

**VEIC Study Review Synthesis**  
**Chapter 1 – Section 1.8 - Building Blocks that Lead to Market Development and Market Transformation<sup>1</sup>**  
**October 19, 2012**

**Summary of Chapter Intent**

Chapter 1 of the VEIC Study provided both a comprehensive review of the patterns of New Hampshire’s energy consumption and the sources meeting that demand. It also provided an explanation of the need for an independent study of energy policy issues in New Hampshire and the process that led to that study. Section 1.8 of the Study introduced a set of characteristics, “*Building Blocks Leading to More Market Development in New Hampshire,*” which the authors believed would lead to the greatest success in developing and transforming markets. These building blocks were ultimately used as the central lens through which VEIC staff, and their partners, viewed New Hampshire’s history, policies and programs related to energy efficiency and sustainable energy. The observations made then served as the basis for their recommendations for change.

**Findings**

Section 1.8 of the Study identifies a list of 10 critical elements that are best viewed as being part of an integrated energy policy and program system. While specific elements may provide greater benefits when viewed independently, it is expected the interactive benefits would exceed the sum of their individual contributions. The benefits of certain elements are, therefore, able to leverage the greatest gains from the other critical features. As such, this synthesis includes all of the 10 elements proposed in Section 1.8 rather than selecting priority elements.

The 10 elements are listed below. The EESE Board largely affirms the building blocks proposed by VEIC, but notes that there are key considerations identified that should be addressed.

**1.8.1 Establish a clear and stable policy direction for the state<sup>2</sup>.**

New Hampshire needs a clear, consistent, comprehensive statement of the state’s energy policy enacted as legislation. This will provide utilities with the certainty they need when preparing for the infrastructure that New Hampshire’s economy will need into the middle of the 21<sup>st</sup> century and provide energy investors with the certainty they need to move capital into the state.

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 regarding energy<sup>4</sup>. Nor are there any statutes in place that properly emphasize the role of energy efficiency in energy planning such as an *energy efficiency resource standard* (EERS).

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1 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.

2 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.

3 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.

4 Chapter 378:39 does place energy efficiency (as well as other forms of demand side management) as the first priority and places renewables in the number two position ahead of everything else but the policy lacks clear targets, applicability and enforceability.

To address these issues, New Hampshire should take steps to ensure that legislative policy remains stable and is not subject the dynamics of New Hampshire’s political winds, so that *all* can rely on it in their long-term planning and program decisions. Building from this stability, policies should be established that suitably support investments in energy efficiency and renewable energy in order to strengthen the New Hampshire economy<sup>5</sup>.

1) Development:

TBD

2) Establishment:

NH Legislature

3) Implementation:

Public, private and non-profit sectors

### **1.8.2 A single, trusted source of information<sup>6</sup>.**

Having a single well-advertised clearinghouse for information regarding energy programs and initiatives would be a valuable “one-stop shopping” destination for those interested in exploring their options. Such a resource could integrate the various and diverse programs available to them and direct individuals and businesses to those sites and resources appropriate for their sector and their particular needs.

Establishing such a resource will require:

- 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;
- Identification of the best entity to manage and be responsible for this resource, whether a nonprofit, a state agency, the utilities, or another for-profit organization;
- Acceptance, buy-in and shared support from a wide range of stakeholders<sup>7</sup>; and
- 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>8</sup>.**

There is agreement that coordinated offerings work most effectively, and that programs and administrators should implement programs with a high degree of coordination, consistency and communication.

To institutionalize market development, market actors, suppliers, implementers, and customers need a common set of program features. Those features (e.g., incentive levels or product offerings) must change in response to market conditions and opportunities, and the

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5 See Chapter 1, Section 1.9. Key Areas of Focus in the Study, p. 1-11. This notes that there needs to be sustainable funding and increased private investment to soften the impact of decreases in federal funding for energy initiatives and to help stimulate economic growth opportunities and jobs in New Hampshire through the green economy.

6 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.

7 Existing websites have taken steps toward serving the role of a shared portal, but have not been used consistently for all program offerings.

8 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.

changes should be clear and uniform. It is recognized, however, that some flexibility with regard to region product offering and marketing may be needed and that a “one-size-fits-all” approach could limit program effectiveness.

#### **1.8.4 An emphasis on creating and expanding the market infrastructure<sup>9</sup>.**

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.

There needs to be an emphasis on creating and expanding market infrastructure in sync with growing market demand, and when done right, this can achieve greater savings in the long term by maximizing future market potential.

However, balance is needed. 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.” The key objective ought to remain achieving near-term savings, rather than worker training or other market infrastructure development. In turn, the market should be monitored so that market infrastructure development anticipates and prepares for growth in demand for energy efficiency.

#### **1.8.5 Market development (and not simply resource acquisition) is rewarded<sup>10</sup>.**

To facilitate market infrastructure development and the demand for energy efficiency, utilities should be allowed to claim benefit not only for installation of energy-efficiency measures, but also for some of the work 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*.

Consideration should be given to a few issues. Implementation of this approach in a neighboring state has been bogged down by a large number of metrics that ultimately reduced the achievement and verification of actual energy savings. As this relates to utility-rate decoupling, the EESE Board may wish to study decoupling in other states to see how it has been conducted to provide proper incentives for market development.

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<sup>9</sup> Here “market infrastructure” refers to the workforce necessary to conduct energy efficiency and renewable energy projects. 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>10</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>11</sup>.**

It is a common failure of efficiency-program design nationwide for energy-efficiency targets, sustainable-energy goals, and implementation budgets to be arbitrarily limited, and for the focus to be on spending available funds without an overall strategy for developing the market.

To develop the markets in a sustained fashion, a program should have clearly established goals and sufficient resources/budget to achieve them where there is an agreement between program implementers and overseers on the goals, program design and budget. The well-managed program will deliver the results with the resources provided while avoiding the shut down of a program half way through the year because it ran out of funds.

Consistent with the call to “[e]stablish a clear and stable policy direction for the state,” in the opening of this section and the call for an Energy Efficiency Resource Standard (EERS) in Chapter 3, there should be not only a commitment to reaching program goals, but setting aggressive, achievable goals. This will help the utilities and stakeholders to determine the resources needed for each program year and the programs necessary to achieve those goals with those resources.

**1.8.7 A regulatory process should remove disincentives for energy efficiency investments and rewards strong performance<sup>12</sup>.**

The system should be carefully designed to ensure that consumers retain most of the benefit of the investment and that implementing entities are held to strict performance levels and are rewarded appropriately for meeting aggressive goals. The selection of “incentives” can include consideration of and co-implementation of:

- Performance incentives, which 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);
- Revenue decoupling, under which a utility’s revenue is based on the allowed rate of return from its rate base, and is independent of electric sales; and
- Lost revenue recovery, under which the reduction of sales resulting from efficiency is estimated and utility revenue, is increased by a corresponding amount.

**1.8.8 An ongoing system of timely evaluation, measurement, and verification (EM&V) should be conducted independently from the utilities being evaluated<sup>13</sup>.**

An amount in the range of 3-7% of energy efficiency program budgets should be dedicated to evaluation, monitoring, and verification. The 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

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<sup>11</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>12</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.

<sup>13</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.

market is understood<sup>14</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>15</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.

Should circumstances change from the assumptions made at the outset of a program implementation period, all parties must be prepared to make adjustments as appropriate. Ongoing communications between implementers and overseers can help minimize surprises.

**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>16</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). Adjudicated-regulatory proceedings possess specific disadvantages as a forum for contemplating program design changes and for reaching agreement on how effective those changes will be at market development and transformation. Instead, program design and planning should be 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. These topics merit further discussion at this time before any consensus or majority view is finalized.

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14 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.

15 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.

16 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.