

DG 06-032

**ENERGYNORTH NATURAL GAS, INC.
d/b/a KEYSpan ENERGY DELIVERY NEW ENGLAND**

Demand-Side Management and Market Transformation Plan

Order Approving Settlement Agreement

ORDER NO. 24,636

June 8, 2006

APPEARANCES: McLane, Graf, Raulerson & Middleton, P.A by Sarah B. Knowlton, Esq.. for EnergyNorth Natural Gas, Inc. d/b/a Keyspan Energy Delivery New England; Elliott Jacobson for Action, Inc.; New Hampshire Legal Assistance by Alan Linder, Esq. for The Way Home; 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 2, 2006, EnergyNorth Natural Gas, Inc. d/b/a Keyspan Energy Delivery New England (KeySpan or the Company) filed with the New Hampshire Public Utilities Commission (Commission) a demand-side management and market transformation plan 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, Action, Inc. filed a request to intervene and on April 21, 2006, The Way Home (TWH) filed a petition for intervention. On April 21, 2006, KeySpan, OCA, TWH, Action and Staff (Parties and Staff) filed a settlement agreement. A hearing on the settlement agreement was held on April 26, 2006. 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 a subsequent written order.

II. SUMMARY OF SETTLEMENT AGREEMENT

Under the settlement agreement, the parties and Staff recommend a determination by the Commission 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 KeySpan. 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 ways, including the addition of provisions for: (1) the visual inspection of existing forced hot air heating system duct work when KeySpan conducts home energy assessments pursuant to its residential conservation services program, and (2) visual inspection of the existing duct work with written information to give to the customer on the results of such inspection, to the extent that KeySpan inspects the installation of furnaces or boilers as part of its residential high efficiency heating program.² In addition, the settlement agreement states that KeySpan will, in coordination with the Parties and Staff, examine the appropriateness of including a self-installation rebate program in the Plan.

Regarding the Low Income Energy Efficiency Programs (LIEE Programs), KeySpan, or its designated representatives, would continue to work with the CAAs in its service territories

¹ The Residential Programs are: (a) Residential High Efficiency Heating Program; (b) Residential High Efficiency Water Heating Program; (c) Energy Star Programmable Thermostat Program; (d) New Construction and Energy Star Homes Program; (e) Energy Star Windows Program; (f) Residential Weatherization Program; (g) Residential Low Income Program; (h) Residential Conservation Services Program; (i) Building Practices and Demonstration Pilot Program; and (j) Energy Analysis: Internet Audit Program. The Multifamily and Commercial and Industrial (C&I) Programs are: (a) Commercial High Efficiency Heating Program; (b) Commercial Energy Efficiency Program; (c) Multifamily Housing Program; (d) Building Practices and Demonstration Program; (e) Business Energy Analyzer; and (f) Economic Redevelopment Program. In addition, the Plan provides for outreach and communication, administration and evaluation, and KeySpan's collaboration with natural gas and electric utilities.

² Similarly, KeySpan would require the Community Action Agencies (CAAs) participating in providing services under KeySpan's Low Income Energy Efficiency Programs to inspect the existing duct work visually at the customer's property before and after the installation of a forced hot air furnace and note the results of the visual inspection on its paperwork associated with the installation.

and with the Office of Energy and Planning (OEP) to coordinate the delivery of services offered under KeySpan's and the electric utilities' respective home energy assistance programs, the federal weatherization assistance program, and other state and local programs in order to maximize benefits to participants. Quarterly, KeySpan would confer with the appropriate CAAs, OEP and TWH to review the status of the LIEE Programs. In addition, KeySpan, the CAAs, OEP and TWH would develop 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 acknowledged that, as market conditions evolve, program parameters such as rebate levels would be adapted and adjusted pursuant to Section II C of the settlement agreement. For example, KeySpan agreed to provide the Commission with 30 days' notice of such changes, with such changes becoming 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 of building materials, appliances or equipment, KeySpan would be required to 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 KeySpan's ability to meet its target goals, then it would identify these changes and impacts and make any necessary recommendations for program adaptations in its annual and/or monthly reports to the Commission.

The Parties and Staff agree that KeySpan's proposed program budgets³ are reasonable and prudent and that the total annual budgets, exclusive of potential incentives earned by

³ Exclusive of performance-based incentives, the budgets for program years one, two and three are \$1,550,000, \$1,627,500 and \$1,708,875, respectively.

KeySpan, will not be increased or decreased except as provided for in the settlement agreement.⁴ Allowable changes to program budgets and related procedures are detailed in Sections II, D and J of the settlement agreement. Energy efficiency funding and expenditures will be reconciled each year within a customer sector and any over- or under-expenditures will be carried forward to the subsequent year's budget for that customer sector. With respect to any funds from Program Year Three of the demand-side management programs (Prior Programs) approved by the Commission in *Energy-Efficiency Programs for Gas Utilities*, 87 NH PUC 892 (2002) (Order No. 24,109) that are not expended at the end of program year three,⁵ the settlement agreement provides that KeySpan may include such unexpended funds in program year one of the new plan.

Under Section II, E of the settlement agreement, KeySpan 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 KeySpan's local distribution adjustment clause ("LDAC"). These costs would be subject to annual reconciliation and recovery as approved by the Commission and all approved costs shall 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 shall be recovered from all firm customers while costs associated with the non-low income residential programs -- and the multifamily and C& I programs would be recovered on a sector-specific basis.

Under the settlement agreement, KeySpan would be entitled to collect a performance-based incentive award annually on a retroactive basis. Exhibit C attached to the settlement

⁴ KeySpan agreed that this provision would not preclude the Commission from changing the total annual budget, after notice and a hearing.

⁵ At hearing, KeySpan estimated that under-spending in the C&I sector would consist of approximately \$150,000 attributable to a decline in the average per customer rebate amount from program year two to program year three of the previously approved programs and approximately \$200,000 attributable to sixty customers who had not yet elected to accept energy efficiency proposals. Under-spending in the non-low income residential sector was estimated to be approximately \$22,000, with approximately \$5,000 being over-spent on the low income programs.

agreement includes the benchmark budget amount of the incentive⁶ and Exhibit D shows the details of the calculation.

KeySpan would 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 the 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 KeySpan's energy efficiency programs. KeySpan agreed to provide timely access for the parties and Staff 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. KeySpan plans 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, I of the settlement agreement.

III. COMMISSION ANALYSIS

The settlement agreement and the plan provide for energy efficiency programs that are largely similar to the programs approved by the Commission in Order No. 24,109. To update the previously approved programs, KeySpan plans to (1) provide for budget increases to allow for escalation in material and labor costs; (2) increase the cap on spending per installation from \$3,600 to \$4,500 to ensure that a complete job is done to avoid lost savings; (3) expand the list of qualifying measures to include low-flow faucet and shower aerators; (4) add a replacement window component for mobile homes provided such replacements are cost effective; and (5) add

⁶ The benchmark budget amount is \$71,105 for the residential programs and \$49,536 for the C&I and multifamily programs.

a budget provision for \$10,000 for additional outreach efforts. In addition, the settlement agreement adds a requirement relating to the visual inspection of forced hot air ducts.

With respect to the residential programs for non-low income customers, KeySpan's proposed building practices and demonstration pilot program will identify underutilized energy efficient technologies. In addition, the Energy Star Windows Program would be modified to target only replacement windows since energy efficient windows in new construction are already being installed. Finally, the settlement agreement adds requirements regarding the visual inspection of duct work in connection with the residential conservation services program and the residential high efficiency heating program.

Although the multifamily housing program⁷ will now be a separate program in New Hampshire, it will continue to be included as a C&I Program and both the multifamily housing program and the C&I programs will be administered by the same vendor and managed internally by a single program manager. In addition, KeySpan's C&I programs are enhanced to include two new components, namely, the Emerald Network, and the building practices and demonstration program. The Emerald Network will offer rebates and services to customers developing new green buildings or increasing green aspects of their existing buildings (such as solar applications) for the purpose of achieving therm savings. The building practices and demonstration program for the C&I market will identify and evaluate underutilized energy efficient technologies for the purpose of future mainstream program implementation upon Commission approval.

KeySpan testified that program goals remain unchanged, including increasing awareness of the benefits of energy efficiency, inducing lasting market changes and realizing energy

⁷ The multifamily housing program offers energy audits and financial incentives for energy savings measures to multifamily facilities that are on a qualifying commercial gas rate, including public housing authorities and privately owned properties.

efficiency savings that might not occur without the programs. KeySpan stated that it expects to serve approximately 9,700 customers under the plan (or more than 12 percent of its approximately 80,000 customers) and projects approximately 40 million in lifetime therm savings resulting from implementation of the programs. (The previously approved programs that expired on April 30, 2006, served approximately the same number of customers, with approximately 34 million in projected lifetime therm savings.)

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 passes the cost-effectiveness screening test such that the net present value of the total program benefits is greater than the total program costs. In addition, energy efficiency measures have the ability to provide public benefits during times of supply constraint or high demand. KeySpan testified that the majority of therm savings resulting from the previously approved programs would not have been achieved in absence of the programs. It is reasonable to conclude that the effects of the new plan will be substantially similar.

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 similar to programs offered by KeySpan's affiliate utilities in Massachusetts, they can be operated in an administratively efficient manner. KeySpan plans to continue to provide the monitoring and evaluation of the energy efficiency programs. In this regard, KeySpan utilizes competitive bidding and will make a selection based on scope of work and price. Since the cost of evaluation activities are shared, the New Hampshire portion of the evaluation costs are estimated to be approximately 5 percent of the total cost of evaluation activities.

The proposed budgets are appropriate as they reflect gradually increasing measure costs and inflation in total program costs of 2.5 percent per year. KeySpan will know the amount of the under-spending to be carried over by June 30, 2006, and will file an updated budget shortly thereafter. The updated budget will also include updated exhibits C and D that will summarize the updated goals pertaining to program participation levels and performance-based incentives. Further, we understand that the computation of the performance-based incentive will exclude the budget amount for the residential building practices and demonstration pilot program since pilot program budgets do not qualify for performance incentives.

KeySpan has been attentive to changing circumstances as it has implemented the previously approved programs. For example, KeySpan testified to ongoing efforts to assess market acceptance of efficiency technologies and measures. KeySpan proposes to raise the rebate in the indirect water heating program from \$100 to \$300 because it found that the lower rebate was not sufficient to transform the market. Further, in response to increased interest in energy auditing services, KeySpan has implemented on-line energy efficiency auditing tools. KeySpan also testified that, in response to high natural gas prices, it will emphasize efficiencies in program implementation, particularly in the immediate term before next winter's heating season.

KeySpan testified that its customers are very satisfied with its programs and it has had many repeat customers. For instance, the Manchester public schools took advantage of KeySpan's energy efficiency programs when it accomplished major renovations of its buildings in all three years of the previously approved programs.

KeySpan indicated that market transformation is an on-going process and new technology is continually being introduced. At the outset, the Energy Star Furnace Program

saved natural gas; now, the Energy Star furnaces have high efficiency fan motors that save electricity as well. Through the market transformation process, the more efficient furnaces have been manufactured in greater numbers and KeySpan has witnessed lower prices for such products and an increased number of contractors offering and installing these products.

KeySpan's responses to hearing questions by the OCA pertaining to the selection of contractors by residential customers reflects an appropriate two-prong approach. On the customer side, KeySpan indicated that it provides information on how to select a contractor and recommends that customers seek more than one bid. On the contractor side, with respect to weatherization, KeySpan has a list of qualified contractors and it enforces a quality measure rule. KeySpan also holds training session with contractors.

KeySpan indicated that it will continue to work with the electric utilities to achieve a more seamless implementation of coordinated initiatives. OCA offered to help with outreach efforts for the residential programs and KeySpan indicated that it would be happy to work with the OCA to brainstorm specific ways to conduct outreach.

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 KeySpan'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