KO
LAW, P.C.

ATTORNEYS AT LAW

The Firm has attorneys also admitted to practice in District of Columbia, Idaho and New Hampshire

1337 Massachusetts Ave
Box 301
Arlington, MA 02476

617-644-7681

www.kolawpc.com

September 14, 2023

VIA ELECTRONIC MAIL ONLY (elizabeth.mahony@mass.gov)

Elizabeth Mahony, Commissioner
Energy Efficiency Advisory Council Chair
Department of Energy Resources
100 Cambridge Street #1020
Boston, MA 02114

Re: D.P.U. 23-58, Cape Light Compact JPE Petition for Approval of Mid-Term Modifications of its 2022-2024 Three-Year Energy Efficiency Plan

Dear Commissioner Mahony:

On behalf of the Cape Light Compact JPE (the "Compact"), consistent with the Energy Efficiency Guidelines promulgated by the Department of Public Utilities ("Department") in *Investigation by the Department of Public Utilities on its own Motion into Updating its Energy Efficiency Guidelines, D.P.U. 20-150-A (2021)* ("Guidelines") and *Cape Light Compact JPE*, D.P.U. 21-126 (2022), the Compact hereby submits Exhibit CLC-4, the narrative for its proposed Mid-Term Modifications ("MTMs") to its 2022-2024 Three-Year Plan, which was submitted with the Compact's petition to the Department under separate cover today in D.P.U. 23-58.

Please contact me if you have any questions. Thank you for your attention to this matter.

Sincerely,

Audrey Eidelman Kiernan

Audrey Eidelman Kiernan

AEK/drb
Enclosure

cc: Jo Ann Bodemer, Esq., Director of Energy Efficiency, DOER (w/enc.) (via email only)
Energy Efficiency Advisory Council (w/enc.) (via email only)
D.P.U. 21-126 Service List (w/enc.) (via email only)
Margaret T. Downey, Compact Administrator (w/enc.) (via email only)

Mid-Term Modification Request for the Cape Light Compact JPE

The Cape Light Compact JPE ("Compact") is committed to securing energy savings consistent with its portfolio level savings goals for the period of 2022-2024, as endorsed by the Energy Efficiency Advisory Council ("Council") and approved by the Department of Public Utilities ("Department") in D.P.U. 21-126 and D.P.U. 22-137. The Compact has experienced greater than anticipated demand for services that it projects will lead to expenditures exceeding 100 percent of the Department approved term budgets for three programs. In addition, the Compact has experienced lower than anticipated demand for services in the commercial and industrial ("C&I") sector that it projects will result in the Compact expending 24% less than the Department approved term budget.

The currently effective Energy Efficiency Guidelines were promulgated in D.P.U. 20-150-A on May 3, 2021 ("Guidelines"). Additional and supplanting directives on mid-term modifications ("MTM") were provided in D.P.U. 21-126, as issued on January 31, 2022, in which the Department ordered that, "a Program Administrator may not exceed its planned program budget without approval by the Department." *See* Three-Year Plans Order, D.P.U. 21-120 through D.P.U. 21-129 ("Three-Year Plans Order") at 224 (2022). Further, the Department ordered that "[i]f a Program Administrator projects it will exceed a program-level budget, the Program Administrator shall simultaneously submit any proposed budget change (1) for review by the Council and (2) for review and approval by the Department." *Id*. at 225, n.139. The Guidelines at Section 3.8.2 also state that a Program Administrator that seeks to decrease its three-year term sector budget by greater than 10 percent "shall submit its proposed modifications at the same time for (a) review by the Council, and (b) review and approval by the Department…". Accordingly, the Compact has submitted this proposal simultaneously to the Council and the Department.

I. Residential Sector: Residential Hard-to-Measure Program

A. Background and Request

The Residential sector includes core initiatives that fall under the category of Residential Hard-to-Measure in the data tables. These Residential Hard-to-Measure core initiatives that support the Compact's implementation of its 2022-2024 Energy Efficiency Plan ("Plan") are: Statewide Marketing; Statewide Database; DOER Assessment; Sponsorships and Subscriptions; Workforce Development; Evaluation and Market Research; EEAC Consultants; R&D Demonstration; HEAT Loan; and Education. For purposes of this MTM request, the Compact is referring to this group of core initiatives as the "Residential Hard-to-Measure Program." These core initiatives contribute to or facilitate the program administrators' ("Program Administrator" or "PA") achievement of their goals. *See* D.P.U. 21-120 through D.P.U. 21-129, Exhibit 1 at 187-88.

The Compact's Residential Hard-to-Measure Program has experienced greater than anticipated customer participation in the Mass Save® HEAT Loan ("HEAT Loan"). The HEAT Loan offers interest-free financing opportunities up to $25,000, with terms up to seven years, depending on the loan provider. The "incentive" associated with the HEAT Loan is the Program Administrator's buy-down of the interest on the loan. HEAT Loan financing is available for energy-efficient home upgrades like the installation of air source heat pumps (central or ductless mini-split), ground source heat pumps, heat pump water heaters, insulation and more. During the Plan term, the Program Administrators are offering an electrification HEAT Loan of up to an additional $25,000 (for a total of $50,000), including up to $5,000 for electrification barriers such as electrical panel upgrades, for customers who install heat pumps in their home. The electric Program Administrator administers the HEAT Loan for both electric and natural gas heated customers.

In general, customers are financing higher amounts through the HEAT Loan than in previous years, and higher amounts than the Compact expected when planning the HEAT Loan budget for the Plan term. Further, the current prime interest rate has significantly increased from the time of the Plan filing, adding to larger expenditures for this offering than originally planned. As a result, in 2022, the Compact saw an increase of about $550,000 in HEAT Loan costs over planned. The Compact projects that increased spending on the HEAT Loan will continue throughout the Plan term.

Therefore, the Compact seeks approval for an increase of approximately $1.5 million dollars over the three-year term, which would bring the total Residential Hard-to-Measure Program budget to $14,939,586 (an 11% increase).

B. Electric Savings and/or Customer Benefit

The increased expenditure on the HEAT Loan will not lead to additional electric savings. By definition, a Hard-to-Measure Energy Efficiency Program "refers to programs that have costs but do not have direct energy savings or whose energy savings may be difficult to quantify." Guidelines, §2. However, the funding increase will support the increased customer demand for use of the HEAT Loan to finance the installation of energy efficiency measures, which themselves may result in kWh savings and/or greenhouse gas ("GHG") emissions reductions. The HEAT Loan also enables customers to implement energy efficiency measures that would otherwise be cost-prohibitive (when looking at the upfront costs of a particular measure or group of measures).

II. Income-Eligible Sector: Income Eligible Hard-to-Measure Program

A. Background and Request

The Income-Eligible sector includes core initiatives that fall under the category of Income-Eligible Hard-to-Measure in the data tables. These Income-Eligible Hard-to-Measure core initiatives that support the Compact's implementation of its Plan are: Statewide Marketing; Statewide Database; DOER Assessment; Sponsorships and Subscriptions; Workforce

Development; Evaluation and Market Research; and Low-Income Energy Affordability Network ("LEAN"). These core initiatives contribute to or facilitate the PAs' achievement of their goals. *See* D.P.U. 21-120 through D.P.U. 21-129, Exhibit 1 at 187-88.

The Compact is seeing an increased demand for additional evaluation, measurement and verification ("EM&V") activities in its Income Eligible Hard-to-Measure Program. Since the Compact's Plan filing, additional EM&V studies were required of the PAs, resulting from the Department's Three-Year Plans Order and additional studies were requested by the Department of Energy Resources. This has increased the Compact's share of EM&V costs.

Therefore, the Compact seeks approval for an increase of approximately $85,000 over the three-year term, which would bring the total Income Eligible Hard-to-Measure Program budget to $1,082,869 (an 8% increase).

B. Electric Savings and/or Customer Benefit

As described above, hard-to-measure programs by definition are non-energy saving programs. However, the increased funding will support EM&V, which is essential to the energy efficiency program lifecycle, from conducting market research in support of new program designs, to developing program theory, to assessing demonstration projects for new offers, and ultimately evaluating verified savings and benefits from mature programs. See D.P.U. 21-126, Exhibit 1, Appendix H at 4. EM&V is also directly tied to satisfying the key priorities of the Plan. *Id*.

III. Income-Eligible Sector: Income Eligible Existing Buildings Program

A. Background and Request

The Income Eligible Existing Buildings Program provides cost-effective, energy efficiency products and services to income eligible residential customers. The Plan defines income eligible as at or below 60% of the state median income level for 1-4 unit buildings and having at least 50% of units be at or below 60% of the area median income level for 5+ unit buildings. Customers that qualify for the utility discount rate are also considered income eligible. The Income Eligible Coordinated Delivery Initiative within the Income Eligible Existing Buildings Program is administered in coordination with LEAN.

The Compact is experiencing greater than expected costs for heat pump installation in the Income Eligible Existing Buildings Program. Based on experience in 2022 and during the first half of 2023, on average, the Compact is seeing installed heat pump costs more than double what was planned for in income eligible single-family homes on Cape Cod and Martha's Vineyard. Because heat pumps made up more than half of the Compact's planned spending for the Income Eligible Existing Buildings Program, the increase in per-unit costs has a significant impact on the total budget. Other drivers of this budget request include improved weatherization results due to the combination of increased R-value guidelines and by addressing more weatherization barriers such as vermiculite and mold, both of which are new to the Plan term.

Therefore, the Compact seeks approval for a three-year term budget increase of approximately \$18 million for its Income Eligible Existing Buildings Program, which would bring the total Income Eligible Existing Buildings Program budget to \$37,644,662 (a 93% increase).

B. Electric Savings and/or Customer Benefit

The increased spending is not expected to result in an increase in electric savings for the Income Eligible Existing Buildings Program. Currently, the Compact projects that its lifetime kilowatt-hour ("kWh") savings for the program will decrease by about 30% compared to the Plan numbers, due in large part to greater demand from customers with oil and propane heat to convert to heat pumps, which yields negative electric savings. These fossil fuel conversions provide increased benefits and GHG emissions reductions, but not increased electric savings. However, while not increasing electric savings, the Compact's continued implementation of the Income Eligible Existing Buildings Program will help move customers towards building decarbonization, an important goal of the Commonwealth. The increased spending will also achieve additional GHG emissions reductions and help support achievement of the goals the Program Administrators are required to meet pursuant to 2021 climate legislation, St. 2021, c. 8, §106. The additional budget will more than double the Compact's planned GHG emissions reductions for the income eligible sector (the 2030 avoided CO_2e metric tons), from ~1,300 metric tons to a total of ~2,800 metric tons.

Historically, the Compact has had trouble spending its statutorily required spending levels for income eligible customers. This budget increase will help support the Compact's achievement of the statutory mandate and allow the Compact to revisit income eligible customers with remediation of pre-weatherization barriers, enhanced weatherization, and electrification.

IV. C&I Sector: Existing Buildings Program

A. Background and Request

The Program Administrators serve a wide array of C&I customer types, including microbusiness, small business, medium business and large business. These customer types also span diverse industries, including business services, education, health care, hospitality, manufacturing, offices, public services, retail and wholesale. Planning and budgeting for serving the C&I sector presents unique challenges, especially in a service territory like the Compact's. These challenges include: (1) the lack of availability of a skilled workforce, specifically, electricians and HVAC contractors, which has led to a back log in installation approved jobs; (2) a significantly higher cost of "doing business" on Cape Cod and Martha's Vineyard, which leads to customer economic constraints; and (3) the seasonality of many of the Compact's small businesses, which results in shorter windows of time to engage customers. The C&I sector is volatile given that the loss of one or more planned large projects can have a significant effect on the C&I sector level budget.

During 2022, the Compact continued to experience material and labor shortages, as well as rising prices for materials and equipment resulting from the COVID-19 pandemic. This delayed program implementation and projects took longer than expected to move forward or did not move forward at all as they were too costly and the economics were unreasonable for the customer to proceed (even when coupled with the energy efficiency incentives offered by the Compact). The Compact has seen an improvement in material and equipment availability during 2023; however, labor shortages remain and have prohibited many projects across the C&I sector from being installed in a timely manner. In addition, the weatherization offering, initially planned for earlier in 2022, did not commence until the Fall of 2022 and training of vendors was necessary before ramping up these efforts. The Compact is committed to undertaking all reasonable efforts to try and increase C&I sector spending for the remainder of the Plan term. Unfortunately, however, the Compact projects that even with these efforts, the Compact will not be able to make up for the 2022 spending deficit it encountered (due to the labor and material shortages and related project delays) over the remainder of the Plan term.

Therefore, the Compact seeks approval for a three-year term budget decrease of approximately $13.6 million for its C&I sector, which would bring the total C&I sector budget to $43,322,721 (a 24% decrease).

B. Electric Savings and/or Customer Benefit

Despite this decrease in sector level spending for the Plan term, the Compact projects that it will have only slightly less electric kWh savings than originally planned.

V. Summary

The Compact seeks approval to exceed previously approved program budgets as described above for three electric programs:

1. Residential Hard-to-Measure
2. Income Eligible Hard-to-Measure
3. Income Eligible Existing Buildings

The Compact further seeks approval to reduce its C&I sector budget as described above.

The Compact will continue to monitor all initiatives, programs and sectors closely, as well as market factors related to program delivery with a commitment to continuing to serve its customers in all sectors. Should the need arise, the Compact will notify and work with the Council and the Department to request additional adjustments through the MTM process to ensure that all efforts are made to continue program offerings in a cost-effective manner that serves common interests.