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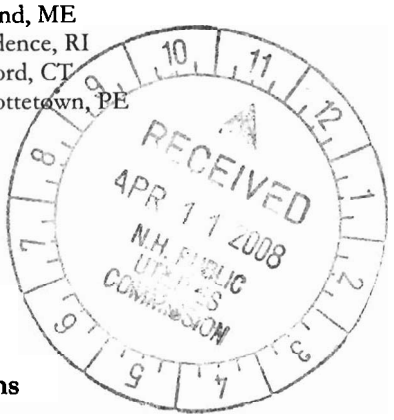

Via First Class Mail and E-mail

April 10, 2008

Thomas B. Getz, Chairman
Graham J. Morrison, Commissioner
Clifton C. Below, Commissioner
New Hampshire Public Utilities Commission
21 S. Fruit St, Suite 10
Concord, N.H. 03301-2429

DE

Re: D.P.U. 07-064 - Investigation into Energy Efficiency Rate Mechanisms

Dear Chairman Getz and Commissioners Morrison and Below:

Environment Northeast ("ENE") appreciates the opportunity to provide comments to the Public Utilities Commission ("PUC" or "Commission") in DE 07-064, the Investigation into Energy Efficiency Rate Mechanisms. ENE has been active in decoupling proceedings in other New England states and we hope that our perspective provides some value to the Commission as it moves through its investigation. In addition to the following comments, we attach three documents related to decoupling policies: (1) ENE's Decoupling Backgrounder; (2) Frequently Asked Questions about Decoupling; and (3)New Hampshire Energy Efficiency Procurement and Utility Revenue Reforms.

As an organization that addresses large-scale environmental problems that threaten regional ecosystems, human health or the management of regionally significant natural resources, ENE applauds the Commission's initiative to address this important matter which has the potential to support increased investments in cost-effective energy efficiency, demand response, and other demand resource programs in New Hampshire. In particular, we commend the PUC for recognizing the need to better align electric and natural gas companies' financial incentives with customer and public policy interests in capturing all available economic energy efficiency opportunities.

ENE believes that Docket 07-064 is appropriately focused on removing counterproductive disincentives toward utility investment in demand resources, including energy efficiency, efficient distributed generation and demand response. To successfully achieve this potential, the Commission must carefully craft a set of policies that is effective and fair to both consumers and utilities. Through this lens, ENE respectfully offers the following comments.

I. EXISTING RATE STRUCTURES POSE AN OBSTACLE TO INVESTMENTS IN ENERGY EFFICIENCY.

Energy efficiency and demand-side resources are under-utilized energy resources in New Hampshire today. Energy efficiency, demand response, and other demand resource programs cost 2[1] cents per kWh

[1] New Hampshire Electric Utilities, *2008 CORE New Hampshire Energy Efficiency Programs,* NHPUC Docket No. DE 07-106, September 28, 2007, Page 4

while electric supply costs approximately 9 cents per kWh[2]. Nevertheless, New Hampshire spends just over $1 billion on electric supply each year while investing just over $20 million in efficiency resources. Thus, it spends orders of magnitude more on a resource that is more than four times as expensive. In addition to pure cost-effectiveness, efficiency, demand response, and other demand resource programs provide significant environmental benefits associated with avoided air emissions, including carbon dioxide and other greenhouse gases, while also substituting in-state energy service jobs for imported fossil fuel expenditures.

New Hampshire's under-investment in efficiency, demand response, and other demand resource programs is the result of many factors. One significant contributing factor to this imbalance is the way in which utilities are compensated. At present, New Hampshire utilities have an economic incentive to sell as much energy to their customers as possible because the more energy they sell the more revenue (and thus, profit) they generate. The inverse is also true: utilities have an economic disincentive to increase efficiency, demand response, and other demand resource programs because such investments would reduce earnings.

Decoupling is an essential policy choice that should be accompanied by commitments to invest in all cost-effective energy efficiency. An example of a new and comprehensive energy efficiency policy framework is shown in Attachment 3.

II. INVESTMENTS IN ENERGY EFFICIENCY WOULD BE PROMOTED BY ADOPTING A DECOUPLING MECHANISM TO ELIMINATE CURRENT RATE DISINCENTIVES AND A PERFORMANCE INCENTIVE MECHANISM.

A. The Current Rate Structure Disincentive Can Best Be Eliminated Through a Decoupling Adjustment Mechanism.

ENE recommends the adoption of a full decoupling adjustment mechanism for both gas and electric utilities as was described in the presentation by the Regulatory Assistance Project in the November 7, 2007 proceeding in this docket. This approach would change existing rate structures so that they would effectively and fairly remove the disincentive to efficiency investment through two separate, but related mechanisms:

First, in rate proceedings for each company, the Commission should establish parameters for annual adjustments to allowed revenue requirements which reflect expected changes in costs. For companies with existing rate plans, the proceedings would likely involve appropriate amendments to those plans. The adjustments should be based on factors similar to those considered in designing rate plans and may include inflation, productivity adjustments, forecasts of capital improvements and changes in customer numbers or composition. Notably, load growth would not be included because the purpose of the mechanism is to make the company indifferent to the level of sales. The mix and weight of various factors would likely differ among the companies because of their individual situations.

Second, the Commission should determine a decoupling adjustment by comparing the billed revenues to the allowed revenue requirement for the prior period on an annual basis. Any resulting revenue adjustments would be implemented through changes to the volumetric charges in the distribution rates for the ensuing period. The decoupling mechanism is simple and symmetrical – consisting of small adjustments up or down – and does the work of removing the disincentive.

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[2] Average residential energy rates, from electric utility company web sites, spring 2008

ENE believes that this approach would achieve the result of removing the disincentive to investments in energy efficiency in a simple and transparent way which treats utilities and customers fairly and provides significant benefits to the state.

B. Performance Incentives Should Also be Adopted to Support Aggressive Implementation of Efficiency Programs.

Implementing a strong and prudent decoupling mechanism is essential to eliminating utility disincentives to full and meaningful investment in efficiency, demand response, and other demand resources. However, removing this disincentive, while crucial, will likely not be sufficient to spur aggressive utility implementation of efficiency, demand response, and other demand resource programs. To ensure full and robust utility participation and investment in efficiency, demand response, and other demand resource programs, the Commission should also adopt incentive mechanisms that make documented gains in efficiency a potential source of utility profit. These mechanisms should be considered and reviewed in the dockets established for utility energy efficiency programs.. New Hampshire faces a tremendous opportunity to dramatically increase investment in cost-saving energy efficiency, demand response and other demand resource programs and save ratepayers billions of dollars over the next decade. To fully seize these opportunities, it is of paramount importance that the Commission design a mechanism that aligns utility and customer interests to promote demand resource investments.

Performance incentives are a vital part of the successful efficiency programs in a number of states, including Connecticut and Massachusetts. California recently adopted a set of utility incentives and penalties based on the performance of energy efficiency programs. The contours of the California program and other models should be examined closely to determine in considering how incentives could be effective in maximizing New Hampshire ratepayer savings.

C. The Implementation of These Mechanisms Should be Accompanied By the Adoption of Expanded Energy Efficiency Programs Which Seek to Capture All Cost-Effective Opportunities.

The purpose of aligning the interests of the utilities with customer interests is to allow them to take advantage of the substantial opportunities which exist to reduce customer costs through greater investments in efficiency and other demand side resources. In order for the customers to realize the benefits of this approach, the current programs should be expanded so that the full economic potential can be realized. See also the comprehensive efficiency policy proposal in Attachment 3.

III. THE DESIGN OF THE DECOUPLING MECHANISM SHOULD BE DETERMINED IN THIS DOCKET.

ENE believes that the basic elements of a decoupling mechanism can best be determined in this docket where all concerned utilities and interested parties can participate and the issues can be fully reviewed. Although there will certainly be substantial differences in revenue requirement determinations among the utilities, the reconciliations required for decoupling should be quite similar in form.

IV. DECOUPLING DOES NOT APPEAR TO BE AN ALTERNATIVE FORM OF REGULATION UNDER RSA 374:3-a.

RSA 374:3a defines alternative forms of regulation as those which are not based on "cost of service, rate base and rate of return." Decoupling through an adjustment mechanism does not alter the nature of the

allowed revenue requirement determination, which would presumably be based on these traditional approaches. It simply ensures that the utility will collect no more and no less than the allowed levels.

V. CONCLUSION

For the foregoing reasons, ENE strongly encourages the Commission to adopt a full decoupling adjustment mechanism for both its electric and natural gas utilities. Again, ENE appreciates the opportunity to provide these comments.

Sincerely,

Jeremy C. McDiarmid
Staff Attorney

Roger E. Koontz
Senior Attorney

Enclosures

cc: Service List (via e-mail)

Decoupling: Changing Utility Incentives to Promote Efficient Energy Use

Environment Northeast

Background: Changing an Outmoded Approach

Promoting energy conservation has been bad business for most electric and gas utilities. Utility profits increase with sales, and when customers conserve energy, the utilities lose money. Decoupling is a new way to regulate how utilities get paid. It breaks the link between the utilities' profits and their sales volume, enabling the utilities to become full partners in energy efficiency and clean resource investments without losing money.

Decoupling changes only the way utilities are compensated for their distribution costs. Consumers pay two major fees on their gas and electric bills: one is for the energy they use and another is for the utility's cost of delivering the energy to them. Distribution costs are a component of the delivery charge, and they include fixed costs, such as those for poles, distribution lines, substations, and personnel. Although these costs are fixed, consumers pay for them, in part, through a charge based on the amount of energy they use.

With decoupling, the distribution charges are adjusted annually so that the utility does not collect more or less than it is allowed by the state regulators, regardless of any consumer change in energy consumption.

How Electric and Gas Rates are Currently Set

Electric and gas utilities appear before a state's public utility commission ("PUC") in a rate proceeding to determine the total fixed costs (i.e., lines, buildings, personnel) they are allowed to recover. Under current rules, a portion of the approved costs are then divided by estimated sales to determine the kilowatt-hour (kwh for electric utilities) or therm (for natural gas utilities) distribution charge for each category of customer. Once the rate is set, utilities have a strong incentive to find ways to increase sales in order to maximize their profits. Efficiency and demand side programs, which reduce energy consumption, cut into utility earnings and are not likely to receive adequate support from the utility.

Energy use charges are set by the competitive market in most states in New England, not by the utility or the PUC. They are passed on to consumers by the distribution utilities and therefore are not affected by decoupling.

How Decoupling Would Work

A decoupling mechanism should contain two essential elements. First, as it does now, the PUC would, determine in a rate proceeding how much revenue a utility is allowed to collect for its fixed costs. Second, the actual revenues received by the utility would be "trued up" to the amount agreed upon by the PUC the following year. If utilities received too much money they would be required to return it to consumers as bill credits. If they collected too little, they would be allowed to recoup the under-collection with modest charges. California and Oregon's experiences with decoupling show that these adjustments are imperceptible to most customers but critical for changing utility incentives.

Energy charges for the electricity or natural gas used by the customer do not provide profits for the utility, and would not be affected by decoupling. A customer using less energy would see the energy charge portion of their bill go down. Currently, the distribution charge for a Massachusetts residential electric customer is about 3 cents/kWh and the energy charge is about 11 cents/kWh. For residential gas customers, the distribution charge is about 50 cents/therm and the energy charge is about 100 cents/therm.

Decoupling Benefits Both Customers and Utilities

Today when sales increase above those forecast in a rate proceeding, such as during a prolonged heat wave, customers overpay on the distribution cost portion of their bill, and the utilities pocket the extra earnings. With decoupling, consumers would receive a small rebate for these overpayments. Because in this example the rebate compensates for a time of higher than expected energy usage, it could be particularly helpful to consumers. On the other hand, if sales are less than forecast, (i.e., during an unusual stretch of warm winter weather) the decoupling mechanism would increase the distribution charge to customers in proportion to the reduction in sales. During this period, customers would be using less energy, and thus paying lower overall energy bills. The decoupling adjustment would slightly offset the lower bills.

Could Poor Utility Management Result in a Decoupling Rate Adjustment?

Decoupling adjustments would compensate for all variations in sales, including those caused by weather, increased conservation, or economic conditions — but would not compensate for increased costs brought on by a company's mismanagement or poor decision making. Decoupling would not in any way diminish the utility's responsibility to exercise prudent management of its personnel and assets in order to provide the necessary service to its customers within the costs allowed by the commission. Utilities will still have an incentive to keep their fixed costs down in order to earn a good return for their shareholders.

The Benefits of a Decoupling Mechanism

The potential benefits of adopting this mechanism for consumers and the environment are profound. A detailed study of an Oregon gas utility concluded that decoupling had very positive impacts on the company's activities in promoting the efficient use of natural gas and assisting customers in reducing costs.[1]

Decoupling, which removes utility disincentives to promote efficiency and demand-side investments, can complement, and in fact enhance, performance-based programs which give utilities *incentives* to implement strong efficiency and demand-side programs. These performance-based incentives are also essential to maximizing investment in efficiency and demand-side resources.

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[1] *See* Daniel G. Hansen and Steven D. Braithwait, "A Review of Distribution Margin Normalization as Approved by the Oregon Public Utility Commission for Northwest Natural" March 2005.

Frequently Asked Questions About Decoupling:

A Mechanism for Aligning Utility Incentives With Consumer and Environmental Goals

Environment Northeast

Why would a public utility commission change the way utilities earn money?

Under our current system, the more energy a customer uses, the more money a utility makes. Because utility revenues are generated in part through rates that are multiplied by energy usage (kWh or therms), utilities have a financial *disincentive* to encourage their customers to conserve energy. "Decoupling" refers to a mechanism removes this disincentive by separating utility revenue from its energy sales. Under a decoupling mechanism, a utility would NOT make more money when its customers use more energy, nor would it lose money when its customers use less energy. Implementing a decoupling mechanism is essential to getting utility incentives aligned with the opportunity to increase energy efficiency investments and lower customers' bills.

Is it true that decoupling doesn't actually do anything to promote efficiency?

Decoupling is a necessary ingredient to strong utility investment in efficiency, as it removes a major disincentive. Without decoupling, successful efficiency programs hurt utilities because the less energy customers use, the less money utilities make. When combined with strong efficiency programs, decoupling allows utilities to become efficiency partners with their customers without suffering financial harm if the efficiency programs are successful.

Is it true that decoupling guarantees utility profits?

No. Decoupling only permits a utility to recover an amount of revenue that has been approved by the public utility commission. This amount is calculated to allow for reasonably foreseeable costs as well as a fair rate of return on shareholder investment. Without decoupling, a utility can collect more than its allowed revenue if it sells more energy; under decoupling, a utility would no longer be able to recover revenues in excess of its allowed revenue. Moreover, like any business, if a utility fails to manage its costs, its profits will decrease because a larger than expected portion of its allowed revenue will go to pay for costs, rather than to rewarding its shareholders.

Why are utilities now supporting decoupling?

Utilities have almost uniformly opposed decoupling for many years. Very recently, utilities have begun to embrace the idea of decoupling because of a changing economic and regulatory landscape. Utilities understand that public policymakers are increasingly considering climate change and energy independence when weighing energy policy decisions. In addition, energy markets have become volatile in recent years. Swings in fuel prices, climate variability and dramatic weather changes have led to unpredictable energy costs, customer frustration and calls for change. In addition, utilities can no longer count on steady load growth (or increased energy use) as a source of revenue. Because of these changes, energy efficiency and demand response are seen as the best solutions for meeting our current energy and environmental needs. Decoupling allows utilities to have greater certainty over revenue streams while opening the door for greater efficiency investment.

Does decoupling harm customers?

No. Under decoupling, customers will pay no more than the revenues allowed by the utility commission. In addition, decoupling should help customers reduce their bills by enabling utility companies to expand cost-saving efficiency programs without losing money. With larger investments in efficiency, customers will have increased opportunities to take advantage of efficiency programs, such as lighting retrofits or upgrades to more efficient appliances or equipment. In addition, by spurring investment in

energy efficiency, demand response and other demand-side programs, decoupling will help boost local economies, create local jobs, and reduce energy deficits caused by buying out-of-state fossil fuels.

Shouldn't efficiency programs be run by a third party administrator, not the utilities?

It depends. Some states, like Connecticut and Massachusetts, have very successful utility-run efficiency programs. These programs, which rank among the best in the country, use the utility contact with customers, knowledge of the industry and years of expertise to administer effective programs; they have achieved demonstrable results. Other states have third party administrators. Vermont, which has over 20 electric utilities, has a successful program that is centrally run by an "efficiency utility" called Efficiency Vermont. Whether a program should be run by a utility or by a third party administrator depends on the circumstances of the state in question. Among the considerations should be (1) the number of utilities operating in a state; (2) the quality and performance of current programming; (3) the experience of potential utility and third party administrators; and (4) the time, resources, and opportunity costs required to make a transition from one to the other.

If decoupling eliminates the disincentive to efficiency, should we eliminate performance incentives for efficiency?

No. Decoupling removes a significant disincentive for utility investment in energy efficiency and demand-side programs—it makes a utility economically neutral to efficiency investments. To fully realize all cost-effective efficiency opportunities, utilities will need economic *incentives* to make efficiency investments. If utilities see efficiency programs as profit centers, their willingness to partner with consumers to maximize cost-effective efficiency investments and lower customer bills will be enhanced. Incentives should continue to be based on the level of the utility's performance in achieving customer savings.

Should a decoupling mechanism include a weather normalization mechanism?

No. Weather adjustments are unnecessary because the utility and its ratepayers face opposite risks with respect to weather. That is, under traditional rates, an unusually cold winter will cause a natural gas utility to over-collect distribution revenues at the expense of its ratepayers, while during a warm winter, the utility under-collects. Implementing a decoupling mechanism reduces the risk both parties face under traditional rates because utility over-collections caused by severe weather would be refunded back to the customer and, by contrast, under-collections due to mild weather would be reconciled through rate adjustments. Thus, weather would no longer affect utility distribution revenues or customers' distribution charges.

Should a decoupling mechanism include an adjustment mechanism for economic conditions?

No. While decoupling contains the *potential* to shift risk due to changing economic conditions from the utility to its customers, the cure is likely to be worse than the disease, and could lead to "gaming." In order to adjust billed revenues for economic conditions, a decoupling mechanism would need to use a more complicated adjustment equation (or set of equations). Specifically, a statistical study would need to be performed in order to estimate the effect of changes in economic conditions on revenues. There would likely be significant disputes regarding the appropriate methods for estimating this effect. In addition, parties might attempt to game the decoupling mechanism by conducting a search to find the most favorable adjustment factor based on their expectations of future economic conditions. The better and more accurate approach is simply to true up actual billed revenues to the allowed revenue level.

Does decoupling shift risks from utility shareholders onto customers?

Many consumer groups raise concerns that decoupling will dramatically shift risks from utilities to customers. At the outset, it is important to note that reducing risk of one party does not automatically shift it to another and that decoupling reduces risk for both utilities and consumers in several ways. In general, decoupling reduces the risk that utilities will collect less than their allowed revenue; similarly, decoupling reduces the risk that consumers will over pay beyond what utilities are allowed to collect.

Decoupling reduces risk due to weather for both utilities and customers. Because decoupling only permits utilities to collect their allowed revenue, any over-collection due to severe weather (*e.g.*, hot summer, cold winter) would be refunded to customers through a rate reduction. Similarly, under-collections due to mild weather would result in a slight increase in rates.

Should decoupling change a utility's return on equity?

Maybe. Whether a decoupling mechanism will affect a company's risk and how it might affect its capital structure and target return on equity should be carefully studied. Because implementation of a decoupling mechanism would alter a number of counter-balanced risks and opportunities, it is likely that any change in company risk would be modest. Accordingly, changes to the return on equity, if any, should be correspondingly small.

Implementing a decoupling mechanism changes the risk and opportunity for both companies and customers. Utilities would no longer face the risk of under-collection, but conversely, they would no longer have the opportunity to increase profits through keeping revenues generated by over-collection. Customers would no longer have the risk of over-compensating utilities when energy use exceeds expectations, but would no longer benefit from avoiding the costs associated with lower than expected energy use.

In addition, the major purpose of implementing a decoupling mechanism is to change utility incentives so that they are more closely aligned with customer interests, including supporting expanded demand-side investments (*e.g.*, energy efficiency and distributed generation) that will reduce energy bills. Any public utility commission should consider the overall impact of the mechanism on consumers in determining the magnitude of any changes to a utility's capital structure and return on equity.

Decisions on whether the utility's return on equity should be changed due to a decoupling mechanism should be made on a utility-by-utility basis, and should take into account how the financial markets are likely to assess the impact.

Wouldn't a mechanism that allows utilities to collect lost revenues due to efficiency programs be better than full decoupling?

No. Lost-based revenue adjustments compensate utilities for reductions in revenue that are the direct result of efficiency programs. For several reasons, lost-based revenue programs have been all but abandoned by public utility commissions. First, lost based revenue systems do nothing to change a utility's financial incentive to promote sales and its disincentive to increase efficiency investments. Second, lost revenue adjustments create an incentive for utilities to claim that their efficiency programs achieve better than actual results—they create an incentive for utilities to promote programs that look good on paper, but do not achieve significant efficiency gains. Third, lost-based revenue programs lead to time-consuming disputes over the effectiveness of particular programs.

Will customers who have already made efficiency investments lose out under decoupling?

No. For most customers, one of the primary motivations for investing in efficiency is to save money. Many customers who have already made significant efficiency investments have taken advantage of existing state incentive programs. With or without decoupling, efficiency investments will reduce the energy charges on a customer's bill. In addition, under decoupling, these customers would continue to benefit from their efficiency savings in the volumetric portion of their distribution charge, and can capitalize on new efficiency opportunities in the future.

Will decoupling compensate utilities for revenue losses due to customer migration to competitive supply?

No. In states where utilities have divested their generation assets, utilities do not generate any revenue from the commodity (energy) portion of a customer's bill. Utilities provide the service of delivering electricity to all customers, whether the actual electricity is generated through a default service or competitive supplier. Thus, utilities are compensated in the same way regardless of the source of energy, and do not see a change in their revenue when customers migrate to competitive supply.

Should decoupling be implemented if there is not a corresponding commitment to increased efficiency investments?

To achieve investment in all cost-effective efficiency (*i.e.,* efficiency measures that are cheaper than supply) will require policy change on multiple fronts. Decoupling is usually achieved in an administrative proceeding before a public utility commission. By contrast, a commitment to increased energy efficiency investments usually requires legislative action. Because these two essential pieces to an overall strategy occur in different, complementary forums, it is impossible to implement them simultaneously: they occur on different tracks. However, there is no reason that decoupling needs to follow a legislative mandate. As California's experience indicates, there is no policy disadvantage to having decoupling in place in advance of legislation that increases investments in efficiency.

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New Hampshire Energy Efficiency Procurement and Utility Revenue Reforms

Environment Northeast

A Preliminary Policy Proposal – April 3, 2008

Summary of the Policy Proposal

A combination of statutory limits on investment levels and outdated utility revenue schemes currently restrict the size of cost-effective electricity and natural gas efficiency investments in many states including New Hampshire. This proposal would improve the way the state invests in efficiency programs that currently cost a small fraction of the price of energy supply. It would also provide an improved approach to structuring utility rates to align them with the goals of increasing efficiency investments and promoting cleaner, distributed electric generation. This proposal would significantly help the state achieve its climate change and clean air goals, while saving consumers money, creating local jobs, and keeping more of our energy dollars at home rather than expanding supply resources increasingly reliant on expensive imported fossil fuels.

This proposal is similar to policies that have been embraced and implemented by legislatures in Connecticut, Massachusetts, and Rhode Island and this document builds off of similar proposals Environment Northeast has made in those states.

The following is a summary of the policy proposal:

- The electric and natural gas distribution utilities shall increase investments over a reasonable period of time in energy efficiency and demand reduction programs to capture all cost-effective investments (available at lower cost than supply) that are reliable and feasible on behalf of all customers;
- A new Energy Efficiency Advisory Council composed of consumer, environmental, and state agency representatives will work with the utilities on identifying all cost-effective investments in efficiency and planning and designing programs. The Council will increase utility accountability, while leaving final regulatory approval with the Public Utilities Commission (PUC).
- Utility incentives will be aligned with the goal of increasing energy efficiency and distributed generation by decoupling utility fixed costs from sales; and by designing utility performance incentives tied to success in implementing efficiency programs that maximize cost-effective energy savings.

Increased Energy Efficiency Investments

The electric and natural gas distribution utilities shall increase investments over a reasonable period of time in energy efficiency and demand reduction programs to capture all cost-effective investments (available at lower cost than supply) that are reliable and feasible on behalf of all customers. The benefit of this approach is that it will generate hundreds of millions of dollars of energy savings for New Hampshire consumers. The utilities will develop an Efficiency Investment Plan every two or three years for a two or three year period.

The Plan will identify the efficiency programs and annual budget amounts required to expand its procurement of cost-effective efficiency that is reasonably available. Programs included in the Plan shall be screened through cost-effectiveness testing using the Total Resource Cost (TRC) test which compares the value of program benefits to program costs to ensure that programs are designed to obtain energy savings and system benefits whose value is greater than the costs of the programs. Program cost-effectiveness shall be reviewed annually, or otherwise as is practicable. If a program is determined to fail the cost-effectiveness test as part of the review process, it shall either be modified to meet the test or shall be terminated. Increases in efficiency investments will be ramped up quickly based on the utilities' ability to maintain high quality programs in order to maximize energy cost savings for New Hampshire consumers.

The efficiency programs will continue to be implemented by the utilities and their contractors. The Efficiency Investment Plan will identify existing funding sources including the SBC (which will be considered a minimum funding level at 1.8 mils), the forward capacity market, emissions allowances, or other funding sources, with any additional program investment needs recovered through delivery charges. Distribution companies will recover their costs, as incurred from year to year, in implementing these expanded energy efficiency programs.

Utility Efficiency Investment Plans could be developed separately or jointly by the distribution utilities, but at minimum will be developed in a coordinated fashion among the utilities, allowing for joint-fuel programs or co-funding of programs. The Plans will maintain an appropriate balance of investments and programs between rate classes.

Efficiency Program Oversight and Regulatory Approval

A new Energy Efficiency Advisory Council will be established to help ensure that residential ratepayers, business consumers, environmental interests, and state agencies have meaningful input into the development, design, and oversight of efficiency programs. This Council will replace the current non-utility party collaborative process for efficiency programs.

The Energy Efficiency Advisory Council will be appointed by the PUC and consist of appropriate stakeholders from a range of organizations including business, low income, residential, environmental, and state agencies. Members shall have a demonstrated expertise in energy issues, shall serve for terms of five years and may be reappointed. The electric and natural gas distribution companies and the PUC will be ex-officio, non-voting members of the Council. The Energy Efficiency Advisory Council will have access to independent consultants to advise them in the review of the programs and Plan. Council members will be unpaid, but have reasonable expenses reimbursed.

The utilities will work cooperatively with the Council as they develop their Efficiency Investment Plan(s). Each program contained in the plan shall be either accepted or rejected by the Energy Efficiency Advisory Council prior to submission to the PUC for approval. Approval of programs, the plan, and other major decisions by the Council shall require a two-thirds majority vote. The utilities will be encouraged to address concerns of a majority of the Council and make appropriate changes to their draft Plans, but ultimately the utilities will determine the content of the Plan they submit to PUC. The Council will also submit its review and vote to the PUC. The PUC will have final review and approval of the utility Plans but will give deference to Plans (or portions thereof) receiving Council approval.

Review and Approval Process Summary

1. Utility prepares a draft Efficiency Investment Plan to capture cost-effective, feasible, and reliable efficiency resources.
2. Utility Efficiency Investment Plans could be developed separately or jointly by the distribution utilities, but at minimum will be developed in a coordinated fashion among the utilities state-wide, allowing for joint-fuel programs or co-funding of programs. Utilities will work with the Council and their consultants and receive suggestions on how to improve the Plan(s) and programs.
3. Council reviews and votes on Plan(s) and programs.
4. Utilities and Council work to address any remaining outstanding issues raised by the Council.
5. Final Council vote on Plan(s) and programs.
6. PUC review & approval of Plan(s) with deference to portions receiving Council approval.

Utility Rate & Incentive Reforms

In order to align utility incentives with the goals of this efficiency planning and procurement process, reforms are needed in the way distribution utilities are compensated for the services they provide.

Decoupling

Electric and gas distribution companies currently recover most fixed distribution costs through volumetric (kWh or ccf) charges that create an incentive for the utility to maximize sales. To remove this disincentive for investments in energy efficiency and distributed generation, regular true-ups in rates will be established to ensure that any fixed-costs recovered through volumetric charges are not dependent on sales volumes.

Decoupling should be implemented as quicly as possible and no later than the expiration of existing rate plans, the decoupling mechanism will provide for regular true-up to the utility fixed-cost revenue requirement (distribution charge only), on a quarterly or annual basis.

Performance incentives

The PUC will conduct a proceeding to establish a performance-based incentive plan for implementation of efficiency programs, tied to success in implementing programs that maximize cost-effective energy savings for customers. The PUC proceeding should be preceded by the joint development of an incentive proposal by the utilities and the Energy Efficiency Advisory Council.

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