STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 12-262

2013-2014 CORE NH ELECTRIC AND GAS ENERGY EFFICIENCY PROGRAMS

Energy Efficiency Programs

Order Approving Changes to the Performance Incentive Mechanism

O R D E R N O. 25,569

September 6, 2013

I. BACKGROUND

The Commission has authorized utility performance incentives since the Core energy efficiency programs' inception. 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." *Energy Efficiency Programs for Gas and Electric Utilities,* Order No 24,203, 88 NH PUC 401, 405 (2003). .

In Docket No. DE 09-170, the Commission approved the formation of a working group to review performance incentives to ensure that they are appropriately aligned with program goals. That working group did not produce a final recommendation. In December 2010, the Commission approved a settlement agreement that permitted the performance incentive working group to continue, *2011-2012 CORE Electric Energy Efficiency and Gas Energy Efficiency Programs,* Order No. 25,189, 95 NH PUC 677 (2010). In August 2012, the Commission approved the Home Performance with Energy Star (HPwES) program and directed the working group to develop a shareholder incentive proposal for non-electric savings and to complete its work by June 30, 2013. *2011-2012 Core Electric Programs and Natural Gas Energy Efficiency Programs,* Order No. 25,402 (Aug. 23, 2012). The Commission directed the working group to consider an approach that provides a lower incentive for non-electric savings than for electric savings and that would take into account higher cost savings at times of peak demand. The Commission reasoned that such a differential would reflect the underlying source of System Benefits Charge (SBC) funds as well as the primary business of the utilities; *i.e.*, electric distribution services. The Commission also noted the passage of House Bill 1490 in 2012 which required use of Regional Greenhouse Gas Initiative (RGGI) funds in the Core programs. The Commission directed the working group to consider whether RGGI-funded portions of the Core program should be used to support any portion of the performance incentive. Lastly, the Commission authorized the continuation of the existing performance incentive until approval of any new methodology.

On February 1, 2013, the Commission issued Order No. 25,462, approving the 2013-2014 Core Electric Energy Efficiency and Gas Energy Efficiency Programs and recognized that the working group report was expected later in 2013.

On Monday, July 1, 2013, Staff and the Core electric and gas utilities (the Core utilities) filed a proposed performance incentive. Staff and the Core utilities stated that they held numerous discussions among themselves and with the Office of the Consumer Advocate, the Office of Energy and Planning (OEP), and the Department of Environmental Services (DES). The OCA did not oppose the proposal. Staff and the Core utilities stated that the other parties had agreed to review the proposal and provide any comments by July 19, 2013.

Under the proposed performance incentive mechanism, which would take effect beginning with the 2014 program year, 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% of total lifetime energy savings, a higher performance incentive would apply. If the electric lifetime savings fall below 55% 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% to 7.5% at the 55% and up level, and to 6% at the under 55% level. Moreover, the overall maximum performance incentive that can be achieved is lowered from 12% to 10% at the 55% and up level, and to 8% at the under 55% level. Staff and the Core utilities further recommend there be a cap on the individual components used to calculate the performance incentive (the kWh savings and benefit-cost components), rather than a cap on the overall performance incentive amount for each sector (residential and commercial/industrial sectors). Under the proposed mechanism, the individual component caps would be half the overall cap. For example, the kWh savings component would be capped at 5% and the benefit-cost component would be capped at 5% at the 55% and up level. The minimum thresholds of 65% for planned savings and 1.0 for benefit-cost in the existing mechanism remain unchanged.

In addition, the proposed performance incentive mechanism covers all programs, including the HPwES Program, any legislatively mandated municipal programs funded by RGGI, and any pilot or future regular programs. The parties to this proposal also note that the proposal is limited to the programs operated by the Core electric utilities, as it is in response to the Commission’s request to consider how non-electric savings from measures undertaken by the electric utilities should be factored into the incentive calculations. The proposal would not change the baselines and metrics for gas utility programs.

Staff and the Core utilities state that setting two performance incentive baselines of 7.5% and 6% achieves simplicity, while reflecting consideration of a lower incentive for non-electric savings, consistent with the Commission's directive 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 of the Core electric utilities as discussed in Order No. 25,402. At the same time, the formula preserves the comprehensive approach to screening energy savings opportunities, consistent with past practice. Further, the proposed mechanism maintains, in large part, the existing performance incentive structure enabling the Core utilities, Staff, and other interested parties to understand and apply the mechanism without expending additional administrative resources.

Staff and the Core utilities also note that their proposal addresses recommendations made by the Vermont Energy Investment Corporation (VEIC) in 2011. In its report, VEIC stated 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." VEIC Study at page 9-2.

With respect to the directive in Order No. 25,402 to consider a mechanism that takes into account higher cost savings at times of peak demand, the Core utilities and Staff state that the existing approved performance incentive mechanism already accounts for this within the benefit/cost (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 Core utilities and Staff recommend no change to the existing B/C ratio calculation, as adding an additional peak factor could lead to an undue emphasis on this benefit.

Regarding the directive in Order No. 25,402 that 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 Staff believe it is appropriate to treat RGGI funds as comparable to Core program SBC funds when used for the same purpose. The Core utilities and Staff cited 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 Order No. 25,425 (October 17, 2012). In these cases, RGGI funds enabled the Core electric utilities to increase funding for high-demand programs, add new energy saving measures, and provide for additional financing of energy efficiency projects. The Commission initially approved the incentive to motivate companies to achieve and exceed program goals. Because RGGI funds are being utilized by the Core Utilities for a purpose similar to SBC funds (to deliver energy efficiency programs aggressively and successfully to customers), the Core utilities and Staff state the intent of a performance incentive should also apply to the RGGI funds.

On July 26, 2013, OEP and DES filed their recommendation on the performance incentive. OEP and DES did not object to the proposed performance incentive so long as it was on a temporary basis. OEP and DES offered a general observation that a performance incentive should help assess whether previously established program goals have been met but felt it inappropriate to establish a goal within the performance incentive. They stated that the 55% goal has the potential to change how the previously-approved programs will be implemented. They recommended a higher level assessment of the Core program goals involving a more inclusive public process similar to the process used to develop the initial Core program.

OEP and DES recommended the proposed performance incentive be limited to the 2013-2014 program years and that the Commission open a docket "so that all interested parties may focus on the important issues of goal setting and performance incentives prior to finalization of the utilities' 2015/2016 efficiency program filings." OEP and DES urge the Commission to make a consultant available to move the work forward. OEP and DES also recommend the Commission hold an informal process to solicit input from a broad array of stakeholders.

The Commission received no other comments on the proposed performance incentive mechanism.

II. COMMISSION ANALYSIS

The appropriate level of performance incentive has evolved over the years with competing principles advanced by various stakeholders.[1] We commend the participants in the recent 2009, 2010, and 2012 energy efficiency dockets for their continued efforts on this issue. Given the broad range of interests represented in those dockets, we acknowledge the difficulty of achieving a joint recommendation.

Our oversight of these programs is guided by the policy objectives articulated in RSA 374-F:3, VI: "[a] nonbypassable and competitively neutral system benefits charge applied to the use of the distribution system may be used to fund public benefits related to the provision of electricity." RSA 374-F:3, X states that "[r]estructuring should be designed to reduce market barriers to investments in energy efficiency and provide incentives for appropriate demand-side management and not reduce cost-effective customer conservation. Utility sponsored energy efficiency programs should target cost-effective opportunities that may otherwise be lost due to market barriers."

We have previously found that SBC revenues may be used to fund fuel neutral energy efficiency programs such as the Home Performance with Energy Star (HPwES) pilot program. *2009 Core Energy Efficiency Programs,* Order No. 24,930, 94 NHPUC 1, 11 (2009). The

[1] The performance incentive methodology was developed by the Energy Efficiency Working Group and approved in *Electric Utility Restructuring-Energy Efficiency Programs*, Order No. 23,574, 85 NH PUC 684 (2000); revised in *2011-2012 CORE Electric Energy Efficiency and Gas Energy Efficiency Programs*, Order No. 25,189, 95 NH PUC 677 (2010) to base it on actual expenditures; and revised in *2013-2014 Core Electric Energy Efficiency and Gas Energy Efficiency Programs,* Order No. 25,462 (February 1, 2013) to address HPwES fuel neutral expenses.

central tenet of these programs is that the cumulative electric savings of those who participate should reduce the need for additional generation or power purchases, thereby lowering the marginal cost of electricity, resulting in electric savings for all ratepayers. *2011-2012 Core Electric Programs and Natural Gas Energy Efficiency Programs,* Order No. 25,402 (Aug. 23, 2012) in Docket No. 10-188 at 22.

We find the proposal made by Staff and the Core utilities to be reasonable and responsive to Order No. 25,402 and the statutory goals expressed in RSA Chapter 374-F. In Order No. 25,402, we directed the parties to consider an incentive for non-electric savings that would be lower than the incentive for electric savings, so that the utilities prioritize electric savings over non-electric savings, reflect the higher cost savings at times of peak demand, and determine whether RGGI funded programs should be counted toward the incentive. The proposal addresses all of these issues with relative simplicity. The 55% threshold roughly equates to the percentage of total lifetime savings the utilities are achieving in the present 2013 program year; therefore, we find the 55% threshold to be a reasonably achievable goal. Exhibit 2 at 142-183. Additionally, 55% is slightly higher than the 2013 anticipated savings goal and thus, the new performance incentive should encourage additional utility efforts to promote electric savings. Accordingly, we will approve the proposed changes to the Core electric energy efficiency program performance incentive mechanism as described above for programs commencing in 2014.

We next consider OEP and the DES's recommendation to limit this proposal to the 2014 and 2015 program years and open a new docket and conduct a higher level assessment of the Core program goals involving a more inclusive public process. Our inquiry into appropriate energy efficiency goals has its genesis in statute. RSA 374-F:3, X directs the Commission to oversee cost-effective energy efficiency programs that would otherwise be lost due to market barriers. The programs must also provide a public benefit related to the provision of electricity. RSA 374-F:3, VI. OEP and the DES seek a dialogue on whether the energy efficiency program goals are impacted by the 55% performance incentive threshold and on goal-setting in general. We find this to be an appropriate inquiry. Accordingly, we will conduct a public forum at which the Commission will take comment on: 1) appropriate goals of the utility-sponsored Core energy efficiency programs; 2) whether the influx of RGGI funds should impact the preference for electric savings pursuant to RSA 374-F:3, VI; 3) whether the administrative process of reviewing the utilities' proposed Core energy efficiency programs should be changed; and 4) other ways to improve the Core programs commencing with the 2015 program year. We intend for this public comment forum to be generic, and not to pertain to any specific utility filing.

Based upon the foregoing, it is hereby

ORDERED, that the July 1, 2013 proposed changes to the Core electric energy efficiency program performance incentive mechanism are hereby APPROVED for effect beginning with the 2014 program year; and it is

FURTHER ORDERED, the Commission's Executive Director shall issue a notice of a public forum to solicit comment on the appropriate administrative process for addressing future Core energy efficiency program issues.

By order of the Public Utilities Commission of New Hampshire this sixth day of September, 2013.

Amy L. Ignatius Chairman	Michael D. Harrington Commissioner	Robert R. Scott Commissioner

Attested by:

Debra A. Howland
Executive Director

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