

THE STATE OF NEW HAMPSHIRE
before the
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

CORE ENERGY EFFICIENCY PROGRAMS
2010 Program
Docket No. DE 09-170

Rebuttal Testimony of Gilbert E. Gelineau, Jr.

- Q. Please state your name, your employment and business address.
- A. My name is Gilbert E. Gelineau, Jr. I am Manager of Marketing Support at Public Service Company of New Hampshire (“PSNH” or “the company”). In that role I supervise the planning, operation, and reporting of conservation and load management (“C&LM”) programs offered by PSNH. My business address is Energy Park, 780 North Commercial Street, Manchester, New Hampshire.
- Q. Have you ever testified before this Commission?
- A. Yes. I have testified in numerous conservation and load management proceedings (Dockets Nos. DE 01-057, DE 03-169, DE 05-157 and DE 07-106) and in the previous low income Electric Assistance Program proceedings.
- Q. What is the purpose of your testimony in this proceeding?
- A. The purpose of my testimony is to address the following issues:
1. Should interest be accrued on Forward Capacity Market payments (Audit Issue #1) and the 2% set aside funds permitted by RSA 125-O:5?
 2. Present PSNH’s position regarding the proposed “penalties” contained in Audit Issue #4 of the recommendations contained in the Staff Audit of PSNH’s 2008 CORE program activities
 3. Performance incentive on dollars spent in the fuel neutral HES program for non-electric measures.
 4. Recovery of CORE Audit expenses from the System Benefits Charge.
- Q. How did the issue of interest on Forward Capacity Market payments arise?

A. The Commission's Audit Staff conducted an audit of the 2008 CORE Energy Efficiency Programs for all of the electric utilities. The final report on PSNH's conduct of the 2008 programs was issued on October 29, 2009 and was attached to Mr. Cunningham's testimony. The final report makes several recommendations regarding 2008 CORE Program costs.

Q. What did the Staff recommend in Audit Issue #1?

A. The Staff recommended that PSNH should include both the revenue and expenses associated with the FCM payments into the CORE fund. Staff further found that PSNH should have been applying interest on the net FCM revenues. PSNH does not agree that FCM revenues should accrue interest.

Q. What is the basis for your position that interest should not be applied to the FCM revenues?

A. In Order No. 24,815 in Docket No. DE 07-106 (December 28, 2007) the Commission found that

the Utilities shall report all expenses and revenues relating to participation of CORE demand response in the regional capacity markets on a quarterly basis and as separate expense and revenue items beginning on January 1, 2007, and continuing until otherwise ordered; slip op. at 17.

Order No. 24,815 did not require the utilities to accrue interest on the net FCM revenues. The utilities ought to be on notice if they were to be required to apply interest on the FCM revenues. Since inception of the CORE programs, PSNH has paid interest on any collected but unspent System Benefits Charge funds. This is based on the principle that the interest pays back customers for the use of their funds – not unlike paying interest on customer deposits.

The FCM revenues are fundamentally different from SBC funds. In effect they are payments made by a vendor (ISO-NE) in exchange for a product

(capacity reductions). PSNH believes that applying interest to payments received from vendors would be inappropriate and would unnecessarily increase costs to all customers in order to make the interest payments.

Q. Will similar treatment be requested for the 2% set aside funds which PSNH is entitled to reserve under RSA 125-O:5 II?

A. Yes. We believe other parties will make that request. PSNH believes that these funds cease to be customer-supplied funds when they are transferred over to the set aside funds. PSNH has used those funds to install energy efficiency measures at zero cost. PSNH does not earn a rate of return or depreciation once these investments are used and useful. Again, PSNH was not on notice that interest ought to be accrued on these set aside funds.

Q. What alternatives does the Commission have with respect to these interest issues?

A. If the Commission believes PSNH's position is unwarranted, then interest ought to be applied on a prospective basis. PSNH was not ordered to apply interest in the past and was not on notice that it should be applied.

Q. What did the Staff recommend in Audit Issue #4?

A. The Staff's Audit Report found that PSNH exceeded its self-imposed guidelines for caps on incentives paid to two customers for energy efficiency investments in individual customer's facilities during a single year. The Staff recommended that "PSNH reimburse the SBC fund the sum of \$29,029 for their admitted errors" Cunningham Testimony, Appendix A final audit report PSNH EE 2008, at 84 and 86.

Q. What were the details behind the rebates paid to these two customers?

A. The first case involved five separate rebates paid to a large industrial customer at different times throughout the course of the year. Determining the total amount

paid to a particular customer in a given year is a manual process with the potential for error. The second case involved five projects completed by a school district. One of the projects was actually completed in 2007, but due to an invoicing problem, the \$16,760 rebate for this 2007 project was not paid until 2008. Had this rebate been paid on time, neither the 2007 nor the 2008 incentive cap would not have been exceeded. Alternatively, the cap could have been honored by denying one or more of the four projects that had been planned and budgeted for 2008. However, it was PSNH's assessment that the best course of action was to maximize efficiency investments and energy savings by honoring the rebate commitments for all five of the school district's "shovel ready" projects.

Q. You stated in response to the last question that there is a potential for error in keeping track of the individual customer's incentive cap for each year. Has this potential resulted in a multitude of errors over the years?

A. Absolutely not. When this Audit Issue was brought to the Company's attention, we felt it was important to understand the full magnitude of the problem. Accordingly, we undertook a complete review of every rebate made to large business customers from inception of the CORE Programs. Since June 2002, we have processed 2,220 large customer rebates totaling \$21.4 million. Of these 2,220 rebates, there were five instances where the incentive caps were exceeded (including the two noted in this Audit Issue). All but one of these cases involved customers who received multiple rebates in the same year and projects that were carried over from the previous year due to problems at year-end. PSNH's conclusion from this review is that there is room for improvement, but cases in which the incentive caps have been exceeded are infrequent.

Q. Why were the incentive caps instituted and have they achieved their goal?

A. The incentive caps were instituted not as an end in themselves, but as a means of striking a balance between serving as many customers as possible and having a disproportionate share of the SBC dollars go to just a few customers. While it's clear that the stated incentive caps were exceeded in a small percentage of cases,

PSNH does not believe that SBC dollars were disproportionately directed to only a few customers. In fact, the number of large business customers actually served in 2008 was 339 – 55 more than our approved customer participation goal.

Q. What has PSNH proposed to do to address this issue in the future?

A. PSNH has proposed to improve internal program controls so that management and program administrators would be alerted to situations which could lead to the incentive caps being exceeded in any given year. PSNH will clarify in future filings, as we have in the 2010 filing, that the incentive caps are not intractable limits, but guidelines designed to strike a balance between providing support to customers with large energy efficiency projects and reaching as many customers as possible.

Q. What is PSNH's position regarding the proposed penalties?

A. PSNH believes the penalties are unwarranted and excessive.

Q. Why do you believe the penalties are unwarranted?

A. 1. The funds were not misspent. The incentive payments reimbursed the customers for installed energy efficiency measures that were permitted under the 2008 CORE Programs and PSNH Company specific programs. Projects for these two customers were completed a year earlier than they would have been completed under a strict reading of the incentive cap language thus providing kilowatt-hour savings a year earlier than they would otherwise have been.

2. The incentives did not exceed the limits for the school district customer for projects completed in each of the two calendar years. The large industrial customer that received five rebates completed those five installations in reliance upon PSNH's promise of a rebate after completion of each project. Even if PSNH had discovered the problem before the last rebate was paid, we feel we were bound by our word.

3. PSNH exceeded its agreed upon goals by serving 339 large business customers in 2008 – going over its customer participation goal by 19% and surpassing its energy savings goal for this group of customers by 40%.

Q. Why do you believe the penalties are excessive?

A. Although the dollar value in Audit Issue #4 is correct, PSNH believes the imposition of a penalty is beyond the scope of an audit. There is no allegation that the expenditures were unlawful, unreasonable or imprudent. PSNH merely exceeded its own self-imposed guidelines resulting in no harm to other customers. Our investigation of previous practices in this area indicate that very few incentive caps have been exceeded in the past. PSNH is taking steps to prevent these occurrences in the future.

Q. What is your position with respect to the performance incentive being applied to spending on non-electric measures in the Home Energy Solutions (“HES”) fuel neutral program?

A. In Mr. Cunningham’s testimony the Staff states that PSNH and Unitil have exceeded their budgets by including non-electric benefits in the calculation of the performance incentive. Cunningham Testimony at 12. PSNH and Unitil are asking the Commission to revisit its decision in Order No. 24,974. In that Order, the Commission did not allow PSNH or Unitil to earn a performance incentive for expenditures for non-electric benefits as part of a the pilot program. Order No. 24,974 at 6. PSNH and Unitil have proposed that the fuel neutral portion of be expanded and made permanent. The Commission has already decided that SBC funds may be expended for non-electric benefits in the Home Energy Solutions program. Expenditures for non-electric measures have been routinely made in the Home Energy Assistance Program and the EnergyStar® Homes Program since their inception. Shareholder incentives have been earned in both of these programs for non-electric measures. The Commission has already made the policy decision to allow PSNH and Unitil to expend SBC funds on energy efficiency measures in the HES program that address non-electric energy

consumption. Docket No. DE 08-120, Order No. 24,930 (January 5, 2009). As long as these expenditures are a permitted use of SBC funds, I see no difference in encouraging the utilities to make the most cost effective use of these funds to accomplish the greatest amount of savings - the dual goals of the performance incentive.

- Q. In his testimony Mr. Eckberg of the Office of the Consumer Advocate makes a recommendation regarding recovery of the costs associated with the CORE Programs Audit recently completed by the Commission's audit staff. Can you please describe Mr. Eckberg's recommendation regarding CORE Audit cost recovery.
- A. In his testimony Mr. Eckberg states that while the OCA believes the audits are vital to ensure that the CORE Programs are administered properly, any costs incurred by the CORE utilities directly attributable to the CORE Audits should not be paid for with System Benefits Charge (SBC) funds. Mr. Eckberg goes on to state that any costs incurred in responding to audit requests are a continuing obligation of utilities, and therefore, regular costs of the utility which are recognized in calculating permanent rates. Further, Mr. Eckberg states that allowing expenses associated with the CORE Audit to be recovered from the SBC would, in effect, amount to double recovery of these expenses.
- Q. Can you comment on Mr. Eckberg's recommendation?
- A. Yes. To start with I agree with Mr. Eckberg's assertion that the CORE Audits are an essential part of ensuring proper administration of the CORE Programs. However, I do not believe that Mr. Eckberg's cost recovery recommendation comports with earlier Commission decisions regarding recovery of incremental costs associated with implementation of the SBC programs. In DE 07-009, State-Wide Low Income Electric Assistance Program (EAP), there was an issue regarding recovery from the SBC of travel expenses for attendance at Electric Assistance Program meetings. In a Secretarial Letter dated June 19, 2008, the Commission ruled that these expenses were recoverable from the SBC noting that

the costs were "specific to the [EAP] program" and "...are not otherwise being recovered in base rates or other charges..."

Similar to the situation addressed in this Secretarial Letter, the CORE Audit costs are specific to the CORE Programs, and absent the CORE Programs, the utilities would not incur these costs. Furthermore, these costs are not specifically included in base rates. As Mr. Eckberg notes in his testimony, the recent CORE Audit was the first such audit conducted since the start of the Programs. Accordingly, these costs have not been included in any rate case test year nor has recovery been sought in any rate case. Accordingly, there would be no double recovery of these expenses were they to be recovered from the SBC.

Q. Do you have a recommendation for recovery of these costs?

A. Yes, I believe these costs should be recovered, as are all other costs associated with the CORE Programs, through the SBC.

Q. Can you provide a copy of the Secretarial Letter referenced above?

A. Yes, a copy of the letter is attached to my testimony.

Q. Does this complete your testimony?

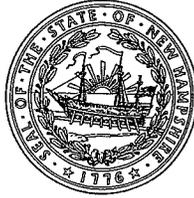
A. Yes it does.

THE STATE OF NEW HAMPSHIRE

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June 19, 2008

Re: DE 07-009, State-Wide Low Income Electric Assistance Program
Public Service Company of New Hampshire
Energy Assistance Program Audit

To the Parties:

On February 1, 2008, the Audit Staff of the Commission filed a memorandum in the above-referenced docket to raise a concern that had arisen in connection with the annual audit of the Energy Assistance Program administered by Public Service Company of New Hampshire (PSNH) for the program year that ended on September 30, 2007. The purpose of this letter is to provide the clarification requested by Audit Staff.

At issue is whether PSNH may recover, via the RSA 374-F:3, VI system benefits charge (SBC) that funds the EAP, \$338 in expenses associated with travel of PSNH employees to certain meetings related to the EAP. PSNH contends that the travel expenses are recoverable, and both Audit Staff and PSNH rely on certain language in *Electric Utility Restructuring: Low Income Electric Assistance Program*, Order No. 23,945 (2002), 87 NH PUC 210.

In Order No. 23,945, the Commission noted that in order to be recovered through the low-income portion of the SBC, costs must be "specific to the [EAP] program." *Id.* at 21. The Commission clarified that "directly assignable costs, for which no other purpose can be identified, and which are not otherwise being recovered in base rates or other charges . . . fall within the category of costs specific to the program." *Id.* Stressing the need to make specific determinations on a case-by-case basis as opposed to in the abstract, the Commission noted that costs for attendance at meetings of the Commission's low-income working group "would not necessarily be specific to implementation of the low income program fundable under the SBC." *Id.* at 22 (emphasis added).

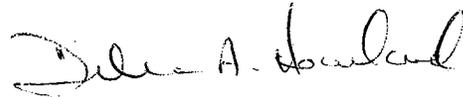
The specific audit finding at issue concerns meetings of the EAP's advisory board. The working group was formed to advise the Commission on the creation and design of the EAP within the broader context of the electric industry restructuring mandated by RSA 374-F, matters that were potentially but not necessarily specific to program implementation as that term was used in Order No. 23,945. In contrast, it is logical to

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conclude, in the absence of any suggestion to the contrary, that meetings of the EAP's advisory board are specific to the program. Accordingly, the Commission has determined that PSNH's costs associated with travel to and from meetings of the EAP Advisory Board are recoverable through the system benefits charge.

Sincerely,

A handwritten signature in cursive script, appearing to read "Debra A. Howland".

Debra A. Howland

Executive Director and Secretary