DE 12-262

Orr&Reno

Rachel Aslin Goldwasser
rgoldwasser@orr-reno.com
Direct Dial 603.223.9163
Direct Fax 603.223.9063
Admitted in NH and ME

NHPUC 14OCT'13AM11:54

October 11, 2013

VIA HAND DELIVERY & ELECTRONIC SERVICE
Debra A. Howland, Executive Director and Secretary
New Hampshire Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, NH 03301-2429

RE: Northern Utilities, Inc. Gas Energy Efficiency Programs
Docket No. DE 12-262
2013 Energy Efficiency Plan and Use of 2009 Avoided Cost Study

Dear Director Howland:

This letter is submitted on behalf of Northern Utilities, Inc. (the "Company") for the purpose of notifying the Commission regarding the Company's use of its 2009 Avoided Cost Study (ACS) in the development of its 2013 gas energy efficiency programs filing.

The Company originally filed its 2013 and 2014 energy efficiency program budgets with the Commission in September 2012. Those programs were considered by the parties to this docket and approved by the Commission in Order No. 25,462. When the Company updated its 2014 budget and program plan in August of 2013, it discovered that the benefit cost model in the September 2012 filing utilized the 2009 ACS values, rather than the more current 2011 ACS values.[1]

The ACS is used to calculate the benefits and costs of the Core energy efficiency programs when the programs are being developed and proposed. The same ACS values are then used to develop a year-end annual report and to calculate performance incentives after a program year has concluded. ACS values are updated by an independent third party evaluator selected through a multi-state request for proposals every two years, and the values are projected out for a 30 year period. The estimated values are subject to significant adjustments (both up and down) from study to study. Over the 20-year life of a rebated project or piece of equipment, the total benefit attributed to the measure will have been estimated by 10 different Avoided Cost Studies.

[1] Concurrent with the filing of this correspondence, Northern is filing a request to increase its 2013 Gas Networks budget by $70,000. To assure consistency across the gas energy efficiency programs for the entire 2013 year, the 2009 avoided cost study data was applied to the budget increase request.

To be clear, the use of the 2009 study rather than the 2011 study does not impact the overall MMBtu savings from the Company's programs as proposed and does not affect program delivery. However, because gas prices declined between 2009 and 2011, the Company may have overstated the monetary value of the estimated benefits from its gas programs in 2013, which in turn resulted in a higher benefit cost (BC) ratio than what would have resulted had the Company utilized the 2011 avoided cost values.[2]

Given the timing of this discovery, the Company proposes using the already-approved 2013 Energy Efficiency Budget and Plan when it files its 2013 Annual Report and Request for Shareholder Incentive. The Company believes this is reasonable for two reasons. First, as long as the same ACS values are applied both in the plan and the year-end analysis, the ratio of planned benefit cost to actual benefit cost will remain the same, and the resulting performance incentive will not change. In addition, revising all documentation related to the filing at this stage in order to reflect the 2011 avoided costs would be administratively burdensome and costly.[3]

The Company takes seriously the error of utilizing its 2009 ACS instead of the 2011 ACS in the development of the BC ratios for the 2013 program year. It has instituted a new review process, including additional oversight provided by the Manager of Program Administration and Compliance, a position that was created in early 2012 and filled in August of that year. Furthermore, to be clear, the 2014 budget currently being considered by the Commission in the above-referenced docket utilizes the most recent ACS values established in the 2013 Avoided Cost Study, completed by Synapse Energy Economics in July of this year.

Please do not hesitate to contact me with any questions or concerns about this matter.

Sincerely,

Rachel Aslin Goldwasser

cc: Electronic Service List for Docket DE 12-262

---

[2] In an initial analysis, it appears that two of the residential programs, ENERGY STAR Homes and ENERGY STAR Appliances ("Gas Networks") would not have been cost effective *as planned* had the 2011 avoided cost values been used. Applying the 2014 proposed customer costs, each would have had a benefit cost ratio of 0.9, and the residential sector as a whole would have had a benefit cost ratio of 1.0, with $4,000 more in total costs (including customer costs) than benefits. Had the Company developed its 2013 plan using 2011 avoided cost values, adjustments would have been made to the measure mix and budget in order to ensure these programs were cost effective. Based on a preliminary assessment of actual data to-date, it appears that all of the programs will be cost effective, even were the 2011 ACS values to be applied.

[3] The as-approved 2013 budget and goals are a plan which has been implemented through the last nine months. Updating that plan would require not only including the 2011 ACS, but also adjusting other elements of the plan to respond to changes in avoided costs between 2009 and 2011. Given the timing, requiring wholesale revision of the plan at this point in the year would be administratively burdensome and achieve little benefit.