STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTLITIES COMMISSION

DE 12-262

ELECTRIC AND GAS UTILITIES

2013-2014 Core Electric Energy Efficiency Programs and
Natural Gas Energy Efficiency Programs

Order Approving Northern's Increase to Gas Networks Budget

O R D E R N O. 25,593

November 8, 2013

I. BACKGROUND

On October 11, 2013, Northern Utilities, Inc. filed a request to increase its 2013 residential gas energy efficiency budget by $70,000 for its Energy Star Appliance Program (Gas Networks). The Gas Networks program offers incentives to residential customers for Energy Star heating, hot water equipment, and controls and aims to encourage customers to choose high-efficiency heating, hot water equipment, and controls. The incentives are in the form of mail-in rebates. Along with its request, Northern submitted an amended Gas Networks program budget, Total Resource Benefit Cost Analysis, and amended program goals. Northern seeks to allocate the $70,000 as follows: $58,333 for rebates; $6,481 for internal and external implementation; and $5,185 estimated for performance incentive. Northern adjusted its local delivery adjustment charge (LDAC) in its recent cost of gas filing to include the proposed $70,000; the cost of gas proceeding has been docketed as DG 13-257. The Commission approved the LDAC on October 31, 2013 in Order No. 25,590. We note that the LDAC is a fully reconciled charge to gas customers and reconciliation occurs twice a year.

Northern states the program's popularity has exhausted the existing budget[1] and that, absent a budget increase, Northern will need to turn away customers. Northern seeks to increase the budget to avoid losing opportunities to encourage customers to purchase high-efficiency equipment and to avoid disruption in program implementation.

Earlier this year, in April 2013, Northern notified the Commission that funds for the Gas Networks program were running low and that when funds ran out, customers would be directed to the electric utilities' Energy Star Appliance Program. On August 21, 2013, Northern notified the Commission that it would transfer $27,000 from its Home Performance with Energy Star Program to the Gas Networks program. These funds, as well as the electric utilities' program, have since been exhausted.

Northern states the Office of the Consumer Advocate (OCA), Department of Environmental Services, Office of Energy and Planning, and the Jordan Institute support the request. Northern stated that Staff supported the request but expressed concern about Northern earning a performance incentive for this late-year budget increase. Northern stated that it agrees to participate in a discussion regarding recovery of an earned performance incentive associated with fourth-quarter budget increase requests.

On October 15, 2013, Staff filed a response to Northern's request. Staff stated that it generally supported Northern's request because it avoids potential customer disappointment, lost opportunities, and other disruptions related to program delivery. Staff also stated that it believed Northern's proposal raised broader issues regarding the principles of budget discipline, allocation of funds to the low-income Home Energy Assistance program, planning issues, and performance incentive. Staff stated that it wished to bring these issues to the Commission's attention and

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[1] The Commission approved the existing energy efficiency budget on February 1, 2013 in Order No. 25,462.

recommended that the issues be discussed by Staff, Northern, and the other parties in the up-coming quarterly meetings.

Staff stated that late-year budget changes raise issues of whether it is consistent with the process of setting challenging budgets and targets. Staff explained that a precedent could be set whereby Northern could seek increases to its approved budgets that go beyond the 5% budget change cap set in Order No. 25,189 dated December 30, 2010. *See, 2011-2012 Core Electric Energy Efficiency and Gas Energy Efficiency Programs*, 95 NH PUC 677 (2010). Staff expressed concern that Northern's budget is inconsistent with the requirement that 15% of the budget be allocated to low income programs. Staff also stated that Northern's request is not dissimilar to a situation in 2010 where Northern had more projects open than it expected when it sought to wind down the program in February which raises planning issues. Staff concluded by recommending that the maximum performance incentive for Northern be what was approved in Order No. 25,189. That maximum is based on the spending cap for the residential sector and Staff stated would allow Northern to earn a performance incentive, for the residential sector, on 105% of the original Commission-approved budget for 2013.

On October 23, 2013, the OCA filed a letter in support of Northern's request. The OCA also responded to some of the issues raised by Staff and the OCA did not oppose discussing the issues in the quarterly meetings. The OCA recognized the value of avoiding a "start-stop" approach to program implementation and stated that it can be confusing and frustrating to customers, contractors, and trade allies. OCA stated that Northern should earn a performance incentive on the budget increase because it is consistent with Order No. 25,569 (September 12, 2013) that the performance incentive is intended to "incent the utilities to aggressively pursue achievement of the performance goals of their energy efficiency programs" and "motivate the companies to achieve or exceed program goals." The OCA stated that Staff's concern about budget discipline implies that Northern is not managing the program effectively; the OCA disagreed with any implication that Northern is managing its program ineffectively. The OCA argued that external market forces made it difficult to predict demand. The OCA asserted that the requested budget increase is accompanied by a change to the energy savings targets and that it is appropriate. The OCA stated Northern's budget request does not raise any concerns relative to the low-income HEA budget because the spending for the HEA program is usually set at a specific dollar amount rather than as a percentage. Lastly, the OCA stated that not allowing Northern a performance incentive will discourage, rather than encourage, utilities' efforts and interest to expand their programs when customer demand is high and to strive to capture additional cost-effective energy efficiency spending when an opportunity presents itself.

II. COMMISSION ANALYSIS

The policies contained in RSA Chapter 374-F guide the Commission's review of the Core energy efficiency programs, whether it be review of an entire program submission, or as is the case here, a modification to a program budget. Pursuant to RSA 374-F:3, energy efficiency programs should be designed to reduce market barriers to investment in energy efficiency, provide incentives for appropriate demand-side management, and not reduce cost-effective consumer conservation. *Electric Utility Restructuring*, Order No. 23,574, 85 NH PUC 684, 691 (2000), citing RSA 374-F:3, X. The Commission has held that utility-sponsored energy efficiency programs should target cost effective opportunities that may otherwise be lost due to market barriers. *Id.* The objective of the Core energy efficiency programs should be "consistency in both program offering and program design" and that the Commission's focus in considering them would be on their "efficacy." *Id*. at 693 and 695. The Commission has applied these principles to gas energy efficiency programs as well.

The Gas Networks program offers incentives to reduce market barriers to residential customers' investment in energy efficiency, namely high-efficiency heating, hot water equipment, and controls. Although Northern did not identify those incentives in its request, the incentives are found in the utility's revised filing in this docket. Exh. 2 at 32. Northern has not proposed any changes to those incentives. In the program, as initially approved, Northern anticipated a participant level of 288; with the additional funds, that figure is now 445. *Id.* at 131. Its total resource benefit cost analysis for the program was 1.08; with the additional funding the benefit-cost ratio becomes 1.16, making the program more cost effective. *Id.* Lifetime million British Thermal Units (MMBtu) savings increase from 46,298 to 71,506. *Id.* In light of these facts, we find that the budget increase will lead to increased savings in a cost effective manner.

As noted above, this is not the first time Northern has added funds to this program. Northern had also planned on directing customers to the electric utilities' Energy Star Appliance Program, however, those programs ran out of funds as well. The electric utilities have not requested additional funds to the program as Northern has done. We are not troubled by the different approaches taken by the electric utilities and Northern with respect to funding-depleted programs and, in fact, welcome any conclusions that can be drawn as to which approach works best. Having considered Northern's request and the comments received, we find that increasing the budget for Northern's Gas Networks program, by $58,333 for rebates and $6,481 for internal and external implementation, promotes energy efficiency and demand side management and will provide direct and indirect benefits to customers.

As to the $5,185 estimated for a performance incentive, we will defer ruling on that issue until Northern files its calculation of its performance incentive for the 2013 program year. Although Northern has requested authority to collect $5,185 as a performance incentive, there are multiple variables impacting whether the program will even yield a performance incentive. Accordingly, we will defer rendering a determination on whether Northern can collect a performance incentive on the instant request until after Northern calculates its performance incentive for the 2013 program year. We expect to receive that calculation in June 2014.

Based upon the foregoing, it is hereby

ORDERED, that Northern's request to increase its budget for the Gas Networks program by $58,333 for rebates and $6.481 for internal and external implementation is hereby approved.

By order of the Public Utilities Commission of New Hampshire this eighth day of November, 2013.

Amy Ignat
Amy L. Ignatius
Chairman

Michael D. Harrington
Michael D. Harrington (KNS)
Commissioner

Robert R. Scott
Robert R. Scott (KNS)
Commissioner

Attested by:

Debra A. Howland /aul
Debra A. Howland
Executive Director