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A Northeast Utilities Company

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Debra A. Howland
Executive Director
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301-2429

RE: DE 12-262, CORE Energy Efficiency Programs
Utility Performance Incentive

Dear Director Howland:

On August 23, 2012 in Docket No. DE 10-188, the Commission issued Order No. 25,402 regarding numerous issues relating to the CORE Energy Efficiency Programs ("CORE Programs"). Specific to the performance incentive earned by Granite State Electric Company d/b/a Liberty Utilities; the New Hampshire Electric Cooperative, Inc.; Public Service Company of New Hampshire; and Unitil Energy Systems, Inc. (collectively, the "CORE Electric Utilities") and Northern Utilities, Inc. d/b/a Unitil and EnergyNorth Natural Gas, Inc. d/b/a Liberty Utilities (all collectively, the "CORE Utilities") in their operation of the CORE Programs, the Commission ordered:

> Although we heard arguments from Staff and the parties regarding whether it was appropriate to allow the utilities to earn incentives on non-electric energy savings, the record is not sufficiently developed for the Commission to make a determination on an incentive methodology for such non-electric energy savings. Accordingly, we direct the parties to collaborate in a working group, to be convened immediately, for the purpose of developing a shareholder incentive proposal for non-electric savings. We suggest that the parties consider an approach that provides a lower incentive for non-electric savings than for electric savings and takes into account higher cost savings at times of peak demand. Such an incentive differential would reflect the underlying source of SBC funds (electric distribution customers) as well as the primary business of the utilities (electric distribution services). In this collaboration, in light of the recent passage of House Bill 1490 requiring the use of RGGI funds in the CORE programs, the

> parties should consider whether RGGI-funded portions of CORE programs should be used to fund any portion of the performance incentive developed for the CORE programs. Because a proposal may not be complete by the time the 2013-2014 CORE filing is made, we will continue the performance incentive now in place for HPwES and adjust it upon approval of any changed methodology.

Order No. 25,402 (August 23, 2012) at 27.

On December 12, 2012, in Docket No. DE 12-262, a settlement agreement relating to the CORE Programs signed by representatives of the CORE Utilities, Staff of the New Hampshire Public Utilities Commission, The Way Home, the New Hampshire Community Action Association, The Jordan Institute, and the New Hampshire Community Loan Fund was presented to the Commission. That settlement agreement, at section D.1., stated, in relevant part:

> The Settling Parties and Staff agree to continue to collaborate in a working group as contemplated in the settlement agreement approved by the Commission in DE 10-188, the proceeding for the approval of the 2011-2012 Core Electric Utility Programs, with the intent of ensuring that performance incentives are appropriately aligned with Core Program goals. In addition, the working group is developing a proposal for non-electric savings as directed by the Commission in Order No. 25,402.
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> The Settling Parties and Staff agree that the working group will develop a performance incentive proposal for the Commission's review by June 30, 2013. To the extent that members of the working group cannot agree on a proposal, any individually developed proposal(s) for a performance incentive shall be submitted for Commission review by June 30, 2013. Any proposals, whether joint or individual, shall include proposed terms relative to the effective date of any changes recommended.

That settlement agreement was approved by the Commission on February 1, 2013 in Order No. 25,462.

As part of a working group, representatives of the CORE Utilities, Staff, the Department of Environmental Services and the Office of Energy and Planning met subsequent to this Order on May 1, 2013 and May 23, 2013, and engaged in numerous other discussions, including with the Office of Consumer Advocate, relating to the performance incentive mechanism in light of the Commission's order and the commitments in the settlement agreement. As a result of those discussions, the CORE Utilities and Staff have reached a compromise on a proposal for the performance incentive included in the attachment to this letter. Due to time constraints, the Office of Consumer Advocate, the Office of Energy and Planning and the Department of Environmental Services did not have time to review this proposal and develop a position prior to the filing due date. On June 28, 2013, the Office of Consumer Advocate informed the parties to the working group that it did not oppose the proposal submitted with this letter. The other parties have agreed to review the proposal and provide any comments they may have by July 19, 2013.

In support of the request to approve the attached proposal, the following explanation of the existing and proposed performance incentive mechanisms is provided. Currently, the performance incentive is based upon the actual spending of the CORE Utilities for all of the CORE Programs, except for the expenditures relating to the non-electric measures of the Home Performance with ENERGY STAR ("HPwES") Program and PSNH's Smart Start Program. The existing performance incentive provides for a baseline performance incentive of 8 percent – meaning that if the actual results of the programs are essentially equal to the planned results, the performance incentive would be equal to 8 percent of actual program spending. The existing mechanism also allows for an incentive of more than 8 percent, but no higher than 12 percent, when actual program results exceed the planned results; and, less than 8 percent (and potentially no performance incentive), when actual program results are less than the planned results.

The existing performance incentive is calculated from two components, a kilowatt-hour ("kWh") component and a benefit/cost ("B/C") component. In the kWh component, the actual lifetime kWh savings of the programs is compared to the planned lifetime kWh savings; and, in the B/C component, the actual B/C ratio of the programs is compared to the planned B/C ratio. A calculation of these components is done for the residential sector, which includes the Low Income Home Energy Assistance (HEA) Program, and another for the commercial and industrial ("C&I") sector. In addition, there are certain minimum thresholds that must be met in each of these component calculations for the CORE Utilities to earn a performance incentive. Lastly, under the existing mechanism, there is no performance incentive cap on the individual components, only on the overall performance incentive amount for each sector.

Under the proposed mechanism, the CORE Electric Utilities would begin applying a new ratio of electric lifetime savings to total lifetime energy savings as they relate to the total portfolio of CORE electric programs. Upon applying that ratio, if it is determined that electric lifetime savings are greater than or equal to 55 percent of total lifetime energy savings, a higher level of performance incentive would apply. If the electric lifetime savings fall below 55 percent of total lifetime energy savings, a lower incentive would apply. Once the ratio is determined, the proposed mechanism preserves the same basic structure as the existing mechanism, except that the baseline is lowered from 8 percent to 7.5 percent at the 55 percent and up level, and to 6 percent at the under 55 percent level. Moreover, the overall maximum performance incentive that can be achieved is lowered from 12 percent to 10 percent at the 55 percent and up level, and to 8 percent at the under 55 percent level. Further, there is now a cap on the individual kWh and B/C components described above. The minimum thresholds of the existing mechanism remain unchanged. In addition, the proposed mechanism covers all programs, including the HPwES Program, any legislatively mandated municipal programs funded by the Regional Greenhouse Gas Initiative ("RGGI"), and any pilot programs. The parties to this proposal also note that because it addresses the Commission's request to review the issue of including non-electric savings specifically related to the electric programs, this proposal only applies to programs operated by the CORE Electric Utilities, and that the baselines and metrics for gas-specific programs remain unchanged.

The parties to this proposal believe that it meets the expectations of the Commission without introducing unnecessary complexity. By setting a lower performance incentive baseline of 7.5 percent, this formulation achieves simplicity, while reflecting consideration of a lower incentive for non-electric savings, consistent with the Commission's suggestion in Order No. 25,402. By setting a minimum threshold of electric savings compared to overall savings, this formulation provides a tangible incentive to the CORE Electric Utilities to prioritize electric energy savings in their programs and reflects the underlying source of funds and the primary business of the CORE Electric Utilities as discussed in Order No. 25,402. At the same time, the formula preserves the comprehensive approach to identifying energy savings opportunities, which has been identified as a priority in past proceedings. Further, the proposed mechanism maintains, in large part, the existing performance incentive structure enabling the CORE Utilities, the Commission's Staff and other interested parties to understand and apply the mechanism without expending additional administrative resources.

The parties to the proposal note that this proposal also addresses recommendations made about the performance incentive in a 2011 study conducted by the Vermont Energy Investment Corporation.[1]

With respect to the Commission's directive in Order No. 25,402 that the parties consider a mechanism that takes into account higher cost savings at times of peak demand, the CORE Utilities and the Commission Staff note that the existing approved performance incentive mechanism already accounts for this within the B/C ratio component. Specifically, the total electric benefits calculation includes the cost of generation as one of the benefits of an efficiency measure that reduces peak demand. As a result, the parties recommend continuing with the existing B/C ratio calculation as adding an additional peak factor could lead to an undue emphasis on this benefit.

With respect to the Commission's final directive in Order No. 25,402 that the parties consider whether RGGI-funded portions of the CORE programs should be used to fund any portion of the performance incentive, the CORE Utilities and the Commission Staff believe it is appropriate to treat RGGI funds as comparable to CORE Program system benefits charge funds when used for the same purpose. There is precedent for this treatment in the Commission-approved "RE-CORE" RGGI grant awarded to the CORE Utilities in 2009, as well as more recently in Commission Order No. 24,425. In each of these cases RGGI funds enabled the CORE Electric Utilities to increase funding for programs with high demand, to add new energy saving measures and to provide for additional financing of energy efficiency projects. The performance incentive was

[1] The Independent Study of Energy Policy Issues final Report, prepared by the Vermont Energy Investment Corporation (VEIC) noted that "Experience indicates that rewards in the range of 4 to 8 percent of total efficiency portfolio budgets have been sufficient to capture utility staff attention and provide a significant motivator," (page 9-2)

originally approved by the Commission as an incentive to motivate companies to achieve and exceed program goals. Since the RGGI funds are being utilized by the CORE Utilities for a similar purpose as system benefits charge funds (to deliver energy efficiency programs aggressively and successfully to customers), the intent of a performance incentive should also apply to the RGGI funds.

The parties to the proposal request that the Commission approve the proposal by secretarial letter as soon as is practicable. Should the Commission approve this revised proposal, it would take effect beginning with the 2014 program year.

Very truly yours,

Matthew J. Fossum
Counsel

Enclosure
Cc: Service List