labor force may be used as evidence of “program failure.”

At the same time, utility participants raised questions about the *degree* to which market infrastructure development strategies that have no immediate savings associated with them ought to be included in overall program spending. They felt that market infrastructure development ought to be more of a design principle than a major program focus, and one representative felt strongly that the key objective ought to remain achieving near term savings, rather than worker training or other market infrastructure development. There is recognition that current policy regarding cost-effectiveness would likely preclude significant spending on market infrastructure.

**1.8.5 Market development (and not simply resource acquisition) is rewarded<sup>7</sup>.**

There is agreement that utilities should be allowed to claim benefit not only for installation of efficiency measures but also for some of the work they do that helps to develop markets, and helps to promote and support high-efficiency codes and standards. An interesting feature of well-run energy efficiency programs is that as market segments are transformed direct utility investment declines (as it should for the affected measures), but the benefits to consumers and the economy continue over time. The fact that utilities can no longer claim savings for such measures is appropriate in the long run, but utilities should not be penalized for success.

It was noted that this relates to utility rate decoupling, and suggested that the EESE Board may wish to study decoupling in other states that have adopted it to see how it has been done to provide proper incentives.

One participant expressed the concerned view that implementation of this approach in a neighboring state had been bogged down by a huge set of metrics that took focus away from the task of implementing and measuring actual energy savings.

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<sup>6</sup> See Chapter 4, pp. 4-13-15, “Contractor Technical Assistance, Training, & Certification,”; AND Chapter 14, Step 4, pp. 14-12, “Increase Program Coordination and Further Streamline Administration,” for more detail on potential implementation.

<sup>7</sup> See Chapter 4, pp. 4-8-11, “Improve the Regulatory Environment and Modify Performance Incentives,” for some detail on potential implementation.

**1.8.6 A sustained commitment to meeting goals and the willingness to increase goals over time<sup>8</sup>.”**

The working group had extended discussion about this recommendation from VEIC. The working group intends to undertake further discussion, in light of the linked nature of these building blocks to other blocks and in light of an increasing understanding among group members as to the benefits and barriers present to stakeholders.

VEIC noted that it is a common failure of program design that energy efficiency targets, sustainable energy goals, and implementation budgets are arbitrarily limited, and that the focus becomes on spending available funds without an overall strategy for developing the market. While agreeing that cost-effectiveness of programs, assessment of performance, and assessment of bill and economic impacts are vital components of effective performance, VEIC stressed that market development is not likely to succeed if programs are not designed to reach significant portions of the market, and that a common feature of programs that are not market-development-focused is that they tend to only manage to budgets. They noted a risk that, if the goals are low, program implementers end up being as concerned about the regulatory risks of over-spending as they are about meeting the targets.

The working group agrees that it is difficult for a program to help develop markets in a sustained, orderly way if the program is shut down half way through the year because it ran out of funds. But members of the group noted that state policy direction, or lack thereof, and limited budgets do constrain goals. There was also a discussion as to whether the onus for setting more aggressive goals rests with the utilities or with the PUC or the legislature, as well as some discussion that it is as important to assess *results* as it is to assess goals.

The working group appreciates that this recommendation is an effort to change the existing paradigm, and underscores the degree to which this recommendation is fundamentally connected to other recommendations and their implementation.

**1.8.7 A regulatory process should remove disincentives for energy efficiency investments and rewards strong performance<sup>9</sup>.**

The working group endorses the notion that the system should be carefully designed to ensure that consumers retain most of the benefit of the investment and

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<sup>8</sup> See Chapter 5, pp. 5-11, “Set higher goals”; Chapter 14, Step 2, pp. 14-6, “Adopt a new Energy Efficiency Resource Standard (EERS),”; **AND** Chapter 14, Step 3, pp. 14-9, “Ensure that program goals are aggressive, and that there is a sustained commitment to meeting the goals and increasing the goals over time,” for more detail on potential implementation.

<sup>9</sup> See Chapter 9, Section 9.5, pp. 9-19, “Summary of Utility Performance Incentives Recommendations”; AND Appendix D, “Detailed Utility Performance Incentive Model Comparison,” for more detail on potential implementation.

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that implementing entities are held to strict performance levels and are rewarded appropriately for meeting aggressive goals. Performance incentives are a standard approach for implementing entities, including separate energy efficiency utilities (such as Efficiency Vermont) as well as for programs administered by utilities (including those in New Hampshire).

There was recognition that creation of incentives and removal of disincentives, such as through revenue decoupling, are closely intertwined.

**1.8.8 An ongoing system of timely evaluation, measurement, and verification (EM&V) should be conducted independently from the utilities being evaluated<sup>10</sup>.**

An amount in the range of 3-7% of energy efficiency program budgets should be dedicated to evaluation, monitoring, and verification. The working group recommends that EM&V should be conducted by a third party evaluator working independently from the implementing entity, but in close consultation with utility implementers and other stakeholders. The EM&V should assess how well the market is understood<sup>11</sup> as well as assess program effectiveness. Outcomes of EM&V should feed back into program design and implementation enhancements for future programs.

**1.8.9 There should be a focus on performance combined with implementation flexibility for achieving performance goals<sup>12</sup>.**

Performance goals should not just be year-to-year, but allow for ramp-up and innovation over at least a two-year period, with a clear feedback loop between program monitoring, evaluation, and verification and continuous program improvement. Performance incentives should also be designed to reward implementers for achieving performance goals as well as effective innovation and responsiveness to shifting markets. Implementers should be able to change strategy, to alter incentives, or to make special offers as long as they are held to demanding savings goals.

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<sup>10</sup> See Chapter 14, Step 3, pp. 14-11, “Allocate 3-7% of program budgets to evaluation, measurement, and verification (EM&V),” for more detail on potential implementation.

<sup>11</sup> In this instance, “market” may be understood to include the demand for energy efficiency and renewable energy services, the capacity of market actors to meet demand, etc.

<sup>12</sup> See Chapter 14, Step 3, pp. 14-9 “Ensure that program goals are aggressive, and that there is a sustained commitment to meeting the goals and increasing the goals over time,” AND see Chapter 7, pp. 7-27 “Authorize program administrators to make independent program decisions,” for more detail on potential implementation.

**1.8.10 There is an understanding of the importance of long term planning for EE and RE programs and the benefit of that planning through a collaborative process in a non-adjudicative setting<sup>13</sup>.**

Programs should be designed and planned for a minimum of two years (as was begun in New Hampshire for the 2011-2012 utility program filings.) VEIC recommends that adjudicated regulatory proceedings are perhaps the least effective forum for contemplating program design changes, and reaching agreement on how effective they will be at market development and transformation. Instead, VEIC believes that program design and planning should be done using a collaborative process in a non-adjudicative setting with the involvement of an independent, third party who has the expertise and resources to help ensure that both consumer and utility interests are aligned before program plans and budgets are submitted to regulators. They offer examples of states that have taken this approach, including California, New Jersey, Rhode Island, and Vermont. The working group discussed the pros and cons of such an approach, and the degree to which this principle ought to apply to programs outside of the CORE dockets as well. These topics merit further discussion at this time before any consensus or majority view is finalized.

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<sup>13</sup> See Chapter 14, Step 3, pp. 14-9 “Establish a formal and structured collaborative process for developing new program plans and budgets,” for more detail on potential implementation.