Mid-Term Modification Request for Fitchburg Gas and Electric Light Company d/b/a Unitil (Electric Division)

Fitchburg Gas and Electric Light Company d/b/a Unitil ("FG&E" or the "Company") is committed to securing energy savings consistent with its portfolio level savings goals for the period 2022 through 2024, as endorsed by the Energy Efficiency Advisory Council ("EEAC" or "Council") and approved by the Department of Public Utilities (the "Department") in Fitchburg Gas and Electric Light Company d/b/a Unitil, D.P.U. 21-127 (2022) ("D.P.U. 21-127"), and as amended in FG&E's most recently reviewed and approved Mid-Term Modification ("MTM") filing in Fitchburg Gas and Electric Light Company d/b/a Unitil, D.P.U. 23-144 (2024) ("D.P.U. 23-144"). FG&E's electric division has continued to experience greater than anticipated demand for services that is reasonably expected to lead to expenditures exceeding 100 percent of approved term budgets for two programs.

The currently effective Energy Efficiency Guidelines were promulgated in D.P.U. 20-150-A, on May 3, 2021. Additional and supplanting directives on midterm modifications ("MTM") were provided in D.P.U. 21-127, 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 D.P.U. 21-127, at 224. 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. Accordingly, FG&E, as a program administrator of energy efficiency services ("Program Administrator" or "PA"), has submitted this proposal simultaneously to the EEAC and the Department.

I. Residential Sector

Hard to Measure Program

FG&E's Residential Hard to Measure ("HTM") Program for the Company's electric portfolio consists of several expense activities related to the Mass Save® program delivery that do not directly result in energy savings or benefits. Several of these activities are statewide expenses shared with other PAs, including Statewide Marketing, the Mass Save® Data Statewide Database, Workforce Development, Evaluation and Market Research, EEAC Consultants and Residential Education. Additional line items are driven by PA-specific activities and include Sponsorships and Subscriptions, and HEAT Loan activities. With the exception of the Department of Energy Resource's ("DOER") Assessment, and Residential HEAT Loans, all other Residential HTM line items are expected to be at or under the approved budget at the end of the 2022-2024 Term.

First, the DOER Assessment is allocated to each PA based on their relative size, and covers funding for DOER's operations pursuant to section 11H of Chapter 25A the General Laws of Massachusetts, specifically "to finance activities undertaken by the department in accordance with section 11G related to oversight and coordination of ratepayer funded programs for energy efficiency, energy conservation and demand reduction programs." The Company budgeted for this assessment based on past experience, as well as the statutory limit on the assessment, which shall not exceed an amount equal to 3.75 percent of the total annual mandatory charge. While the total dollars involved are modest relative to the entirety of the Residential HTM budget, the assessed amounts have exceeded the planned values for the term by $9,493, equal to 30 percent over the planned amount. While it is important to note the overspending in this line item at this time, the Company anticipates being able to offset this increased assessment amount in other HTM line items, and seeks no budget adjustment relative to the DOER Assessment.

Second, the Company seeks to increase its Residential HEAT Loan budget. HEAT Loans are provided to the Company's residential electric customers, including those who heat with natural gas, in conjunction with a network of participating commercial lenders in coordination with the Company, other PAs and various implementation vendors. In order to remove barriers to customer financing, the PAs pay an amount to the lenders equal to the net present value of interest on customers' loans, essentially allowing the customer to borrow at a zero percent interest rate. This reduces the cost of financing their Mass Save® energy efficiency project and facilitates the borrowing process, removing barriers to participation. Once the interest buy-down has occurred, the Company is no longer involved in the lending agreement between the customer and the lender, rather, loans are paid back by the customer under their agreement with the participating lender, typically over a period of seven years. Interest is paid down from current interest rates to 0 percent in a lump sum by the PA at the time of financing, which reduces the risk to the lender of customer default.

The unexpectedly high demand for heat pumps, which are a relatively expensive customer energy efficiency project, has driven the demand for associated HEAT Loans, as customers seek to reduce the cost of financing their portion of retrofit projects. Additionally, the higher-than-planned-for interest rates have contributed to the additional loan buydown cost to the Company. At the beginning of the term, the typical interest rate applied to customer loans was 5 percent, which has steadily increased over the course of the term and is now regularly in excess of 9 percent. The combined impact of high interest rates and the increased demand for HEAT Loans on the overall residential HTM budget results in the need for an additional $500,000, or a 56 percent, increase in funding for that activity to meet the currently expected demand for Heat Loans for the remainder of the term. Without such an increase, the Company will not be able to continue to offer Heat Loans through the remainder of the term of the Plan, as the demand for such requests has far outpaced any forecastable amount associated with the initial Plan filing.

Therefore, the Company seeks approval for a proposed increase of $500,000 for its Residential HTM Program, which could result in a total authority to spend up to $2,069,674, or 32 percent more than the budget approved for the Residential HTM Program in D.P.U. 21-127. The entirety of these new funds will be utilized for participant incentives in the Residential HEAT Loan initiative.

Electricity Savings

In its Order approving the Company's 2022-2024 Plan, the Department noted that in order to be successful, an MTM "proposal must clearly demonstrate that the proposed budget change will result in an increase in kWh or therm savings" See D.P.U. 21-127, at 225. However, as displayed in Exhibit FGE-2, the increased demand for electrification measures in the Residential HTM Program consists of expenses that support energy efficiency programs but to which energy savings cannot be readily attributed. While approving this MTM request will not result in additional energy savings, it will enable participation by customers for whom the cost of money, i.e., interest on loans related to weatherization and heating equipment, including heat pumps, is a barrier to participation. It will also allow the Company to meet its obligations to statewide partners related to workforce development, evaluation activities and statewide marketing.

II. Income Eligible Sector

Income Eligible Existing Buildings Program

The Company's Income Eligible Existing Buildings Program is designed to serve residential customers whose incomes are at or below 60 percent of the state median income wherever they live. The Company works with local community action program ("CAP") agencies to provide comprehensive weatherization services to income eligible customers living in 1-4 unit buildings, and with a third-party contractor that serves multi-family buildings with five or more units. A variety of non-energy saving services as well as energy efficiency measures are provided to this vulnerable, energy burdened population with no out-of-pocket costs to the customer.

In the initial plan approved in D.P.U. 21-127, the Company planned for a total of 54 single-family participants and 147 multi-family participants over the three-year term, including two multi-family custom projects identified during planning in which electric resistance heating would be replaced by heat pumps. In fact, the number of single-family weatherization projects to date has exceeded the number planned for the term, as has the number of heat pumps replacing electric resistance heating in multi-family properties.

Therefore, the Company requests approval to increase spending in this program by $371,000 for the remainder of the term, for total of $3,871,392, a 10 percent increase over the originally approved Income Eligible sector budget. Of the total increase requested, the majority will be dedicated to single and multi-family weatherization and heating systems.

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III. Performance Incentives

The Company is not proposing any changes to the Department-approved performance incentive ("PI") model or payout rates as a result of these proposed changes, and will maintain the threshold, design, and exemplary levels of performance as approved in the PI model submitted to the Department in D.P.U. 21-127. The Company intends to compare actual results for the programs to the original Department-approved budgets and goals as part of the Company's Plan Year and overall Term performance reporting.

IV. Bill Impacts

A simplified approach to illustrating and distinguishing the bill impacts associated with this MTM is shown in Figure 1, below. It is important to note that these illustrative bill impacts are not reflective of actual rates, but rather of the illustrative rates provided in (a) the original plan filing in D.P.U. 21-127, (b) the Company's first electric MTM approved in D.P.U. 23-144, and (c) this second MTM request relative to the Residential HTM Program and the Income Eligible Existing Buildings Program. This illustrative presentation is provided to allow the EEAC, the Department, and other interested stakeholders to isolate the impact of the MTMs from other variables such as sales, revenue, and timing of actual expenditures.

Figure 1 – Illustrative Cumulative Impact of FGE Electric MTMs

	(a)	(b)	(c)	(a) + (b) + (c) = (d)	(d) ÷ (a)
Sector	Projected D.P.U. 21-127 Budget EERF for 2024	Incremental increase D.P.U. 23-144	Incremental increase June 2024 MTM	Illustrative EERF for 2024 (both MTMs)	cumulative 2024 EERF % increase over compliance filing
Residential	$ 0.02484	$ 0.01298	$ 0.00468	$ 0.04250	71%
Income Eligible	$ 0.00431	N/A	$ 0.00126	$ 0.00557	29%

Column (a) of Figure 1, above, shows the energy efficiency reconciliation factor ("EERF") for program year 2024, as included in the original Plan filing in D.P.U. 21-127. Column (b) shows the isolated and incremental impact of the Company's approved MTM in D.P.U. 23-144, had all of the $1.9 million in additional residential funds been applied to the Year 3 EERF during planning. Column (c) shows the isolated and incremental impact of the Company's second electric MTM, had all of the additional $500,000 in additional residential funds, and all of the $371,000 in additional income eligible funds been applied to the Year 3 EERF during planning. Finally, the blue highlighted Column (d) provides the Year 3 EERF that would have been included in the original Plan had spending associated with both MTMs been applied to Year 3. As a result of these various inputs, Figure 1 shows the Year 3 EERF would have been 71 percent higher in the residential sector and 29 percent higher in the income eligible sector had all additional funds been included in Year 3 with the originally approved Plan.

V. Summary

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

1. Residential HTM Program
2. Income Eligible Existing Buildings Program

The Company continues to closely monitor all initiatives and programs, as well as market and environmental factors related to program delivery with a commitment to continuing to serve its customers in all sectors. Should the need arise, the Company will notify and work with the EEAC 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.

The slides that will be relied upon by the Company for its presentation to the EEAC on June 11, 2024 are appended to this Exhibit FGE-4.