DG 02-106

ENERGYNORTH NATURAL GAS, INC.
D/B/A KEYSPAN ENERGY DELIVERY NEW ENGLAND
AND
NORTHERN UTILITIES, INC.

Energy Efficiency Programs for Gas Utilities

Order Approving the
Settlement Agreement

O R D E R N O. 24,109

December 31, 2002

Appearances: McLane, Graf, Raulerson & Middleton, P.A. by Sarah B. Knowlton, Esq. for EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England; Gallagher, Callahan & Gartrell, P.A. by Lynmarie C. Cusack, Esq. for Northern Utilities, Inc.; Joanne Morin for the New Hampshire Department of Environmental Services; New Hampshire Legal Assistance by Alan Linder, Esq. for Save Our Homes Organization; MaryAnn Manoogian, Dir. for Governor's Office of Energy & Community Services; Jerrold Oppenheim, Esq. for Action, Inc.; Office of the Consumer Advocate by F. Anne Ross, Esq. on behalf of residential ratepayers; and Marcia A. B. Thunberg, Esq. on behalf of the Staff of the New Hampshire Public Utilities Commission.

I. BACKGROUND AND HISTORY

In 1992, the New Hampshire Public Utilities Commission (Commission) approved Letter Agreements on Integrated Gas Resource Planning for EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England (KeySpan) and Northern Utilities, Inc. (Northern) that included developmental steps to design demand side management (DSM) programs, cost estimates and a recovery mechanism patterned on electric utility DSM filings. *EnergyNorth Natural Gas, Inc.,* 77 NH PUC 802 (1992). *Northern Utilities, Inc.*, 77 NH PUC 803 (1992). Thereafter, the

Commission approved Northern's Pilot DSM Program, *Northern Utilities, Inc*., 78 NH PUC 310 (1993), and KeySpan's Pilot DSM Program, *EnergyNorth Natural Gas, Inc.*, 79 NH PUC 605 (1994). Both companies offered a DSM program through 1999. At that point, programs were suspended in light of gas industry restructuring and investigation of the electric industry's development of energy efficiency programs.

On March 15, 2001, the Commission accepted and approved the New Hampshire Gas Collaborative Final Report (Final Report) in the gas restructuring docket. *Gas Restructuring-Unbundling and Competition in the Natural Gas Industry*, 86 NH PUC 131 (2001). The Final Report recommended:

> that the issue of whether natural gas utilities should re-institute demand side management or energy efficiency programs within their service territories is a matter that would be better addressed in a separate proceeding. (p.15)
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> It is anticipated that the Commission's order on energy efficiency programs for electric utilities may, in some respects, provide guidance regarding the potential development and administration of such programs for natural gas utilities that warrant the Commission's consideration when addressing the future of energy efficiency programs for natural gas utilities. (p.15)

Since 1999, the Commission has approved seven energy efficiency programs offered by New Hampshire electric utilities. *Core Energy Efficiency*, Order No. 23,982, 86 NH PUC 804 (2001). The Commission has also approved two Pay-As-You-Save (PAYS) pilot electricity energy efficiency programs, one for municipal customers, and one for residential customers. *New Hampshire Electric Cooperative, Inc.,* 86 NH PUC 814(2001). The PAYS approach allows customers to finance certain energy efficiency measures through their monthly bills, rather than through an up-front payment and helps to minimize the ratepayer dollars needed to fund energy efficiency programs.

On May 15, 2002, the Commission received a memorandum from Commission Staff (Staff) recommending the Commission open a separate proceeding to address implementation of energy efficiency programs by New Hampshire's two natural gas utilities, KeySpan and Northern.

II. PROCEDURAL HISTORY

On June 24, 2002, the Commission issued an Order of Notice to investigate whether or not it would be in the public interest to re-institute demand-side management or energy efficiency programs by New Hampshire's two natural gas utilities, Northern Utilities and KeySpan. The Order set a Prehearing Conference and Technical session for August 5, 2002.

The Office of the Consumer Advocate (OCA) filed their notice of participation on June 26, 2002. Other parties who requested intervenor status included: Representative Bill Gabler; New Hampshire Department of Environmental Service

(NHDES); Governor's Office of Energy and Community Services (GOECS); Save Our Homes Organization (SOHO); and Action, Inc.

Following the Prehearing Conference, the Staff, OCA and the parties met in a Technical Sessions for the purposes of establishing a proposed procedural schedule to aid in developing a record in this case. On August 9, 2002 Staff filed a proposed partial procedural schedule. On August 22, 2002, the GOECS requested that the proposed procedural schedule be revised to reflect an expedited process and that the Pay-As-You-Save (i.e. so-called "PAYS") Programs be addressed by the Commission in a separate docket.

On August 23, 2002, the Commission issued its Order No. 24,043 granting all petitions to intervene and approving the partial procedural schedule as proposed by Staff. The Commission declined to address PAYS in a separate proceeding stating "it is useful at this juncture to proceed with discovery. This initial discovery will facilitate the exchange of information and the Staff's and parties' knowledge of the programs and their applicability to New Hampshire." Order No. 24.043, slip op. at 5. The Commission directed the parties to consider potential benefits to consumers and develop a procedural schedule for the remainder of the case which would not delay implementation of a gas energy efficiency program or programs. The Commission later affirmed the procedural schedule by Order No. 24,060, dated September 27, 2002.

On August 20, 2002, KeySpan and Northern filed a document which compared and contrasted KeySpan and Northern's existing energy efficiency programs in Massachusetts. The companies anticipated modeling New Hampshire programs after the Massachusetts programs. In addition, both companies provided full copies of the energy efficiency programs filed with the Massachusetts Department of Telecommunications and Energy (DT&E). On September 9, 2002, the Companies filed a report on Benefit/Cost Screening results for energy efficiency programs for New Hampshire.

The Staff and Parties agreed to accelerate discovery and exchanged rolling date requests and responses ahead of schedule. Staff and the Parties held Technical Sessions/Settlement Discussions on September 27, 2002, November 7, 2002, November 14, 2002 and November 25, 2002.

On October 2, 2002, KeySpan submitted its Energy Efficiency Proposal for 2003-2005. On November 1, 2002, Northern filed its initial Energy Efficiency Proposal for 2003-2005. Northern filed a final Energy Efficiency Proposal on November 27, 2002.

Staff and the Parties submitted a fully executed Settlement Agreement (Agreement) on November 27, 2002. The Commission held a hearing on the Agreement on December 4, 2002.

III. SUMMARY OF SETTLEMENT AGREEMENT

The Settlement Agreement represents a full resolution of the matters at issue in this phase of the proceeding. The Staff and Parties recognize, however, that developing energy efficiency programs, overcoming market barriers and achieving market transformation is an iterative process. The Staff and Parties, therefore, intend for the company proposals, attached to the Agreement as Exhibits B and C, to change as conditions necessitate. (Exh. 1 at 9 lines 6-19). In an effort to facilitate prompt rollout of the energy efficiency programs in year 2003, the Staff and Parties took existing company plans in Massachusetts and modified them to comply with New Hampshire specific guidelines. (Hearing Transcript of December 4, 2002 ("12/04/02 Tr.") at 26 lines 1-5.) (Exh. 1 at 5 lines 5-10).

The terms of the Agreement are summarized below:

A. Goals

> Staff and the Parties agree that it is in the public interest to offer energy efficiency, demand-side management, and market transformation programs to all firm gas customers of KeySpan and Northern. Program goals include increasing customer awareness of the benefits of energy efficiency products, services and practices and to induce lasting market changes.

B. Program Design

The programs to be offered by KeySpan and Northern follow the Commission's orders and guidelines established for the electric industry's energy efficiency programs as applicable to the gas industry. They also comply with new gas industry guidelines developed by Staff and the Parties. Exhibit A, *Gas Energy Efficiency Guidelines*, is attached to the Agreement.[1]

Specific programs to be offered by KeySpan and Northern will include the following:

- residential audit and weatherization services
- residential low-income audit and weatherization services
- residential high efficiency heating equipment
- residential high efficiency water heating equipment
- Energy Star® Homes
- residential Conservation Services Program

KeySpan's additional programs include: Energy Star Clock Thermostat Program; Energy Star Windows Program; Commercial High Efficiency Heating Program; Commercial Energy Efficiency Program; Economic Redevelopment Program; Energy Efficiency Communication and Education Program; and Trade Ally Training and Codes & Standards Program.

Northern's additional programs include: Residential Custom Measures Program; Multifamily Custom Measures Program; Small C&I Custom Measures Program; Medium and Large C&I Custom Measures Program; C&I High Efficiency Heating Program; and C&I Infrared Rebate Program.

C. Low Income Energy Efficiency Programs

The Agreement provides that the gas utilities will work with the local Community Action Agencies (CAAs) as well as

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[1] *See, Guidelines for Post-Competition Energy Efficiency Programs,* Order No. 23,574, 85 NH PUC 684 (2000), and *Core Energy Efficiency Programs,* Order No. 23,850, 86 NH PUC 804 (2001), wherein the Commission adopted recommendations in the New Hampshire Energy Efficiency Working Group (NHEEWH) Final Report, dated July 6, 1999, including NHEEWH recommendations on Benefit/Cost Screening criteria, prohibition on recovery of Lost Revenues going forward, limited Shareholder Incentive mechanisms, and monitoring of Shareholder Incentive mechanisms.

with the GOECS to coordinate the companies' low income programs with the federal Weatherization Assistance Program, and other state and local programs. The companies will confer quarterly with the appropriate CAA's, GOECS, and SOHO to review the status of the low income energy efficiency programs. The companies plan to coordinate, to the extent reasonable and appropriate, with existing energy efficiency measures developed in the electric industry to offer qualified low income customers with comprehensive energy efficiency programs. Consistent with the cap offered in electric energy efficiency programs, each gas utility will expend up to $3,600 per meter per year. Eligible customers will be given extra consideration for children under five years of age, high energy consumption, disability, income level, and age.

D. Program Evolution

As market conditions evolve, energy efficiency standards change, or changes occur in building codes or laws, program parameters, such as rebate levels, updated avoided costs, etc., will be adapted and adjusted, without prior Commission approval. Each gas utility will provide the Commission with 30 days notice of such changes. Additionally, each gas utility will report any issues relative to the company's ability to meet target goals or relative to changes in the cost-effectiveness of a program.

E. Program Budgets

KeySpan and Northern's budgets mirror, in large part, the energy efficiency programs currently being offered by each of the companies' Massachusetts subsidiaries. Overall program budgets for both companies are roughly equivalent to the overall program budgets for their Massachusetts subsidiaries. In accordance with Commission Order 23,172, however, program budgets by Residential and C&I Sectors generally reflect the sales revenues for each Sector. *Public Service Company of New Hampshire,* Order No. 23,172, 84 NH PUC 185, 188-189 (1999).

KeySpan's total energy efficiency budget, excluding performance incentive amounts, is $1.4 million for its combined Residential and C&I programs (Exh. 1 "Agreement Exh. B, Exh. 1"). KeySpan's overall savings goal is $4.8 million, with $2.7 million for Residential programs and $2.1

million for C&I programs (Exh. 1, "Agreement Exh. G-KeySpan, at 3-4, 'Total Benefits'").

Northern's energy efficiency budget, excluding performance incentive amounts, is $906,000 for its combined Residential and C&I programs. (Exh. 1, "Agreement, Exh. C, page 7"). Northern's overall savings goal is $2.8 million, with $700,000 for Residential and $2.1 million for C&I programs (Exh. 1 "Agreement Exh. G-Northern at 3-4, 'Total Benefits'").

F. Pay-As-You Save (PAYS)

Although a PAYS pilot program is not incorporated into the proposed company-specific programs, the Agreement provides for the submission of an assessment of the feasibility of designing and implementing a pilot PAYS program for both Northern and KeySpan's gas customers in New Hampshire.

Staff and the Parties agree that PAYS may not be appropriate for low income customers and therefore, will not evaluate the feasibility of a PAYS program for low income customers.

G. Cost Recovery

The gas utilities will be entitled to cost recovery for all prudent internal and external costs incurred related to their energy efficiency programs. The companies will accumulate the program costs incurred from January 1, 2003 through April 30, 2003 in a deferred account and will recover these costs in Program Year One. The costs will be recovered through a per therm Conservation Charge as part of the gas utilities' Local Distribution Adjustment Clause (LDAC). Recovery will begin with the Summer 2003 period and thereafter will be recovered in annual LDAC filings. These costs will be subject to annual reconciliation and recovery as approved by the Commission. As an exception, costs associated with the residential Low Income Program will be recovered from all firm customers since benefits from the low income program can be ascribed to all customer classes. Costs associated with Residential, C&I, and multi-family program costs will be recovered on a sector-specific basis.

During the cost recovery period from November 1, 2006 through April 30, 2007, the utilities will recover, subject to Commission approval, any shareholder incentives earned as a result of program performance in Program Year Three and will reconcile any over- and under-recovery program costs incurred in Program Year Three.

Specific program costs for KeySpan include: Services (including Rebates), Vendor Support, Company Administration, Communications, Evaluation & Reporting and All Other. These costs are accounted for as either Residential or C&I, and are recovered from the respective Residential and C&I customers. These costs are detailed in the Settlement Agreement as Exhibit B as well as in Exh. 6, submitted after the hearing.

Specific program costs for Northern include: Administration, Implementation, Marketing, Evaluation and Rebates (i.e. Customer Rebates). These costs are accounted for as either Residential or C&I, and are recovered from the respective Residential and C&I customers. These costs are detailed in the Settlement Agreement as Exhibit C, Appendix A-2, 'Cost Effectiveness Screening Tool', as well as in Exh. 6, submitted after the hearing.

H. Lost Margins and Incentives

The Agreement provides for a performance incentive for Program Year One to be calculated in accordance with the guidelines established for electric utility energy efficiency programs. *See, Guidelines for Post-Competition Energy Efficiency Programs,* Order No. 23,574, 85 NH PUC 684 (2000); and *Core Energy Efficiency Programs,* Order No. 23,850, 86 NH PUC 804 (2001). The Staff and Parties believe that the gas utilities should be allowed a performance-based incentive rate set initially at eight percent (8%) with a cap of twelve percent (12%) by sector (i.e. residential sector and C&I sector) for Program Year One.

The Agreement recommends that the Commission open a generic docket to address performance incentive rates for energy efficiency programs. According to the Agreement, Staff believed the utilities should be allowed to earn a riskless rate of return while other Parties believed the utilities should be allowed an incentive award consistent with incentive levels in the electric industry. Staff and the Parties believed the best resolution of this issue was to open a generic docket and include other utility industry participation.

To calculate the Program Year One performance incentive, Staff and the Parties submitted a uniform template, Exhibit G of Exh. 1, for use until such time as the performance incentive calculation is changed by Commission order. The template is also used to compute both the benchmark performance incentive and the actual performance incentive at the end of the first program year for purposes of measuring performance. The benchmarks incorporate updated and uniform avoided costs[2] and utilize uniform methodology for calculation the Benefit/Cost (B/C) ratios related to the programs implemented in the program year.

I. Term

The Agreement provides for programs to take effect January 1, 2003 and end on April 30, 2007. This term was believed appropriate in order to achieve meaningful program benefits. The programs will begin with a four month 'ramp up' period, January 1, 2003 through April 30, 2003.

J. Evaluation and Reporting Requirements

The energy efficiency programs are to be evaluated by independent evaluators. The scope of evaluation will include evaluation of the impact of the programs; the cost effectiveness of the programs; and analysis of opportunities for new and/or underutilized energy efficiency technologies and initiatives. The timeline for conducting these evaluations varies by company and is specified in KeySpan and Northern's program proposals as well as in the Agreement.

In addition to program evaluation, the Agreement provides for periodic reporting to the Commission. Each month, the companies will report on their collections, expenditures, interest, and therm sales. Annually, they will submit updated program descriptions, cost benefit analyses, program budgets, and program goals.

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[2] *See*, Exh. 4, *Updated Avoided Energy Supply Costs*, prepared for the Avoided-Energy-Supply-Component Study Group, by Resource Insight and Synapse Energy Economics, dated December 6, 2001.

K. Continued Collaboration

The Staff and Parties agree to maintain ongoing collaboration. The Staff and Parties will exchange market research, consultant products, and internal analyses. To further facilitate collaboration, the gas utilities agree to use their best efforts to expand the scope of the GasNetworks™, a Massachusetts organization, to New Hampshire.

IV. COMMISSION ANALYSIS

In *Core Energy Efficiency Programs,* Order No. 23,982, dated May 31, 2002, the Commission noted its intent that energy efficiency programs should be available to all New Hampshire energy consumers, regardless of heating method employed. The Commission further noted its intent to open a docket to make energy efficiency a reality for all New Hampshire energy consumers. Order No. 23,982, slip op. at 20-21.

The Commission's Order of Notice in this docket set forth ten threshold issues for the Staff and Parties to investigate. In response to those issues, at hearing, the Staff and Parties answered in the affirmative: 1) that energy efficiency programs should be re-instituted in New Hampshire; 2) that the guidelines established for the electric industry were a good starting point; 3) that certain modifications to the electric energy efficiency program guidelines were necessary for their application to gas utilities; 4) that further information was needed before KeySpan and Northern can implement full PAYS programs; 5) that KeySpan and Northern's Massachusetts programs were appropriate for New Hampshire with certain modifications; 6) that separate consideration was appropriate for programs targeting low-income customers; 7) that programs should be subject to evaluation and change as needed to achieve the goal of market transformation and that program budgets should be set at levels which result in effective deployment of individual programs; 8) that program costs should be recovered from all customers and be recouped through the LDAC adjustments; 9) that the programs should be offered over the geographic territories of KeySpan and Northern; and finally, 10) that program costs and results should be measurable and reportable.

A. Program Design

As indicated earlier, both KeySpan and Northern have implemented demand-side management programs in the past. A short hiatus in program implementation occurred due to the gas industry restructuring and parallel efforts to develop energy efficiency programs in the electric industry. We recognize the Staff and Parties' efforts to adhere to a challenging procedural schedule and appreciate the efforts required by all to review and resolve each of the issues presented in the Settlement Agreement. These efforts produced rebate programs for residential and commercial/industrial which parallel programs designed by the electric utilities and approved in *Core Energy Efficiency Programs*, 86 NH PUC 804 (2001).

While we are pleased to see broad programs encompassing the depth of the electric programs, we will nevertheless encourage KeySpan and Northern to periodically review their program design and improve upon it. We have previously referred to the type of programs proposed by KeySpan and Northern as the "traditional variety". *Core Energy Efficiency Programs*, 86 NH PUC at 813 (2001).

We restate our long-held belief "that the most appropriate policy is to stimulate, where needed, the development of market based not utility sponsored and ratepayer funded energy efficiency programs." *Electric Utility Restructuring*, 83 NH PUC 126, 163 (1998). We note that the Agreement allows KeySpan and Northern to modify program design in the event of "building code changes or the adoption of new or revised energy efficiency standards or legislative changes relative to minimal efficiency of building materials" and if "exogenous changes impact the cost-effectiveness of the programs or the Gas Utilities' ability to meet their target goals" Exh. 1 at 9 lines 12-14 and 16-17. We believe these circumstances are too limiting. The company-specific programs cite to their market transformation activities and we encourage the companies to review their program design and move toward non-rebate styled programs where appropriate to achieve market transformation goals.

B. Low Income Energy Efficiency Programs

KeySpan testified at hearing that they have existing relationships with low income CAP agencies in New Hampshire and will continue those relationships in deploying the low income portions of their energy efficiency program. (12/04/02 Tr. 122 lines 14-15.) KeySpan's budget for low income programs is comparable to their Massachusetts program budgets at $332,823, with a participant goal of 129. Northern proposes a budget of $48,500 for each program year and estimates participant levels of 17 to 20 per year. Despite differences in program size, KeySpan and Northern confirmed at hearing that they both will provide up to $3,600 in qualifying measures to eligible customers but that the cap can be reconsidered in special circumstances on a case-by-case basis. (12/04/02 Tr. at 124 lines 15-19 and at 125 line 1.)

KeySpan and Northern's low income program budgets are dedicated and those budgets cannot be siphoned away to other programs. Section E.1 of the Agreement states KeySpan and Northern have no discretion to transfer funds to or from the low income programs without prior Commission approval. We believe this provision safeguards our interest in seeing low income customers are not left out of energy efficiency programs due to the pressure that each program meet a cost effectiveness threshold. The dedicated budget is also important because electric utilities who offered low income programs to households that heat with natural gas may now pull back on these programs. Electric utilities had agreed to serve low income natural gas heating customers until the Commission approved gas utility programs with similar low income programs. *Electric Utility Restructuring-Energy Efficiency Programs,* 86 NH PUC 726, 727 (2001)

We expect the companies to continue their collaboration with CAAs, the GOECS, and SOHO as described in section C of the Agreement to ensure the needs of the low income community are met and that these programs are fully implemented.

C. PAYS

On November 1, 2000, the Commission began the process for developing the first PAYS pilot program in the nation in *Electric Utility Restructuring-Energy Efficiency Programs*:

> The Commission believes that there are many benefits that might be gained from moving energy efficiency programs from exclusive reliance on direct subsidies to greater participant funding of conservation measures. *Electric Utility Restructuring-Energy Efficiency Programs,* Order No.23,574, 86 NH PUC 684 at 694 (2000).

Under a PAYS model, utility, vendor or other funding is used to finance the purchase of certified efficiency measures from vendors, and the measure cost is repaid through a utility tariff levied on the product-installation location over a specific period of time, such that estimated savings clearly exceed tariff payments in the near term. PAYS involves no customer loans, liens or new debt.

Keyspan and Northern witnesses testified that they do not oppose the PAYS concept, and see considerable merit in it. (12/04/02 Tr. at 92 lines 6 and 14-17.) However, the utilities request that they be permitted to focus on the extension of their Massachusetts programs to New Hampshire, and that they not be required to submit evaluations or proposals to pilot the PAYS concept before October 2003. (12/04/02 Tr. at 97 lines 1-7.)

The PAYS timeline set forth in KeySpan and Northern's late filed Exhibit 7 appears to be overly cautious. The timeline more closely reflects the steps that might be taken in preparing a proposal for a permanent program as opposed to a pilot program. For example, the extended period set aside for a literature search and the use of focus groups, while arguably applicable to a permanent program, are not necessarily required for a pilot. In fact, the very purpose of a pilot program is to collect information and some of the preliminary efforts set forth in Exhibit 7 are duplicative of the intent of a pilot.

The experience of the electric pilot is instructive. In Order No. 23,574, *Electric Utility Restructuring-Energy Efficiency Programs,* 86 NH PUC 684 (2000), the Commission directed New Hampshire Electric Cooperative (NHEC) and Public Service Company of New Hampshire (PSNH) to develop a proposed PAYS pilot. Complying with that directive, NHEC and PSNH submitted their joint PAYS proposal on April 12, 2001, six and one-half months later. The Commission approved these programs in *New Hampshire Electric Cooperative, Inc.,* Order No. 23,851, 86 NH PUC 814 (2001). Once the companies had received approval to move forward, PSNH implemented its PAYS program within 6 weeks of the order, and NHEC followed within 7 months of our order.

Given the experience of the electric utilities, it would seem possible for Keyspan and Northern to develop PAYS pilot proposals within 6 months of the date of this order. While we are reluctant to change the express dates in Section 6 of the Agreement, the Agreement allows for the filing of a PAYS pilot prior to October 2003. Therefore, in light of our discussion above, we see no reason at present why, if the companies were to cooperate in their design with the Commission Staff and other interested parties, they would not be able to file a proposed PAYS pilot by July 2003. It is our hope that a pilot program will begin selling PAYS products to targeted customers during the 2003-2004 heating season.

In developing their proposed PAYS pilot budgets, we anticipate KeySpan and Northern will consider the flexibility built in to the traditional programs and budgets. We expect

KeySpan and Northern to discuss their proposals on these and other issues with Staff and other interested parties in the development of a PAYS pilot.

D. Cost Recovery

We find the Agreement's provision of recovery tied to the companies' LDAC filings to be a convenient means for the company to disseminate costs to customers. The companies are already accustomed to preparing filings to the Commission to modify their charges through the LDAC and the Agreement simply adds another number for the companies to generate for that filing. Customers are already accustomed to changes to their gas bills as a result of the LDAC mechanism and adding in the energy efficiency charge at this time will be less confusing to customers than adding the charge at some other time of the year.

E. Lost Margins and Incentives

The Staff and Parties indicated their partial agreement on this issue and the acceptance of an initial eight percent (8%) to twelve percent (12%) cap on performance based incentives until a generic proceeding may be opened. We understand that the electric industry guidelines on this issue may need to be modified as applied to the gas industry, and that the electric industry performance incentive may need to change. We left this issue open for revisiting in *Electric Utility Restructuring-Energy Efficiency Programs:*

The Working Group recommended formula to calculate incentives to give utilities an opportunity to provide, at least for now, utility-sponsored programs that would either not be provided by the market or programs that will help the transition to non-subsidized energy efficiency programs. Because the incentive mechanism is new, we will closely scrutinize the utility DSM filings to evaluate whether it fairly balances the interests of shareholders and customers. *Electric Utility Restructuring-Energy Efficiency Programs,* 85 NH PUC 684 at 694 (2000).

In approving PSNH's PAYS pilot, we expressed our hesitancy to adhere to the Working Group's shareholder incentive levels and set shareholder incentive levels lower than the recommended Working Group levels. *New Hampshire Electric Cooperative, Inc.,* 86 NH PUC 814, 820 (2000).

We have left open the performance incentive issue for future review and we will accept the Staff and Parties recommendation that the Commission open a docket to review incentive mechanisms.

F. Term

We find the proposed program terms acceptable. From our experience in other energy efficiency programs, it takes time for programs to become fully deployed. Approving a multi-year program allows companies time to absorb the initial deployment lag. Pressuring against approval of longer program terms, however, is the goal of market transformation. For instance, once a rebate program has achieved its desired therm savings, it may be appropriate to begin a roll back of that program, or in the alternative, transform it into a wholly different program. The Agreement provides for periodic evaluation and reporting as well as for changes in program design. We believe those features mitigate any sense that the Commission may approve programs that may become obsolete over time. Lastly, the term of these programs is consistent with the term of electric utility programs approved in *Core Energy Efficiency Programs*, 86 NH PUC 804 (2001).

G. Customer Service Impacts

The stated goals of the programs for both KeySpan and Northern are to provide all customer segments the opportunity to participate in their respective Company-specific Plans, to increase awareness of the benefits of energy efficiency products, services and practices, and to induce lasting market changes. We are mindful that whenever a utility announces a new program and embarks on customer education, an increase in customer calls to the utilities' call centers can occur. The company proposals are silent on whether the companies have evaluated the impact of introducing these programs upon their ability to provide quality customer service and if the new programs will impact their ability to achieve their respective customer service benchmarks. We will accept the terms of the proposed programs and Agreement relative to customer education efforts with the understanding that the companies will take corrective action should call center performance deteriorate as a result of introducing these energy efficiency programs.

V. CONCLUSION

We have reviewed the terms of the Agreement, the proposed programs, other supporting documents supplied at the hearing, as well as the testimony presented at the December 4, 2002 hearing. Based on our review of the record, we find KeySpan's *Demand-Side Management and Market Transformation Plan, 2003 to 2005 Proposal,* Northern's *Partners in Energy, January 1, 2003 – April 30, 2006,* and the Settlement Agreement entered into between the Staff and Parties to be reasonable and in the public interest. We will approve the Agreement and allow implementation of the companies' energy efficiency programs.

Based upon the foregoing, it is hereby

ORDERED, that Settlement Agreement and the proposed energy efficiency programs of KeySpan and Northern submitted as part of the Settlement Agreement, and as amended by our discussions above, are hereby APPROVED.

By order of the Public Utilities Commission of New Hampshire this thirty-first day of December, 2002.

Thomas B. Getz Chairman	Susan S. Geiger Commissioner

Attested by:

Michelle A. Caraway
Assistant Executive Director