Maximizing Energy Efficiency as a Resource in New Hampshire:
Leveraging Rate Structures and Capturing all Cost Effective Efficiency

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EXECUTIVE SUMMARY

New Hampshire has in place two of the three essential ingredients to unleash the great potential of efficiency as a first order resource. These ingredients, already approved by regulators, are **shareholder incentives** for utility companies that achieve savings goals, and the opportunity for the utilities to file rate cases that **decouple revenue** from volumetric energy sales. NEEP contends that the missing ingredient is a legislative order directing utilities to acquire all cost effective energy efficiency up to the cost of supply. Since it typically costs a third less to meet energy needs by reducing demand vs. generating new power, such a mandate will spur large increases in efficiency investments.

A mandate to capture all cost effective efficiency, along with providing the Energy Efficiency and Sustainable Energy Board (EESE) with a budget to hire technical advisors and the directive to review and comment on the Core utility efficiency programs, can help New Hampshire to make enormous strides toward a cleaner energy future. The following paper makes the case for the full utilization of the rate setting tools already approved by the Public Utilities Commission, together with the passing of legislation that requires the procurement of efficiency as a first order resource.

ALIGNING INTERESTS

New Hampshire is poised to dramatically increase investments in energy efficiency, and in so doing, save ratepayers money, create local jobs, help stabilize the state's energy infrastructure and reduce Greenhouse gas emissions. **The key to maximizing the potential of efficiency is aligning the interests of ratepayers, utility companies, and the public good**. This can and is being done in a number of neighboring states, allowing for major increases in energy efficiency investments while maintaining profitability for energy delivery companies.

The greatest obstacle to capturing efficiency as a first order resource is not technical potential or regulatory constraint, but the lack of a policy mandate. It has been proven possible to make utility companies whole through adjusted rate structures compensating for revenue lost under robust efficiency programs. Such "true-ups" can ensure that utilities remain profitable, whether or not they are vertically integrated, such as the case with Public Service of New Hampshire, which continues to own generating capacity.

The Public Utility Commission's Order Number 24,934 on Energy Efficiency Rate Mechanisms (January 16, 2009) summarizes the positions of various stakeholders, including utility companies, the Office of Energy and Planning, the Consumer Advocate, and various business, environmental and public interest groups. The Order depicts a clear sentiment that the historical rate structure must be reconfigured to align interests of utility companies, ratepayers, as well as societal and environmental benefits.
Decoupling and shareholder incentives are noted time and again as important tools by a diverse set of parties in the Order.

The PUC encourages the utilities to consider such tools and shareholder incentives and decoupling when fashioning a proposal for a future rate case filing. It states that "with respect to performance incentives, the Commission has already approved this mechanism in both the electric and natural gas energy efficiency programs…This formula appears to be working and does not require adjustment at

this time." The Commission goes on to state that "Revenue decoupling could be also be implemented through changes in rate design," and that "Consistent with its traditional practice, the Commission would consider rate design changes in the context of a rate case." It is expected that the utilities will seek to implement decoupling in their next rate cases, following the findings in this Order.

THE NEXT STEP: PROCUREMENT OF ALL COST EFFECTIVE EFFICIENCY

It is clear that the PUC, as well as many stakeholders and utility companies, support leveraging existing opportunities for utilities to seek rate adjustments and performance incentives that bolster energy saving programs for customers. In NEEP's estimation, the vital next step to unleashing the power of efficiency is to legally require the procurement of all energy efficiency less than and up to the cost of power generation. Such a mandate would direct electric and natural gas utilities to capture all cost effective efficiency before turning to new generation, and has already been implemented in a number of neighboring states.[1]

Many states have found that it is technically achievable and economically feasible to triple or even quadruple the amount invested in energy efficiency programs as a means of meeting demand. There are regional and state-specific studies that bear this out.[2] By meeting energy needs through efficiency, states reduce the need for costly and contentious new generation and transmission projects, curb emissions that contribute to air pollution and global warming, help residents and businesses save energy, put money back in people's pockets to spend on other goods and services, and create local jobs in the clean energy sector.

Public utility companies in New Hampshire are already offering successful programs to help residential and commercial customers improve their building efficiency and reduce costs. But the budget for efficiency is constrained by the current funding mechanism, with the 1.8 mil systems benefit charge (SBC) as an effective cap on investment. By mandating procurement of all cost effective efficiency and supporting utility plans that include appropriate performance incentives and the opportunity to decouple revenue from volumetric sales, the state can set the stage for much broader and deeper energy efficiency savings. Under this scenario, the budget for efficiency will not be limited by the SBC, but will be set according to what is deemed achievable and cost effective.

STRENGTHENING THE EESE BOARD

The creation of the Energy Efficiency and Sustainability (EESE) Board was intended to bring to New Hampshire a stakeholder advisory process similar to those that have been in operation in other New England states – including Connecticut, Rhode Island, Massachusetts and Maine – in order to more broadly deploy energy efficiency as a clean, affordable and reliable resource to serve the state's residents and businesses.

[1] New England states that have enacted or are in the process of enacting such policies include Massachusetts, Rhode Island, Connecticut, and Maine. Vermont has mandated it in effect, with the highest per capita spending on efficiency in the nation.

[2] See "Additional Opportunities for Energy Efficiency in New Hampshire," a report prepared by GDS Associates at the Request of the NH PUC, January 2009, or NEEP's database of electric and gas efficiency potentials studies, www.neep.org.

However, one significant difference between the stakeholder advisory boards in those states[3] and the EESE Board in New Hampshire is that enabling legislation or regulations in the other states required that the stakeholder boards be funded to secure their own technical consultants specifically in order to review the ratepayer-funded energy efficiency programs as planned by those states' distribution utilities.

Together with the passage of an all cost effective efficiency procurement mandate, NEEP urges the development of legislation to fund the EESE Board to retain its own technical advisors. These advisors could review and make recommendations to the Board on the Core efficiency programs and any other public policy measure that it may choose to consider for recommendation to the legislature, governor or public utilities commission for future action.

CONCLUSION

Energy efficiency should be treated as a first order resource. By enacting legislation requiring procurement of all cost effective efficiency, New Hampshire could continue down the path to exponentially greater energy savings and benefits to the state's residential, commercial and municipal customers. Coupled with the utilization of existing and approved rate mechanisms that can realign utility interests with public policy objectives, mandating a loading order that places efficiency as a first order resource will unleash the great potential that energy efficiency holds for the state. NEEP stands ready to work with the state, utilities and other interested parties to maximize the potential of efficiency in New Hampshire.

[3] Those boards are respectively known as the Energy Conservation Management Board (ECMB) in Connecticut; Energy Efficiency and Resources Management Council (EERMC) in Rhode Island; Energy Efficiency Advisory Council (EEAC) in Massachusetts; and Energy Conservation Board (ECB) in Maine.