

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 13-298

**RENEWABLE ENERGY INCENTIVE PROGRAM FOR
COMMERCIAL AND INDUSTRIAL BULK FUEL-FED
WOOD PELLET CENTRAL HEATING SYSTEMS**

Order Increasing Incentive Level and Modifying Program Terms

ORDER NO. 25,922

July 5, 2016

In this Order, the Commission increases the incentive level for the commercial and industrial bulk fuel-fed wood pellet central heating system rebate program and modifies a number of other terms and conditions applicable to this program. The new incentive level is 40% of total heating system and installation costs up to a maximum amount of \$65,000.

I. PROCEDURAL HISTORY

By Order No. 25,605 issued on December 18, 2013, the Commission approved a Commercial and Industrial (C&I) Bulk Fuel-Fed Wood Pellet Central Heating System rebate program (Program), pursuant to RSA 362-F:10, VIII. The Program is funded by the Renewable Energy Fund, established and maintained under RSA 362-F:10. On May 27, 2016, Commission Staff (Staff) filed a memorandum (Staff Memo) recommending a temporary increase in the applicable incentive level and a number of other substantive modifications to the Program.

The Commission scheduled a public comment hearing for June 3, 2016, regarding the proposed incentive level increase and other Program modifications and indicated it would accept written comments submitted by June 10, 2016. At the hearing, comments were made by a number of equipment sellers and installers, as well as other interested stakeholders. Following

the hearing, written comments were submitted by Lyme Green Heat (Lyme Green), a distributor of wood pellet fuel.

II. STAFF'S RECOMMENDATION

The Staff Memo noted the recent decline in heating oil prices and the effect of this decline on the market for sales and installations of wood pellet central heating systems, as evidenced by a significant decrease in the number of rebate applications received since 2014. Staff recommended that the Commission increase the incentive level for the Program from 30% of total heating system and installation costs with a maximum rebate of \$50,000 to a higher level of 40% of total heating system and installation costs with a maximum amount of \$65,000. This increase would be in effect on a “temporary” basis and would be reviewed by Staff periodically as oil prices and industry market conditions change. If Staff were to conclude that a decrease in the incentive level is warranted, it would recommend such a modification to the Commission after receiving input from interested stakeholders.

Staff also recommended that Program applicants proposing systems with renewable thermal energy capacity of greater than 200,000 Btu per hour be required to be certified as eligible for the New Hampshire thermal renewable energy certificate (T-REC) program. To assist these systems in achieving T-REC eligibility, Staff recommended that the Commission provide a rebate adder of \$5,000 per system to support installation of thermal metering equipment compliant with the Puc 2500 rules. Staff noted that, if the Commission were to adopt amendments to the Puc 2500 rules that simplify the required metering and validation provisions for thermal energy systems, then modification or elimination of the thermal source metering equipment rebate adder should be considered.

Staff also addressed a stakeholder suggestion that the Program be expanded to include other biomass fuels, in particular processed dried chips, because inclusion of dried chips would

increase fuel diversity and security, and many wood pellet boilers can also burn dried chips. Staff noted, however, that an original goal of the Program was to stimulate the market for bulk wood pellet delivery. Because this goal has not yet been met and the market is still far from mature, Staff recommended that the Program continue to focus on wood pellets as the only eligible fuel source.

Staff further recommended that the current Program standard for system emissions of particulate matter of 0.32 pounds per MMBtu heat output or less be decreased to match the Massachusetts requirement of total particulate matter emissions of less than or equal to 0.10 pounds per MMBtu. Staff noted that most wood pellet central heating systems available in the marketplace can readily meet this stricter standard.

III. PUBLIC COMMENTS RECEIVED

The Commission received oral and written comments regarding the proposed Program modifications from a number of interested stakeholders, including several members of the wood pellet heating system installer community. A general summary description of the comments grouped by relevant issue follows:

1. Incentive Level Increase. Commenters generally supported Staff's recommended increase in the Program incentive level, noting the effects that low oil prices have had on the market for wood pellet heating system sales and installations. For example, New Day Energy noted the current market challenges created by low oil prices and the positive effect that the rebate level increase would have in supporting sales and installations of wood pellet heating systems. The Jordan Institute (Jordan) recommended that the rebate level increase should be implemented as soon as possible.

2. T-REC Eligibility Requirement and Metering Equipment Adder. Commenters were generally supportive of a requirement that the larger C&I heating systems be certified as eligible

for New Hampshire T-RECs, and of the proposed \$5,000 incentive adder for procurement and installation of the necessary metering equipment to secure such eligibility. Several commenters, however, described the challenges faced by biomass thermal heating system owners in meeting the current T-REC eligibility requirements. New England Wood Pellet LLC asserted that the T-REC requirement should not apply to systems smaller than 500,000 Btu per hour because of the associated compliance costs and administrative burdens related to monitoring and verification. Froling Energy and Jordan agreed that the T-REC requirement should apply only to systems with capacity of 500,000 Btu per hour or more and not to systems of 200,000 Btu per hour or more as proposed by Staff.

3. Fuel Eligibility of Dried Chips. Most commenters at the public hearing urged the Commission to permit dried chips to be included in the Program as an eligible fuel source in addition to wood pellets, maintaining that many C&I systems could burn either fuel and that dried chips have achieved a functional equivalency with pellets that should be recognized. HotZero maintained that dried chips are a “value-added product” that are more cost-effective to deliver by truck than other alternative fuels. Froling Energy noted that a dried chip delivery truck can also deliver wood pellets, but a wood pellet delivery truck cannot also deliver dried chips. Jordan expressed concern regarding quality control in some segments of the dried chip market. New Day Energy, Froling Energy, and Jordan all stated that they would not want the inclusion of dried chips in the Program to delay the proposed incentive level increase.

Following the hearing, written comments were submitted by Lyme Green in opposition to the inclusion of dried chips as an eligible fuel source. Lyme Green asserted that the Program was developed in large part to support local wood pellet production and distribution, and the different cost structure of the dried chip industry has not been extensively analyzed by Staff, so a sufficient record does not exist to support this potential Program change. Lyme Green

represented that there is no industry governing body or standard specifications relative to dried chip quality or performance. Lyme Green claimed that the potential fuel eligibility change would prove confusing to customers and “create conflicting opinions of what fuel is the better fuel.” According to Lyme Green, a number of installed biomass central heating systems that received rebate payments through the Program have switched to dried chips as their primary fuel source, including some which “never burned a pellet and immediately started burning [dried chips].”

Lyme Green also noted that the Commission recently approved a grant from the Renewable Energy Fund for a company working to develop and produce dried chips, while relying on the Program to offer financial support to the still maturing wood pellet industry in the State. According to Lyme Green, the commercial and municipal wood pellet delivery market creates an “anchor” for the residential wood pellet delivery market, and “[b]urning of chips of any kind will never happen in the residential market.” Lyme Green claimed that the wood pellet delivery business as a whole is not yet profitable and the residential sector is the least profitable; therefore, the “commercial business allows [Lyme Green] to continue building the residential markets and serve the NH citizens that have made a sizable investment in a bulk fed wood pellet system.” According to Lyme Green, inclusion of dried chips as an eligible fuel source for the Program would cause wood pellet distributors like Lyme Green to “lose the momentum [they] have been working so hard for,” with significant negative consequences for their residential wood pellet customers.

4. Emissions Limit Decrease. None of the public commenters objected to the proposal to reduce the required emissions limit to total particulate matter of less than or equal to 0.10 pounds per MMBtu, nor did any commenter claim that the wood pellet central heating

systems generally available in the marketplace could not readily meet this stricter emissions standard.

IV. COMMISSION ANALYSIS

The Program was adopted and implemented by the Commission pursuant to its authority under RSA 362-F:10, VIII, and material modifications to the Program may be approved by the Commission after notice and hearing pursuant to this same statutory authority. We have reviewed Staff's recommended modifications to the Program and have considered the public comments provided by various interested stakeholders at the hearing and through written submissions.

We find that the recommended modifications are reasonable and appropriate under current market conditions and related circumstances, with three exceptions which we address below. In particular, we approve the increase in Program incentive level to 40% of total heating system and installation costs up to a maximum amount of \$65,000, with a \$5,000 incentive adder provided for procurement and installation of metering equipment by systems required or committed to become eligible to produce T-RECs. We also approve the recommended emissions limit reduction to a total particulate matter standard of less than or equal to 0.10 pounds per MMBtu.

With respect to the requirement that larger C&I systems become certified as eligible to produce T-RECs, we agree with those commenters who maintain that systems smaller than 500,000 Btu per hour should not be required to produce T-RECs in order to be eligible for a rebate payment through the Program at this time. Systems with capacity of 500,000 Btu per hour or more will be required to become T-REC eligible and may apply for the \$5,000 incentive adder in connection with their procurement and installation of the required metering equipment. Although we will require larger systems to produce T-RECs, we also believe that the \$5,000

metering equipment incentive adder should be made available to those applicants installing smaller systems who voluntarily commit to become T-REC eligible. This added incentive will be available provided that these systems have been certified as eligible to produce T-RECs at the time of or in connection with submission of the Step 2 application.

With respect to the inclusion of dried chips as another eligible fuel source in the Program, we acknowledge the strong interest of many system installers in this inclusion. We are not persuaded, however, that the record in this docket supports such an expansion of Program fuel source eligibility at this time, and we are concerned about unforeseen and unintended consequences, including those that may affect the availability or cost of wood pellet deliveries to residential customers who have installed bulk-fed wood pellet furnaces or boilers. We also are mindful of the grant funding we have recently approved for a producer of dried chips to further develop its product and market. We believe the dried chip product, equipment, and potential market should be better understood before adopting Program changes that may affect two different fuel markets, each of which is developing and dynamic. We therefore accept Staff's recommendation not to include dried chips as an eligible fuel source for the Program at this time. In order to further demonstrate the operability of installed systems, however, we will require that Program applicants provide evidence of their purchase of at least one delivery of wood pellets prior to payment of the incentive. This evidence must be provided in connection with the system owner's Step 2 application.

As noted above, we are approving the Program incentive level increase and other modifications, while not adopting other potential Program changes, based on our best understanding of current conditions in markets subject to continual change. We therefore direct Staff to monitor changes in the heating oil market and in the markets for both wood pellets and dried chips, through outreach to stakeholders and other appropriate means. On at least an annual

basis, Staff should consider and evaluate whether changes in the incentive level and other Program modifications may be warranted, based on this periodic monitoring, review, and evaluation, and then recommend any such further modifications for Commission review and action.

With respect to the transition from the current Program incentive level, terms, and conditions to the modified ones we approve herein, we find that the Program modifications should become effective on a specified future date to allow enough time for the Step 1 and Step 2 application forms to be revised, as well as to ensure that applicants have sufficient time to gather and submit the required information. We have determined that the following transition process and timeline should be implemented.

Project applications subject to the existing program terms and conditions will be accepted only through July 8, 2016. All Step 1 applications received by the Commission at its offices on or before that date will be processed under the existing Program terms and conditions. The modified Program terms and conditions approved in this Order will become effective on July 11, 2016. All applications received on or after that date will be eligible for the increased incentive level and will be processed under the other modified Program terms and conditions. The Program eligibility date will be July 9, 2016, and projects that are installed and become operational prior to such date will not be eligible for the modified Program.

We direct Staff to implement the Program modifications to meet the transition schedule specified above, including the development and posting of modified Program application forms. In order to facilitate the administration of the Program, we authorize Staff to make clerical and other non-material modifications to the application forms and process without further Commission approval by filing such modifications in this docket and posting the modifications to the Commission's website.

Based upon the foregoing, it is hereby

ORDERED, that the Commission's Commercial and Industrial Bulk Fuel-Fed Wood Pellet Central Heating System rebate program shall be modified as described in the body of this Order; and it is

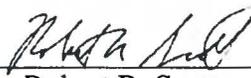
FURTHER ORDERED, that Staff is directed to modify the program application forms and processing consistent with the approved modifications and transition procedures; and it is

FURTHER ORDERED, that Staff is authorized to make clerical, administrative, and other modifications to program application forms and processes without further Commission approval, provided that such modifications are consistent with this Order.

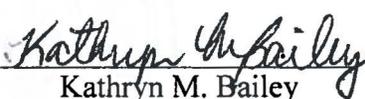
By order of the Public Utilities Commission of New Hampshire this fifth day of July, 2016.



Martin P. Honigberg
Chairman

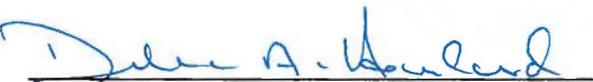


Robert R. Scott
Commissioner



Kathryn M. Bailey
Commissioner

Attested by:



Debra A. Howland
Executive Director

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

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