

WMECO Proposal to EEAC for 2010 Mid-Year Modifications: MassSave Residential and Commercial and Industrial Programs

SUMMARY

Pursuant to Western Massachusetts Electric Company (WMECO) D.P.U. 09-118 § X (2010) and the Department of Public Utilities' Guidelines in D.P.U. 08-50-B, § 3.8, WMECO proposes Mid-Year Modifications consisting of (1) an expansion of the Residential MassSAVE energy efficiency program, and (2) an incentive budget reallocation within the three WMECO Commercial and Industrial ("C&I") Programs.

The recommended Mid-Year Modifications include a total increase of \$2,133,818 for modifications to the MassSAVE Residential Retrofit Program budget. The recommended Mid-Year Modifications for the C&I Programs consist of a shift of participant incentive dollars of \$1,500,000 within the three C&I energy efficiency programs.

The proposed changes are intended to enable the Company to continue to implement consistent programs through the remainder 2010 and deliver more benefits to customers consistent with the Commonwealth's energy policy.

The following describes performance under these programs to date, program modification recommendations and budget, and projections regarding savings and bill impacts. The Company will file a full set of 08-50 tables and bill impact analysis with the Department.

PROPOSED ENERGY EFFICIENCY PROGRAM MODIFICATIONS

I. Residential Programs

MassSAVE Status

As of May 31, higher than expected customer uptake of recommended energy savings measures in WMECO's MassSAVE program has led to expenditures at 73% of the approved annual budget, savings equal to approximately 75% of goal for the year, and 60% of planned participation. Spending and participation levels during the first quarter of 2010 in the MassSAVE Program were higher than anticipated as indicated by the following statistics:

- Year to date, 1,248 Home Energy Assessments have been completed as compared to 1,098 in 2009, 13% more than at the same time a year ago.
- WMECO has 1,041 contracts for major measures such as air sealing and insulation work signed at the end of May as compared to 311 at the same time in 2009. That is a 235% change from the previous year and represents an 83% implementation rate.

- Through May there have been 1,010 jobs completed for contracts signed in 2009 and 2010 as compared to 196 a year ago, representing a 415% increase over the previous year. These contracts represent 477 air sealing jobs and 533 insulation jobs.

Key drivers in this unprecedented increase in demand include:

- The requirement that participants who have insulation work recommended at the time of the initial home audit will receive free air sealing work prior to the installation of the recommended insulation measures.
- Current interest continues to be strong due to increased customer awareness, MassSAVE marketing, high incentive levels and Government tax credits.

MassSAVE Proposal

If implementation of energy efficiency measures continues at the current rate, the program will be approximately \$1.6 million over budget by year end 2010 or will not be able to serve additional customers by the end of August. In order to maintain the current level of activity through the end of 2010, WMECO needs to request \$1,603,068 in additional program funding. The Company's proposal assumes that current incentive levels will be maintained for the remainder of 2010. These incentives equal 75% of cost, up to \$2,000 per participant. Maintaining the incentive at 75% has several advantages. First, WMECO customers would continue to receive incentives comparable to what is offered by the other program administrators. Second, this incentive level generates more savings and participants compared to a lower incentive level. However, the disadvantage of maintaining the incentive at 75% is the resulting bill impacts for non-participants.

2010 experience to date in the MassSAVE program suggests that 93% of audits will lead to further measure installations at this incentive level. WMECO projects that it will install insulation in approximately 400 additional homes and complete 500 additional combined air sealing and insulation contracts.

Additional MassSAVE Program Opportunities for 2010

In the first half of 2010, opportunities emerged for the Company to participate in several promising initiatives that will increase savings and associated budget. The Company believes it is important to incorporate these initiatives into its 2010 plan in order to capture the program benefits.

Sandri Oil and Next Step Living

Sandri Oil ("Sandri"), a local oil distributor in Greenfield, and Next Step Living, an independent residential audit and implementation contractor, have asked WMECO to form a partnership in implementing an award they received this spring under the federal American Recovery and Reinvestment Act ("ARRA"). As a part of the award, Next Step Living and Sandri have proposed using \$244,000 from their grant to act as "gap funding"

for customers in the 60 to 100% of state medium income range in order for those customers to implement recommended energy efficiency measures that they otherwise may not be able to afford. In order to leverage this opportunity, WMECO plans on funding an additional 150 audits with an average cost per customer of \$1,250. This program will result in the need for an additional \$237,500 in funding, including incentives and administration costs, thus leveraging nearly a half million dollars. This opportunity will allow residential customers to install energy efficiency measures that were unlikely to happen without additional contributions toward the customers' costs.

Environmental Compliance Services (“ECS”) Center for Ecological Technology (“CET”) Proposal

ECS, an environmental consulting service based in western Massachusetts, has a longstanding relationship with many oil marketers in the Northeast and has been working with one in particular to develop a customer retention program through the use of energy efficiency services. CET is the Company's lead vendor for implementation of the MassSAVE program.

ECS is proposing to assist O'Connell Oil Company (“O'Connell”) in marketing the Mass SAVE Energy Efficiency Program to their customers. ECS is proposing to manage the process for O'Connell including outreach and follow-up. ECS is also proposing to brand the program as an O'Connell Oil Energy Efficiency Program with recognition that it is in partnership with WMECO.

In this model, ECS would request that customers contact the MassSAVE phone number or utilize the website for requesting the services. Upon request, CET would provide the site audit. ECS would provide the air sealing and weatherization services that they are qualified to provide. ECS would also work with O'Connell to use this opportunity to educate the customers on green products and services such as new oil related energy efficiency products and solar thermal for water heating. ECS will comply with all Mass Save Program requirements in the delivery of the services as identified through the CET preliminary site visit and audit. The Company is requesting \$37,500 for this initiative in order to incorporate 30 additional homes into the MassSAVE program at an estimated cost of \$1,250 per home.

CET Community Mobilization Proposal

WMECO has also received a separate proposal from CET to partner with CET, Berkshire Gas, and Bay State Gas, to fund a Community Mobilization. CET proposes to carry out community based outreach strategies to educate and motivate residents and small businesses to take advantage of available energy efficiency/renewable energy programs and take other steps to save energy and support renewable energy. The target population is underserved, hard-to-reach households in the cities of Pittsfield and Easthampton – notably those who may not qualify for low-income programs but may be reluctant to participate in opportunities that are available to households of all income levels for various socio-demographic reasons. The project will target electric and natural gas

savings (as well as oil/propane for residential households participating in MassSAVE). WMECO is requesting \$50,000 to fund this initiative.

Incorporation of Independent MassSAVE Providers

The Company remains committed to assessing opportunities to provide pathways for the inclusion of energy professionals in utility sponsored programs. WMECO has actively participated in ongoing discussions to develop a list of potential contractors to join the network, with the goal of integrating the customers of any approved independent contractors. Earlier this year, in conjunction with CET and Berkshire Gas, WMECO selected seven local companies to move on to the next phase of the process and provide additional details on pricing and process. The expectation is that these contractors will have the opportunity to integrate their customers into the MassSAVE program 2010. In future years, WMECO will build on this effort to further integrate contractors into the MassSAVE program. For the second half of 2010, the Company projects funding an additional 83 audits with an average cost per participant of \$1,250. With additional Administration and Sales and Technical costs, the Company is proposing to budget an additional \$203,750.

MassSave Budget and Savings Goals Summary

A summary of the requested MassSave Program budget additions is as follows:

	Approved \$	Proposed Increase	Total New Budget
MassSAVE			
Customer Incentive	\$1,359,434	\$1,496,751	\$2,856,185
Sales Tech Support \$	\$602,050	\$108,317	\$710,367
All other budget categories	\$182,642	\$0	\$182,642
Sandri Oil/Next Step Living			
Customer Incentive	\$0	\$187,500	\$187,500
Sales Tech Support \$	\$0	\$50,000	\$50,000
CET/ECS			
Customer Incentive	\$0	\$37,500	\$37,500
Sales Tech Support \$	\$0	\$0	\$0
CET CMI			
Customer Incentive	\$0	\$0	\$0
Sales Tech Support \$	\$0	\$50,000	\$50,000
MassSAVE/Independents			
Customer Incentive	\$0	\$103,750	\$103,750
Sales Tech Support \$	\$0	\$100,000	\$100,000
Performance Incentive ¹	\$142,829	\$194,082	\$336,911
Lost Based Revenue ²	\$80,025	\$43,172	\$123,197
Total	\$2,366,980	\$2,371,072	\$4,738,052

Notes:

1. Calculated using the performance incentive rates approved in DPU 09-118: \$0.071578 for the savings mechanism, and \$0.0080598 for the value mechanism.

2. Values represent only the 2010 LBR attributed to measures installed in 2010. Total 2010 LBR including 2009 and 2010 incremental savings over 2007 will be included in the 08-50 tables in the Company's filing to the Department.

The proposed increase in funding and resulting savings will also provide WMECO with the potential to earn a higher performance incentive under the savings and value mechanisms.

The benefit-cost ratio of this program in the approved Plan is 3.98. The benefit cost ratio for the modified program is projected to equal 4.66. The Company will prepare a full benefit-cost analysis for inclusion in its D.P.U. filing.

Projections for MassSAVE midyear modifications are displayed in the following table:

MassSAVE BCR and Benefits Comparison						
	B/C ratio	Annual MWH	Summer KW	MMBTUs	Net Benefits	Benefits
Approved Filing	3.98	1,831	507	17,240	\$8,020,724	\$10,711,646
Proposed Mid -year Modification	4.66	3,280	1,176	39,137	\$19,457,310	\$24,780,503
<i>Difference</i>	<i>0.67</i>	<i>1,449</i>	<i>669</i>	<i>21,897</i>	<i>\$11,436,587</i>	<i>\$14,068,857</i>

MassSAVE funding increases will result in an increase to WMECO’s Energy Efficiency Program Cost Adjustment (“EEPCA”) or Energy Efficiency Surcharge. The Company would need to increase the residential EEPCA by an estimated \$.00241 per kWh. This is equivalent to \$1.45 per month for a typical 600 kWh per month customer. The Company will include a full analysis of bill impacts in its filing to the Department.

II. Commercial and Industrial Programs

The recommended Mid-Year Modifications calls for shifting incentive dollars between program categories. WMECO is proposing to shift \$750,000 of incentive dollars from both the C&I Large Retrofit and C&I New Construction and Major Renovation program budgets and to add this \$1,500,000 to the incentive budget for the C&I Small Retrofit Program. This recommendation will not increase total 2010 proposed incentive spending, and measure incentive levels and program design will remain unchanged.

2010 Commercial and Industrial Program Status

In the first half of 2010, WMECO has experienced an unprecedented increase in participation in the Small Business Program, and a significant reduction in participation in the Large Retrofit and New Construction and Major Renovation Programs as compared to recent years. The Small Business Program has spent or signed contracts representing approximately 80% of the 2010 budgeted amount as of June 30, 2010.

Small Retrofit Status

The primary cause of the significant increase in WMECO’s Small Business Program participation is the increase in incentive level from 35% offered in 2009, to 70% in 2010. The raising of the average peak kilowatt eligibility limit from 200 to 300 kilowatts was also a factor. These program changes were implemented to achieve a consistent statewide Small Business Program among all Massachusetts Program Administrators. WMECO did anticipate some increase in participation related to these changes and increased the incentive budget by 80% from \$1.35 million in 2009, to \$2.43 million in 2010, as part of the Company’s 3-year plan approved in D.P.U. 09-118.

Based on a review of the Small Business Program's year-to-date performance and pipeline projects in early May, WMECO has determined that the Company will likely exceed the 2010 budget within the next few months.

Large Retrofit Status

The WMECO Large Retrofit Program has seen a significant decrease in activity this year. WMECO believes one contributing factor was the drop in incentives for retrofit lighting measures, associated with WMECO adopting lower incentives to be consistent with the other Program Administrators. In general, the lighting incentives went from 50% in 2009 to approximately 30% to 40% in 2010.

In order to address the concern with the Large Retrofit Program, WMECO along with the other electric PA's implemented a stimulus plan in April that increased the incentive levels of selected measures. In addition, WMECO implemented a vendor incentive in May to offer 5% payment directly to vendors who implement new projects. The vendor incentive was implemented to match a similar incentive program being offered in Connecticut, as many of the vendors working in WMECO programs work in both states. Both of these enhancements have been presented to our C&I trade allies along with continuous customer outreach, and program promotion by WMECO's Program Administrators and Account Executives.

New Construction and Major Renovation Status

The project activity level for the WMECO Lost Opportunity Program (New Construction/Major Renovation and Equipment Replacement) is also tracking below planned levels. The incentive levels for this program have remained unchanged from 2009 levels, with the one exception being an increase in lighting incentive for new buildings. Here again, WMECO Program Administrators and Account Executives have been actively working with customers, and trade allies to identify efficiency opportunities. Based on Company experience, the lag in economic recovery in the western portion of the state and a continuing conservative approach on capital spending by many western MA companies are the reasons for this change.

Proposal

Based on the circumstances described above, WMECO is seeking a shift of incentive dollars from the two Large C&I programs to the Small Business program.¹ If the funds are not shifted, it is very likely that WMECO will not be able to meet the previously filed 2010 savings goals and customer incentive dollars for Large Retrofit and New Construction and Major Renovation programs likely would be unused. Therefore shifting the funds to the Small Business Program will result in WMECO being able to achieve energy savings closer to the initial 2010 goals.

¹ PAs currently are working with DOER, the EEAC, DPU, and other stakeholders to explore possible changes to the threshold requirements for seeking modifications to approved plans.

WMECO recommends that \$1,500,000 in incentive funding be shifted into the Small Business Program from the Large Retrofit program (\$750,000) and the Lost Opportunity Program (\$750,000). The proposal includes shifting savings targets accordingly.

The following table shows the reallocation between programs as proposed.

C&I Budget			
		Program Budget	Performance Incentive *
Small Business	2010 Approved Plan	\$3,026,927	\$151,335
	Mid Year Modifications	\$4,526,927	\$265,273
	<i>Difference</i>	\$1,500,000	\$113,938
Large Retrofit	2010 Approved Plan	\$4,132,786	\$310,263
	Mid Year Modifications	\$3,382,786	\$215,044
	<i>Difference</i>	-\$750,000	-\$95,219
New Construction and Major Renovation	2010 Approved Plan	\$3,727,746	\$310,088
	Mid Year Modifications	\$2,977,746	\$215,465
	<i>Difference</i>	-\$750,000	-\$94,623
Total C&I Impact		\$0	-\$75,904

* Calculated using the performance incentive rates approved in DPU 09-118: \$0.071578 for the savings mechanism, and \$0.0080598 for the value mechanism.

Savings and Bill Impact Projections

The impact of this recommendation would be a slight decrease in the cost / benefit ratio, as the average cost per kilowatt-hour saved is higher at the Small Business incentive level of 70% compared to approximately 40% for the Large Retrofit and Lost Opportunity Programs.

In order to maximize cost-effectiveness of the proposed shift, WMECO plans to focus on higher cost to benefit savings measures for the small business program, such as replacement of T12 fluorescents and high intensity discharge lighting fixtures with far higher efficiency fluorescent technology.

The following table provides a comparison for WMECO's C&I programs of the cost effectiveness, annual energy and demand savings, dollar value of benefits and dollar value of net benefits in WMECO's approved plan for 2010 in D.P.U. 09-118 and the proposed shift in incentive dollars requested in this mid-year modification.

C&I BCR and Benefits Comparison						
		B/C ratio	Annual MWH	Summer KW	Net Benefits	Benefits
C&I New Construction & Major Renovation	Approved Filing	5.57	13,067	1,639	\$18,314,510	\$22,321,110
	Proposed Mid -year Modification	5.12	9,404	1,198	\$12,959,536	\$16,103,087
	Difference	(0.45)	(3,663)	(441)	-\$5,354,974	-\$6,218,023
C&I Large Retrofit	Approved Filing	2.91	15,275	1,815	\$16,210,040	\$24,718,323
	Proposed Mid -year Modification	2.78	11,389	1,351	\$11,823,432	\$18,461,168
	Difference	(0.12)	(3,886)	(464)	-\$4,386,608	-\$6,257,155
Small C&I Retrofit	Approved Filing	2.82	7,158	1,571	\$7,831,923	\$12,140,953
	Proposed Mid -year Modification	2.97	11,574	2,540	\$13,025,725	\$19,628,193
	Difference	0.16	4,416	969	\$5,193,802	\$7,487,240
Total C&I	Approved Filing	3.47	35,500	5,025	\$42,107,165	\$59,180,386
	Proposed Mid -year Modification	3.26	32,367	5,089	\$37,559,385	\$54,192,448
	Difference	(0.21)	(3,133)	64	-\$4,547,780	-\$4,987,937

The slight decrease in BCR, Annual MWH, Net Benefits and Benefits are attributable to the higher incentive levels with the Small Business program which leads to lower savings per incentive dollar when compared to the Large C&I programs. While this represents a small overall reduction in benefits, WMECO believes that these revisions represent the best achievable results for 2010 based on experience to date and expectations going forward. Therefore the proposed modification will continue to challenge the Company to achieve maximum available savings.

There will be a very small impact on customer billing, as the total proposed 2010 C&I sector program budget dollars would remain unchanged with a slight decrease in the Company performance incentive and LBR for the C&I programs. The Company will include a full analysis of bill impacts in its filing to the Department.