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APR 11 2008
PUBLIC UTILITIES COMMISSION

April 11, 2008

Debra Howland
Executive Director and Secretary
New Hampshire Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, New Hampshire 03301-7319

RE: DE 07-064 Electric Utilities – Energy Efficiency Rate Mechanisms

Dear Ms. Howland:

The Office of Energy and Planning, the Department of Environmental Services Air Resources Division, and the Office of Consumer Advocate (OEP, DES and the OCA) offer the following joint comments in response to the Commission's questions in its March 13, 2008 letter in the above-referenced docket.

1) Whether existing rate treatment poses an obstacle to investment in energy efficiency

Response:

a) OEP, DES and the OCA believe that current rate design may create barriers to utility investment in energy efficiency. However, we have not yet engaged in discovery in this docket so we do not have any data supporting this belief. We look forward to exploring this further, and to reviewing the information provided by the utilities in response to the Commission's recent letter.

b) Decoupling utility revenue from sales volume, which is one rate design approach, would theoretically only remove one obstacle to investment in energy efficiency. It may not address all of the obstacles utilities face with regard to these investments, which may include the lack of knowledge and capacity, uncertainty about risk and rewards, and institutional inertia. In addition, we believe that this docket should include a thorough review of a range of rate mechanisms that encourage investment in efficiency. Addressing disincentives, while important, does not create actual incentives for investments in energy efficiency by the utility or by others. Therefore, we also expect that the docket should consider whether incentives are appropriate as well, and whether incentives alone would be a sufficient way to increase investments in energy efficiency.

c) Rate mechanisms such as decoupling could be part of an important policy shift away from the traditional model of rewarding utilities from selling more energy, toward "selling" other services such as energy efficiency. The inquiry in this docket should include a review of approaches for the state to begin this important policy shift.

d) We also note that it is appropriate to distinguish between the sales impacts of energy conservation and efficiency measures, and the sales impact of demand response measures. While the benefits of conservation and efficiency may accrue in different proportions to the utility and their customers, the benefits of demand response measures by their design and implementation primarily accrue to the utility. At the broadest level, demand response measures are controlled by the utility as a means of minimizing their costs, or maximizing their profits. In exchange for this control, utilities traditionally offer an incentive to the customer to compensate them for a reduced level of service. Therefore, we must ensure that through new rate treatments we are not compensating utilities for taking steps that they would otherwise take in their own financial interest.

2) <u>Whether different rate treatment would promote such investment</u>:

Response:

a) Yes, we believe that it is theoretically possible that a different rate treatment could promote such investment, but as discussed above, we believe that any rate design to remove barriers likely must be coupled with incentives to motivate energy efficiency investments. In short, simply removing barriers without a positive incentive may not result in more energy efficiency, and it may shift significant risk from utility shareholders to ratepayers.

b) The critical issues that must be resolved include:
   i) Ensuring that utilities are not compensated more than once for activities that are required in the normal course of business, for example requirements that might be imposed by RGGI and the RPS.
   ii) Accounting for exogenous factors such as changes in the weather, the economy, customer preferences, and new technologies. This is a critical component, but can be very complicated and could require annual reconciliation filings and proceedings.
   iii) Assuring that the rate treatment aligns the utility incentives for the provision of the services with the customer benefit from these services.

iv) Setting a higher standard of monitoring and verification than has been used to estimate savings for the ratepayer-funded CORE and natural gas efficiency programs.
v) Assuring that the services are efficiently and effectively delivered.
vi) Assuring that the services are comprehensive to minimize lost opportunities.

c) If a different rate treatment is considered, there must be a determination as to its affect on the distribution of risk between the utility and ratepayers. Historical examples of decoupling, in particular the experiment in Maine, demonstrated a substantial shift in risk from the utility shareholders to rate payers. Prior to implementation of any rate decoupling or a similar rate design, the undersigned request that the PUC issue a finding, after due deliberation, on the impact on risk of any proposed changes to rate design, and the resulting adjustment to utility rates of return that is appropriate.

d) Several models of different rate treatments are in use or under consideration in other jurisdictions. OEP, DES and the OCA take no position at this time as to which is appropriate for application in New Hampshire, and look forward to participating in this docket to explore the options fully.

3) <u>Whether these issues should be pursued in this docket or through other means</u>

Response:

a) The basic issue of whether throughput-based rates impact investments in energy efficiency can and should be pursued through this docket.

b) This docket can and should fully explore a range of different rate treatments that would at least place the utilities in a neutral position with regard to energy efficiency and distributed energy resources.

c) Our expectation, based on the Order of Notice in this docket, is that the docket will also include consideration of both removing barriers to efficiency <u>and</u> whether incentives are also necessary. If this docket does not include consideration of the need for, and appropriate types of incentives to increase energy efficiency, we respectfully suggest that a follow-on docket on these issues would be appropriate immediately following the completion of this docket. As noted above, we believe that simply removing disincentives may not result in more efficiency investments, so that both issues must be considered.

4) <u>Would decoupling constitute an alternative form of regulation</u>

a) The undersigned believe that decoupling may be a part of an alternative form of regulation as defined under RSA 374:3-a.

b) The undersigned may support an alternative form of regulation that includes decoupling, depending upon the other attributes included in the proposal.

We thank the Commission for the opportunity to provide these comments, and we look forward to our continued participation in this docket.

Sincerely,

______________________ for Jack K. Ruderman
Jack K. Ruderman
Office of Energy and Planning

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Joanne O. Morin
Air Resources Division
Department of Environmental Services

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Meredith A. Hatfield
Office of Consumer Advocate