



January 21, 2008

**COMMENTS OF ENVIRONMENT NORTHEAST
TO THE CONNECTICUT ENERGY ADVISORY BOARD
ON DRAFT REPORT CONCERNING
THE CONNECTICUT ELECTRIC CONSERVATION PROGRAMS STUDY**

I. INTRODUCTION

Environment Northeast (ENE) appreciates the opportunity to present comments on this Draft Report. Connecticut has long recognized that supporting cost-effective reductions in energy use is the single policy which best addresses minimizing both consumer energy costs and the environmental impacts of energy production. For this reason, the Connecticut electric utility conservation programs have been key elements of Connecticut energy policy for over twenty years and have been recognized as leaders in the field on numerous occasions.

Section 59 of Public Act No. 07-242 authorizes the study which is the subject of the Draft Report here. This section directs the CEAB to (i) study the efficacy, innovativeness and customer focus of the electric conservation programs, and (ii) investigate three options for delivering the programs. The CEAB contracted with GDS Associates (GDS) to prepare the Draft Report.

As is discussed more fully below, the Draft Report first develops some comparative data for energy efficiency programs in the Northeast and concludes that the Connecticut Light & Power Company and United Illuminating programs compare favorably with other programs in the region in terms of costs and savings. GDS arranged for surveys of residents and businesses and found a reasonably high level of awareness of the programs. GDS also reviewed the individual programs offered under the 2006 Annual Plan and found them to be comprehensive and effective. These conclusions are consistent with those of other reviews of these programs in recent years.

With respect to the delivery options, GDS reviewed the available literature and found that two studies by the ACEEE and another by researchers at the University of California Energy Institute have each reached the same conclusion: “no single administrative structure for energy efficiency programs has emerged that is convincingly superior to all of the other alternatives.” The studies found that there were relatively successful and unsuccessful examples of programs operated by utilities, by state agencies and by independent organizations and concluded that the preferred approach depended on the particular situation in each state. Draft Report at 4, 5.

Based on this information, which was supported by the data and research, it appeared that the conclusions of the Draft Report would be relatively straight-forward, i.e. that Connecticut has a high quality program with good results, no alternative structure has been shown to provide a better delivery system, and the state needs to expand its efficiency activities as quickly as possible. Therefore, we should continue and strengthen the current system.

However, at this point the Draft Report wanders into areas which are not documented and reaches conclusions that are not supported by the data and research provided in the Report. The result of this detour is the only formal “finding” in the Report, namely “that if Connecticut were to adopt a non-profit administration mechanism, the ‘performance management fee’ issue would go away and the dollars currently distributed to the utilities through the fee would be allocated back to conservation initiatives.” Draft Report at 17. In order to reach this conclusion, one would first have to assume that a (currently unknown) non-profit administrative mechanism could provide the same results as the Connecticut utilities at an equal or lesser cost. Since the authors had already concluded that no delivery system was inherently better than another, there is no assurance that this is an accurate assumption. Because of their experience, access to customers and customer data, and record of results, the utilities have number of advantages which would be difficult to duplicate in a new entity. Secondly, the inherent assumption seems to be that performance incentives are a waste of money and would not be helpful in motivating a higher level of performance by a non-profit entity. In fact, performance incentives are a common feature of the most outstanding efficiency programs, including those provided by the non-profit Efficiency Vermont. Thirdly, this conclusion ignores the substantial costs, risks and delays in any transition from the current system to a new program administrator. Such interruptions would be particularly unfortunate at a time when the legislature has mandated the development of procurement plans which include first meeting all

resource needs through cost-effective efficiency and demand reduction resources to be implemented through the DPUC and the utility programs.¹

II. The Draft Report Confirms Previous Findings that the Utility Administered Efficiency Programs are Among the Best in the United States.

The Draft Report collects a variety of statistics on the costs and savings achieved by efficiency programs in the Northeast and concludes that the overall performance of the Connecticut programs compares favorably with those of other programs in the region. The Draft Report also contains a review of the specific programs offered and concludes that the program portfolios are comprehensive and cover most markets and energy efficiency technologies. (p. 15) These conclusions are consistent with previous reviews of the Connecticut programs.

In 2007, the American Council for an Energy Efficient Economy (ACEEE) ranked Connecticut, California and Vermont as the leading states in energy efficiency policies, programs, and technologies.² In a separate 2007 review of specific program components, the ACEEE ranked Connecticut electric utility programs as “exemplary” in several important categories, including residential lighting and appliances, small business, commercial/industrial new construction and commercial/industrial retrofits.³ In 2003, the Office of Consumer Counsel (OCC) commissioned efficiency experts to do a detailed evaluation of the performance of the Connecticut programs as compared to those in Massachusetts, New York, New Jersey and Vermont. The study concluded that “Connecticut consistently scored well on both productivity and depth of efficiency investment compared to the other jurisdictions. This finding applies both for the entire portfolio, for the residential and C/I sector, and for the individual markets examined in each sector.” See Draft Report at 86.

It is clear that the Connecticut utility administered programs are among the best in the country and are a valuable resource for the state.

¹ Public Act No. 07-242, Secs. 51 and 52.

² <http://www.aceee.org/press/e075pr.htm>

³ http://aceee.org/utility/exemplary_programs/0709exemplary-programs.pdf

III. Performance Incentives Are an Important Tool in Achieving High Levels of Results from the Efficiency Programs.

The Draft Report includes a discussion of the role of performance incentives in efficiency programs which contains a number of inaccurate statements and reaches a conclusion which is not supported by the data and research presented in the report. An underlying assumption appears to be that performance incentives are unnecessary expenditures which do not contribute to a program's success in maximizing savings for customers. However, the Draft Report provides no data to support this conclusion. To the contrary, the widespread use of performance incentives in business and industry, as well as in many of the leading efficiency programs, indicates that many have concluded that they have considerable value. In addition to the incentives that are a part of the current program in Connecticut, performance incentives are in place in Vermont and Massachusetts and are being reinstated in California after a brief hiatus.⁴ The fact that these states were ranked by the ACEEE as having the four best efficiency programs and policies is an indication that performance incentives are a positive component of effective programs.

Planning and implementing effective conservation programs is a complex task which requires a high degree of skill, creativity and commitment. Performance incentives assist in ensuring that the management and administration of the programs is focused on meeting the specific goals that have been adopted. Contrary to the description in the Draft Report (p. 13), the utilities do not establish the goals. The initial incentive proposal is developed jointly by the utilities and the independent consultants retained by the Energy Conservation Management Board (ECMB) as part of the Annual C&LM Plan. The Plan is reviewed and approved by the ECMB and then by the Department of Public Utility Control (DPUC). Periodically, the Department conducts a detailed review of the incentive structure and makes significant revisions.⁵ As it has been developed over time, the performance incentive matrix now includes goals for savings, participation rates, specific activities and other factors deemed important in improving program delivery.⁶ It is quite similar to

⁴ Draft Report at 13, 14.

⁵ See, e.g. DPUC Docket No. 03-11-01PH02 at 3-9, 13-17.

⁶ See CL&P and UI Conservation and Load Management Plan 2008 – Performance Incentives

the performance incentive structure in Massachusetts and Vermont which the Draft Report describes as multi-factor performance targets.

This section of the Draft Report also contains a muddled discussion about the potential to “double collect” payment for lost sales revenues through the decoupling mechanism which was mandated by Public Act 07-242, Sec. 107 and the performance incentive mechanism. This discussion inaccurately equates decoupling with lost revenue mechanisms and inaccurately describes the purpose of the performance incentive. Decoupling adjustments are intended to eliminate the current rate structure’s disincentive to pursue activities which reduce sales by ensuring that recovery of distribution revenues is not affected by variations in sales levels, regardless of the cause of the variations.⁷ Lost revenue mechanisms do not remove the incentive to increase sales, because they only provide compensation for projected revenue losses due to conservation programs, while preserving the profit benefits of increasing sales.

The current performance incentive fee structure, incorporating a maximum of an 8% pre-tax payment, was adopted by the DPUC in its approval of the 2000 Conservation and Load Management Plan. That was the first year of the revised program after restructuring and the creation of the ECMB. In approving this level, the DPUC stated that it “believes that the Company should receive an appropriate incentive to put forth its best efforts to implement cost effective C&LM programs and fulfill its overall goals.” In addition, the DPUC indicated that it “does not view the management performance incentive as a means to make the Company whole for lost revenues.”⁸ Thus, the clear purpose of the mechanism is, as stated, to provide a performance incentive, rather than to compensate for lost sales.

IV. There is No Basis for Assuming That a Change in the Delivery System Would Reduce the Costs or Increase the Savings Currently Being Achieved.

⁷ Aligning Utility Interests With Energy Efficiency Objectives: A Review of Recent Efforts at Decoupling and Performance Incentives, ACEEE Report No. U061 at 5, 8.

⁸ DPUC Review of CL&P’s Conservation and Load Management Programs for 2000, Docket No. 99-09-30, Sec. F, May 5, 2000.

The sole “finding” in the Draft report is an unsupported claim that “if Connecticut were to adopt a non-profit administration mechanism, the ‘performance management fee’ issue would go away and the dollars currently distributed to the utilities through the fee would be allocated back to conservation initiatives.” Draft Report at 17. A primary difficulty with this claim is that there is no basis for assuming that a non-profit organization would provide the same high level of services at the same costs as the Connecticut utilities. The Report has convincingly shown, based on research reports, that no single type of delivery system is inherently superior to any other and that effective and ineffective programs can be found in all categories, depending on the situation and their performance.

In addition, as the Report notes in Sec. 10.8, utilities have inherent advantages in delivering efficiency services because “they have the capital, personnel, and an existing relationship with the customer that enables them to reach broad customer markets effectively. Specifically, once a utility has developed a staff and infrastructure to develop and deliver cost-effective efficiency programs, there is reason to be cautious about taking measures to dismantle that infrastructure by assigning the duties elsewhere.” Draft Report at 92. In Sec. 10.8, the Draft Report also notes that two limitations on utility programs are service area boundaries which may cause market problems and the potential financial disincentives caused by rate structures. In Connecticut, with strong guidance from the DPUC, the two programs are now nearly identical and well coordinated, minimizing the boundary issue⁹, and the financial disincentive should be removed through the implementation of legislatively mandated decoupling.

The issue of the value of performance incentives, which the Finding dismisses, is discussed above. However, it should be noted that the most highly regarded non-profit delivery system in the country, Efficiency Vermont, also receives performance incentives as part of its contract with the state. Draft Report at 87. Therefore, the claimed “performance management issue” would not disappear just because a non-profit entity were inserted into the delivery system.

⁹ See CL&P and UI Conservation and Load Management Plan 2008 at 20 and program descriptions.

[http://www.dpuc.state.ct.us/dockcurr.nsf/6eaf6cab79ae2d4885256b040067883b/c573a5f38efe099a85257367006c6d9d/\\$FILE/FINAL%202008%20ELECT%20PLAN.pdf](http://www.dpuc.state.ct.us/dockcurr.nsf/6eaf6cab79ae2d4885256b040067883b/c573a5f38efe099a85257367006c6d9d/$FILE/FINAL%202008%20ELECT%20PLAN.pdf)

Finally, in considering the issue of changing delivery systems, the Draft Report ignores the critical problem of the costs and risks of a transition to a new system on the ability of the state to provide the current levels of service and to meet the goals set forth in Public Act 07-242, which include capturing all cost-effective efficiency opportunities through the implementation of annual procurement plans. Any fair analysis would have to conclude that embarking on such a transition would inevitably cause substantial delays in achieving this goal and should only be attempted if it is clear that significant benefits would be obtained. Nothing in the Draft Report suggests that a change would even be likely to be beneficial.

V. Recommendations

ENE respectfully requests that the foregoing comments be considered in revising the Draft Report. As indicated above, ENE believes that the Finding on page 17 is unsupported and should be deleted. However, it would be helpful to develop other specific findings so that the conclusions of the Report are clear. Issues for which findings would be appropriate include:

1. The efficacy, innovativeness and customer focus of the Connecticut programs.
2. Whether any of the delivery options have been demonstrated to be superior to other options.
3. The likely costs and benefits of a transition to another delivery option.

Respectfully submitted,

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