

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 16-614

**RESIDENTIAL BULK-FED WOOD PELLET
FURNACE AND BOILER INCENTIVE PROGRAM**

**Order Increasing Incentive Level, Modifying Program Terms,
and Formally Adopting and Ratifying Program**

ORDER NO. 25,921

July 5, 2016

In this Order, the Commission increases the incentive level for the residential bulk fuel-fed wood pellet furnace and boiler incentive program, modifies other terms and conditions applicable to the program, and formally adopts and ratifies the program. The new incentive level is 40% of total heating system and installation costs with a maximum amount of \$10,000.

I. PROCEDURAL HISTORY

By Order of Notice dated May 27, 2016, the Commission opened this docket to consider an increase in the incentive level and other proposed modifications to the residential bulk-fed wood pellet furnace and boiler incentive program (Program). The Commission has administered the Program since April 2010, initially using funds available from the U.S. Department of Energy under the American Recovery and Reinvestment Act through the New Hampshire Office of Energy and Planning, but also using funds available from the Renewable Energy Fund, established and maintained under RSA 362-F:10. Under the current terms and conditions of the Program, eligible program applicants receive a rebate payment, equal to 30% of system and installation costs with a maximum of \$6,000, for investments in residential high-efficiency, bulk-fuel fed wood pellet central heating boilers and furnaces that are installer-certified and became operational on or after May 1, 2012.

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 regarding the proposed incentive level increase and other Program modifications for June 3, 2016, 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 residential 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 \$6,000, to a higher level of 40% of total heating system and installation costs with a maximum amount of \$10,000. 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 recommended that a supplemental adder of \$100 per ton for fuel storage systems larger than the three ton minimum requirement, up to a maximum of \$500, be provided to Program applicants. Staff maintained that larger storage bins facilitate fewer pellet deliveries,

which represents a significant benefit for homeowners and for the developing bulk wood pellet delivery industry.

Staff did not recommend that Program applicants be required to be certified as eligible for participation in the New Hampshire thermal renewable energy certificate (T-REC) program at this time, citing the impracticality of residential system owner compliance with the current requirements of the Puc 2500 rules, as noted by many systems installers.

Staff also addressed a stakeholder suggestion that the Program be expanded to include other biomass fuels, in particular processed 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, noting that most wood pellet central heating systems available in the marketplace can readily meet this stricter standard.

Staff finally recommended that the Commission formally adopt and ratify the Program and its administration and use of the Renewable Energy Fund, under RSA 362-F:10, VIII.

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 and Storage Adder. 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, Maine Energy Systems LLC (Maine 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 biomass heating systems. Commenters also supported the proposed incentive adder of \$100 per ton for fuel storage systems larger than the three ton minimum requirement, up to a maximum of \$500.

2. T-REC Eligibility. Commenters were generally supportive of Staff's position that residential wood pellet heating systems should not be required to become T-REC eligible to receive a rebate payment under the Program. Maine Energy commented that the current heat measurement requirements for the T-REC program impose a significant cost on smaller residential systems and this cost deters them from T-REC production. Maine Energy urged the Commission to consider a less demanding heat measurement method for residential customers that is based on their acquisition and measured usage of biomass fuel rather than on their metered heat output. Staff stated that such issues really should be addressed through potential revisions of the Puc 2500 rules rather than through modifications of the Program.

3. Fuel Eligibility of Dried Chips. A number of commenters at the public hearing encouraged the Commission to permit dried chips to be included in the Program as an eligible fuel source in addition to wood pellets. Those commenters noted, however, that at the residential system scale, use of dried chips is not a practical alternative and the change likely would have little effect in the short term. HotZero maintained that dried chips might be a viable alternative fuel source for larger residential systems, and emphasized the need for consistency in eligibility

requirements between the Program and the Commercial and Industrial Bulk Fuel-Fed Wood Pellet Central Heating System rebate program (C&I Program).

Staff reiterated its position that the Program should focus on wood pellets as the sole eligible fuel source, citing the current state of the market, the relative economies of scale, and the continuing need to foster development of the wood pellet production and distribution industry.

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.”

Lyme Green also noted that the Commission recently approved grant funding for a company working to develop dried chips, while relying on the Program and the C&I 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 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 and the C&I 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 in particular.

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 for the residential marketplace could not readily meet this stricter emissions standard.

5. Retroactive Effect For Incentive Level Increase. Several commenters urged the Commission to approve a retroactive effective date for the incentive level increase, such that rebate applications submitted after the stakeholder technical session held on May 10, 2016, would be entitled to receive the increased rebate amount without having to reapply. New England Wood Pellet LLC and Maine Energy both cited the market uncertainty resulting from Staff’s proposal to increase the incentive level as the basis for adopting a retroactive effective date for any approved increase.

IV. COMMISSION ANALYSIS

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. In particular, we approve the increase in the Program incentive level to 40% of total heating system and installation costs with a maximum amount of \$10,000, and an incentive adder of \$100 per ton for fuel storage systems larger than the three ton minimum requirement, up to a maximum of \$500. We will not

require residential systems to be T-REC eligible at this time, and we will approve the reduction in the emissions limit to a total particulate matter standard of less than or equal to 0.10 pounds per MMBtu. We also take this opportunity to formally adopt and ratify the Program and its administration and use of the Renewable Energy Fund, under RSA 362-F:10, VIII.

With respect to the inclusion of dried chips as another eligible fuel source in the Program, we acknowledge the 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, and we are concerned about unforeseen and unintended consequences, in particular as such an expansion might affect the availability 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. We note this decision is consistent with our similar determination with respect to the C&I Program.

As stated 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 will not approve a retroactive effective date for the incentive level increase, as proposed by several public commenters. Any systems that were installed prior to the incentive level increase were willing and able to proceed notwithstanding the uncertainty resulting from Staff's proposal, while projects that have not yet been completed will be able to withdraw any pending rebate applications and submit new applications for the higher incentive level following the transition described below.

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.

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

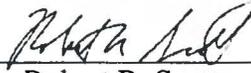
FURTHER ORDERED, that Staff is directed to modify the program application forms and processing consistent with the approved modifications and transition procedures; and it is

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.

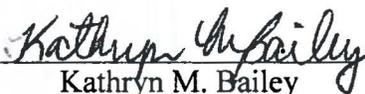
By order of the Public Utilities Commission of New Hampshire this fifth day of July, 2016.



Martin P. Honigberg
Chairman

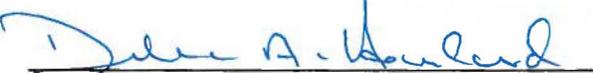


Robert R. Scott
Commissioner



Kathryn M. Bailey
Commissioner

Attested by:



Debra A. Howland
Executive Director