STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DOCKET **DE 20-092**

IN THE MATTER OF: Electric and Gas Utilities

2021-2023 Triennial Energy Efficiency Plan

DIRECT TESTIMONY

OF

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I. INTRODUCTION AND QUALIFICATIONS

Q. Mr. Dudley, please state your full name and business address.

A. My name is Jay E. Dudley. My business address is 21 South Fruit Street, Suite 10, Concord, NH 03301.

Q. Please state your employer and your position.

A. I am employed by the New Hampshire Public Utilities Commission ("Commission") as a Utility Analyst for the Electric Division.

Q. Please describe your professional background.

A. I started at the Commission in June of 2015 as a Utility Analyst in the Electric Division. Before joining the Commission, I was employed at the Vermont Public Service Board (now known as the Vermont Public Utilities Commission, "VT-PUC") for seven years as a Utility Analyst and Hearing Officer. In that position I was primarily responsible for the analysis of financing and accounting order requests filed by all Vermont utilities, including review of auditor's reports, financial projections, and securities analysis. As Hearing Officer, I managed and adjudicated cases involving a broad range of utility-related issues including rate investigations, construction projects, energy efficiency, consumer complaints, utility finance, condemnations, and telecommunications. Prior to working for the VT-PUC, I worked in the commercial banking sector in Vermont for twenty years where I held various management and administrative positions. My most recent role was as Vice President and Chief Credit Officer for Lyndon Bank in Lyndonville, Vermont. In that position I was responsible for directing and administering

the analysis and credit risk management of the bank's loan portfolio, including internal loan review, regulatory compliance, and audit. In performing those responsibilities, I also provided oversight for the commercial and retail lending functions with detailed financial analysis of large corporate relationships, critique of loan proposals and loan structuring, consultation on business development efforts, and advised the Board of Directors on loan approvals and loan portfolio quality. Prior to my role as Chief Credit Officer, I held the position of Vice President of Loan Administration. In this position, I was responsible for directing and administering the underwriting, processing, and funding of all commercial, consumer, and residential mortgage loans. My responsibilities also included the management of loan processing and loan origination staff and partnering with the Compliance Officer to monitor and ensure compliance with all banking laws, regulations, and the bank's lending policy. Previous to my position as Loan Administration Vice President, I held the position of Assistant Vice President of Commercial Loan Administration with Passumpsic Savings Bank in St. Johnsbury, Vermont. In that role, I was responsible for supervising loan administration and loan operations within the commercial lending division of the bank.

Q. Please describe your educational background?

A. I received my Bachelor of Arts degree in Political Science from St. Michael's College. Throughout my career in banking, I took advantage of numerous Continuing Professional Education (CPE) opportunities involving college level coursework in the areas of accounting, financial analysis, real estate and banking law, economics, and regulatory compliance. Also, during my tenure with the VT-PUC I took advantage of various CPE

opportunities including the Regulatory Studies Program at Michigan State University (sponsored by the National Association of Regulatory Utility Commissioners "NARUC"), Utility Finance & Accounting for Financial Professionals at the Financial Accounting Institute, and Scott Hempling seminars on Electric Utility Law.

Q. Have you previously testified before the Commission?

A. Yes. I previously submitted Staff testimony to the Commission in Docket No. DE 14-238, Docket No. DE 15-137, Docket No. DE 16-383, Docket DE 17-136, Docket DE 19-057, and DE 19-064.

II. SUMMARY OF TESTIMONY

Q. Please describe the purpose of your testimony today.

A. The purpose of my testimony is to provide Staff's views and concerns involving proposed changes to the performance incentive (PI) in the 2021-2023 New Hampshire Statewide Energy Efficiency Plan (the Plan) filed by the New Hampshire electric and gas utilities with the Commission on September 1, 2020.

Q. What changes were previously made to the performance incentive for energy efficiency programs in the last plan update?

A. In Order No. 26,095 in Docket No. 17-136, the Commission approved a Settlement Agreement (Settlement) for the 2018-2020 Plan which provided for the creation of a working group to review potential modifications to the calculation of performance incentive for year 2020. The Performance Incentive Working Group (PIWG) was

established in January 2018 to review potential PI calculation methodologies that could further promote the achievement of energy efficiency goals established under the New Hampshire Energy Efficiency Resource Standard (EERS). The PIWG met in monthly sessions during January-December 2018 and January-July 2019, resulting in the development of a new PI framework which disaggregates the calculation of PI into five performance components: 1) lifetime kWh savings, 2) annual kWh savings, 3) summer peak demand savings, 4) winter peak demand savings, and 5) value. A similar PI framework was developed for gas consisting of three performance components: lifetime MMBtu savings, annual MMBtu savings, and Value. A report summarizing the conclusions and recommendations of the working group, *NH Energy Efficiency Calculation of Performance Incentive Beginning in 2020, dated July 31, 2019* (PIWG Report) was prepared and issued. The Commission approved the new PI framework in Order No. 26,323, dated December 31, 2019 in Docket No. 17-136.

Q. Have the utilities proposed any modifications to the PI framework approved in DE 17-136 as part of the proposed triennial Plan?

A. Yes. The utilities propose two substantive changes to the existing PI methodology as follows: 1) reduce the minimum threshold percentage requirement for the Lifetime Savings component, Annual Savings component, and the Value Savings component for both electric and gas from 75 percent to 65 percent,[1] and 2) add a sixth PI component for electric, Active Demand Savings, to the existing framework of five PI categories. In doing so, the utilities have shifted the percentage weightings from the Summer Peak Demand and Winter Peak Demand components by reducing them to 9 percent and 6

percent respectively to achieve a PI weighting for ADR of 5 percent with a minimum threshold of 65 percent.[2]

Q. What justifications do the utilities provide in support of the proposed changes to the existing PI framework?

A. The utilities argue that the proposed changes are necessary: "Due to the significant economic and societal impacts of COVID-19" and "…the high energy savings goals in the 2021-2023 Plan."[3] Further, in response to Staff Data Request 1-017, the utilities assert that they would be reluctant to consider reinstating the 75 percent thresholds until the next triennium plan in 2024-2026 depending on "circumstances" in existence at that time.[4]

Q. Does Staff support the changes to the existing PI framework proposed by the utilities?

A. No. From the establishment of the EERS in 2016 in Docket No. DE 15-137, various consultants have advised the Commission that the minimum threshold for awarding PI to the utilities under New Hampshire's energy efficiency programs was too low at 65 percent when compared with other jurisdictions. For example, *The New Hampshire Independent Study of Energy Policy Issues: Final Report*, prepared in 2011 by the Vermont Energy Investment Corporation (VEIC), Jeffrey H. Taylor and Associates, Inc., Optimal Energy, Inc. (the Study) found that most states had a minimum savings thresholds ranging from 70 percent to 100 percent, with the national average being 81

[1] Plan at Bates 213-214.
[2] *Id.*
[3] *Id*.
[4] Joint Utilities Response Staff Data Request 1-017.

percent at that time.[5] The Study goes on to say that "New Hampshire's 65% threshold seems too low to encourage exemplary performance" and characterizes the 65 percent as "essentially a failing grade" given that most utilities, including New Hampshire, easily exceed that threshold.[6] Later, as part of the materials and presentations provided to the PIWG in 2019 by consultants from Optimal Energy, ACEEE, and VEIC (including input provided by Staff consultant SERA), advised the working group to raise the minimum savings threshold amount from 65 percent to 75 percent as part of a new PI methodology.[7]

Q. At what levels are the thresholds set in the other New England states?

A. Although PI methodologies vary from state to state, all of the other New England states have minimum thresholds set at 75 percent.

Q. To your knowledge, have the other New England states lowered their PI thresholds due the impacts of COVID-19?

A. The other New England states have not lowered their minimum PI thresholds.

Q. Please describe how the PIWG achieved consensus for increasing the minimum savings PI threshold from 65 percent to 75 percent.

[5] The New Hampshire Independent Study of Energy Policy Issues: Final Report; dated September 3, 2011, prepared by Vermont Energy Investment Corporation, Jeffrey H. Taylor and Associates, Inc., Optimal Energy, Inc.; at 9-14 and 9-18.
[6] *Id.* at 9-17.
[7] See Presentation: VEIC Review of 2018-2020 NH Statewide Energy Efficiency Plan: Performance Incentives, dated July 11, 2017, at Slides 7 and 13. Also see https://www.puc.nh.gov/EESE%20Board/Meetings/2019/0221Mtg/20190221-EESE-WG-PI-Efficiency-Program-Administration-Performance-Incentives.pptx; and

A. On May 15, 2019, Staff circulated a proposal to the utilities and the stakeholders in the PIWG involving the final elements of a new PI methodology. Included in Staff's proposal was a recommendation to increase the minimum PI savings threshold from 65 percent to 75 percent for all PI components included in the new PI matrix. At the PIWG meeting held on May 16, 2019, participants engaged in a comprehensive discussion covering this issue involving the utilities breaking out on at least two occasions to consider the proposal and offer counter proposals to Staff's position. Ultimately, in a give-and-take fashion similar to that of settlement negotiations, the utilities, stakeholders, and Staff reached an agreement in principle to a modified structure for the new PI matrix whereby the 75 percent savings threshold would apply to the Lifetime kWh Savings, Annual kWh Savings, and Value PI components, and the 65 percent savings threshold would apply to the Summer Peak Demand and Winter Peak Demand components. Likewise for gas, the thresholds for lifetime MMBtu savings, annual MMBtu savings, and Value were all increased to 75 percent. On May 23, 2019, Kate Peters of Eversource issued an electronic mail message to the PIWG finalizing and confirming the utilities' agreement with the proposed PI thresholds.

Q. Please describe the mission of the PIWG and how it relates to the utilities' proposed adjustments to minimum PI thresholds.

A. As stated above, the PIWG was established by the Commission in Order No. 26,095 in Docket No. 17-136. Staff's understanding of the PIWG's assignment was to undertake a review of potential PI methodologies that could further promote the achievement of New

https://www.puc.nh.gov/EESE%20Board/Meetings/2019/0321Mtg/20190321-EESE-WG-PI-ACEEE-Thoughts-On-PI.pptx .

Hampshire's EERS goals, with the objective of implementing any changes to the performance incentive calculation beginning in the 2020 program year. During the course of the PIWG's review, it became clear that developing a more comprehensive and transparent PI methodology so as to better encourage greater savings within key metric areas was the appropriate path to follow. The end product is the existing PI methodology which seeks to encourage greater performance in the five key metric areas. Discussions leading up to consensus on the new framework were extensive and, and at times, contentious. A significant amount of time and work went into developing the finalized methodology. For the utilities to now unilaterally propose to change a key component of that methodology in its first year of implementation, essentially turning back the clock and seeking to alter what was agreed to earlier by all stakeholders, is not appropriate and not acceptable to Staff and should be rejected by the Commission. Likewise, lowering the thresholds due to perceived unknowns such as the impacts of COVID-19, while at the same time proposing substantial increases to the systems benefit charge for ratepayers despite the COVID-19 impacts, seems unbalanced and unfair. This, combined with the utilities' assertion that there exists uncertainty as to whether or not they may achieve the higher targets that they propose in the Plan, do not serve as adequate justifications for changing a key component of the incentive structure that took so long to develop.

Q. What is Staff's recommendation to the Commission involving the new thresholds proposed by the utilities in the Plan?

A. Staff recommends that the Commission reject the utilities' proposal in the Plan for minimum PI savings thresholds of 65 percent for both electric and gas as described

above, and keep in place the existing 75 percent thresholds as approved by the Commission in Order No. 26,323.

Q. You referred earlier to a new performance component proposed by the utilities in the Plan consisting of Active Demand Savings. What is Staff's recommendation involving this new sixth component of the PI framework?

A. Staff is supportive of the Active Demand Reduction Program (ADR) and the goals of the program as stated in the Plan. According to the Plan, the ADR programs are intended to: "flatten peak loads, improve system load factors, and reduce long-term system costs for all grid-tied New Hampshire customers. Active Demand savings (kW) are realized by dispatching resources during the ISO-NE peak demand period. Reducing load during ISO-NE peak hours also has the effect of reducing New Hampshire's share of the installed capacity ("ICAP") cost allocation."[8] The utilities propose that the ADR pilot projects transition to full-fledged programs in 2021 and involve several offerings including WiFi thermostats, battery storage, and load curtailment.[9] In order to promote achievement of the stated ADR goals, the utilities have proposed adding a sixth PI component to the five components of the existing PI framework (not to be confused with the separate incentive earned by customer participants or curtailment service providers related to the program). The sixth component will be labeled Active Demand Savings and assigned a PI weighting of 5 percent and a minimum threshold of 65 percent. The utilities state that they obtained the 5 percent weighting by deducting 2 percent from the weighting for the Winter Peak Demand component and 3 percent from the Summer Peak Demand component.

[8] Plan at Bates 148.
[9] *See* Testimony of Elizabeth Nixon for Staff's recommendations regarding the transition from pilots to programs.

As noted above, Staff is supportive of the ADR programs and the inclusion of ADR as an additional PI component to the PI matrix. In addition, Staff is not opposed to the minimum threshold of 65 percent for this component as proposed in the Plan given that this involves a relatively new program offered by the utilities. However, based on the utilities' description of the goals and intended impacts of the ADR programs, it appears that the programs are more closely aligned with system benefits than with savings. As a result, Staff believes that the shift in PI weightings should be deducted from the Value/Net Benefits component and not diminish the weightings of the Winter Peak Demand and Summer Peak Demand components. Based on this recommendation, and Staff's recommendation involving the minimum PI thresholds, the modified PI matrix is provided below:

Modified Performance Incentive Components (Electric)

PI #	Component Title	Description	Incentive Weight	Minimum Threshold	Maximum PI Level	Verification
1	Lifetime kWh Savings	Actual/Planned Lifetime kWh Savings	35%	75%	125%	Term PI Filing w/PUC
2	Annual kWh Savings	Actual/Planned Annual kWh Savings	10%	75%	125%	Term PI Filing w/PUC
3	Summer Peak Demand Savings	Actual/Planned ISO-NE System-wide Summer Peak Passive kW Savings	12%	65%	125%	Term PI Filing w/PUC
4	Winter Peak Demand Savings	Actual/Planned ISO-NE System-wide Winter Peak Passive kW Savings	8%	65%	125%	Term PI Filing w/PUC
5	Active Demand Savings	Actual/Planned Active kW Savings	5%	65%	125%	Term PI Filing w/PUC

6	Value	Actual/Planned Net Benefits	30%	65%	125%	Term PI Filing w/PUC
Total			100%			

Q. Do you have any other recommendations relating to performance incentives for the ADR programs?

A. Yes. Staff recommends that the joint utilities develop and propose (within six months of the Commission's order on the triennial plan) a performance incentive and associated pilot program that encourages use of existing ADR resources to target peaks during the remaining 11 months of the year not addressed by the utilities' proposed incentive. That incentive could be based on a percentage of shared savings that accrues to New Hampshire ratepayers when New Hampshire's share of the monthly peak load is reduced by targeted ADR.

Q. What other recommendations does Staff have related to the Performance Incentive as discussed in the Plan?

A. Both Eversource and the New Hampshire Electric Cooperative (NHEC) offer an on-bill financing program for municipalities that provides municipal customers with the opportunity to install energy saving measures with no upfront costs and the ability to pay for the measures over time on their electric bill. The program is known as SmartSTART.[10] The SmartSTART program was initiated in the early 2000's and has been renewed and approved by the Commission as part of the annual CORE programs every year since that time. SmartSTART earns a separate annual PI payment, i.e. separate from and in addition to the overall PI calculation, based on 6 percent of the

[10] *Id.* at Bates 54.

amount of total loan repayments received. Eversource is the only recipient of this PI since NHEC does not collect PI on its offerings under the SmartSTART program. Based on its history, the program has been successful and well-received within its target market of municipal customers for more than a decade. Given this success and the maturity of the program, Staff questions whether or not the separate PI for this program is still warranted. Moreover, staff is concerned that the separate PI for SmartSTART essentially amounts to a double-count of PI for Eversource since Eversource already benefits from earning an annual PI on the savings realized from the energy efficiency improvements funded by the program. Eversource earned $51,957 in separate SmartSTART PI under this program in 2019 and $26,358 as of mid-2020.[11] Although the amounts are small when compared with the overall energy efficiency budget, the question remains as to whether this additional PI is still needed for a program that is fully established, mature, and functional. Accordingly, Staff recommends that the Commission either eliminate or phase-out the separate 6 percent PI for the SmartSTART program as part of its Order in this docket.

Q. Does that conclude your testimony?

A. Yes, it does.

[11] See https://www.puc.nh.gov/Regulatory/Docketbk/2017/17-136/LETTERS-MEMOS-TARIFFS/17-136_2020-02-28_EVERSOURCE_OBO_UTILITIES_4TH_QTR_RPT.PDF and https://www.puc.nh.gov/Regulatory/Docketbk/2017/17-136/LETTERS-MEMOS-TARIFFS/17-136_2020-09-18_EVERSOURCE_REV_2019_RPT_NHSAVES_ENERGY_EFF_PROGRAM.PDF .