

DG 06-036

NORTHERN UTILITIES, INC.

Energy Efficiency Program Plan

Order Approving Settlement Agreement

ORDER NO. 24,630

June 8, 2006

APPEARANCES: Pierce Atwood, LLP by Meredith A. Hatfield, Esq. for Northern Utilities Inc.; Office of Consumer Advocate by F. Anne Ross, Esq., on behalf of residential ratepayers; and Edward N. Damon, Esq. of the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On March 10, 2006, Northern Utilities, Inc. (Northern or the Company) filed with the New Hampshire Public Utilities Commission (Commission) an energy efficiency program proposal covering the period May 1, 2006 through April 30, 2009. On March 14, 2006, the Commission issued an order of notice scheduling a hearing for April 26, 2006.

On March 20, 2006, the Office of Consumer Advocate (OCA) entered an appearance on behalf of residential ratepayers pursuant to RSA 363:28. On April 14, 2006, Northern filed a revised plan intended to replace its original filing. On April 21, 2006, Northern, OCA and Staff (Parties and Staff) filed a settlement agreement. The Commission held a hearing on the settlement agreement on April 26, 2006. On April 27, 2006, Northern filed a replacement to Exhibit D of the settlement agreement. On April 28, 2006, the Commission orally approved the settlement agreement for effect on May 1, 2006, with the approval to be confirmed and further explained in this subsequent written order.

II. SUMMARY OF SETTLEMENT AGREEMENT

Under the settlement agreement, the Parties and Staff agree that it is in the public interest to continue to offer energy efficiency, demand-side management and market transformation programs to all firm gas customers of Northern. These programs are set forth in detail in the Plan, which is attached to the settlement agreement as Exhibit A.¹

The settlement agreement supplements the Plan in certain respects and further explains a change to the way in which Northern's residential weatherization home energy assessment and installation programs (*i.e.*, Residential Conservation Services and Residential Custom Measures Programs) would be implemented. Under the programs approved by the Commission in *Energy Efficiency Programs for Gas Utilities*, 87 NH PUC 892 (2002) (Order No. 24,209) that expired on April 30, 2006, Northern used one vendor to assign contractors, primarily based in Massachusetts, to deliver the programs. Northern now proposes to allow customers to choose an independent home energy assessor² and self-select a contractor to install measures.³

Northern would, however, provide customers with general information on how to select a contractor, along with a non-exclusive list of contractors, to be updated periodically, that

¹ The Residential Programs are: (a) Residential Conservation Services Program; (b) Residential Custom Measures Program; (c) Residential High Efficiency Heating Program; (d) High Efficiency Water Heating Program; (e) Residential Energy Star Homes Program; (f) Residential Energy Star Thermostats; (g) Residential Energy Star Windows; (h) Self Install Rebate Program; and (i) Residential Low Income Program, which involves a variety of components. The Commercial and Industrial (C&I) Programs are: (a) Multifamily Custom Measures Program; (b) Small C&I Custom Measures Program; (c) Medium and Large C&I Custom Measures Program; (d) Small Commercial High Efficiency Heating Program; (e) C&I Infrared Heating Program; (f) Commercial Energy Star Thermostats; and (g) Food Service Equipment Program. In addition, the Plan provides additional market transformation activities through memberships in energy efficiency organizations and collaboratives, GasNetworks Education and Outreach, training and regional studies and evaluations.

² According to Northern, this will provide more flexibility to the customer, create demand and allow contractors to be creative and competitive in the delivery of the home energy assessment services. Northern also states that since many vendors are already offering such services under electric energy efficiency programs, customers would be apt to receive a more comprehensive service and take advantage of available electric energy efficiency programs.

³ Northern suggests that the option of customer-selected contractors would result in a higher number of participants, more timely installations, and an overall increase in demand for market-driven and competitive installations.

customers may use to solicit bids for a project. Northern would also provide contact information for organizations such as the New Hampshire Residential Energy Performance Association and offer training and assistance to contractors. Northern would also perform inspections of a minimum of 15 percent of installations⁴ and each customer would be offered a post-installation inspection by a third-party vendor.

Regarding services for low-income customers (collectively referred to as the Low Income Energy Efficiency (LIEE) Programs), Northern would continue to work with the Community Action Agencies (CAAs) in its service territory and with the Office of Energy and Planning (OEP) to coordinate the delivery of services offered under Home Energy Assistance programs of Northern as well as the applicable electric utilities, the federal Weatherization Assistance Program (“Weatherization”), and other state and local programs. The purpose of such coordination is to maximize benefits to participants. Northern agreed to confer on a quarterly basis with the appropriate CAAs and OEP to review the status of the Home Energy Assistance programs. In addition, Northern, the CAAs and OEP will continue to implement utility-specific comprehensive plans to implement the coordination and delivery of gas energy efficiency services and Weatherization services.

With respect to other programs, the Parties and Staff acknowledge that, as market conditions evolve, program parameters such as rebate levels would be adapted and adjusted pursuant to Section II, D of the settlement agreement. For example, Northern would provide the Commission 30 days’ notice of such changes, which would be effective unless ordered otherwise by the Commission within the 30 days. In the event of building code changes or the adoption of new or revised energy efficiency standards or legislative changes relating to minimal efficiency

⁴ At the hearing, Northern explained that it is prepared to remove any contractor which fails to perform to a satisfactory level or generates a number of complaints.

of building materials, appliances or equipment, Northern would reassess the potential of the programs in the plan to achieve the projected energy savings goal. If such exogenous changes impacted the cost-effectiveness of the programs or Northern's ability to meet its target goals, then Northern would identify these changes and impacts, making any necessary recommendations for program adaptations in its annual and/or monthly reports to the Commission.

The Parties and Staff agreed that Northern's budgets contained in the plan⁵ are reasonable and prudent and that the total annual budgets, exclusive of potential incentives earned by Northern, would not be increased or decreased except as provided for in the settlement agreement. Allowable changes to program budgets and related procedures are detailed in Sections II, E and K of the settlement agreement. Energy efficiency funding and expenditures would be reconciled each year within a customer sector and any over- or under-expenditures would be carried forward to the subsequent year's budget for that customer sector. With respect to any funds from Program Year Three of the current programs, the settlement agreement provides that Northern may include such unexpended funds in Program Year One of the new Plan.⁶

Under Section II, F of the settlement agreement, Northern would be entitled to cost recovery of all prudent internal and external costs incurred related to its energy efficiency programs through the per therm Conservation Charge set forth in Northern's Local Distribution Adjustment Clause ("LDAC"). These costs would be subject to annual reconciliation and

⁵ Exclusive of performance-based incentives, the budgets for Program Years One, Two and Three are \$710,128, \$746,553 and \$786,842, respectively.

⁶ At hearing, Northern clarified that if there are any unspent funds from Program Year Three of the current programs (at hearing, Northern estimated that unspent funds are expected to be approximately \$133,000), Northern does not plan to carry over such unspent funds to the new Plan. Therefore, Northern's budget for program Year One would remain at the proposed level even if there are unspent funds from Program Year Three of the Prior Programs.

recovery as approved by the Commission and all approved costs would be recovered with the annual LDAC filings made for the subsequent Winter Seasons beginning with the 2006-2007 Winter Season. Costs associated with the LIEE Programs would be recovered from all firm customers while costs associated with the Non-Low Income Residential Programs and the C& I and Multifamily Programs would be recovered on a sector-specific basis.

Under the agreement, Northern would be entitled to collect a performance-based incentive award annually on a retroactive basis. Exhibit C attached to the settlement agreement includes the benchmark budget amount of the incentive⁷ and Exhibit D shows the details of the calculation.

Northern will evaluate the programs and provide certain reports as described in the settlement agreement and the Plan. Program evaluation would be done, in part, by independent evaluators in order to take advantage of economies of scale by having affiliated companies using the same evaluators.

Finally, the Parties and Staff agreed to maintain ongoing collaboration, as necessary and appropriate, concerning Northern's energy efficiency programs. The Parties and Staff would be provided timely access by Northern to all market research, consultant products, and internal analyses conducted with the use of program funds or relied on for program decision making, under an appropriate confidentiality agreement as warranted. Northern agreed to coordinate with electric utilities in New Hampshire in an effort to include information about the Plan on the website of the electric utilities' "Core" energy efficiency programs, www.nhsaves.com. Other components of the collaboration effort are detailed in Section II, J of the settlement agreement.

⁷ The benchmark budget amount is \$22,092 for the Residential Programs and \$34,718 for the C&I Programs.

III. COMMISSION ANALYSIS

The settlement agreement and the plan provide for energy efficiency programs that are largely similar to the current approved by the Commission in Order No. 24,109. Regarding changes to the previously approved programs, Northern proposes to continue its self-install rebate program for residential customers, which Northern added at the beginning of last winter's heating season. In addition, as described above, Northern proposes to change the way in which its residential weatherization home energy assessment and installation programs are implemented.

Northern's program goals and expectations include those in effect for the existing programs, namely, increasing awareness of the benefits of energy efficiency, inducing lasting market changes and realizing energy efficiency savings that might not occur without the programs.⁸ In addition, Northern states its goal in continuing to offer an array of traditional, custom and regional market transformation energy efficiency programs is to provide customers with safe and reliable service at affordable prices. It achieves this goal by partnering with its customers in providing cost-effective energy efficiency products and services and by cooperating with its customers and other market actors to transform markets for energy efficient products and services to induce lasting changes.

Northern stated that it expects to serve more than 3,300 customers under the plan (or at least 13 percent of its approximately 25,000 customers) and Northern projects approximately 10.7 million in lifetime therm savings resulting from implementation of the programs. *See*

⁸ Northern testified that in its experience a small amount of the energy savings would occur without the programs because of a common reluctance to undertake energy efficiency on their own, either due to cash constraints, lack of familiarity with ways to save energy or a lack of trust by customers without the involvement of the utility to explain how they can achieve the savings.

settlement agreement, Exhibit C, column 4 (3,579,404 Program Year One lifetime therm savings times 3 years).

Having carefully considered the settlement agreement, we conclude that it is reasonable and in the public interest. First, we note that the parties to the proceeding represent a broad spectrum of interests and all support the settlement agreement. Each of the programs pass the cost-effectiveness screening test such that the net present value of the total program benefits is greater than the total program costs.

Because the programs are largely a continuation of programs that have been in effect for the last three years in New Hampshire with incremental improvements and are comparable to programs offered by Northern's affiliate utilities in Massachusetts, they can be operated in an administratively efficient manner. Northern plans to continue to provide the monitoring and evaluation of the energy efficiency programs. In this regard, Northern utilizes competitive bidding and will make a selection based on scope of work and price.

The proposed budgets are appropriate as they reflect gradually increasing measure costs and inflation in total program costs of 2.5 percent per year. Although the budget amounts for program year one do not include the carry over of any unexpended amounts from the current programs to the new plan, we understand that such unspent amounts will be part of the reconciliation in the LDAC recovery mechanism.

Northern has been attentive to changing circumstances as it has implemented the current programs. For example, Northern introduced the self-install rebate program last fall in response to the anticipated high cost of natural gas. In addition, Northern shifted unspent, undemanded funds from the large C&I program to the oversubscribed multifamily program in order to meet the demand. We anticipate similar attentiveness in the future.

On balance, Northern's proposed changes to implementation of its residential weatherization home energy assessment and installation programs are reasonable. The changes will likely make it easier for New Hampshire residential retrofit customers to obtain energy efficiency services and may help to increase the level of relevant experience among local service providers. Further, since the rebate amounts are a small part of the total cost of services, customers will still have an incentive to find competent contractors to do the work. Although Northern states that "industry specialists" will perform home energy assessments, there is no guarantee that this will always be the case since there are no licensing requirements for home energy auditors, nor for that matter, for installation contractors. Given the necessity of spending ratepayer-provided funds wisely and cost effectively, we urge Northern to be vigilant in ensuring that the success of its proposed residential weatherization programs is not compromised by poor quality workmanship.

Based on the above, we find the settlement agreement to be in the public interest. Our order today confirms our deliberations of April 28, 2006 in approving the settlement agreement and the Plan incorporated therein for effect on May 1, 2006.

Based upon the foregoing, it is hereby

ORDERED, that the settlement agreement and Northern's Plan incorporated therein are hereby APPROVED as set forth in this Order.

By order of the Public Utilities Commission of New Hampshire this eighth day of June,
2006.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary