

*VEIC Study*

**Building Blocks that Lead to Market Development and Market Transformation**

***Chapter 1: Section 1.8 & Key Findings & Recommendations Section 9***

**VEIC Study Review Committee DRAFT Comments**

**1.8.1 Clear policy direction<sup>1</sup>.**

It is essential to have 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 regulation that each, in their own way, addresses 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. Although legislation supports least cost Integrated Resource Planning (IRP), it does not mandate least cost procurement which is a prerequisite for ensuring a well-developed energy-efficiency market.

*Level of Agreement:*

Respondents generally agreed with this item.

A (2) GA (4)

*Comments:*

1. A single, comprehensive, legislative energy policy may not be achievable in NH due to the two year cycle of our legislature and the propensity to tweak statutes on an annual basis.

If a stakeholder group (a la CCTF) could develop a non-legislative overarching policy statement and then lay out a series of legislative changes to achieve that policy I think that, though it would take longer, it may result in a more stable legislative basis than a single, easily modified, RSA.

2. It becomes political. Citizenry legislature who have little time to devote towards larger comprehensive energy policy. Limited trust in public officials recommendations on energy policy.
3. The implication from VEIC is that there should be an EERS, which would be a sound policy as long as it was not subject to political badgering every 2-4 years.
4. The lack of a coherent legislative framework had resulted in an ineffective and confusing patchwork, and a tendency (long-standing) for the legislature to

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<sup>1</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.

engage in regular tinkering. There are a series of issues the legislature should try and tackle.

5. Need to include such policy not only in legislation but in rule making and practices at PUC, OEP, DES, etc.
6. Do not feel it is the role of regulators to determine the appropriate ways to meet goals, but that regulators should be responsible for approving plans developed by Program Administrators in collaboration with other interested Parties.)

There should be a division of labor: the legislature should establish the policy (e.g. x% of supply from EE and/or renewables), the regulators ought be responsible for setting goals and holding the Program Administrator accountable, and the Program Administrator ought be responsible for achieving the results.

7. Least cost procurement requires policy for fuel switching and support of non-regulated fuels.

### 1.8.2 A single, trusted source of information<sup>2</sup>.

A single, trusted source of accurate information with a common portal to program offerings, even if programs are implemented by multiple entities. The importance of this cannot be understated. While New Hampshire is blessed with a multitude of energy efficiency and sustainable energy programs and initiatives, there is no single and trusted source of information that is the “one-stop shopping” destination for those interested in exploring their options. NHSaves is partial progress towards this, but it is not used consistently for all program offerings, even within just the regulated energy efficiency programs.

#### *Level of Agreement:*

Respondents were fairly split in their support for this item.

A (3) GA (1) GD (1) D (1)

#### *Comments:*

1. This needs to be a state agency rather than an advocacy group (such as CACP) and needs to have funding associated with this task to ensure it is kept up to date. Either the OCA or OEP would make sense, but since OEP can change drastically with a new administration, OCA would be the more stable home for this. Alternatively, OEP should be made a state agency rather than be within the Gov's office.
2. To the extent that program offerings are consistent among program administrators, a centralized source of information is less necessary.

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<sup>2</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.

3. NH energy programs are engrained into diverse organizations. Challenge of organizations being willing to work together to accomplish this goal. It has been tried in two different venues the last 2 years and neither were successful.
4. NH Saves is the obvious place to do this, and the power to bring this about lies with the PUC. While there may never be a single entity in NH that directs all energy policy and programs, there could be a single entity that effectively gathers and disseminates the information, but we need to pick among various possibilities - OEP, PUC, Climate Collaborative, Utilities. Realistically, no one else could do it, but funding and authority remain an issue (OEP could do it with SEP funds, PUC could do it with SBC funds.)
5. To be trusted will require not only a significant investment up front, but an ongoing commitment to improvement and enhancement. The initial scope will need to be carefully defined to avoid "scope creep" and budget overruns. Other states are including staffed phone lines as part of this support. Will be difficult/impossible to justify with traditional B/C evaluation.
6. NH will never (and should not) move to the VT or ME models for EE. That does not mean, however, that existing programs and administrators cannot be encouraged/required to work closely together and seek to implement programs with a high degree of coordination, consistency and communication.
7. There should also be an acknowledgement of myenergyplan.net.

### 1.8.3 High levels of coordination among service offerings<sup>3</sup>.

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. Coordinated offerings work most effectively.

#### *Level of Agreement:*

Respondents unanimously agreed with this item.

A (6)

#### *Comments:*

1. Efficiency programs should have identical funding mechanisms, offer the same incentives, use the same application forms and be branded the same (NHSaves). Customers and vendors benefit from state-wide consistency.
2. Recognizing that the energy programs are engrained with diverse organizations, this might be the best option.

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<sup>3</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.

3. Post-ARRA, SBC-funded programs will be the biggest source of funding in the state, and the utilities could be required to make their program offerings more consistent by the PUC.
4. Existing programs and administrators should be encouraged/required to work closely together and seek to implement programs with a high degree of coordination, consistency and communication.

#### 1.8.4 **An emphasis on creating and expanding the market infrastructure<sup>4</sup>.**

Programs should focus on creating new business opportunities for key market actors including contractors, installers, designers, and vendors. Often training and certification help create, differentiate, and grow new businesses for these market actors.

*Level of Agreement:*

Respondents were fairly split in their support for this item.

GA (4) GD (2)

*Comments:*

1. Programs should not ignore the opportunities to create new business opportunities, but it should not be assumed that this is necessary in all cases. I would substitute "focus on new or sustained business opportunities" not just new. Some programs may be well developed and simply need consistency over time, not new market actors or businesses.
2. The primary function of the programs is to improve overall energy efficiency at an affordable cost. Business opportunities and market development will occur naturally and don't need to be the focus of the programs.
3. This is a role for DRED and/or OEP, but again, funding becomes an issue. Other players that have worked with DRED and OEP on this front include Employment Security, CCSNH, PUC, and outreach could be done to the business incubators, more with Ross at CCSNH. Need to develop a clean energy working group.
4. A concern here is accountability. Significant costs could be incurred in implementing this recommendation, but is this the best use of limited funds? I have concerns that it will not be possible to rigorously quantify energy savings associated with this type of activity.
5. But, there is a difficulty in knowing when you are helping markets and moving towards market transformation and when you are simply institutionalizing transfer payments / rebates. Also need to be sensitive to market changes - for

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<sup>4</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.

example recent price have a big impact - cannot be made up with increased incentives.

6. Not sure any one agency/entity has the resources to pull this off.

### 1.8.5 Market development (and not simply resource acquisition) is rewarded<sup>5</sup>.

While it is not appropriate to reward utilities for savings they had no part in securing, utilities should be allowed to claim some benefit for 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 so significantly that their ongoing work to accomplish the next market transformation is jeopardized.

#### *Level of Agreement:*

Respondents largely agreed with this item.

A (4) GA (1) GD (1)

#### *Comments:*

1. This is about decoupling. It would be appropriate to study regions that have decoupled successfully to see how it was done.
2. Agree, but the markets should be allowed to transform naturally as a new products and technologies mature. Delivery of the core programs should not be bogged down by a collection of mandated market transformation efforts.
3. Adequate incentives need to be established by 3<sup>rd</sup>-party entities. Penalization for investing in energy efficiency need to be removed, be it utilities selling energy resources, or propane dealers offering tier delivery pricing on fuel.
4. The difficulty lies in figuring out how to value and incent market development using the PUC's current cost-effectiveness test. Need to look at how this is done in other states, or incentivize other non-utility entities for their work in this area. Interesting to note that Next Step Living has apparently found it uneconomical to work in NH w/HPwES, etc. How could the utilities have helped them to be successful here (or other similar companies)?
5. The text of this recommendation might lead someone unfamiliar with New Hampshire's CORE programs that utilities are being rewarded for savings they had no part in securing. I do not believe there are any instances where this has ever been true.

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<sup>5</sup> See Chapter 4, pp. 4-8-11, "Improve the Regulatory Environment and Modify Performance Incentives," for some detail on potential implementation.

6. The more "accurate" you want to make the incentivization (outside of true competitive markets), the complex it becomes. The more arcane the measurement, the less value the system has. The KISS principle is very important in setting rewards.

**1.8.6 A sustained commitment to meeting goals and the willingness to increase goals over time<sup>6</sup>.**

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. This does not mean that there should be unrestricted funds available for energy efficiency and sustainable energy. Cost-effectiveness of programs, assessment of performance, and assessment of bill and economic impacts are vital components of effective performance. However, market development is not likely to succeed if programs are not designed to reach significant portions of the market. A common feature of programs that are not market-development-focused is that they tend to only manage to goals. 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. 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.

*Level of Agreement:*

Respondents generally agreed with this item.

A (2) GA (3) GD (1)

*Comments:*

1. The emphasis need not be so much on market development as on the establishment of prudent budgets and savings goals without too much concern for over or under spending. Multi-year program approval (longer than two years) would be a big step in the right direction.
2. The 2-year terms in government make this challenging. Swings from extremes.
3. This seems more of a critique of the way the PUC manages the SBC-funded program than of the legislature. The focus, per VEIC, is to develop a market so that the need for public incentives declines over time and focus can shift to the next emerging technology or strategy for moving the market. The "program design" needs to be more careful and strategic, which perhaps means more involvement of those who understand the long-view of market transformation (e.g., the utilities and the PUC staff are not getting it done).

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<sup>6</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.

4. There is not an obvious entity in NH (or financial or human resources) to undertake this long view, as there is in say Mass. with Gov. Patrick and DOER's single-minded focus on energy efficiency capture.
5. Agree with the initial statement regarding a sustained commitment to meeting goals and a willingness to increase goals over time. However, like it or not, all programs have both goals and financial constraints. It is the responsibility of the Program Administrator to deliver results within budget. Results are inextricably tied to budgets, and absent some overriding externality such as a step change in technology that dramatically reduces the cost of efficiency, one cannot expect to significantly increase goals without a commensurate increase in budget.
6. Agree with the idea that there must be outreach to a significant portion of the market to affect market transformation. However, bigger outreach requires bigger budgets - and contrary to the implication stated here, I believe Program Administrators must be concerned with not just "the regulatory risks of overspending", but also the fact that overspending represents a failure of the Program Administrator to successfully manage the program.
7. This is an important thing to be balanced in an overall policy framework - sufficient long-term consistency with enough flexibility to adapt to change.
8. Not sure how to implement this.

**1.8.7 A regulatory process that removes disincentives for energy efficiency investments and rewards strong performance<sup>7</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 strong 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).

*Level of Agreement:*

Near unanimous support for this item.

A (4) GA (2)

*Comments:*

1. Utility incentives should take into account revenue lost to lower energy consumption. There should be no disincentive to improve efficiency.
2. Another element, where adequate incentives need to be developed by 3<sup>rd</sup>-party entities. Penalization for investing in energy efficiency need to be removed, be it

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<sup>7</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.

utilities selling energy resources, or propane dealers offering tier delivery pricing on fuel.

3. This is a program design issue, and the critique by VEIC seems to be that currently the utilities may be in a position to benefit unduly from the structure of the performance incentive. Goals need to be strengthened and tied to longer terms (as might be est'd by an EERS, for example).
4. In a CHOICE environment, many of the economic considerations are not working well. Decoupling and incentivization are required as well as a way of making the environment more conducive to innovation.
5. There should be language regarding need for decoupling.

**1.8.8 An ongoing system of evaluation, measurement, and verification (EM&V) conducted independently from the utilities being evaluated<sup>8</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. The EM&V should assess how well the market is understood markets as well as assess program effectiveness. Outcomes of EM&V should feed back into program design and implementation enhancements for future programs.

*Level of Agreement:*

Respondents largely agreed with this item.

A (4) GA (1) GD (1)

*Comments:*

1. The 3-7% figures need to be evaluated.
2. Evaluation, whoever does it, should be sufficient to support ISO forward capacity credit requirements.
3. Through SBC funds there currently is money for EMV, however, much of that has either gone to studies for FCM to comply with ISO-NE, or have been used on GDS potential study. There has been progress in the last 2 years however, with HPwES being reviewed, and plans for Customer Engagement to be evaluated.
4. EMV is critically important, but the highest value is for future improvements in program design - and EMV cannot be done well without being integrated WITH program design and implementation efforts. EMV should be professional and reflect best practices but has to be integrated.
5. The text of this recommendation might lead someone unfamiliar with New Hampshire's CORE Programs to conclude that this represents something different from the current state. Since inception of the CORE Programs, 5% of

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<sup>8</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.

the budget is designated for EM&V activities, and since 2006, the Staff of the NHPUC is responsible for conducting all EM&V activities. Evaluation results are used to inform future program design and implementation.

**1.8.9 A focus on performance combined with implementation flexibility for achieving performance goals<sup>9</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 be designed to reward implementers for innovation, responsiveness to shifting markets, and should not reward the status quo. 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.

*Level of Agreement:*

Respondents largely agreed with this item.

A (4) GA (1) GD (1)

*Comments:*

1. The program should be less proscriptive and more goal oriented, and strongly tied to EM&V. Ramp up makes sense and follows RPS model, but not clear what is meant by rewarding innovators. Wouldn't a ramp up itself do that because innovators would be in a position to meet the higher goals?
2. This recommendation runs counter to the need for consistency. Any program changes need to be coordinated among all administrators.
3. Utilities need greater flexibility in order to meet their goals. Goals need to be established by 3rd party entity.
4. VEIC is actually calling for greater flexibility for the utilities in managing their programs, and not be tied to an adjudicated process every time they want to upshift or downshift. They are calling for a more market-based, less regulatory approach by the PUC, as long as the longer term savings goals are firm and the utilities are held to them. Set the goal and then get out their way would be a more appropriate way for NH particularly to undertake these programs.
5. I don't think the goals should be set by a 3rd party entity, but perhaps such 3rd parties (whom?) should be involved with the PUC in setting them?
6. I am generally in agreement with this recommendation -- particularly the ideas of long term planning, fostering innovation, and continuous improvement. My concern is the suggestion that we "...should not reward the status quo..." I

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<sup>9</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.

believe that encouragement/reward of the status quo ought to depend on exactly what the current state is. If the status quo is meeting aggressive goals within or below budget, why wouldn't we encourage and reward it?

7. Will be challenging to implement w/o a new process for developing CORE programs.

**1.8.10 An understanding of the importance of long term planning and for doing that planning through a collaborative process in a non-adjudicative setting<sup>10</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 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, 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. Examples of states that have taken this approach include California, New Jersey, Rhode Island, and Vermont. When done well, this can streamline the regulatory process, reduce legal expenses for the parties, and result in more effective and innovative programs.

*Level of Agreement:*

Respondents largely agreed with this item.

A (3) GA (2) GD (1)

*Comments:*

1. Needs further discussion on the docket process. Point made in Chpt 14 about reducing legal costs by moving outside docket setting make sense.
2. Multi-year programs are certainly the better way to go. Third party involvement is not necessary. Programs can be developed between the delivering utilities and regulators.
3. Another forum other than PUC dockets needs to be considered in order to become effective in advancing energy efficiency forward.
4. Needs further study... I agree with the importance of long term planning and seeking input and advice from other knowledgeable interested parties. I have concerns that a process as outlined in this recommendation could add significantly to the cost and time required to gain approval of program plans (e.g. hiring a consultant, potential for involvement of many more people).  
Furthermore, if at the end of the collaborative process, the plans must than gain

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<sup>10</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.

approval from regulators, it's not at all clear that we will be able to by-pass an adjudicative proceeding. Before accepting this recommendation, I think we should better understand the costs, schedules, and process ground rules from jurisdictions where this has been implemented.

5. I think much of this could be accomplished by changes at the PUC in how EE is regulated.

DRAFT