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**REPORT TO THE LEGISLATIVE OVERSIGHT COMMITTEE
ON ELECTRIC RESTRUCTURING**

RESULTS AND EFFECTIVENESS OF THE SYSTEM BENEFITS CHARGE

October 2, 2006

The New Hampshire Public Utilities Commission hereby submits to the Legislative Oversight Committee on Electric Restructuring its annual report on the results and the effectiveness of the system benefits charge (SBC)¹. The SBC is a charge assessed on all electric customers to fund public benefits related to the provision of electricity. The current SBC is \$0.003 or "3 mils" per kilowatt-hour (kWh). Funds collected through this charge are divided between energy efficiency and low income assistance programs, with 1.8 mils per kWh devoted to energy efficiency and the remaining 1.2 mils per kWh allocated to the low income energy assistance program or EAP.

Energy Efficiency

Energy efficiency programs are offered to residential, commercial and industrial customers of each of the state's electric utilities, that is, Unil Energy Systems, National Grid (Granite State Electric Company), New Hampshire Electric Cooperative and Public Service Company of New Hampshire. The two principal goals of the program are to achieve cost-effective energy savings and to transform the market for energy efficiency measures.

SBC-funded energy efficiency programs, which began in June 2002, have provided services to over 200,000 New Hampshire customers. The projected kWh savings of the programs since inception are expected to total nearly 4 billion kilowatt-hours over the lifetime of the programs. Those savings for customers equate to approximately \$400 million.

From October 1, 2005, to August 31, 2006, the energy efficiency portion of the system benefits charge generated \$18,140,260 in revenue. As shown in the chart below, in calendar year 2005, 81,507 customers participated in an energy service program, of which 80,140 were residential customers and 1,367 were commercial and industrial

¹ This report is filed pursuant to RSA 374-F:4,VIII (f). The SBC is authorized by RSA 374-F:3,VI.

customers. The number of customers served exceeded the estimate by over 50%. Expected lifetime savings also exceeded the goal. Over 70% of the lifetime savings in 2005 were attributable to the C&I programs. The utilities estimate that the energy efficiency programs have reduced emissions by 2.2 million tons or the equivalent of taking 457,000 cars off the road for one year.

CORE NH Program Highlights
(January 1 - December 31, 2005)

| NH CORE ENERGY EFFICIENCY PROGRAMS | EXPENSES (\$) | | SAVINGS (Lifetime kWh) | | NUMBER OF CUSTOMERS | |
|---|---------------------|--------------|---------------------------|--------------|------------------------|--------------|
| | Actual | % of Goal | Actual | % of Goal | Actual | % of Goal |
| RESIDENTIAL (nhsaves@home) | | | | | | |
| ENERGY STAR Homes | \$1,144,982 | 83% | 6,986,237 | 260% | 630 | 94% |
| Home Energy Solutions | \$2,096,629 | 110% | 48,081,642 | 111% | 1,657 | 164% |
| Home Energy Assistance | \$2,220,773 | 100% | 34,322,837 | 114% | 1,226 | 125% |
| ENERGY STAR Lighting | \$1,136,069 | 87% | 93,264,171 | 125% | 63,379 | 160% |
| ENERGY STAR Appliances | \$894,538 | 121% | 43,227,494 | 191% | 13,248 | 130% |
| TOTAL RESIDENTIAL | \$7,492,991 | 99% | 225,882,381 | 130% | 80,140 | 153% |
| COMMERCIAL & INDUSTRIAL (nhsaves@work) | | | | | | |
| Small Business Energy Solutions | \$2,313,857 | 98% | 151,033,986 | 188% | 851 | 206% |
| Large Business Energy Solutions | \$3,783,219 | 98% | 362,070,647 | 149% | 257 | 86% |
| New Construction | \$2,919,697 | 107% | 233,048,316 | 99% | 259 | 133% |
| TOTAL COMMERCIAL & INDUSTRIAL | \$9,016,773 | 101% | 746,152,949 | 134% | 1,367 | 151% |
| TOTAL | \$16,509,764 | 100% | 972,035,330 | 133% | 81,507 | 153% |

In 2006, based on the most recent report submitted to the Commission, for the period January 1, 2006, through June 30, 2006, the programs continue to meet or exceed the stated goals for 2006. The following table provides program by program goals for 2006. Recent filings indicate programs are meeting or exceeding 2006 targets.

**NH CORE Energy Efficiency Program Goals
(January 1 - December 31, 2006)**

| NH CORE ENERGY EFFICIENCY PROGRAMS | EXPENSES (\$) | SAVINGS (Lifetime kWh) | NUMBER OF CUSTOMERS |
|---|---------------------|------------------------------|------------------------|
| RESIDENTIAL (nhsaves@home) | | | |
| ENERGY STAR Homes | \$1,669,720 | 3,819,758 | 719 |
| Home Energy Solutions | \$1,888,561 | 26,863,229 | 1,049 |
| Home Energy Assistance | \$2,202,250 | 17,422,289 | 994 |
| ENERGY STAR Lighting | \$1,432,244 | 68,328,632 | 131,086 |
| ENERGY STAR Appliances | \$849,580 | 28,746,004 | 12,731 |
| TOTAL RESIDENTIAL | \$8,042,355 | 145,179,912 | 146,579 |
| COMMERCIAL & INDUSTRIAL (nhsaves@work) | | | |
| Small Business Energy Solutions | \$2,359,155 | 95,837,245 | 598 |
| Large Business Energy Solutions | \$3,705,921 | 249,691,690 | 259 |
| New Construction | \$3,463,491 | 150,562,030 | 242 |
| TOTAL COMMERCIAL & INDUSTRIAL | \$9,528,567 | 496,090,965 | 1,099 |
| TOTAL | \$17,570,922 | 641,270,877 | 147,678 |

An important change in the 2006 programs was the decision by the Commission to place responsibility for Monitoring and Evaluation (M&E) of program savings on the Commission, with input from the utilities. Previously, M&E was done by the utilities with Commission Staff consultation. Another significant area of energy efficiency programs the Commission will be closely examining in the 2007 CORE energy efficiency filings, filed on September 29, 2006, is the effect energy efficiency programs have on reducing peak load. Peak load reduction takes on more import due to the approval of the Forward Capacity Market by the Federal Energy Regulatory Commission. Demand-side resources will be able to compete in the upcoming 2007 auction with capacity, as well as claiming credit for capacity during the soon-to-start capacity payment period.

As described above, the programs to date have exceeded expectations with respect to the first goal, cost effective energy savings. It is less clear whether appreciable progress has been made on the second goal, transformation of the market. There is a legitimate

concern that largely rebate-driven programs may not be the most effective way, over time, to transform the market for energy efficient products and services. This is not to say that market transformation studies have not occurred. For instance, it is instructive to note that, on a program basis, New Hampshire leads the nation in Energy Star appliance sales and enjoys the nation's highest recognition of the "Energy Star" brand. For 2005, the Energy Stars Homes program received an "Outstanding Achievement Award" from the Environmental Protection Agency. Finally, one program in particular, the residential Home Energy Assistance (HEA) program which serves low income customers in New Hampshire, has received recognition from the American Council for an Energy-Efficient Economy (ACEEE) as an exemplary low-income energy efficiency program.

Low Income Program

RSA 374-F:4, VIII (c) authorizes the funding of the low income electric assistance program through the system benefits charge. Customers of National Grid, New Hampshire Electric Cooperative, Public Service Company of New Hampshire and Unitil Energy Systems support the program through a 1.2 mil per kWh charge on electric bills. The authority of the Commission to impose the low-income system benefits charge ends on June 30, 2008.

In May 2002, the Commission approved a statewide tiered discount low income electric assistance program. Designed to reduce the electric bills of participating customers to 4% of income on average for non-electric heat customers and 6% of income on average for electric heat customers, the program provides long term bill assistance to income eligible customers. The program, which began on October 1, 2002, will complete its fourth year of operation on September 30, 2006.

In March 2005, need for the electric assistance program exceeded the available funds and a waiting list was implemented. As of October 1, 2005, there were 22,712 customers enrolled in and receiving benefits from the electric assistance program. Some 3975 customers had been determined eligible for the program and were on the waiting list. While the program was originally projected to serve 23,000 households, increases in rates for electric utility service increased the level of benefit needed to reduce bills, on average, to 4% and 6% of income. When the program began on October 1, 2002, the average benefit level was \$35 per month. In the month of August 2005, the average benefit paid to participants was \$53. Projections for a sustainable enrollment level ranged between 17,000 and 17,500 participants.

On November 16, 2005, the New Hampshire Legislature held a special session and enacted Senate Bill 228 (N.H. Laws 2005, Chapter 298) creating a temporary emergency assistance program that, among other things, diverted SBC funds from energy efficiency programs to provide bill assistance to up to 30,000 low income customers for the period beginning January 1, 2006 and ending June 30, 2006. During the first few days of January 2006, more than 7500 customers were moved from the electric assistance program waiting list and enrolled in the program, bringing the enrollment level to 28,636

participants. During the winter months, close to 30,000 customers were enrolled in the combined electric assistance program and temporary emergency assistance program. The temporary emergency assistance program ended on June 30, 2006, creating a waiting list for the electric assistance program of 14,994 customers. Enrollment in the electric assistance program was 15,104.

On June 2, 2006, the New Hampshire Public Utilities Commission opened a proceeding to consider possible changes to the low income electric assistance program in advance of October 1, 2006, the start of the next program year. The order of notice specified issues for consideration including but not limited to: the extent to which short-term program revisions were needed to account for impacts created by the temporary emergency low income program; the extent to which current program parameters should remain in place or be revised generally; whether the limited available assistance should be directed to a significantly larger target population, thereby reducing the average annual benefit; whether assistance should be provided for electric heating and, if so, to what extent; whether percentage of income targets should be maintained and, if so, what targets would be appropriate; whether to introduce as a program parameter the concept of a basic service level for which assistance would be available and the appropriate application of the provision in RSA 374-F:3, V(a) that restructuring should include “[p]rograms and mechanisms that enable residential customers with low incomes to manage and afford essential electricity requirements;” whether program benefit design should be utility specific or uniform; whether to limit program eligibility to customers at or below 150 percent of the Federal Poverty Guideline or otherwise; whether to maintain the system benefits charge (SBC) for low income program assistance at 1.2 mils per kWh or increase it up to the statutory limit of 1.5 mils per kWh; whether or to what extent energy efficiency program expenditures should be affected by any revisions to the low income program; and the appropriate term of any program changes.

On September 1, 2006, the Commission issued Order No. 24,664 approving a new design for the electric assistance program which calculated benefit amounts based on the participant’s income and household size, using federal poverty guidelines (FPG) as the determining factor in the amount of benefit. A copy of the order is attached. The new program continues to provide benefits through a tiered discount structure. The benefits provided to customers were targeted based on need such that the largest percentage discount would be applied to the bills of customers in the lowest FPG group and the lowest discounts to the bills of customers in the highest FPG group. Under the new program design adopted by the Commission, benefits can be provided to approximately 30,000 customers, roughly double the number of customers that can receive benefits under the current program. The funding level for the electric assistance program remains at 1.2 mils per kWh. The new program design is effective October 1, 2006.

From October 1, 2005, to August 31, 2006, the low income portion of the system benefits charge generated \$12,093,507 in revenue. An additional \$31,102 was paid by the utilities on the program reserve balances held for total funding over the 11 month period of \$12,124,609. During the same time frame, \$14,255,220 in discounts was applied to customer bills, and \$121 in arrears was forgiven for total benefits paid out to customers

of \$14,244,342. Of that, \$3,063,569 was transferred to the electric assistance program by PSNH and NHEC from funds collected via the energy efficiency portion of the system benefits charge. Additionally, approximately \$727,000 was transferred from the program reserve to the electric assistance program to provide benefits to participants, reducing the program reserve from \$1,227,302 to \$500,000.

Between October 1, 2005, and August 31, 2006, \$1,435,584 was paid out in administrative costs. Those costs included not only 2005/2006 program year costs but also \$40,954 of administrative costs incurred during the 2004/2005 program year which were paid in the 2005/2006 program year.

The average annual benefit paid to participants in the electric assistance program during the 2005/2006 program year was \$652. The budget for administrative expenses for period October 1, 2005, through September 30, 2006, was \$1,574,300 or 11.2% of the projected program funding of \$14,007,442 for the 12 month period. As of August 31, 2006, there was a fund balance, held by the State Treasurer, of \$288,097, and a reserve balance of \$500,000.

As of September 21, 2006, 13,651 households were enrolled in and receiving benefits from the electric assistance program. At the same time, there were 14,825 customers on the waiting list. Customers currently on the waiting list will be enrolled in the new electric assistance program on October 1, 2006.

| Poverty Level | Number of Households Enrolled as of 9/21/2006 | Number of Households on Waiting List as of 9/21/2006 |
|----------------------|--|---|
| Under 75% | 4816 | 3261 |
| 76% - 100% | 2379 | 2965 |
| 101% - 125% | 2437 | 2965 |
| 126% - 150% | 2175 | 2817 |
| 151% - 175% | 1420 | 2076 |
| 176% - 185% | 424 | 741 |
| Total | 13651 | 14825 |