THE STATE OF NEW HAMPSHIRE

before the

PUBLIC UTILITIES COMMISSION

CORE Energy Efficiency Programs

Docket No. DE 10-188

Staff's Closing Statement on Home Performance with Energy Star

I. Principles Guiding use of Systems Benefit Charge for Fuel-Blind Energy Efficiency Programs

The Commission heard a lot of testimony on where PSNH and Unitil would like to take the Home Performance with Energy Star (HPwES) program and what a good program it is. The crux of the dispute in this matter is not about whether the HPwES program is a good program; it is about whether the System Benefit Charge (SBC) should be used to fund a program that contains a very high percentage of savings from non-electric savings.[1]

As you heard in testimony, PSNH/UES's decision to expand HPwES is driven by their efforts to make the program robust as it serves customer groups (first the electric heating customers, then high electric use customers, and then opening it up to non-electric customers). This is more of a bottom up approach. Staff, in contrast, is looking at the program from the top down. It is taking public policy embodied in RSA 374-F and prior Commission orders and determining whether PSNH and UES's proposed HPwES program is consistent with these policies.

To that end, RSA 374-F:3, VI states that "restructuring of the electric utility industry should be implemented in a manner that benefits all consumers equitably and does not benefit one customer class to the detriment of another."

[1] The energy efficiency programs are also funded by gas ratepayers through a portion of the Local Distribution Adjustment Clause (LDAC).

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."

Further, RSA 374-F:3, VI states that "[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."

In its orders, the Commission has long recognized that there are two types of benefits to energy efficiency programs: one benefit (Indirect Benefits) is the benefit to all ratepayers of meeting resource needs at a lower cost; the other benefit (Direct Benefits) is the benefit to customers who participate in the program. Together they comprise the double benefits the Commission has seen as a positive effect of energy efficiency programs. See, *Granite State Electric Company*, Order No. 20,186, 76 NH PUC 495, 501 (1991).

In Order No. 24,930, the Commission concluded that it was "not precluded as a matter of law from authorizing the use of SBC revenues for energy efficiency programs such as the proposed fuel blind pilot." *2009 CORE Energy Efficiency Programs*, Order No. 24,930, 94 NH PUC 1, 11 (2009). PSNH, UES, OEP, and OCA argue that this conclusion supports that SBC funds may be spent on any fuel blind program so long as the benefits relate to the provision of electricity. Staff disagrees that this alone is sufficient. The Commission went on to explain that although energy efficiency measures such as improved insulation and air sealing may primarily save non-electric fuels in non-electrically heated buildings, there can often be significant electric savings from such measures as well. Id. The Commission also stated that the utilities could benefit from the experience of running the pilot with SBC funding "to prepare for the prospect of using [Regional Greenhouse Gas Initiative (RGGI)] funds to support more energy efficiency measures." Id. the Commission also stated that "[r]unning programs that attempt to isolate and target energy efficiency to a single fuel source...may in itself be a market barrier when energy efficiency measures delivered as a comprehensive package..." (sic). From this order, Staff concludes that the Commission was amenable to using SBC funds for programs that: 1) provide benefits that relate to the provision of electricity, 2) reduce market barriers; and 3) also provide significant electric, or ancillary, savings. Requiring a significant level of ancillary savings is consistent with RSA 374-F:3, VI that "restructuring of the electric utility industry should be implemented in a manner that benefits all consumers equitably and does not benefit one customer class to the detriment of another". After all, if there were only minimal electric savings from the fuel blind program, then it would not 'benefit all consumers equitably'. Staff's position is also consistent with Order No. 23,172 wherein the Commission stated "the relative investment in efficiency among various customer groups should not deviate excessively from the relative electricity sales to the various customer sectors." *Public Service Company of New Hampshire*, Order No. 23,172, 84 NH PUC 185, 187 (1999).

The Commission invited Staff and the parties to comment on the equity argument in Order No. 25,315, specifically on "whether the program should be continued under the present funding sources, fairness of the program as designed, and the issues raised in Order No. 24,930 at pages 19-22…." *2011-2012 CORE Energy Programs and Natural Gas Energy Efficiency Programs*, Order No. 25,315, at 10 (January 9, 2012). OCA has argued that the equity issue of fairness has been resolved, but Order No. 25,315 stated that only the "legal authority to operate a fuel-blind program at all...has been resolved". The Commission left funding of the program as a matter for it to determine prior to the filing of the 2013-2014 programs. Id.

II. Fundamental Unfairness Exists with Continuing to Fund HPwES with the SBC and LDAC

In their pre-filed testimony and testimony at hearing, PSNH, UES, OCA, and OEP posit that funding the present HPwES program with the SBC is fair when you analyze residential and commercial classes. Staff disagrees that a cursory residential/commercial level analysis is sufficient to assess whether undue subsidization exists among customers. Staff argues it is more consistent with RSA 374-F:3 to look at whether the HPwES program "benefit[s] all consumers equitably" by reviewing who pays into the SBC and LDAC (EE funds) and who does not. Both VEIC and GDS looked at fairness in terms of who pays and who does not pay into the EE funds. The Commission has also looked at fairness in this same manner; it has not restricted its analysis to a simple residential/commercial customer analysis.[2]

In support of funding the HPwES program with the SBC, PSNH and UES state that the HPwES program actually cures an unfairness between residential customers who pay into the SBC, i.e.: 1) power and light electric space heating customers who are eligible for HPwES; and 2) those power and light customers who heat with something other than electricity and who are not eligible for HPwES. PSNH and UES state the fuel-blind HPwES fixes the fairness issue by offering the program to all residential customers rather than to only a subgroup of residential customers. This fix, however, does not fix fairness, it just makes it worse. Besides, the HPwES

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[2] For example, the Commission has utilized the intra-class analysis when it examined: (a) the fairness of the residential Home Energy Solutions (HES) program; (b) the equity of the low-income residential program vs. the non-low income programs; and (c) the impact of changes to residential rebates. See: e.g. *2008 CORE Energy Efficiency Program*, Order No. 24,815, 92 NH PUC 507,514 (2007); *EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England and Northern Utilities, Inc.*, Order No. 24,109, 87 NH PUC 892 (2002); *Pay-As-You-Save Energy Efficiency Pilot Programs*, Order No. 24,417, 89 NH PUC 704 (2004).

program is not the only energy efficiency program that is available to a subgroup within the residential class.

The problem with the fix is that RSA 374-F:3, VI states that "costs should not be shifted unfairly among customers." The HPwES program shifts costs by opening the program up to residential ratepayers who do not pay an energy efficiency charge on their heating usage. This now sets up a situation where customers who heat by oil, liquid propane, kerosene and wood, what Staff refers to as Group 2 customers, are receiving energy efficiency benefits but are not paying and LDAC or SBC on their heating usage and Group 1 customers are paying into the SBC or LDAC based on their heating usage. The subsidy is further exacerbated by the fact that gas heating customers pay twice; once in the SBC and again in the LDAC and yet those customers receive the same HPwES program as oil heating customers who pay into the SBC based on just their power and lighting usage.[3] In this way, the fix of expanding HPwES makes the fairness issue worse rather than better. As discussed later, this unfairness is worsened by the fact that approximately 70% of the savings leave the electric system.

Staff was questioned about Schedule 1 to its direct testimony, which it had prepared as a simplified illustration to show whether all consumers benefitted equitably. Staff found that Group 1 customers are allocated 58% of the energy efficiency charges while receiving only 5% of the savings; and, Group 2 customers are allocated 42% of the energy efficiency charges while receiving 95% of the savings. As Staff testified, Schedule 1 reflects the methodology specified in Commission Order No. 23,172 requiring that the equitable distribution of benefits for energy efficiency programs should relate to the kWh usage of the various customer groups (Hearing Transcript of June 22, 2012, at 49).

[3] Approximately 17.2% of PSNH's customers use natural gas as their main fuel for space heating (72,600 customers). Hearing Exhibit 36.

PSNH challenged Staff's use of 8% for Group 1 electric heating customers and argued the number should be 1.3%. Hearing Transcript of June 18, 2012 at 222-225. UES challenged Staff's allocation of savings to Group 1 and Group 2 and argued Energy North and Northern gas company savings should be included. Hearing Transcript of June 18, 2012 at 250, lines 1-2. Even if Staff were to use PSNH's numbers and incorporate gas savings, it still does not change the big picture that one group of customers is paying much, much more than the other group and that the savings associated with the program are disproportionately higher to the group paying the least. Schedule 1 was just one way to look at the level subsidization. The end result is the same, HPwES does not benefit all consumers equitably as per RSA 374-F:3, VI; the subsidization by one group for the other is not insubstantial.

III. It Doesn't Make Sense to Chase Non-Electric Savings When Other Potential Electric Savings Exist

Approximately 1.5% of the overall savings of the proposed HPwES program is electric savings (See Hearing Exhibit 23 at 25.) According to the January 2009 GDS Report on additional opportunities, there are potentially obtainable annual kWh savings of 69 million kWh. PSNH and UES agree that there are remaining opportunities for electric savings.[4] Yet, in spite of these additional opportunities, PSNH and UES are pursuing a HPwES proposal that includes only 1.5% of overall savings as electricity savings. Although from a program implementation standpoint it is easier to implement HPwES as a fuel blind program, PSNH and UES appear to have forgotten the legislative criteria for the SBC funds. The goal of RSA 374-F:3, as interpreted by Commission Orders, is to use the SBC to fund cost effective energy efficiency programs that may otherwise be lost due to market barriers, which benefit all consumers

[4] Hearing Transcript of June 6, 2012, at 107, lines 18-20.

equitably, and produce significant electric savings. The proposed HPwES, in producing little electric savings, does not meet these thresholds. Furthermore, if only electric savings were counted, the proposed HPwES would not be cost effective. For these reasons, other programs with more potential electric savings ought to instead be pursued.

To put the proposed HPwES in perspective, GDS's potential obtainable annual residential savings are 69,800 MWh.[5] Core programs annual residential savings for 2012 are only 22,147 MWh.[6] When there are other cost-effective electric savings available, it does not make sense to focus on programs that achieve more non-electric savings than electric savings. Also, the potentially obtainable opportunities referred to in the GDS report are estimated to cost $38 million. The CORE Residential budget is at $7 million. Thus, with such comparatively limited funds, it does not make sense to consume money on HPwES when there are other electric savings readily obtainable. The non-electric savings further reduce ancillary benefits, as discussed below. Additionally, as Commissioner Harrington noted at hearing, electric savings can only be used to enter bids into the Forward Capacity Market (FCM). Thus, the minor level of electric savings in the proposed HPwES diminishes FCM revenues.

III. Savings Leaving the Electric System Reduce Ancillary Benefits for All Consumers

As demonstrated at hearing, a large portion of savings from HPwES are non-electric. The Commission has long recognized that customers receive double benefits from energy efficiency programs, the direct benefits to the customers participating in programs and the indirect benefits to all customers because the demand side management programs lower the cost

[5] Source: GDS Report, page 8, Table 2: 698,069,156 kWh / 1000 = 698,069 MWh / 10 years – 69,807 MWh.

[6] Source: 2012 Update Filing, p. 14 NGRID (1,068 MWh); p. 19 NHEC (2,525 MWh); p. 24 PSNH (16,113 MWh); p. 29 UES (2,441). Total 22,147 MWh.

of providing electricity. With respect to direct savings, it is not in dispute that there are non-electric savings in HPwES and that they displace electric savings.[7]

With respect to indirect savings to all electric customers, the proposed HPwES program diminishes energy efficiency as an Integrated Resource Plan (IRP) resource since the indirect savings are greatly reduced. Relative to the predecessor HES program, HPwES peak demand savings in 2012 are significantly less than actual peak demand savings for the HES program in 2009. Also, relative to other electric programs proposed for 2012, such as the lighting program, the HPwES peak demand savings in 2012 are significantly lower than peak demand savings for the lighting program (Hearing Transcript of June 22, 2012, at 41).

If SBC funds HPwES non-electric savings, then it is axiomatic that it lessens funding for other electric programs that the GDS study found had potential. Staff and the parties already know that CORE resources are limited compared to the need to achieve the potential and thus it will be harder to achieve GDS' potentially obtainable electric savings. Given that 45% of PSNH's limited SBC resources for residential programs are already dedicated to two fuel blind programs (weatherization for Low Income and Energy Star® Homes) and that according to page 11 of the GDS report only have the potential of achieving approximately 14% of the overall potential electric savings, then increasing the budget to 70% to target the same 14% potential appears to be unreasonable.[8] This is over and above the fund electric customers are already paying for fuel neutral programs through RGGI.

IV. HPwES does not Produce Significant Ancillary Savings as Required by Order No. 24,930

[7] For example, PSNH's savings for HPwES are 1.5% electric savings and 98.5% non-electric savings. Exhibit 23, page 25.

[8] This 14% is derived from page 11 of the GDS report which shows savings from: Space Heating and Space Cooling SF (7%), Multi-family (3%), and SF New Construction (4%).

The Commission authorized the HPwES pilot in Order No. 24,930 and stated that "there can often be significant electric savings" from such non-electric measures.[9] Staff has reviewed the HPwES program and found the ancillary savings to be insignificant. The PSNH filing contains 6 CFL bulbs for each fuel-neutral customer's home; but there are zero ancillary savings. Hearing Exhibit 23. Further, the final Cadmus Report does not identify any ancillary electric savings related to HPwES weatherization component. See Hearing Exhibit No. 32. Staff understands that subsequent to the Cadmus report, PSNH met with Cadmus and Cadmus identified ancillary savings of 42 kWh per year (Hearing Transcript of June 6, 2012 at page 69, line 2). The 42 annual kWh savings represents one tenth of 1 percent of annual household electric usage (i.e. 42 divided by 28,355).[10] Because the HPwES program does not provide significant ancillary savings, Staff does not believe it is appropriate to continue to fund the program with SBC.

The Commission has encouraged the utilities to achieve market transformation with innovative energy efficiency programs. *Core Energy Efficiency Programs,* Order No. 23,850, 86 NH PUC 804, 813 (2001). Funding the HPwES program as an innovative energy efficiency program was appropriate. As the Commission stated in Order No. 24,930, the utilities could benefit from the experience of running the pilot with SBC funding "to prepare for the prospect of using RGGI funds to support more energy efficiency measures." The pilot has demonstrated that it can be a useful program but now, as the program moves further away from the statutory and

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[9] "Although energy efficiency measures such as improved insulation and air sealing may primarily save non-electric fuels in non-electrically heated buildings, there can often be significant electric savings from such measures as well." *2009 CORE Energy Efficiency Programs,* Order No. 24,930, 94 NH PUC 1, 11 (2009).

[10] Source of annual household usage is from Staff Direct Testimony, Schedule 1, page 33.

Commission caps, the time to choose a different funding source for HPwES appears to be at hand.[11]

V. Performance Incentive

PSNH and UES have requested a full performance incentive on the HPwES program, that is, an incentive based on the cost to achieve both electric and non-electric savings. OCA and Staff support a performance incentive based on the cost to achieve only electric savings for the following reasons.

The VEIC report and its recommendations on performance incentive, is still under review and we urge the Commission to keep the status quo of a performance incentive on electric savings only for HPwES until the Staff, parties, and Energy Efficiency and Sustainable Energy (EESE) Board, fully analyze performance incentive and offer recommendations. Staff believes this analysis could be completed during 2012 and 2013, in time for incorporation into the update filing for the 2014 program year.

Further, Staff does not believe the record is sufficiently developed to make a determination of whether the full or limited performance incentive formula is appropriate. Staff notes that there is a significant increase in the percentage of fuel-blind programs as a percentage of overall residential budgets, increasing from approximately 45% (PSNH without the HPwES) to 70% (PSNH with HPwES). Further, Staff notes that the savings from the fuel-blind programs are up to 98.5% non-electric (ref. PSNH HPwES program, Hearing Exh 23, page 25). Thus, there is a question as to whether the fuel-blind programs merit the same performance incentive as other programs that are more focused on electric savings. In addition, it is important to consider

[11] The Commission has had recent experience in funding energy efficiency programs with other funds such as PSNH's request to partner with funds administered by Office of Energy and Planning through its Better Buildings program.

whether utilities should receive the same performance incentive for finding both so-called low-hanging fruit and high-hanging fruit.

If RGGI funds supplement SBC funds pursuant to HB 1490, then the Performance Incentive Working Group could evaluate performance incentive attributable to RGGI funding of EE programs. The Performance Incentive Working Group would have to work with the Commission's Sustainable Energy Division because HB 1490 retains RGGI as an entity. (Hearing Transcript of June 22, 2012, page 42, lines 10-12).

Other state performance incentive models ought to be considered. For instance, some states have authorized a 3% performance incentive; others, such as in Massachusetts, authorize 8 percent. The VEIC report alluded to these different percentages. The current approved performance incentive for New Hampshire utilities is a maximum of 12%. Although, Staff is not taking any position on these varying percentages, Staff believes these varying percentages ought to be evaluated before the Commission makes a determination on PSNH and UES's request for a performance incentive on HPwES.

VI. Corrections and Misstatements

PSNH and UES did not correct their testimony on this point, however, in PSNH/UES's rebuttal testimony, page 6, lines 14-17 and lines 27-29, the companies characterize Staff's Option 1 (as described in Staff's Direct Testimony, page 18) as restricted to only the traditional HES program. As seen in cross examination, the companies agreed that Staff's Option 1 was not restricted to just the HES program as PSNH and UES had stated in their prefiled testimony. Hearing Transcript of June 6, 2012 at 107. Staff simply wishes to note this.

On Day 3 of the hearing, PSNH testified that it heard a great many factual misstatements in the testimony of Staff and alluded to "apples and oranges doesn't begin to describe the testimony of Staff today. It's apples and kumquats." PSNH referenced 42 kWh for ancillary savings is savings in a year, and it's compared to lifetime kilowatt-hour savings. Hearing Transcript of June 22, 2012 at 76, lines 22-24 and at 77, lines 1-2. Staff would like to note that it never made this comparison. The comparison that PSNH attributes to Staff is found at Hearing Transcript of June 22, 2012 at 48, where Staff compared annual electric savings identified by Cadmus of 42 kWh to annual usage of 28,000 kWh. Staff also compared 42 kWh ancillary savings with Cadmus annual realized savings 6,500 kWh (equivalent to 22.3 MMBTU, also used by PSNH in its filing, Exhibit 23, at 63. Staff notes that these are accurate apples-to-apples comparisons of consistent annual kWh savings.

VII. Staff's Position on Parke Place Waiver Request

UES seeks a waiver, to the extent it needs one, from the criteria of the HPwES program. Staff supports the request. These are the types of projects Staff sees as appropriate for SBC funds since they produce electric savings. With respect to the requested waiver for the Home Heating Index (HHI) criteria, Staff notes that the project represents a 96-unit rental community with electrically heated homes, each separately metered. Although the project does not qualify under the HHI criteria, the project is cost effective. With respect to the cap of 100 units, UES notes that UES intends to remain within the authorized budgetary limitations for the HPwES programs, as set forth in the Updated 2012 CORE filing. Based on the above, Staff is very supportive of SBC monies going for this project and recommends that the requested waiver be approved.

VIII. Conclusion

Staff listed options for resolving the fairness issue in its testimony as follows:

Option1: Continue to serve PSNH and UES ratepayers with HES and other electric related measures/programs that focus on electric savings, consistent with all other utilities.

Option 2: Fund the fuel neutral programs for what Staff refers to as Group 2 ratepayers (nonelectric/gas heating customers) out of funds other than the SBC, such as through RGGI.

Option 3: Utilize funds collected from separate surcharge on other fuels enacted by the legislature as noted in the VEIC report (page 3-13).

UES's Parke Place project is consistent with Staff's Option 1 wherein 96 electric space heating rental housing units were identified by UES as potential HPwES participants. The Parke Place Project confirms the remaining potential for such projects. The recent passage of HB 1490, bringing RGGI funding to CORE programs, is consistent with Staff's Option 2. RGGI funding is a better funding fit for HPwES than the SBC because it is fuel blind and does not have the constraints of the SBC. Staff believes that the Commission could utilize the RGGI funds, in part, to fund the HPwES fuel-blind program.

In conclusion, Staff believes the proposed HPwES program provides an opportunity for the Commission to review the fairness issue. Staff recommends that the Commission not approve the proposed HPwES as a full CORE program. Staff requests the Commission deny PSNH and UES's request to earn a performance incentive on both the electric and non-electric savings produced by HPwES.

Respectfully submitted,

Staff of the New Hampshire Public Utilities Commission

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CERTIFICATE OF SERVICE

I hereby certify that on this 9th day of July 2012 this closing statement has been mailed by electronic means to all parties listed on the Commission's Docket Related Service List for this docket.

Marcia A. B. Thunberg

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