

Agenda

1. EM&V
2. Financing and on-bill repayment
3. Savings Goals and Program Design Considerations
4. Performance Incentives
5. Break
6. Perf Inc. (part 2)
7. Council work plan and schedule
8. Public comment

Councilors Present:

Voting	Present (designee)	Non-Voting	Present (designee)
Heather Clark	X	Derek Buchler	Emmett Lyne
Martha Coakley	Jed Nosal	James Carey	X
Penn Loh	Lisa Clauson	Penni Conner	X
Lucy Edmondson	Nancy S.	Alisha Frazee	
Philip Guidice	Frank Gorke	Kevin Galligan	X
Debra Hall	X	George Gantz	Scott Albert
Charles Harak		John Ghiloni	
Elliot Jacobson	Peter Wingate	Paul Gromer	X
Samuel Krasnow	X	Andrew Newman	
Rick Mattila	X	Richard Oswald	X
Robert Rio	X	Michael Sommer	X
		Timothy Stout	Carol White

2:07pm Frank Gorke convenes meeting

EM&V

Frank: trying to bridge a significant gap in proposals

Proposal was circulated last Thursday.

Lengthy discussion at last meeting.

Interest from Councilors – because of demands of GCA, important there be a mechanism established a reality of independence in studies, as well as the appearance of independence.

Historically PAs have had major control over studies (timing, process, vendors, etc).

We heard from the councilor that there needs to be more independence, even while enabling the PAs to submit there own materials to DPU and feel comfortable with the results. Trying to balance the two things.

Consultants worked with Jerry Newberger to revise the proposal document.

Not a consensus document – some consensus plus some additional recommendations.

Communication seemed to have broken down last week...about policy authority.

There is a lot of agreement.

Trying to reach consensus, the preferred path...PA and consultants have been engaging.

If consensus couldn't be reached, the council's consultant would make the final decisions to keep the process moving forward.

We agreed to last week...the body would be a subcommittee of this council.

Resolution needs to happen in short order.

The PA staff has different obligations than do the Council and the consultant.

PAs (Penny/Carol): Tremendous progress. Very important to get this work. The mechanism is fundamental to getting this right.

Small change proposed (only difference w/consultants' proposal): PAs and consultant would work together toward consensus but, if it can't be reached, process would go directly to the subcommittee.

This is important to PAs. Need to be in a position where we can make our case.

Think their proposal will preserve independence.

Council: Only difference...go directly to standing committee?

Consult: Not the only difference.

Standing committee (maybe 3 council members?). Consultant and PAs would each present their case to the standing committee. At which point the standing committee would deliberate. The decision would be documented in writing.

The other area of difference (Jeff)... that Mike Sherman proposed a few weeks ago. The appeals/dispute resolution process is also different. The membership of the dispute resolution committee (number and constitution). PAs should not be on the committee.

Council: Still a bit confused about the whole thing. Would like to see a narrative about the pros and cons.

Frank: We had allotted a certain amount of time for this. Want to be very careful about spending more time on this. Takes time away from other important issues on the table.

Jed: Trying to take a step back...ultimately the council that have the oversight of the plans. We want to have someone on the ground engaged in the EM&V process. An additional set of eyes on a day to day basis. There is a fundamental difference of opinion between the council and the PAs. We need to be careful about being too specific about delegating authority in this document. We are advisory – it is the DPU that will make the ultimate decisions.

Council/Rick: What is the role of the voting members of the council and the consultants? If we are equal, council should be involved. If one party in the discussion has the ultimate authority (consultant) that it affects the negotiation. Does consultant make decision first? Come to council just where there's a problem.

Maybe a group of 5 councilors, as opposed to 3?

Frank: This is classic public policy question. The PA should not have an equal say in EM&V decisions. This is the area where we are looking at whether rate payer money is being used wisely. State govt can play a role. DPU has ultimate decision, DOER can continue to play a role.

PAs: Don't agree with that. PAs have equal interest in the results

Frank: Points to a more balanced body being the final arbiter.

Consult: Composition does matter, intent does matter. A number of stakeholder interests on the Council, creating good difference of opinion. We always strive for consensus. In those few instances where there is a disagreement, it is fundamentally unsound to have PAs have an equal say in resolving disagreements.

The council has no interest in the outcome; the PAs have \$100 million interest in the outcome. A representative of a public body has to have more of say than the body that has a large financial interest.

Council: Is there a need for the standing committee or should it just come directly to the full council? 98% of the day to day work occurs with a good collaborative effort. What is the best structure? Need to resolve quickly.

PAs (Carol): in discussions...have been focusing on...what is the best structure that will stand up to public scrutiny and will be independent. PAs have evaluation staff who bring a lot of experience and knowledge to the table. There is an incentive to not bringing issues to the standing committee. Professionals can talk through the best way to get things done. Consistent with the GCA and what the council and DPU is looking for. WE have an insane time schedule – different processes might evolve. Consensus process is best.

Consult: Agree...we came at this with same goals Carol laid out. But also effort to do things more efficiently. We think our proposal is more efficient...get studies done in a more timely way. If council's consultant has initial say issues may not need to go to the standing committee. Under PAs model, more issues would go directly to standing committee.

Frank: We have operated successfully on most issues with a consensus-driven process. Not sure this should be a consensus process. When professionals disagree is good to have a process.

Seems like we've come a long way and closed some gaps. Sense is we should continue with one more round of discussion on this, but need to be very clear about timeline and process.

Council (Sam): How about a deadline of next Tuesday at 5pm? Consensus proposal or, if not consensus, one from consultants and one from PAs.

Council: Vote to have PAs not on standing committee? Maybe PA could be non-voting member?

Frank: some good discussion on this. Need to move on. Send something around by Tuesday at 5pm.

Moving Financing and on-bill Repayment into “next steps”.

Savings Goals and Program Design Considerations 3:03pm

Consult: make a second attempt to provide more understanding on savings proposals. Determine where differences with PAs lie. Updated our numbers – compared with March numbers. Now have an updated recommendation that we believe is consistent with the GCA.

Slide #3 (Electric): Consultant 2.70%, PA plan 2.14%.

Lower slope. Important to go deeper first.

Slide #4 (gas): consultant 1.25%, PA plan 0.87%.

Consultant recommendations based on GCA and council resolution.

{see Jeff’s slides }

Bar charts: Consultants have reduced savings targets over March. LI increase slightly to match PA numbers which were higher.

Counting on Res a little less (Fed lighting standard), Counting on C&I a little more.

Big disagreement about costs. Consultant costs increase a bit more than PAs, but not the 30% savings/50% costs ratio that PA had in 2009.

PA savings...more or less than same pattern, but lower slopes.

1.54% to 1.9% over 3 years. Not on path to all cost-effective.

Ramp up or 30-40% per year after first year (consultant)

Ramp up of 20-30% per year after first year (PAs)

Consultants are a little more bullish on RES 1-4

C&I: difference in depth of savings for electric and gas.

Important to have some number for outside funding in the plans!

Some good agreement in C&I savings numbers (new cons & large retrofit), but small C&I has 40% lower savings.

Low-income: good agreement except in LI MF.

Significant gaps in PA/consultant savings numbers:
Res lighting, Res 1-4, and Res MF (53%)

Gas: have closed the gap a little bit. Shape of ramp up is somewhat similar, but slope
1.25% consultants
0.87% PAs
Lots of room for increasing gas savings.

Next steps: { see Jeff's slides }

Savings goals are on council agenda for Sept 8 and Sept 22.

Plenty to do over the next few council meetings. Let's us know what you need to help make decisions.

PA (Kevin): Need update from working groups. RES lighting...real positive progress. PA are understanding what they should be using for NTG. Now have some more LED products. Good progress on ESH...2 tiers above basic ES. Major renovation pilot...being adopted by EPA on a national level. Products: 12 products...now smart strips, refrigerator recycling, set top boxes. RES HVAC is getting more streamlined design to integrate gas and electric. MF: A whole new list of measures to screen. Working groups in MassSAVE...making good progress. Very positive. Will be hitting some of these gaps pretty quickly.

PA (Mike S): Gas companies involved in all of the working groups. Made a lot of progress with Glenn Reed at the GasNetworks/HVAC meetings. Resolution of most of the 6 points. Working on a process for replacing in very old gas equipment – getting some of the antiques out of the basements in MA.

Emmett: The working group work bubbles up to savings & goals!

Michael McA: Small C&I – Feel confident that principles identified in roadmap (broader and deeper, seamless delivery) will be in place by Sept 15. For Large C&I, won't have fully built out by Sept 15, but are making good progress. Looking at transformation about how to bring gas and electric together.

Sam: Strongly urge to get savings numbers much closer together by Sept 15th. Encourage all the good work that's going on.

PA: What assumptions were used for outside capital? Any rough estimates on bill impacts?

Jeff: At \$400 million it takes all of EERF away. There will be analysis presented to the council.

Ways to mitigate rate impacts: 1) financing, 2) outside capital.

Council: Goals of global warming solutions act support the higher goals. Ozone, pollution reduction. Multiple benefits to the commonwealth of getting to the higher numbers.

Jed: Agree. Just need to be sensitive to what the customer can afford to pay.

Jeff: Pretty wide variation between PAs within programs. Hope that PAs are PA 3-year estimate differences: 1.5% to 3.0%!!!! There are pretty big differences among the PAs. If all PAs got to the higher bar than we'd be at the recommended targets.

PAs: We understand the need to address the difference among our savings estimate differences.

PAs: Would be helpful to get from Jeff the consultants' assumed sales forecast.

Financing and on-bill repayment

There a NO numbers in plans/budgets for financing. It is currently zero. Zero is the least likely number for outside capital.

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Break (3:41pm)

Performance Incentives (Frank reconvenes meeting at 3:52pm)

Do first part...have a little discussion.

Do 2nd part...have a little discussion.

Outline: background and introductions, statutory and regulatory guidance, history of performance incentives, level and mechanism of incentives

Consultants approaching PIs: Can be very effective in supporting achieving goals. Looking around the industry, PIs work. Keeps PAs focused on goals. PIs are extremely important part of the plans. PIs should be focused on key GCA/council objectives. Higher/deeper savings.

Some initial presentations to council back in April. Today, initial analysis and recommendations. Strong linkage between savings goals and PIs.

DPU encourages PIs.

Key pieces: 1) Level of incentive, 2) Incentive mechanism

Terminology: Incentives – total amount of money, pre-tax. Earnings – amount of PA earnings, after tax.

Some related issues LBR and de-coupling.

{ see Jeff's slides }

PA PI mechanism 2005-2009: Savings incentive, Value incentive (cost-effectiveness), Performance metrics (complete this activity).

PA proposal to delete performance metrics; consultant proposal to retain perf metrics.

Level of incentive

Incentive Level: MA - about 8% (pre-tax). In 2010-12 plan, PAs stayed with 8% amount.

Nationally incentives range significantly (1-15%). MA has been a good performer at 8%.

Legislation: statutory requirement...why do you need PI?

Decoupling and Lost base revenues...PAs have raised q of how this should affect PI.

Concept: Peg savings % goals to level of overall available PIs.

Council discussion:

Penny: It all depends on what 'X' is.

We need to recognize that we have the most aggressive savings goals in the country.

For many PAs this is daunting. There are things that are beyond our control.

Let's create an incentive structure that works for everyone.

Jeff: Generally higher goals lead toward higher achievement. Or do you have lower goals that are easier to attain. Need to balance between the two.

Just like the rate is important, so is the threshold. You can set the threshold at the minimum savings level you want.

Incentive mechanism

Consultant recommendations:

- build up the current electric performance mechanism (3 pieces)
- Three components focus on key objectives
 - o Higher savings
 - o Cost-effectiveness and using ratepayer \$ well
 - o Deeper savings first, and reaching broader
- Scale the incentive rate to encourage higher savings (strong recommendation)
- Vary the performance incentive rate across the performance range
- Modify the performance range
 - o High % on the upper end or no cap

- Higher threshold on the lower end
- Over the 3 years, vary the weights of the PI components
- 1st year: more emphasis on deeper savings.
- Latter years: more emphasis on savings among the components, once the deeper savings program designs are developed and in place.
- Somewhat more emphasis on savings than net benefits.
- Use physical units, not percentages. A clear target.
- Apply incentive mechanism to all PAs equally.

Should their be retrospective or prospective application of evaluation results for impact factors? PAs have proposed no retrospective adjustments.

The consultants are not in favor of this, but it should be considered.

PAs: Important issue for the PAs. The working groups are developing goals in conjunction with the consultants. If we agree that we've got good planning assumptions that are based on previous evaluation results, then we should be judged on whether or not we achieved what we said we would do. We'll have agreements ahead of time on how we'll count the savings, and then we can focus on program performance. Building on experience in other jurisdictions (CA). CA will tell you not to tie PIs to evaluation results.

Consult (Paul): Historically adjusted savings come out higher than in the plan.

Consultants will continue to work with PAs and Councilors to try to resolved differences. Need process to address incentive level. PI are on the Sept 8 and Sept 22 meeting agendas.

Council: Will the next meetings involve dualing proposals?

Consult: We can see the way through to agreement on PI if there are no major disagreements. On the incentive level, we need to get Councilors' input before consultants can recommend a level.

Frank: This is one are that DPU asked the Council to come up with a recommendation on PI. Will be productive for conversations to continue between consultants and PAs on this. Report back to Council at next meeting.

Emmett: PAs have to propose 3-year savings goals. Going in, PAs need to know they have the opportunity to earn incentives for years 2 and 3.

Jeff: There will in all likelihood an update on savings levels in 2011.

Heather: Want to understand how decoupling plays into this discussion.

Dick: Decoupling (or Lost Base Revenue) is to remove disincentive to reducing sales through EE.

Carol: One way to move EE into a core business model is to have robust PIs.

Penny: What we're doing is building a 400 mW powerplant with EE. Let's make it as attractive to the CEO as possible. Not knowing the councilors thinking on level of incentives is a big uncertainty. Utility execs need to know the rate of return.

Emmett: It's also a shareholder and investor issue. Utilities want to be able to attract and retain investment in EE. Compared to municipal utilities, without PIs, the level of EE achievement is striking.

Frank: But muni's are not obligated to run EE programs.

Jeff: Supply-side comparability is not a path to go down. You can achieve good results without looking at comparing ROI with building a power plant.

Council work plan and schedule

Frank: Overall work plan should not change significantly. Heard the concerns at last meeting.

Jeff: Financing working group will start up after Sept 15th. IN the meantime, we are fast at work on outside capital. Discussions and investigations are continuing. Relates to program design savings and costs. Hopefully this will result in a commitment to outside funding level in the plans.

Emmett: Rearticulating concern on Sept 15th deadline. Good work going on in WGs. It's bottom up process. We'll keep the council fully apprised of progress. Concern about having everything ready by Sept 15th.

All presentations will be posted on Council website.

Public comment

Paul Johnson – interesting discussion about incentives. 25% incentive to PAs, not enough.

What happens if you miss your target by 25%?

70% of people who have programmable t-stats don't use them.

Frank: It's a comment period, not a question period.

Calela Barnett (environmental justice group): Thank you for work on these plans. Important moment on addressing climate change, and positively impact the communities we work with.

Important pieces:

1. Clear financing mechanisms for deep retrofits.
2. Community-driven outreach
3. Job quality and training standards

Rich Roger (greater Boston labor council): We hope plans will include language to address working families.

- make deep retrofit affordable
- use community groups for outreach
- adopt job quality and training standards (living wage jobs)