DE 12-262

STATE OF NEW HAMPSHIRE

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October 23, 2013

Debra A. Howland, Executive Director
N.H. Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord NH 03301

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RE: DE 12-262 CORE Energy Efficiency Programs
OCA's Support of Northern's Budget Request

On October 11, 2013 Northern Utilities, Inc. ("Northern" or the "Company") filed a letter requesting Commission approval of an increase in the Company's 2013 CORE residential gas energy efficiency budget in the amount of $70,000 which includes $5,185 for performance incentive. The purpose of the increase is to support the EnergyStar Appliance Program in 2013.

The OCA supports the Company's request.

In addition, the OCA offers comments on the issues raised in Staff's letter of October 15, 2013. In that letter, Staff recommended that the Commission approve Northern's budget increase request *only* for requested program and implementation funds – *not* for funds for additional performance incentive in conjunction with the increased program budget and goals as filed. In their letter, Staff raised several issues for the Commission's attention including: Budget discipline; HEA Low Income Budget; and Planning in general. We provide comments on these issues later in this letter.

The OCA's supports Northern's budget increase request including the performance incentive component for reasons which include:

- The Company informed parties of the high demand for this program via letter filed in DE 12-262 on April 25, 2013 and again on August 21, 2013.
- In its letter of August 21, the Company indicated it was transferring unspent funds from its HPwES program to the Energy Star Appliance program to address high demand in the program.
- Given the difficulties of predicting program participation it is not surprising that external market forces beyond the Company's control may contribute to low demand in one program and high demand in another.

- The OCA recognizes the value of avoiding a "start-stop" approach to program implementation. Such an approach can contribute to confusion and frustration in the marketplace between customers, contractors, trade allies and the Company as it works to administer Energy Efficiency programs.
- The Company's request is consistent with the Commission's Order 25,569 (issued September 12, 2013) which stated "The performance incentive is intended to 'incent the utilities to aggressively pursue achievement of the performance goals of their energy efficiency programs' and to 'motivate the companies to achieve or exceed program goals.'" *Citation omitted.* It seems that this is precisely what Northern seeks to do with its budget increase request – to aggressively pursue and attempt to achieve higher program goals.
- The issue of including performance incentive for mid-year or late-year budget changes / increases can continue to be discussed by parties and stakeholders in future Quarterly meetings as Staff proposes.

The OCA recommends that the Commission approve the Company's request to increase the program budget by $70,000 comprised of $58,333 for rebates, $6,481 for internal and external implementation, and $5,185 estimated for performance incentive at the budgeted 8% level.

As stated above, Staff's October 15 letter to the Commission on this matter identified several issues for the Commission to consider. The OCA offers the following comments on these issues.

1. **Budget Discipline.** The OCA is concerned that Staff's language implies the Company lacks "discipline" and has not exercised adequate oversight in program management in light of the Company's request for a budget increase. While the OCA has suggested that the Company explore implementation and administrative strategies to better track the flow of rebate dollars, we do not believe there is any evidence that suggests the Company is not managing the program effectively. Indeed, as we suggest above, there are times when external market forces are very difficult to predict which can create unanticipated high demand for a program. While we encourage the Company to continue to fine-tune its administrative processes for this program, we are also encouraged by the success of the Company's trade allies in promoting the advantages of EnergyStar high efficiency heating appliances.

   Further, Staff states that "a precedent could be set whereby Northern could seek increases to its approved annual budgets for late year increases beyond the 5 percent cap that was first set in Order 25,189 and continued in to the present programs." The OCA's understanding is that the CORE utilities – Northern included – have the authority to overspend their approved EE budgets by up to 5% and include such overspending in the calculation of their Performance Incentive. A utility may overspend by up to 5% of an approved budget without changing the energy savings targets for that program year. In the current situation, the Company's request for approval includes changes to increase the energy savings targets in correspondence with a requested increase in budget of more than 5%. In this case the $70,000 budget increase request represents approximately 10% of the current approved Residential Sector EE Budget and 6% of the total approved 2013 EE Budget. The OCA believes the Company's request represents an appropriate approach.

2. **HEA Low Income Budget.** Staff raises the concern that the Company's request in this situation may be inappropriate as it does not allocate 15% of the budget request to the low income Home Energy Assistance (HEA) Program. The OCA's understanding is that the gas utility HEA funding levels have historically been set at a particular dollar level of spending rather than as a percentage of total spending as is the case with the electric utility HEA program. In fact, Order 25,462 approving the 2013-2014 CORE Electric and Gas EE programs contained an approval for a 2013 HEA program budget of $145,000 and a 2014 program budget of $170,000 for Northern. These amounts represent 12.6% and 13.9% of Northern's annual program spending for 2013 and 2014, respectively. Further, the 2014 Update filing made on September 13 proposes a budget of $232,069 for Northern's HEA program, or 16.8% of the Company's total proposed EE spending[1].

   Further evidence for the difference in funding approaches between the gas and electric HEA programs is found in Order 25,189 in DE 10-188 approving the 2011 and 2012 CORE programs. That Order states "[t]he Electric Utilities will allocate 14.5% of overall CORE program budgeted amounts to the Home Energy Assistance (HEA) program for program year 2011 and 15% for program year 2012, and the Gas Utilities will allocate $840,895 to the low income program for 2011 and $903,062 for 2012."

   For these reasons, the OCA does not consider that the Company's current budget increase request creates any concerns relative to the Company's HEA budget. The OCA hopes that the information provided here will be useful to stakeholders in discussing this issue at a future Quarterly meeting.

3. **Planning Issue.** Staff raises the concern that the reason cited by the Company for this requested budget increase appears to be similar to the situation which arose in 2010. The OCA is not aware that Staff has offered any suggestions to the Company on how it could improve the administration of this program. Instead, Staff has taken what appears to be a punitive approach and suggests that the Commission not approve the Company's request to include the previously approved 8% budgeted performance incentive amount on the increased budget – a budget increase which Staff recommends the Commission approve. The OCA is concerned that such an approach may actually ***dis***courage CORE utilities' efforts and interest to expand their programs when customer demand is high and to strive

[1] See Attachment HG page 2 of 2 (Bates p 63) of 2014 CORE Update Filing

to capture additional cost-effective energy efficiency spending even when an opportunity presents itself. Therefore, *not* approving the Company's request to include the budgeted performance incentive amount could work contrary to the Commission's stated goals identified in the final bullet point above.

It is the OCA's understanding that in crafting their energy efficiency program budgets, the gas utilities are not bound by a fixed rate like the System Benefit Charge established by either the Legislature or the Commission. Rather, the Company seeks to balance the potential EE investment with the costs and corresponding rate impact to customers. Whereas the utility itself is willing to increase its EE budget and apparently believes the benefit to its customers is in balance with program costs and rate impacts, the OCA recommends that the Commission approve all aspects of the Company's request.

Sincerely,

Susan Chamberlin

Susan W. Chamberlin
Consumer Advocate

Cc: DE 12-262 Service List