

**GRANITE STATE ELECTRIC COMPANY, NEW HAMPSHIRE ELECTRIC
COOPERATIVE, INC., PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE and
UNITIL ENERGY SYSTEMS, INC.**

**Petition for Approval of
"Core" Energy Efficiency Programs for 2004**

Order Following Pre-Hearing Conference

O R D E R N O. 24,232

November 3, 2003

APPEARANCES: Laura S. Olton, Esq. and Gallagher, Callahan & Gartrell, P.A. by Seth L. Shortlidge, Esq. for Granite State Electric Company; Leboeuf, Lamb, Greene & MacRae, L.L.P. by Meabh Purcell, Esq. for Unitil Energy Systems, Inc.; Robert A. Bersak, Esq. for Public Service Company of New Hampshire; Devine, Millimet & Branch, P.A. by Robert E. Dunn, Jr., Esq. for New Hampshire Electric Cooperative, Inc.; Joanne Morin for the New Hampshire Department of Environmental Services; Jack K. Ruderman, Esq. for the New Hampshire Office of State Planning and Energy Programs; New Hampshire Legal Assistance by Alan Linder, Esq. for the Save Our Homes Organization; Dana Nute for the New Hampshire Community Action Association; Jane Doherty for the Environmental Responsibility Committee of the Episcopal Diocese of New Hampshire; Office of Consumer Advocate by Michael W. Holmes, Esq. on behalf of residential ratepayers; and Donald M. Kreis, Esq. of the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On May 31, 2002, the New Hampshire Public Utilities Commission entered Order No. 23,982 in Docket No. DE 01-057, approving the implementation of proposed "Core" energy efficiency programs to be provided by the state's electric utilities through the end of 2003. The Core Programs are funded

by the system benefits charge paid by all customers of electric utilities and authorized by RSA 374-F:3, VI.

On September 30, 2003, as directed by the Commission, Granite State Electric Company (GSEC), the New Hampshire Electric Cooperative (NHEC), Public Service Company of New Hampshire (PSNH) and Unitil Energy Systems, Inc. made a joint filing with respect to proposed Core energy efficiency programs to be offered in 2004.¹ The filing seeks to continue, with certain modifications, the statewide Core programs previously approved along with certain utility-specific programs that are not offered on a statewide basis.

The Commission entered an Order of Notice on October 2, 2003, scheduling a Pre-Hearing Conference for October 14, 2003. Timely requests for intervenor status were received from the Save Our Homes Organization (SOHO), the Environmental Responsibility Committee of the Episcopal Diocese of New Hampshire (Environmental Responsibility Committee), the New Hampshire Department of Environmental Services (DES), the New Hampshire Community Action Association (CAA) and the New Hampshire Office of State Planning and Energy Programs (OSPE).

¹ One electric utility currently participating in the Core programs, Connecticut Valley Electric Company (CVEC), did not join in the September 30, 2003 filing. This is because PSNH is scheduled to acquire the CVEC utility franchise and most of CVEC's assets on January 1, 2004. See Order No. 24,176 (May 23, 2003), aff'd on rehearing by Order No. 24,189 (July 3, 2003).

The Office of Consumer Advocate (OCA) entered an appearance on behalf of residential ratepayers.

The Pre-Hearing Conference took place as scheduled. Without objection, the Commission granted the pending intervention requests. The parties and Staff gave preliminary statements of their position and, thereafter, conducted a technical session to discuss the procedural schedule and other matters. Staff submitted a report of the technical session on October 15, 2003.

II. PRELIMINARY POSITIONS OF THE PARTIES AND STAFF

A. Summary of the Core Filing

The petitioners propose continuing the current set of statewide Core programs: Energy Star Homes, Home Energy Solutions (residential retrofit), Energy Star Lighting, Energy Star Appliances, low-income weatherization, the new equipment and construction program for large commercial and industrial customers, a retrofit program for such customers, a retrofit program for small commercial and industrial customers and a series of educational programs. In addition, each utility proposes certain utility-specific programs offered only within its service territory; among them is the continuation of the Pay As You Save (PAYS) pilot program offered to certain customers by PSNH and NHEC.

The utilities propose leaving in place the joint "management team" they created to oversee the Core programs. The utilities concede that in 2002 and 2003, administrative costs were higher than expected, a problem they attribute in part to the need to attend quarterly meetings at the Commission and confer regularly with Commission Staff. Noting that the recovery of any performance-based shareholder incentives approved in connection with the 2002 and 2003 Core programs will not be determined until 2004, the utilities believe that the existing incentive mechanism should remain in place pending further evaluation in 2004.

The utilities seek authority to commit funds in 2004 for projects to be completed in 2004, 2005 and 2006. This is necessary, they contend, because customers often plan and budget for large capital projects more than a year in advance. With respect to the low-income weatherization programs being delivered by the community action agencies, the utilities believe that multi-year program approval will allow the agencies to keep the appropriate expertise on board and coordinate the programs with federally funded weatherization efforts.

Finally, the utilities seek greater flexibility with respect to moving funds from one Core program to another. They agree not to move any funds from the residential to commercial sectors, or vice versa, without Commission approval. However,

within the sectors, they seek authority to transfer up to 20 percent of any individual program's funds without necessarily obtaining Commission approval.² They agree to notify the Commission of such changes, provide a two-week comment period and seek automatic authority to implement the changes unless notified by the Commission within 30 days of the need for a more in-depth review.

Altogether, the utilities propose expending \$15,116,588 in system benefits charge funds for energy efficiency programs in 2004, which they estimate will generate nearly 700 million kilowatt-hours in energy savings over the lifetime of the measures.

B. Public Service Company of New Hampshire

PSNH urged the Commission to approve the 2004 Core programs as filed. According to PSNH, the cost of the programs amounts to 3 cents per kilowatt-hour, which compares favorably to the cost of energy.

C. Granite State Electric Company

GSEC indicated strong support for the joint proposal. According to GSEC, the Core programs are important to the New Hampshire economy. GSEC also characterized the shareholder incentive as the factor that motivates the utilities to provide

² For example, if the proposal were adopted, a utility could transfer up to 20 percent of a residential retrofit program to a residential low income weatherization program, without Commission approval.

the programs. GSEC indicated that it was "surprised" by Staff's proposals for expanding the PAYS program.

D. Unitil Energy Systems, Inc.

Unitil likewise urged Commission approval of the proposal, characterizing it as an opportunity to take advantage of the experience gained in 2002 and 2003.

E. New Hampshire Electric Cooperative, Inc.

The NHEC expressed support for the Core programs proposal.

F. Office of State Planning and Energy Programs

According to OSPE, the energy savings and economic benefits of the Core programs are highly valuable to New Hampshire. Characterizing the 16 months since the Core programs were first implemented as "long and arduous," OSPE noted that most utilities were meeting their program goals. OSPE indicated that it does not wish to micromanage the Core programs but questioned whether ratepayers are best served by what it characterized as duplication of administrative efforts among the utilities. The agency advocated what it described as a "more streamlined, outcome-oriented approach" to the Core programs and the applicable shareholder incentive.

OSPE argued that the Core programs are "not totally perfect yet," noting that the leveraging of federal weatherization funds needs improvement. OSPE also took the

position that administrative costs should be subject to review for prudence.

G. Save Our Homes Organization

SOHO indicated that it is concerned about the design and distribution of energy efficiency programs, particularly those programs targeted to low-income customers, at the lowest possible administrative cost and with the maximum leveraging of federal weatherization funds. According to SOHO, the Commission should take a "fresh look" at program administration. With respect to the low-income weatherization programs, SOHO suggested that the community action agencies be given the right of first refusal with respect to each project, with other contractors employed when the community action agencies do not exercise that right.

SOHO expressed the concern that the budget flexibility sought by the utilities might undermine its goals with respect to serving low-income customers because the utilities would be free to divert up to 20 percent of the budget targeted to this population. SOHO also indicated that multi-year approval is a concern, along with the need to make sure that all geographic areas of the state benefit from the programs. SOHO further suggested that the Commission should assure there is a balance between single-family and multi-family homes with respect to access to residential programs. It also identified the budget

for monitoring and evaluation as an area of concern, along with the utilities' participation goals. According to SOHO, the Commission must assure that each utility is "doing its fair share." SOHO also suggested that each utility be required to submit a written corrective action plan whenever problems with one of the Core programs are identified.

H. Department of Environmental Services

The DES indicated that it remains supportive of the Core energy efficiency programs.

I. Environmental Responsibility Committee of the Episcopal Diocese of New Hampshire

The Environmental Responsibility Committee of the Episcopal Diocese of New Hampshire expressed the view that the Core programs should continue. The Committee commended the utilities for having launched the Core programs successfully in 2002 and 2003, suggesting that the programs are working well.

J. Community Action Association

The CAA indicated that it supports the continuation of the Core programs, which it said "started slowly but are going well now."

K. Office of Consumer Advocate

The OCA stated that it agrees the Core programs are effective, the issue being the programs' need to be efficient. The OCA urged the Commission to consider the interests of not

merely those customers taking advantage of the program but those customers who do not use the programs but are paying for them via the system benefits charge. The OCA characterized the utilities' administrative costs as too high and suggested the use of different cost-benefit ratios for different utilities when assessing the programs. The OCA called for better information sharing among the utilities and expressed concerns about multi-year budget approval. According to the OCA, it is inappropriate to use a 4.2 percent discount rate to calculate avoided costs as proposed by the utilities, since most businesses use their cost of capital to make such calculations. Finally, the OCA questioned whether it would be in the public interest to offer a \$25 rebate for energy efficient air conditioners as proposed by the utilities.

I. Staff

The Commission Staff indicated that it has certain disagreements with the utilities' proposal. Specifically, Staff suggested that administrative costs are too high and proposed that the Commission not permit any utility to recover a shareholder incentive payment unless all utilities qualify for them. Finally, with respect to the PAYS aspects of the utilities proposal, Staff proposed (1) terminating the pilot and making PAYS a Core program offered throughout the state, (2) limiting the use of rebates in conjunction with PAYS projects so

that rebates could only be employed to cause a measure to qualify for PAYS financing, (3) limiting the use of the system benefits charge funds to overhead costs and bad debt guarantees, requiring the utilities themselves to capitalize the PAYS program and (4) revising the PAYS cost-effectiveness formula to provide that a measure will qualify if three-fourths (as opposed to the presently applicable two-thirds) of the estimated savings over three-fourths of the measure life can pay all measure costs.

III. SCOPE OF DOCKET AND PROCEDURAL SCHEDULE

The Order of Notice entered in this docket included the following tentative procedural schedule:

Responses to Oral Data Requests Propounded at Tech. Session	October 16, 2003
Data Requests by Staff/Intervenors	October 20, 2003
Utility Data Responses	October 27, 2003
Staff/Intervenor Testimony	November 3, 2003
Utility Data Requests	November 7, 2003
Staff/Intervenor Responses	November 12, 2003
Settlement Conference	November 13, 2003
Merits Hearing	Nov. 25-26, 2003

According to Staff's report of the technical session, the parties and Staff agreed to endorse this procedural schedule with certain minor modifications. Specifically, the Staff and

intervenors proposed the addition of a technical session on October 28, 2003 and a second day of settlement negotiations, if necessary, on November 14, 2003. With respect to October 28, the Staff and intervenors proposed that the technical session begin at 9:00 a.m., that the morning be dedicated to discussion of low-income issues and that the afternoon session concern itself with "outcome-based regulation."

Staff's report also indicated that there was significant disagreement with respect to whether the Commission could consider Staff's proposals with respect to PAYS in this docket. According to Staff, the parties believe that such consideration would be beyond the scope of the present proceeding. Accordingly, Staff transmitted the parties' request that the Commission resolve the issue.

To the extent the parties contend that time constraints prevent the Commission from reviewing the PAYS pilots and considering additional PAYS initiatives in this proceeding, we are in agreement. We are aware of the necessity of resolving the instant docket prior to year's end if the Core programs are to continue without interruption. In our view, the better course is to consider PAYS issues separately with the goal of synchronizing PAYS programs with the core energy efficiency programs for 2005.

Accordingly, we place the parties on notice of our intent to open a separate docket in 2004 to review the current PAYS pilots, whether PAYS should be added to the menu of Core programs offered by each utility, and/or whether the PAYS model should replace the traditional paradigm of rebates and subsidies in either the near or long term. In the meantime, we are concerned about making determinations in this docket, committing SBC resources or otherwise, that could circumscribe our options with respect to the PAYS docket we plan to open next year. We request that the parties and Staff address this discrete problem in the context of the current proceeding.

With respect to the procedural schedule, it has become necessary for the Commission to postpone the merits hearing in this docket to December 4, 2003. We have, accordingly, made certain revisions to other deadlines in the procedural schedule originally laid out in the Order of Notice, as follows.

Responses to Oral Data Requests Propounded at Tech. Session	October 16, 2003
Data Requests by Staff/Intervenors	October 20, 2003
Utility Data Responses	October 27, 2003
Technical Session	October 28, 2003
Staff/Intervenor Testimony	November 10, 2003
Settlement Conference	November 13, 2003
Settlement Conference (if necessary)	November 14, 2003

Utility Data Requests	November 17, 2003
Staff/Intervenor Responses	November 24, 2003
Merits Hearing (9:00 A.M.)	December 4, 2003

This procedural schedule is consistent with the public interest and, accordingly, we approve it.

Based upon the forgoing, it is hereby

ORDERED, that the procedural schedule described above is hereby APPROVED.

By order of the Public Utilities Commission of New Hampshire this third day of November, 2003.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Graham J. Morrison
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary