DPU 11-120 Phase II:
A Side-by-Side Look at Current Procedures and the DPU Straw Proposal

THEMES	
2010-2012/Current Process/Practice	**DPU Straw Proposal (p. 3)**
(1) DPU reviews each Program Administrator's performance and approves its performance incentive payment after completion of each year within the three year plan;	(1) DPU reviews each Program Administrator's performance and approves its performance incentive payment after completion of the three-year term;
(2) DPU reviews and approves, energy efficiency surcharges ("EESs") for each Program Administrator (PA), each program, and each year of the three year plan	(2) DPU approves EESs for each PA for each program year, at the beginning of the three-year term, and reconciles any over- or under-recoveries after completion of the term
(3) The PAs may make mid-term modifications at any time during the three year plan period but, if they are significant, as defined by the DPU's Energy Efficiency Guidelines at § 3.8.2, issued in D.P.U. 08-50-B, they are required to submit them to the Council for review and to the DPU for approval.	(3) Expands the range of mid-term modifications that do not require Department approval, conditioned upon a PA obtaining approval from the Energy Efficiency Advisory Council ("EEAC")

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<tr><th colspan="2">PERFORMANCE REPORTS</th></tr>
<tr><th>2010-2012/Current Process/Practice (p. 4)</th><th>DPU Straw Proposal (pp. 6-7)</th></tr>
<tr><td>The Department requires each PA to submit an annual energy efficiency performance report. Following its review of those performance reports each year, the DPU issues Orders approving the proposed reports with applicable modifications.</td><td>The Department will review each PA's performance in implementing its energy efficiency plan at the end of the three-year term and not on an annual basis. In the year following the end of the three-year plan term (when evaluation results are available), each PA will submit a performance report that documents its performance over the entire term of the plan. The Department will review the report to determine whether, over the three-year term, a PA implemented its plan in a manner that is consistent with the Department-approved plan and the requirements of the Green Communities Act.</td></tr>
<tr><td>Each PA's performance report:
(1) provides a comparison of its planned, preliminary year-end, and evaluated (where applicable) expenses, savings, and benefits at the portfolio, sector, and program levels for the program year;
(2) identifies significant variances between its planned and evaluated costs, savings, and benefits for the program year, and discusses reasons for such variances;
(3) discusses how program performance during the program year informs the PA's consideration of modifications to program implementation during upcoming years;
(4) describes the evaluation, monitoring, and verification activities ("EM&V") undertaken by the PA (both individually and jointly with other PAs) and explains how the results of the activities influence program cost-effectiveness; and
(5) describes the performance incentive ("PI") that the PA seeks to collect." [See section on PI below]</td><td>The performance report will include the same information that is included in the current annual reports, except that the information will be for the three-year term of the plan.

Pursuant to its investigation of the three-year performance report, the Department will approve the recovery of costs incurred during the term, including the performance incentive payment. [See section on PI below]

To allow the Department and other stakeholders to monitor the status of a PA's performance in implementing its plan (as compared to its planned performance), each PA will be required to file an annual performance status report for information purposes only. The annual status reports will include the same information included in the current annual reports. Although it expects that such investigations will be rare, the Department may investigate a PA's performance during the three-year term on its own motion or if the Council passes a resolution requesting that we do so.</td></tr>
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PERFORMANCE INCENTIVES	
2010-2012/Current Process/Practice (pp. 5-6)	**DPU Straw Proposal (pp. 7-8)**
The performance incentive mechanism that was approved as part of the first three-year plans includes the following elements: (1) a statewide incentive pool and an allocation of the statewide pool to the individual PAs; (2) three components (a savings component based on total benefits, a value component based on net benefits, and a performance metrics component) through which the PAs can earn incentive payments; (3) further allocation of the statewide incentive pool to the three components; and (4) payout rates for the savings and value components.	The Department's proposal does not require the PAs to revise the structure of the performance incentive mechanism. Using the existing structure, the PAs will calculate their design incentive payments based on projections of performance for the entire three-year term, rather than annual projections. As part of their three-year plan filings, PAs will be required to: (1) identify a statewide design incentive pool for the three-year term; (2) allocate the pool to the savings, value, and performance metrics components based on percentages established for the term; (3) calculate payout rates for the savings and value components based on the three-year projections of total and net program benefits; and (4) establish three-year (rather than annual) targets for the performance metrics.
The values for each element are set annually and vary from year to year. The final incentive payment that a PA may receive is determined annually, based on its actual performance in each year of the term.	
The electric PAs collect their design incentive payments through EESs for each program year, and reconcile their actual versus design incentives after annual Department review and approval. The gas PAs include performance incentives in EESs after they have been approved by the Department (i.e., once the annual report has been approved).	PAs will be permitted to collect their design performance incentive through EESs during the term of the plan, subject to reconciliation after DPU review of the three-year performance reports.

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<tr><th colspan="2">MID-TERM MODIFICATIONS</th></tr>
<tr><th>2010-2012/Current Process/Practice (p. 14)</th><th>DPU Straw Proposal (pp. 15-16)</th></tr>
<tr><td>The DPU reviews and approves the three year plan.

PAs are not required to obtain Council approval for significant modifications, but they are required to submit them to the Council for review before filing them with the Department. Any request by a PA for approval of significant modifications must be accompanied by: (a) sufficient justification for why the proposed modification is appropriate; and (b) the results of the Council's review of the proposed modification.

The PAs can modify their energy efficiency plans during the three-year term as new information, new opportunities, or new program concepts become available.

PAs are permitted to make certain program modifications without Department approval, but they must seek DPU approval for all significant modifications identified as:
(1) the addition or termination of a program;
(2) a change in a three-year program budget of greater than 20 percent; or
(3) a modification in a program design that leads to a change in savings goals or performance incentives that exceeds 20 percent.</td><td>The DPU reviews and approves the three year plan.

PAs that seek to make a significant modification must obtain Council approval. If the Council approves the PA's proposal, then the PA may implement the modification, without further review and approval by the Department. The PA must submit to the Department for informational purposes the same information that it provides to the Council. If the Council does not approve the proposal, then the PA may not implement the proposed modification, and, in that event, there would be no further role for the Department.

A significant modification is defined as:
(1) the termination of a program;
(2) a change in a program budget (over the three-year term) of greater than 20 percent of the three-year budget; or
(3) a modification to a program design that is projected to result in a change in program benefits (over the three-year term) greater than 20 percent.

PAs would continue to be allowed to make modifications below these thresholds without Council or Department approval.

There are two instances in which a PA must obtain Department approval before implementing a proposed mid-term modification:</td></tr>
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	(1) a PA that seeks to add a program during the three-year term (either a new program or a pilot program that it seeks to transition to a full program) must obtain the approval of both the Council and the Department. The DPU's review would focus on the cost-effectiveness of the proposed new program. (2) a PA that seeks to increase a customer sector budget such that the resulting bill increase for an average customer in that sector would exceed two percent must obtain the approval of both the Council and the Department. The Department's review would focus on the resulting bill impacts.
During the term of its Energy Efficiency Plan, a PA may propose changes to its Energy Efficiency Program planning assumptions or the types of costs and benefits to be included in its cost-effectiveness analysis when evaluating its Energy Efficiency Programs. Any such proposal shall first be presented to the Council for approval. (08-50-B Guidelines, 3.8.5) In practice, these changes to planning assumptions have been reviewed annually by the Council as part of the MTM review process, and have been reviewed and approved by the DPU as part of the annual performance report or MTM proceedings, including as approved revisions in the Technical Reference Manuals (TRM).	*[Note: Council review of PA-proposed changes to planning assumptions is not addressed in the straw proposal.]*
As part of the MTM review process by the Council, in keeping with providing information to the Council on proposed modifications below the DPU criterion of "significant modification" and in response to Council priorities and Council comments, the PAs provide information on proposed program modifications to the Council for its review. The PAs also provide data on revised budgets, savings, benefits, and performance incentives for each of the programs, generally in the form of the 08-50 data tables or other supporting data tables, for Council review.	*[Note: Council review of PA documentation regarding modifications below the DPU "significant modification" threshold and in response to Council priorities and Council comments, including but not limited to Council review of the 08-50 data tables, is not addressed in the straw proposal.]*

ENERGY EFFICIENCY SURCHARGE (EES)	
2010-2012/Current Process/Practice (pp. 10-11)	**DPU Straw Proposal (pp. 11-12)**
For electric PAs, if revenues from the system benefits charge, the wholesale Forward Capacity Market, the Regional Greenhouse Gas Initiative, and other funding sources are not sufficient to cover approved energy efficiency plan budgets, then PAs may collect additional energy efficiency costs from ratepayers through EESs. Gas PAs recover program costs entirely through EESs, which are included in their local distribution adjustment factor ("LDAF") filings. On an annual basis, each PA submits updated EESs for DPU review and approval, based on: (1) the most recent projections of budgets, revenues from non-EESs funding sources (for electric PAs), and sales for the current year; and (2) a reconciliation of over- and under-recoveries of costs from the previous year. The effective date of each electric PA's annual EESs coincides with the first semi-annual change in its residential basic service rates. The effective date of some gas PAs' EESs is November 1st; other gas PAs change their EESs twice per year, on May 1st and November 1st.	At the beginning of each three-year term, the DPU will approve, for each PA, separate EESs for each year of the term, . These will be based on the projected budgets, expected revenues from non-EES funding sources (for electric PAs), and sales for the applicable year, as approved by the Department in the three-year plans. The EESs for each program year will not change during the term of the plan, except in the following situation: To protect against the potential for a significant under- or over-recovery that would need to be collected from (or credited to) ratepayers in future years, a PA will be required to submit revised EESs for Department review if the PA projects an under- or over-collection of costs that, while holding all other charges fixed and applying updated EESs to the bill of an average residential, low-income, or commercial and industrial customer (based on updated budget, revenue, and sales information) would result in a bill impact that is greater than two percent. Any under- or over-recovery of costs that occurs during a three-year term would be collected from, or credited to, ratepayers during the subsequent term.